SPRING STATEMENT 2019

British Property Federation policy analysis

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Tax and Finance

Structures and Buildings Allowance

[Today the government will publish: Structures and Buildings Allowance – Draft legislation, on introducing a new, permanent allowance for investments in non-residential structures and buildings to create a more competitive tax regime for businesses – as announced at Budget 2018. The government intends to lay this legislation early this summer.]

> We are pleased to see that the draft legislation incorporates feedback we had provided to HMRC during previous consultation, and particularly welcome the alleviation of some of the burdensome record-keeping that had been suggested as part of the original proposals.

VAT Partial Exemption and Capital Goods Scheme: Simplification

[A call for evidence on potential simplification and improvement of the VAT Partial Exemption regime and the Capital Goods Scheme – ensuring they are as simple and efficient for taxpayers as possible. This follows on from the recommendations of the Office of Tax Simplification, who have looked in detail at our VAT system and possible areas for improvement.]

> Any simplification of the VAT rules for real estate investment is welcome, but partial exemption and the CGS are two areas that we highlighted to the OTS almost two years ago as being in need of reform so it is particularly pleasing to see action being taken (albeit belatedly) in this area.

Digital Services Tax

[A consultation on the detailed design and implementation of the Digital Services Tax that will take effect from 1 April 2020.]

> There has been much debate recently regarding whether the digital economy – and online retail in particular – is fairly taxed. Given the impact that digital transformation is having on the way that we use space, making sure that new business models are contributing their fair share is important for the real estate industry and we will be monitoring developments carefully.

Financial Services Legislation

[Following consultation later this year, the government will legislate as necessary to ensure that in the immediate period after we leave the EU, the UK can maintain world-leading financial services regulatory standards, remain open to international markets, and realise new trading opportunities.]

[Future Financial Services regulatory framework – Ahead of the Summer, the government will set out its approach to consulting on how to ensure our Financial Services regulatory framework adapts to our new constitutional position outside the European Union. This includes the need to ensure financial stability is delivered through an effective regulatory framework, with the responsiveness necessary for a dynamic and open financial services sector and an appropriate level of democratic accountability.]

In the short term, the priority has to be to provide certainty to investors that the ‘rules of engagement’ will not change overnight. Indeed, the government and Bank of England have done much good work on this over the past few months (for instance through the ‘temporary permissions regime’ for overseas fund managers). In the longer term, the question will really be to what extent does the UK continue to align its financial regulation with the EU. This will depend on whether the UK wishes to be recognised as having an ‘equivalent’ regime to the EU, to which the answer must surely be ‘yes’ – at least until the future of the UK’s broader relationship with the EU is clearer. However, this means the UK will probably be in the position of ‘rule-taker’ for the foreseeable future, which may cause political tension.

Sustainability

Mandating Biodiversity Net Gain through planning

[To ensure that wildlife isn't compromised in delivering necessary infrastructure and housing, the government will Mandate net gains for biodiversity on new developments in England to deliver an overall increase in biodiversity.]

> We welcome the Government's commitment to biodiversity and the continued, sustainable, interaction between the built and natural environments. A standardised approach to biodiversity net gain, designed to be simpler and clearer for all relevant stakeholders is undoubtably of benefit to our environment, industry, and our society. A system by which net gains are measurable and verifiable is likely to deliver better outcomes over time. We believe that the approach proposed by DEFRA can operate well alongside the existing planning process and associated policies. We have however encouraged the Government to give some additional thought to the diversity of site locations, development types, and associated constraints with respect to capacity to deliver on-site biodiversity gains.

Review of the Economics of Biodiversity

[A new global review, led by Professor Sir Partha Dasgupta, to assess the economic value of biodiversity and to identify actions that will simultaneously enhance biodiversity and deliver economic prosperity. The review will report in 2020, ahead of the 15th meeting of the Conference of the Parties to the Convention on Biodiversity in Beijing in October that year.]

> This builds on one of the Government's four Industrial Strategy Grand Challenges, namely the Clean Growth Grand Challenge, which seeks to maximise the advantages for UK industry from the global shift to clean growth. Weaved into this is the commitment being driven by the Department for Environment, Food & Rural Affairs to ensure that there is a net gain of biodiversity into the future. Questions remain as to how biodiversity is best measured and how its benefits are quantified, particularly by way of economic indicators. This review is welcome, and we hope that any outcomes or recommendations are considered as part of the Government's separate biodiversity enhancement workstreams.

A New Future Homes Standard

[A Future Homes Standard, to be introduced by 2025, future-proofing new build homes with low carbon heating and world-leading levels of energy efficiency. The new standard will build on the Prime Minister's Industrial Strategy Grand Challenge mission to at least halve the energy use of new buildings by 2030.]

We have previously supported the Prime Minister's broader target to at least halve the energy use of new buildings by 2030, and a renewed commitment to improving the standards of new build homes is therefore welcome. However, this matter has two further considerations.

Firstly, in 2016 the Government put an end to the Zero Carbon Homes initiative, which was intended to act as a world-leading policy to reduce the carbon emissions and energy efficiency associated with new homes. This was almost 10 years in the making and the scrapping of the initiative was therefore seen by many in the industry as a significant disappointment. Certainty is a key factor in the industry's ability to plan for growth and assurances will therefore be sought with regard to the long-term intent of this policy.

Secondly, notwithstanding the above we have seen significant improvements in the energy efficiency and sustainability of new build homes in recent years, in part due to the tenets of improved building regulations. Significant work has also been done to promote low carbon heating mechanisms in recent years. To this effect the announcement doesn't appear at first to be a particularly revolutionary step.

We therefore await the final details to see how this commitment may differ from those that have come before, and how this might impact an ever more accepted need to be net zero carbon as a nation by 2050.

Greening the Gas Grid

[Greening the Gas Grid – Accelerating the decarbonisation of our gas supplies by increasing the proportion of green gas in the grid. To meet our climate targets, we need to reduce our dependence on burning natural gas to heat our homes. The government will consult on the appropriate mechanism to deliver this commitment later this year.]

We welcome the launch of this consultation as both decarbonising the electricity and gas supplies will play a vital role in reducing the UK's overall carbon emissions in the short term. However, with the longer-term intention to minimise the use of gas to heat homes, thought must be given to the viability of alternative methods, and to ensure that the necessary infrastructure is delivered to promote those alternatives.

Housing and Planning

Independent Report on Build Out Rates

[In the coming months, the government will introduce additional planning guidance to support housing diversification on large sites. Sir Oliver Letwin concluded that greater differentiation in the types and tenures of housing delivered on large sites would increase build out rates.]

Sir Oliver Letwin's review effectively came in two parts. The first, which focused on the cause of slow build-out rates, attributed the issue to sales absorption rates. Sir Oliver's prescription was to diversify the tenure on offer on very large sites, defined as 1,500 units-plus. The Government would appear to be implementing this aspect of Sir Oliver's work via revised planning guidance. The devil will be in the detail, but generally this sounds positive.

The second part of Sir Oliver's Review focused on land value capture (LVC) and, again on large sites, seeking to capture more of the value that is generated when sites are allocated. We had significant concerns about that part of the Review, not least how that might prevent sites coming forward against the aspirations of delivering 300,000 homes per annum and are pleased that Government remains focused on existing LVC measures, rather than adding new ones.

Response to consultation on Planning Reform

[In the coming months, the government will Introduce a package of reforms including allowing greater change of use between premises, and a new permitted development right to allow upwards extension of existing buildings to create new homes.]

We have supported some (PDRs) in the past, not least office to residential, on the basis that some local plans were so out-of-date on their employment use that allowing conversion was sensible. We will continue to support sensible reform in this area, but are concerned that some of the PDR proposals around building up and demolition and rebuild may not lead to well-planned places and in an effort to prevent that and other considerations, the PDR may simply resemble a planning application in all but name. In which case, better they are properly planned for.

The approach to planning our high streets has to be nuanced. We'd rather see local councils engaging proactively on High Street planning and adaptation and therefore we support much of the Government's High Street agenda, including the High Street Fund and Task Force. Greater use of compulsary purchase and local development orders is also something that local councils may need to deploy more, and support for that is welcome. The extension of temporary use from two years to three, and the encouragement this might give to more community uses and would-be entrepreneurs is supported by us. However, the proposed flexibilities around change of 'A' class uses needs further careful consideration. High streets need a more holistic and locally-driven approach and whilst greater flexibility within use classes themselves would be welcome, simply allowing sporadic conversions between classes may not deliver good place-making.

Accelerated Planning Green Paper

[In the coming months, the government will publish a Green Paper setting out proposals on how greater capacity and capability, performance management and procedural improvements can accelerate the end-to-endplanning process.]

We await the details on this. In theory it could be very positive and certainly a lack of capacity and capability are two significant blockages our members experience as proposers of development schemes. We are also glad to see the Government implementing the Rosewall Review, which we generally support. Our only note of caution is that part of the challenge with capacity and capability is resource. A recent National Audit Office report showed that there was a 15% decrease in the number of local authority planning staff between 2006 and 2016, and against a backdrop of Government wanting to deliver far more homes than historically the UK has delivered. To help resolve this, the sector was willing to pay higher planning application fees, which came into effect at the start of 2018, but it is also important that Local Government is properly funded and it desperately needs a more sustainable funding settlement as part of the forthcoming Spending Review.

Tech and Innovation

Future of Mobility: Urban Strategy

[A publication setting out the government's approach to putting the UK at the forefront of mobility, and responding to the significant changes taking place in transport technology – such as the growth in electric vehicles, the development of self-driving vehicles and advances in data and internet connectivity.]

> Self-driving and electric vehicles offer opportunities to address problems such as air quality and the provision of enhanced mobility to urban populaces without the necessity of owning a car, as well as providing insights through connected mobility data on consumer habits and demographics. We look forward to responding to this consultation. As our research in The Liquid Report (released last week) and Lost in Translation (released last year) showed, digital models of buildings and cities can elicit significant benefits in terms of ensuring that the UK real estate sector can capture the benefits of advances in technology, and these benefits extend beyond just the construction and real estate sectors to touch all aspects of the economy.

Investment in R&D

[Allocating over £200m in cutting-edge infrastructure to support our world-leading scientists, innovators and industry. These investments, which underpin the government's ambition to raise economy-wide investment in R&D to 2.4% of GDP by 2027 and drive progress against the Grand Challenges, such as healthy ageing and the AI and data revolution, include: Photonics – Allocating £81 million to a national Extreme Photonics Application Centre in Oxfordshire. This centre will help researchers and industry better understand the composition of new materials and how they behave in different conditions.]

> More spending for R&D is to be welcomed, particularly when these concern grand challenges such as AI. However, as The Liquid Report released last week indicated, there is a greater need for real estate-focused innovation competitions and research. There are particular challenges that hold commonalities across a large number of real estate companies, such as data sharing, that would benefit from Government's role as convenor and arbiter.

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

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