BUDGET 2016

British Property Federation policy analysis

View Budget documents online. Numbers in brackets [xx] below refer to paragraph numbers in the Budget paper. Information provided by the government (which may have been edited for length) is shown in normal type. BPF analysis is given in coloured boxes.

Contents

Built environment

Planning

[2.285] Garden villages and towns – To support areas that want to establish garden villages the government will:

- provide capacity support for Local Authorities
- introduce new legislation that will speed up and simplify the process for delivering new settlements
- announce planning incentives to support areas seeking to bring forward new settlements, in return for commitments to significant housing delivery

> This is to be welcomed, and local communities should be encouraged to volunteer to have new settlements in their local areas. The recognition from government that local authorities may be pushed, capacity-wise, to do the ground work is a good sign that the resourcing issues have really been taken on board. New legislation to speed up and simplify the process is also a move in the right direction, and without riding roughshod over the wishes of local people. It is clear from experience that the best places are created hand in hand with developer, local authority and local community.

[2.286] Moving to a more zonal planning system – The government will bring forward measures to enable a more zonal and 'red line' planning system.

> This move to a 'red line' system is broadly welcome and is presumably a reference to the permission in principle proposals in the Housing and Planning Bill. Whilst we are in dire need of more homes, we mustn't forget the need for employment land as well as other types of development that create places for people to live, work and play.

[2.287] Speeding up the process for assessing housing need – The government intends to accelerate the preparation and adoption of Local Plans. The government welcomes the report by the local plans expert group and will consult on the recommendations.

[2.288] Local Plans – Following the ongoing consultation on the delivery of Local Plans by 2017, the government will set out later this year details of measures to encourage the production of Local Plans. As recommended by the Local Plans Expert Group report, which is published today, the government will also look at the scope to reduce the weight of outdated plans in decision-making. The government will consult on the other recommendations made by the Group until 27 April 2016.

> We have welcomed the recommendations in the report by the Local Plans Expert Group and will respond in detail to the consultation. The move towards ensuring that all local areas have a vision to work towards can only be commended, particularly if the steps to get there are simpler, faster and reduce debate.

[2.289] 'Building Up' – Following the consultation on building up in London and to help increase densities on brownfield land and reduce the need to 'build out', the government will consult with city regions on extending similar powers as part of devolution deals.

> This is not going to be a silver bullet that solves the housing crisis, and there will be many places where, for heritage related reasons, it is simply not possible. However, the principle should be supported and it will certainly encourage innovative thinking in some places.

[2.290] Streamlining the use of planning conditions – To minimise delays caused by the use of planning conditions the government intends to:

- legislate to ensure that pre-commencement planning conditions can only be used with the agreement of the developer
- review the process of deemed discharge for conditions, to ensure it is effective and its use maximised

> The process of deemed discharge of conditions has, perhaps, been underused. Whether this is because of the mechanism being ineffective, lack of knowledge, or lack of interest is unclear, and this review will hopefully unravel some of this.

[2.292] Secretary of State planning decisions – The government will set statutory 3 month deadlines for Secretary of State decisions on called-in applications and recovered appeals to prevent time-delays on decisions on infrastructure, housing and regeneration projects.

> This is a move towards ensuring that time isn't wasted whilst call-ins and appeals languish on desks, and serves as an indication that the government is prepared to muck in as well in order to get development moving.

[2.293] Stations regeneration – The Homes and Communities Agency will work in partnership with Network Rail and Local Authorities to bring forward land around stations for housing, commercial development and regeneration, and will announce proposals for specific sites shortly.

> This should be welcomed, and is an opportunity for real place making and change. We would hope that build to rent development would be recognised as a catalyst for growth in these schemes, by both local authorities and central government.

[2.294] Compulsory Purchase Order reforms – The government will consult on a second wave of

Compulsory Purchase Order reforms with the objective of making the Compulsory Purchase Order process clearer, fairer and quicker.

> This is a good move; CPO has long been over complex and a bit of a dark art. Bringing greater speed and transparency should dispel some of the negative connotations and ensure a better system for both developer and land owner.

Residential

[2.28] Reform of the wear and tear allowance – As announced at Summer Budget 2015, from April 2016 the government will replace the Wear and Tear Allowance with a new relief that allows residential landlords to deduct the actual costs of replacing furnishings.

> We welcome the initiative to replace the wear and tear allowance with a system that reflects the actual amount that residential landlords spend on replacing furniture and appliances.

[2.50] Lifetime ISA and ISA Limit – A new Lifetime ISA will be available from April 2017 for adults under the age of 40. They will be able to contribute up to £4,000 per year, and receive a 25% bonus from the government. Funds, including the government bonus, from the Lifetime ISA can be used to buy a first home at any time from 12 months after the account opening, and be withdrawn from age 60. The overall annual ISA subscription limit will be increased to £20,000 from 6 April 2017.

> We welcome the government's efforts to help young people onto the housing ladder. Affordability, especially in London, is a significant challenge for first-time buyers and any help to save a deposit will be welcomed by most in the sector. However, SDLT changes that inhibit build to rent investment will do nothing to increase the number of homes being built, and measures like this risk increasing demand without increasing the supply. The best way to solve the housing crisis, especially in London, is to build more homes.

[2.296] Private Rented Sector (PRS) Guarantee – The government will extend the PRS guarantee scheme until December 2017 to encourage long term institutional investment in the private rented sector.

> This is a welcome move, and indicates the government's appreciation of the fledgling build to rent sector. With 40,000 units in planning, construction or completed around the UK, and £50bn of institutional investment poised to enter the market, this support is crucial.

[2.297] Starter Homes – The government will launch the Starter Homes Land Fund prospectus today. This prospectus invites Local Authorities to access the £1.2 billion of funding to remediate brownfield land to deliver Starter Homes.

> Whilst the government's policy darling carries on a pace with local authorities being invited to access the funding pot, we still have yet to see the detail of the policy in the technical consultation. The devil truly is in the detail where Starter Homes are concerned, and there are many outstanding questions – not least, how build to rent development will be treated.

[2.298] Investment in low-cost homeownership – The government will explore options for encouraging private investment in low-cost homeownership, including the scope to use guarantees.

[2.299] Help to Buy: Shared Ownership – The government will launch the Help to Buy: Shared Ownership Prospectus in April. The prospectus will invite private developers to come forward and bid for funding to build Shared Ownership homes.

> We look forward to the consultation on this idea, and support government efforts to explore how more housing can be delivered.

[2.303] Right to Buy pilot – As announced at Autumn Statement, the government is piloting the Right to Buy with five housing associations, to inform the design of the final scheme.

> We are keeping an eye on developments in the debate on Right to Buy and will closely analyse the ongoing pilots.

[2.304] Homeownership – The government will explore ways to extend homeownership to social tenants who cannot afford to take advantage of existing schemes.

> We appreciate that the current government was elected with a mandate to encourage homeownership, and we support measures that assist those that cannot afford to take advantage of existing schemes. However, the government must consider the full variety of housing tenures in its response to the housing crisis, including the build to rent sector.

Student accommodation

[2.239] Alternative provider growth – The government will continue to free up student number controls for alternative providers predominantly offering degree level courses for the 2017-18 academic year. The best providers will also be able to grow their student places further through the performance pool.

[2.240] Doctoral loans – From 2018-19, the government will introduce doctoral loans of up to £25,000 to any English student who can win a place at a UK university but doesn't receive a research council living allowance.

[2.241] Master's loans – The government will extend the eligibility of master's loans to include three-year part-time courses with no full-time equivalent.

> These proposals show that the government is fully behind growing the UK higher education sector and supporting British students. However, without careful planning, these students could be without proper support, and it is important that a thriving purpose-built student accommodation sector is understood as an essential part of that support.

Construction

[2.175] Aggregates Levy rate 2016-17 – The Aggregates Levy rate will remain frozen at £2 per tonne in 2016-17, to support the construction sector.

[2.176] Aggregates Levy utilities exemption – The government will consult on a new exemption from the Aggregates Levy for aggregate which is an unavoidable by-product of laying pipes for utilities, with a view to legislating in Finance Bill 2017.

[2.177] Landfill Tax rates – The standard and lower rates of Landfill Tax will increase in line with RPI, rounded to the nearest 5 pence, from 1 April 2017 and again from 1 April 2018. (Finance Bill 2016)

[2.178] Landfill Tax: clarifying scope – HMRC will consult later this year on the definition of a taxable landfill disposal, with the intention of changing the definition in Finance Bill 2017. This change aims to bring clarity and certainty to the tax without affecting its intended scope.

[2.322] Digital standards in construction – The government will develop the next digital standard for the construction sector – Building Information Modelling 3 – to save owners of built assets billions of pounds a year in unnecessary costs, and maintain the UK's global leadership in digital construction.

> The move to BIM Level 3 will require some adjustment in supply chain working patterns, and will have implications around ownership of the BIM model in various scenarios. While BIM may contribute to reducing costs of construction in the long term, it is vital to bear in mind that coordination and learning costs will accompany its introduction.

Flood defences

[2.336] Flood defence package – Flood defence and resilience funding will be increased by more than £700 million by 2020-21, funded by a 0.5% increase in the standard rate of Insurance Premium Tax. In addition to this, the government will spend a further £130 million on repairing transport infrastructure damaged by Storms Desmond and Eva.

> We support increased funding for flood defences, but more must be done beyond defence and resilience to ensure affected communities have the right support. This means addressing the current exclusions from the Flood Re scheme, whereby some households may face large insurance premiums with or without better flood protection.

Infrastructure and devolution

Large-scale infrastructure projects

[2.265] Northern rail improvements – The government will take forward the recommendations from the National Infrastructure Commission and allocate £60 million to develop options for High Speed 3 between Leeds and Manchester, as well as options for improving other major city rail links. The government will also allocate £4 million to develop High Speed 2 Growth Strategies for Manchester Piccadilly, Manchester Airport and Leeds stations as part of an integrated long-term plan for High Speed 3.

[2.280] National Infrastructure Delivery Plan – The government will shortly publish a National Infrastructure Delivery Plan, setting out details of over £100 billion of public sector investment in infrastructure across this Parliament.

[2.281] National Infrastructure Pipeline – The government will continue to update the National Infrastructure Pipeline, showing forward projections of planned public and private investment.

[2.282] Growth corridors – The government has asked the National Infrastructure Commission to develop proposals for unlocking growth, housing and jobs in the Cambridge–Milton Keynes– Oxford corridor. The commission will produce a final report for Autumn Statement 2017.

> It is great to see government prioritising large-scale infrastructure, decisions on which have often languished in the 'too difficult' box. There will be relief that government is accepting the recommendations of the National Infrastructure Commission While the £60 million of funding to explore options for HS3 is a good first step in improving links between Manchester and Leeds, it is a far cry short of what will be the true cost of HS3 – which remains a long way off.
>
> In our response to the consultation on the governance and structure of the National Infrastructure Commission, we urged government to ensure the commission retains its independence and focus on producing long-term infrastructure assessments, rather than getting bogged down in short-term reports at the whim of a current government – such as that announced on proposals for the Cambridge – Milton Keynes – Oxford corridor.

Roads and rail

[2.267] Accelerating improvements to the M62 – The government will provide an additional £161 million to Highways England to accelerate the delivery of two major projects to upgrade the M62 to a four-lane smart motorway between junction 10-12 Warrington to Eccles and junction 20-25 Rochdale to Brighouse.

[2.268] Northern road studies – The government will allocate £75 million to Highways England to further develop the case for a potential Trans-Pennine tunnel between Sheffield and Manchester, as well as options to enhance the A66, A69 and the north-west quadrant of the M60.

> Investing in transport infrastructure is undoubtedly critical to opening up the Northern Powerhouse to investment, and helping it attract the talent which will fuel its success. A Trans-Pennine tunnel would be the longest in Europe so, while it is good to see government committed to thinking to the future, there will be fears this £75 million could be better spent on immediate improvements.

[2.276] Shaw Report into Network Rail – The government welcomes the recommendations of the Shaw Report into Network Rail and will respond in full later this year.

> The Shaw Report was published alongside the Budget, and urges greater clarification of government's role in the railway and Network Rail as well as encouraging a focus on investment in the north of England. Announcements are made elsewhere in the Budget about the use of property owned by the organisation.

London

[2.270] Crossrail 2 – The government will provide £80 million which, together with a contribution from London, will allow Crossrail 2 to proceed to the next stage with the aim of depositing a Hybrid Bill within this Parliament.

> We welcome the commitment to bringing this Bill forward during this parliament, and there are likely lessons to be learnt from the progress of the HS2 Hybrid Bill. It will be interesting to see how TfL meets the contribution expected of it, and to what extent the private sector is expected to contribute in the way it did towards Crossrail 1.

[2.277] Financing London transport infrastructure via land value uplift – The government invites Transport for London to bring forward detailed proposals on how it could capture a proportion of future land value increases around proposed local infrastructure projects funded by the public sector, in order to provide a source of financing to support the construction of such projects.

> London has traditionally worked well with the private sector in ensuring a fair contribution comes from all those involved, and we would welcome this engagement with TfL as they develop their thinking.

[2.309] Old Oak Common – The government has agreed a Memorandum of Understanding with the Old Oak and Park Royal Development Corporation on the transfer of government owned assets to the Development Corporation.

> Around 70% of the land in the area is government owned, so this is a welcome move in advancing the aims of Old Oak Common to create thousands of new jobs and homes. The corporation will need to work closely with private owners to ensure the rest is brought together quickly.

Devolution deals

[2.229] Devolution deals – The government is announcing new devolution deals with Greater Lincolnshire, East Anglia, and the West of England and further devolution deals with Greater Manchester and Liverpool City Regions.

> It is good to see devolution deals spreading out across the country, with areas taking advantage of the increased control on offer. Whether in city regions or county regions, it is critical that the private sector is engaged in taking these deals forward, and that incoming elected mayors are able to rise above the long-held tensions of local politics and focus on improving the commercial reality of their region for all its inhabitants.

[2.234] Cardiff Capital region deal – The government has announced a £1.2 billion deal with the Welsh Government and the 10 local authorities forming the Cardiff Capital Region. The government will contribute £375 million in additional funding over 20 years towards an investment fund, in addition to £125 million already committed to the electrification of the Valley Lines as part of the South East Wales Metro project.

[2.235] Swansea Bay City region deal – The government will open negotiations with the Welsh Government and local partners on a potential City Deal for Swansea Bay City Region.

> We welcome the further detail on Cardiff's City Deal, first announced in last year's Autumn Statement, as well as the recognition that improving transport infrastructure in the region will be critical to its success. While the Cardiff real estate market enjoyed a bumper 2015, other areas have been cooling, and recognition of the challenges faced outside the capital will be critical.

LEPs and Enterprise Zones

[2.308] Further allocation of the Local Growth Fund – The government will conclude a further round of Growth Deals with Local Enterprise Partnerships.

[2.316] Local Enterprise Partnership Small Business Representative – The government will require all Local Enterprise Partnerships to have a nominated Small Business Representative on their Board.

> It is good to see continued commitment from government to Local Enterprise Partnerships (LEPs) which are intended to bring together the public and private sector to improve areas' economic growth. In reality, it is clear from BPF regional forums that they operate with varying degrees of success and it remains to be seen how they will interact with a rising number of combined authorities being created across the country.

[2.310] Snow Hill regeneration – The government will provide £2 million to support Greater Birmingham and Solihull Local Enterprise Partnership to develop a regeneration masterplan for Birmingham's Snow Hill district.

> This is a huge boost to the Greater Birmingham and Solihull LEP, and welcome recognition of the continued investment needed in the city centre as the arrival of HS2 approaches.

[2.312] Enhanced Capital Allowances in Enterprise Zones – The government will ensure that all Enterprise Zones are able to offer Enhanced Capital Allowances for eight years from the establishment of relevant sites. (Finance Bill 2016)

[2.313] New Enterprise Zones and extensions – The government will create a new Cornwall MarineHub Enterprise Zone following the transfer of Wave Hub (a wave energy testing facility) to Cornwall Council. The government will also extend the Sheffield City Region Enterprise Zone subject to necessary approvals and agreements, and create new Enterprise Zones at Brierley Hill and Loughborough and Leicester subject to business case.

[2.314] Wave Hub – The government is transferring ownership of Wave Hub, the world's largest wave energy testing facility, to Cornwall Council, and providing around £15 million to develop the facility as part of a new MarineHub Enterprise Zone.

> Amongst the clamour of City Deals and new Combined Authorities, we are pleased to see continued focus on encouraging growth at a more local level. Enhanced use of capital allowances is a very sensible move, and one which we championed in our 2014 report 'Going for Growth'. However, we will need greater clarity on the extent to which State Aid will allow this.

Commercial

High streets

[2.14] Local Government Pension Scheme: British Wealth Funds – The government will support proposals by local administering authorities to establish both a small number of British Wealth Funds by combining Local Government Pension Scheme assets into much larger investment pools by 2018, and a national Local Government infrastructure investment platform.

> As recommended in our report 'Town Centre Investment Zones', local authority pension funds could be ideal investors in Britain's high streets. Combined with our asset management model, which proposes pooling properties on a high street into a single vehicle which can take a more managed and curated approach to a high street, this means that local authorities' pensions can be reinvested back into rejuvenating Britain effectively.

Insurance

[2.114] Insurance Linked Securities – The government is consulting on proposals for a new, competitive framework for Insurance Linked Securities (ILS) business, including the supervision, corporate structure and taxation of ILS vehicles. The Bank of England and Financial Services Bill, which is currently before Parliament, contains a power to make regulations which will facilitate ILS business. Finance Bill 2016 will include a power to make regulations for the tax treatment of ILS at the level of issuers and the investor. The government will then consult on new regulations, which will be finalised by the end of 2016. (Finance Bill 2016)

> ILS could potentially be used for real estate, given the level of capacity generally required in the UK market to insure buildings. It could provide access to greater capacity than otherwise available and could help make premiums more competitive by mitigating the capital stress on underwriters, allowing them to take on more risk.

Insolvency

[2.81] Insolvency analytics – The government intends to develop HMRC's predictive analytics capability to identify emerging insolvency risk. This will enable it to target debt recovery action to minimise its losses when taxpayers become insolvent. The government will seek expert external support in summer 2016.

> It is great to see government is being forward-thinking in this regard. Curtailing the effects of insolvency is important and any tools that can be added to that arsenal we welcome. However, it sounds like government is only focusing the tools on individual insolvency use, which would be a shame as these analytics could be useful in corporate cases as well.

[2.344] Protections for the smallest businesses acting as consumers – The government is consulting on measures to ensure that the smallest businesses – including sole traders – understand their rights and have the protections they need when they are acting as consumers.

> We are supportive of making sure that those not used to the debt process get the information and the time to process their position and obtain advice on it. However, we urge caution on where these measures may apply and the context they could appear in. Commercial leases already have separate mechanisms for recovering debt, which already allows the debtor time after the rent is due to be paid, so it is important that such considerations are borne in mind and that further protections do not lead to unnecessary delays where measurements are already in force.

Connectivity

[2.283] 5G – The government has asked the National Infrastructure Commission to consider by the end of 2016 what the UK needs to do to become a world leader in 5G infrastructure deployment, and to ensure that the UK can take early advantage of the potential benefits of 5G services.

[2.319] Public sector spectrum – The government will make available 750MHz of valuable public sector spectrum in bands under 10GHz by 2022, of which 500MHz will be made available by 2020.

[2.320] 5G strategy and tool – The government will deliver a 5G strategy in 2017, based on the National Infrastructure Commission assessment of how the UK can become a world leader in 5G. The government will also support the development of a network planning tool, to be trialed in Bournemouth.

[2.321] Broadband Investment Fund – The government will, in partnership with the private sector, establish a new Broadband Investment Fund. The fund will operate on a commercial basis to support the growth of alternative network developers by providing greater access to finance.

[2.323] Ultrafast broadband grant scheme – The government will distribute £14.5 million in grants to extend ultrafast broadband coverage in the south west.

> The inclusion of 5G as infrastructure within this budget is great to see. Connectivity is of fundamental importance to all of us, and real estate is no exception. Making available new spectrum bands, focusing on 5G strategy and investing in new entrants to the market are good moves, which demonstrate that, while government understands the importance of connectivity as infrastructure, it also understands that a light touch approach to regulation, backed by firm support for the market, is what makes the industry thrive. We hope the National Infrastructure Commission understands this when considering how to ensure that the UK is at the forefront of 5G.

[2.295] Mobile Communications Infrastructure – Following a call for evidence published alongside the Productivity Plan, the government will announce details of greater freedoms and flexibilities in England to support the deployment of mobile infrastructure.

> We hope government focuses on freedoms and flexibilities for the telecommunications operators and not on a stringent Electronic Communications Code. The latter is likely to harm the deployment of mobile infrastructure rather than support it.

Tax and finance

Corporation Tax

[2.94] Offshore property developers – This measure ensures that profits from trading in UK land are always subject to UK tax by introducing specific rules to tax the full amount of such profits whether or not the person to whom they rise is UK resident. Legislation for this measure will be introduced at a later stage of Finance Bill 2016, following a brief consultation.

> The government is proposing to tax property trading activity in the UK carried out by overseas companies. These measures will go beyond the scope of the Diverted Profits Tax to ensure that the UK is exercising more fully its international taxing rights on property. It will be important to scrutinise the detail of these measures, to ensure that any adverse consequences, particularly for investment activity, are mitigated.

[2.97] Tax deductibility of corporate interest expenses – Following initial consultation, the government will introduce rules for addressing base erosion and profit shifting through interest expenses from 1 April 2017 in line with the OECD recommendations. The new rules will limit the tax relief that large multinational enterprises can claim for their interest expenses. More information is included in the government's Business Tax Roadmap published at Budget.

> We are supportive of the government's ambitions to address tax avoidance by multinationals that shift profits to low tax jurisdictions. However, we remain concerned that the crude nature of these rules will unjustly penalise businesses in capital intensive industries, such as real estate. We will continue to engage with government to ensure that the final rules allow an appropriate tax outcome where interest is incurred for genuine commercial reasons.

[2.120] Reform of the Substantial Shareholdings Exemption (SSE) – As part of the Business Tax Roadmap, the government will consult on possible reform of the Substantial Shareholdings Exemption for corporate capital gains.

> Having called for it in our Budget representations, it is pleasing to see the government proposing this really interesting development that could significantly enhance the UK's attractiveness as a fund domicile location, including for real estate funds. It could mean more fund managers choosing to locate in the UK as opposed to Luxembourg. A reformed SSE would also make it easier for existing real estate groups to restructure their businesses in a tax-efficient way.

Business rates

[2.121] Business rates: indexation – The government will change the annual uprating of business rates in England from the Retail Prices Index to the main measure of inflation, currently the Consumer Price Index, from 1 April 2020.

[2.122] Small Business Rate Relief (SBRR): doubling – The government will permanently double SBRR in England from 1 April 2017.

[2.123] Small Business Rate Relief: thresholds – The government will raise the SBRR threshold in England to rateable values of up to £12,000 tapering to £15,000 from 1 April 2017.

[2.127] Business rates: long-term review – The government will publish a summary of the responses received as part of the long-term review of business rates in England in March 2016

[2.129] Business rates: valuation reform – The government will aim to introduce more frequent (at least 3 yearly) revaluations of properties in England for business rates purposes and will publish a discussion paper in March 2016 outlining options to deliver this.

> These changes are very welcome indeed. While much of the devil will be in the detail and success will partly depend on whether the government can change the appeals system for the better, the move from RPI to CPI as the basis for the multiplier should moderate the burden of business rates over the longer term (although it remains one of the costliest property taxes in the OECD). More frequent revaluations – which we have long been campaigning for – will make the system fairer by ensuring businesses pay based on up to date values and extending small business rates relief is a boon to thousands of SMEs across the country. Landlords ultimately bear the brunt of business rates because the rents they can command are reduced; this tax cut could provide something of a windfall for them.

Capital Gains Tax

[2.187] Capital Gains Tax – The government will reduce the higher rate of Capital Gains Tax (CGT) from 28% to 20% and the basic rate from 18% to 10%. The 28% and 18% rates will continue to apply for carried interest and for chargable gains on residential property. These changes will take effect for disposals made on or after 6 April 2016.

> The government clearly has an agenda vis-a-vis the smaller residential landlord, and many will be disappointed that, having sought to encourage smaller landlords to sell up to owner occupiers, the government is now also depriving them of lower rates of CGT available on all other assets. PERE fund managers will also be disappointed to not benefit from reduced tax on carried interest but, again, this feels like a political decision.

SDLT

[2.183] Stamp Duty Land Tax: additional properties – As announced at Spending Review and Autumn Statement 2015, the government will introduce higher rates of SDLT on purchases of additional residential properties from 1 April 2016. The higher rates will be 3 percentage points above the current SDLT rates. Following consultation, there will be no exemption from the higher rates for significant investors. Purchasers will have 36 months rather than 18 months to claim a refund of the higher rates if they buy a new main residence before disposing of their previous main residence. Purchasers will also have 36 months between selling a main residence and replacing it with another without having to pay the higher rates. A small share in a property which has been inherited within the 36 months prior to a transaction will not be considered as an additional property when applying the higher rates. (Finance Bill 2016) The government will provide £60 million to enable community-led housing developments in rural and coastal communities, including through Community Land Trusts, where the impact of second homes is particularly acute. The South West will receive around £20 million of this funding.

> This is a huge blow to the build to rent sector. Over the last year build to rent has arrived, with almost 40,000 units either with planning, in construction or completed. Investor confidence was already delicate due to tight financial constraints, and it is now highly likely that investors will now take a second look at build to rent investments. This could cause serious problems not only in London but across the regions. With build to rent booming in the Northern Powerhouse, Manchester could face a real hit. We will see how the next few months pan out, but this severe change in policy is worrying in the context of providing additional supply the country desperately needs.

[2.184] Stamp Duty Land Tax: application to certain authorised property funds – As announced at Spending Review and Autumn Statement 2015, the government will introduce a seeding relief for Property Authorised Investment Funds (PAIFs) and Co-ownership Authorised Contractual Schemes (CoACSs) and make changes to the SDLT treatment of CoACSs investing in property so that SDLT does not arise on the transactions in units. These changes will take effect from the date Finance Bill 2016 receives Royal Assent. (Finance Bill 2016)

> We are delighted to see seeding relief for PAIFs introduced after several years of industry lobbying. We are pleased that government has addressed some of industry's concerns around the design of a of a claw back mechanism, although we remain concerned that the potential claw back could put off some investors from setting up a PAIF or property TTF.

[2.186] Stamp Duty Land Tax (SDLT): reform of non-residential rates – The government will change the calculation of SDLT on freehold and leasehold premium non-residential transactions so the rates apply to the portion of the purchase price within each band. The government will also amend the rates and thresholds so that the portion of the transaction value up to £150,000 is charged at a rate of 0%, the portion between £150,001 and £250,000 is charged at a rate of 2%, and the portion over

£250,000 is charged at a rate of 5%. SDLT on non-residential leasehold rent transactions, where the rates already apply to the portion of the purchase price within each band, will be reformed to include a new 2% rate for leasehold transactions with a Net Present Value over £5 million. These changes will take effect on and after 17 March 2016.

> We have worried about the potential for an increased rate of SDLT on commercial property for the past few fiscal events and it has finally come to pass. After a decade or so at 4%, the highest rate has been increased as the Chancellor looks for ways to close the budget deficit. The way SDLT is calculated has also been changed such that transactions worth more than £1.05m will now suffer more tax than they would have previously. The increase will affect marginal investments the most and threatens to undermine the government's drive for private sector investment in the Northern Powerhouse and Midlands Engine.

Sustainability

Energy and environment taxes

[2.170] Reform of business energy taxes – Following consultation on simplification of the business energy efficiency tax landscape, the government will:

- abolish the Carbon Reduction Commitment (CRC) energy efficiency scheme with effect from the end of the 2018-19 compliance year. Businesses will be required to surrender allowances for the final time in October 2019. The government will work with the devolved administrations on closure details for the reporting element of the scheme (36)

> It is very welcome to see a confirmed move towards a simpler kind of energy taxation system, and one that represents a more direct incentive at building level for the owner and the occupier to collaborate on improving energy and carbon performance, and a welcome reduction in accompanying administrative burden.

- increase the main rates of Climate Change Levy (CCL) from 1 April 2019, to cover the cost of CRC abolition in a fiscally-neutral reform and incentivise energy efficiency in CCL-paying businesses (Finance Bill 2016) (36)
- increase the CCL discount for sectors with Climate Change Agreements to compensate equivalently for the increase in CCL main rates. The CCL discount for electricity will increase from 90% to 93%, and the discount for gas will increase from 65% to 78% from 1 April 2019. The government will retain existing eligibility criteria for Climate Change Agreement schemes until at least 2023, with a target review to include a review of the buy-out price for periods 3 and 4 starting in 2016

> The preservation of the Climate Change Agreements for energy intensive industries was to be expected. The commitment from the government to ensure that the agreements deliver on their quid-pro-quo for lower CCL rates – energy savings – is a welcome step.

- rebalance the main rates of CCL for different fuel types to reflect recent data on the fuel mix used in electricity generation. In the longer term, the government intends to rebalance rates further to deliver greater energy efficiency savings, to reach a 1:1 ratio of gas and electricity rates by 2025

> Strictly speaking, for the Climate Change Levy to achieve one of its objectives – to reduce carbon emissions - it would be beneficial to see the CCL rates for different fuel types reflect their carbon intensity, rather than travelling on a trajectory toward parity since the carbon in the electricity supply grid will be lower than that of natural gas.

- Consult later in 2016 on a simplified energy and carbon reporting framework for introduction by April 2019

> We look forward to further consultation on the reporting elements of the review. This aspect was among some of the most complex and nuanced aspects of the review and we are pleased that the government is taking its time to arrive at a sensible conclusion.

[2.171] Climate Change Levy (CCL) main rates (2017-18 and 2018-19) – CCL main rates will increase in line with RPI from 1 April 2017 and 1 April 2018. (Finance Bill 2016)

[2.172] CRC energy efficiency scheme (CRC) – Allowance prices for CRC compliance years 2016-17, 2017-18 and 2018-19 will increase in line with RPI

[2.173] Climate Change Levy (CCL) exemption on renewably-sourced electricity – As announced at Autumn Statement 2015, a transitional period for electricity suppliers to apply the CCL exemption on renewably-sourced electricity generated before 1 August 2015 will end on 31 March 2018. (Finance Bill 2016)

[2.174] Carbon Price Support rates – As previously announced, the government will continue to cap Carbon Price Support (CPS) rates at £18/tCO2 to 2019-20. For 2020-21, the cap will be maintained in real terms and set at £18/tCO2 plus RPI. This will continue to protect business competitiveness. The government will set out the long-term direction for CPS rates and the Carbon Price Floor at Autumn Statement 2016. (Finance Bill 2018) (37)

> The government has resisted external pressure to reduce the carbon price support today from critics that have sought to bring pricing in line with around euro 6 under the EU Emissions Trading System.

Fiscal incentives

[2.181] Enhanced Capital Allowances (ECAs): energy-saving and water-efficient technologies – The list of designated energy-saving and water-efficient technologies qualifying for an ECA will be updated during summer 2016, subject to State aid approval.

> This is a welcome review for the scheme, which applies typically on a technology-by-technology basis and in respect of specific products. Periodic reviews ensure that the scheme is giving incentives for genuinely leading technologies.

Energy demand management

[2.338] NIC energy study – Following the National Infrastructure Commission's report Smart Power:

- the government will allocate at least £50 million for innovation in energy storage, demand side response and other smart technologies over the next 5 years
- Ofgem will consult on opening up the £100 million Network Innovation Competition to better enable innovation by non-licensed companies from 2017
- the government has increased its ambition for greater electricity interconnection by 80%, now supporting at least an additional 9GW of interconnection

> Given energy security risks highlighted in recent months, the government's proposal to invest in mechanisms that manage demand is to be welcomed, as alongside energy efficiency and renewable energy, demand response is part of the trifecta that will contribute to UK productivity and energy security. Energy storage is likely to be an important technology in tackling some of the intermittency problems that can accompany certain types of renewable energy installation, and its deployment in other countries suggest that it should be beneficial here in the UK.

OUR KNOWLEDGE AND ADVICE ON NATIONAL POLICY IS HELPING THE UK REAL ESTATE SECTOR GROW AND THRIVE

British Property Federation
St Albans House
5th Floor, 57-59 Haymarket
London
SW1Y 4QX

T 020 7828 0111

info@bpf.org.uk
www.bpf.org.uk