Autumn Statement 2023

Analysis by the
British Property Federation

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Numbers below refer to paragraph numbers in the Autumn Statement paper. Information provided by the Government (which may have been edited for length) is shown in bold type.

TAX AND FINANCE

5.64 Business rates: multiplier: For 2024-25, the small business multiplier in England will be frozen for a fourth consecutive year at 49.9p, while the standard multiplier will be uprated by September CPI to 54.6p.

5.65 Business rates - retail, hospitality, and leisure relief: The current 75% relief for eligible Retail, Hospitality and Leisure (RHL) properties is being extended for 2024-25, a tax cut worth £2.4 billion. Around 230,000 RHL properties in England will be eligible to receive support up to a cash cap of £110,000 per business.

> It is disappointing that the Government has not taken sensible long-term decisions to alleviate the business rates burden for small and large businesses alike. The main tax rate of over 50% is staggeringly high – the Government should be making a long-term plan to bring this rate down to sustainable and manageable levels – not increasing the higher rate even further by inflation.

5.62 Capital allowances: permanent full expensing: Full expensing will be made permanent in the Autumn Finance Bill 2023, so that investments made by companies in qualifying plant and machinery, after 1 April 2026, will continue to qualify for a 100% first-year allowance for main rate assets, and a 50% first year allowance for special rate (including long life) assets. Cars, assets for leasing and second-hand assets will be excluded from these 100% and 50% first-year allowances.

> Confirmation that full expensing will continue is welcome, but the Chancellor missed an opportunity to go further and incentivise investment to upgrade older commercial and residential buildings to make them more energy efficient. Tax relief on future profits will not impact the viability of complex retrofit projects and the Chancellor should have delivered 'above the line' measures such as tax credits for green plant and sustainability improvements.

5.71 Real Estate Investment Trusts (REITs): Further to the publication of draft legislation on 18 July 2023, the government will make amendments to the rules for Real Estate Investment Trusts (REITs) to enhance the competitiveness of the regime. Changes will variously take effect from Royal Assent of the Autumn Finance Bill 2023, apply to accounting periods ending on or after 1 April 2023, or are deemed to have always had effect.

> We have engaged with HMRC over the summer on these proposed amendments, which are all largely positive. The amendments follow on from the Government's wider review of the funds industry in the UK – seeking to make our funds industry, including the REIT regime, globally completive. As well as some simplifications to the rules, these changes will make it simpler for qualifying institutional investors to meet the ownership conditions of the REIT regime, whether they invest directly or indirectly in the REIT.

5.58 Construction Industry Scheme (CIS) reform: reforms to the Gross Payment Status test – The government will introduce reforms in the Autumn Finance Bill 2023 to the Construction Industry Scheme, including adding VAT as part of the Gross Payment Status (GPS) compliance test, giving HMRC more power to remove GPS immediately in cases of fraud. Alongside this, the government is also announcing simplifications to other aspects of the scheme, which will be subject to technical consultation.

> We engaged with HMRC's consultation on CIS earlier this year. We support measures to strengthen the CIS scheme to protect exchequer revenues. The Government's response to the consultation was also published today. We are primarily concerned with how the Government plans to address our concerns in relation to landlord to tenant contributions towards fit out works – which can inadvertently impose significant cash flow challenge in some cases. We look forward to engaging with HMRC as part of their next phase of technical consultation – and hope that this issue can be resolved as soon as possible.

5.152 Reforms to Energy-Saving Materials VAT Relief: Following a call for evidence, the government will expand the VAT relief available on the installation of energy-saving materials by extending the relief to additional technologies – such as water-source heat pumps – and bringing buildings used solely for a relevant charitable purpose within scope. Thanks to the Windsor Framework, these reforms will be implemented UK-wide in February 2024. Full details of these reforms will be published shortly.

> We engaged with the Government's call for evidence earlier this year. The overarching concern with this relief is that it currently only applies to a 'single supply' - which fails to recognise that most energy saving or energy efficiency works are carried out as part of a wider refurbishment project. The Government must address this to improve the effectiveness of this much needed tax incentive.

4.96 Investment zones: At Spring Budget 2023, the government launched the refocussed Investment Zones programme. The government is now going further by extending the Investment Zones programme from five to ten years, which will double the envelope of funding and tax reliefs available in each Investment Zone from £80 million to £160 million, to provide greater certainty to investors. The government is also extending the duration of the tax reliefs available in Freeports from five to ten years to maximise the programme's impact. To ensure Investment Zones and Freeports can respond nimbly as investment opportunities arise, the government is also creating a new £150 million Investment Opportunity Fund, which will be available over five years.

5.189 Freeport Tax Relief Sunset Date Extension: The window to claim Freeport tax reliefs will be extended from five to ten years, until September 2031 in English Freeports, conditional on agreement of delivery plans with each Freeport. The UK Government will work with the devolved administrations to agree how the 10-year window to claim reliefs can be extended to Freeports in Scotland and Wales.

> The Government took the opportunity to announce a number of new investment zones. The extension of incentives and reliefs from 5 to 10 years is welcome – and better reflects the long-term nature of these investment and regeneration projects. We're also pleased to note that UK Government will work with devolved administrations to roll out the extensions in Wales and Scotland.

4.31 Unlocking investment in growth through the financial system: The government has announced a comprehensive package of pension reform that will provide better outcomes for savers, drive a more consolidated pensions market and enable pension funds to invest in a diverse portfolio. These measures represent the next steps of the Chancellor's Mansion House reforms and meet the three golden rules: to secure the best possible outcomes for pension savers; to prioritise a strong and diversified gilt market; and to strengthen the UK's competitive position as a leading financial centre.

> Consolidation of Defined Contribution (DC) pension schemes and a move towards collective DC should also be positive for property over the medium-long term, as larger schemes are better able to invest in specialist, illiquid assets like property. Given time and the right policy framework the largest of these may come to rival in size some of the large international pension schemes that have become significant investors in UK property in recent years.

What was not included?

> There was no mention of the Reserved Investor Fund – which is one of the workstreams coming out of the wider funds review that a number of stakeholders have engaged extensively with the Government on over the last year or more. Further details on the Building Safety Levy were also noticeably absent – although we understand that an update from officials will be forthcoming on this. Finally, measures to support energy efficiency improvement works to buildings was also lacking. While full expensing will go some way to supporting this investment in commercial buildings – the Government missed an opportunity not to introduce an above the line 'tax credit' for green plant and improvements. Furthermore, equivalent support for energy efficiency improvements to our residential stock is also needed – such as zero rating of VAT on all residential repairs and maintenance works.

HOUSING AND PLANNING

5.92 Infrastructure planning: The government has published its response to the National Infrastructure Commission's study on infrastructure planning reforms, with measures to return consent times to two and a half years on average, is designating low carbon infrastructure as a critical national priority in updated Energy National Policy Statements, and will consult on amending the National Planning Policy Framework to ensure that the planning system prioritises the rollout of electric vehicle charging infrastructure, including EV charging hubs, and also introduce new permitted development rights to end the blanket restriction on heat pumps one metre from a property boundary in England.

> The Chancellor's focus on unblocking the planning system and speeding up the delivery of national infrastructure is very positive. In the UK, it takes too long to deliver even basic infrastructure compared to other developed countries. The planning process for national infrastructure can certainly be boosted without losing community consent or quality of development and we look forward to sharing our expertise with Government on how this can be achieved in practice.

5.93 Planning system performance reforms: The Department for Levelling Up, Housing and Communities will bring forward plans for authorities to offer guaranteed accelerated decision dates for major developments in England in exchange for a fee, ensuring refunds are given where deadlines are not met and limiting use of extension of time agreements. This will also include measures to improve transparency and reporting of planning authorities' records in delivering timely decision-making.

> The planning system is currently high on the political agenda with both main political parties now recognizing that accelerating the planning process is a cost-effective way of driving wider economic growth.
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> Long delays in the planning process can increase risks and project costs significantly on larger complex schemes in particular. Today's announcement focusing on an enhanced planning service with guaranteed timescales is therefore extremely welcome with the private sector very much willing to commit more resource in return for a more consistent level of service.
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> If we are to achieve an accelerated planning system in practice, it will be important that the focus is not only on increasing financial resources but also translating additional revenue into better skills and capacity on the ground.

5.94 Support for substantial commercial development: The government will incentivise greater use of Local Development Orders to ensure key commercial developments are approved faster.

> Local Development Orders are an innovative part of our planning regime, offering flexibility at a local level. We have long been supporters of their greater use, as we believe they can help support the regeneration and repurposing of places like town centres. It is therefore welcome that the Government is putting £5m behind a few local planning authorities, to allow them to test LDOs.

4.103 Unlocking housing: The government is investing an additional £32 million across housing and planning to unlock thousands of homes across the country. This includes additional funding to tackle planning backlogs in Local Planning Authorities (LPA), alongside further reforms to streamline the system through a new Permitted Development Right to enable one house to be converted into two homes.

> Any additional resource to speed up the existing backlog of planning applications across the country is a welcome development. As noted above, it will be important that additional resources are allocated to the areas where the largest impact can be made and where skill shortages are most apparent.

We look forward to hearing more details about the new proposed Permitted Development Right for residential development when they emerge.

5.194 Local Nutrient Mitigation Fund: The government is providing £110 million of funding to support Local Planning Authorities to deliver high quality schemes to offset nutrient pollution, unlocking planning permissions that are otherwise stalled.

> This commitment to develop high quality and locally-led nutrient mitigation schemes through the wider fund is a welcome development. With these schemes already in the planning pipeline, the additional homes can be delivered at relative pace whilst making sure the local environmental impact is sufficiently mitigated.

5.28 Raising Local Housing Allowance (LHA) rates: In April 2024, LHA rates in Great Britain will be raised to the 30th percentile of local market rents.

> Probably the single biggest measure that will impact renters and the PRS is that the government will raise Local Housing Allowance rates to the 30% of local market rents in April 2024. 1.6 million low-income households will be better off, gaining £800 on average in 2024-25. Although this may not impact much of the BtR sector’s customer base it is an important measure to support the overall health of the PRS.

5.192 Cambridge, Leeds and London: The government is announcing a further £2 million to address water scarcity in Cambridge, alongside £3 million to support the Cambridge Delivery Group drive the long-term vision for Cambridge by exploring the case for a development corporation. An additional £2 million in capacity funding will also be available for Leeds City Council to maximise delivery of new homes. Subject to business case approval, the government will also provide £23 million for a bus network to unlock housing in the 'Docklands 2.0' as part of the £150 million allocation to London from the Brownfield, Infrastructure and Land Fund.

> The drive to accelerate and develop housing, particularly in Cambridge, is welcome. This funding supports some of the announcements Michael Gove made in July, and it is good to hear that the Cambridge Delivery Group is gathering support and funding to deliver on its potential. There is an opportunity for members to work in partnership with these new development corporations to deliver housing.

5.195 Affordable Homes Guarantee Scheme: The government is expanding the existing £3 billion scheme by a further £3 billion to support housing associations to access cheaper loans for quality and energy efficiency works as well as new homes.

> This is a step in the right direction, with the addition of retrofitting existing homes added to the financing options. The scheme is available to both not-for-profit housing associations and for-profit Registered Providers. The subsidy is created by reducing the long-term cost of debt for a Registered Provider from their normal borrowing cost level to a level closer to Government borrowing costs. Gearing covenants are likely to be less of an issue for institutional investors, meaning that the realised economic benefit of debt guarantees is more direct and can act as an immediate spur to supply immediately.

5.198 Local Authority Housing Fund 3: The government is announcing £450 million for a third round of the Local Authority Housing Fund to deliver 2,400 new housing units to house Afghan refugees and ease wider housing and homelessness pressures. This will bring the total amount spent on the Local Authority Housing Fund to over £1.2 billion.

> This measure is designed to boost the supply of affordable homes. Some of it will come through purchasing homes from the PRS or wider market, some from upgrading poor-quality stock, and some boosting supply through building more homes. It will be obvious to many members that the latter is the best long-term solution, and Government are keen to explore partnership working to boost housing delivery, in particular key worker housing, so funding in this area is welcome.

LIFE SCIENCES

4.83 Life sciences: Life sciences is a strength of the UK economy, with the sector critical to the country's health, wealth and resilience. In May 2023, the government committed £121 million in funding as a first response to Lord O'Shaughnessy's recommendations on improving the UK's commercial clinical trial offer. The government has published its full response to the review, supported by an implementation plan, to make the UK one of the best places in the world to conduct clinical research. Up to £20 million of this funding will launch the first Clinical Trial Delivery Accelerator, focused on dementia, to help innovation reach NHS patients even faster.

> The funding injection demonstrates a commitment to strengthening the life sciences sector in the UK. This is vital for our sector, as a thriving life sciences industry creates demand for specialised real estate infrastructure.

5.159 Manufacturing Funding: Funding of £4.5 billion will be made available starting in 2025-26 lasting for five years for eight manufacturing sub-sectors: automotive (particularly zero emission vehicles, their batteries and supply chains), aerospace, life sciences, and clean energy (carbon capture, utilisation and storage, electricity networks, hydrogen, nuclear and offshore wind).

> Funding for the life sciences sector is welcome, but the manufacturing side is as important as the labs and there is a great opportunity for the sector to deliver new stock and drive growth. In addition, the "full expensing" tax incentive will allow companies to deduct spending on new machinery and equipment from profits, which will contribute to continued growth.
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> Our members frequently note that the UK's incubation stage is strong but once life sciences businesses look to expand or begin manufacturing, they often move to the US due to a lack of manufacturing capability in the UK. We welcome the £4.5bn of investment into manufacturing and will look for further details on how much of this will be ringfenced for life sciences purposes.

4.86 Voluntary Scheme for Branded Medicines: The government has reached an in-principle agreement with the pharmaceutical industry on the 2024 Voluntary Scheme for Branded Medicines Pricing, Access, and Growth (VPAG). The scheme is expected to deliver around £14 billion in savings to the NHS across the next five years, as well as supporting rapid patient access to new clinically and cost-effective medicines. A £400 million fund will also be established by industry to support investment in the UK life sciences ecosystem, including improved clinical trial capacity.

> The VPAG will strengthen the UK's global competitiveness in health and life sciences and drive innovation-led growth. Of particular interest will be the £400 million fund, part of which will need to focus on facilities and improving the real estate ecosystem of the life sciences industry.

HEALTHCARE

> It is disappointing that there are no material announcements on the wider healthcare sector. It is a difficult time for the sector with build costs being high and with the difficulties in unlocking partnership investment from the NHS – we will be making the case for this to government over the coming months. Like the Spring Budget, Older People's Housing again lacks any mention, and it is urgent that the government's Older People's Housing Taskforce reports soon on how the lack of specialist housing for our elderly population will be addressed.

ENERGY AND NET ZERO

4.21 Energy infrastructure: Delivering high quality infrastructure is crucial for boosting economic growth and productivity across the UK, and is an essential foundation for increasing energy security and transitioning to net zero. This means addressing barriers to investment such as the UK's outdated planning system and lengthy delays to connect to the electricity grid; and making the economic regulatory framework more pro-investment.

> It was especially welcome to see the Government focus on speeding up the time it takes for new developments to connect to the grid. The Connections Action Plan, also published today, provides detail of the announcement in this paragraph, and sets out a plan to reduce average connection time for new projects from 5 years to 6 months through freeing up unused capacity in the short term and increasing the speed at which transmission infrastructure can be built in the medium term.

4.65 Renewable generation: To support continued investment in the UK's renewable generation capacity, the government will legislate for a new investment exemption for the Electricity Generator Levy (EGL). New projects for which the substantive decision to proceed is made on or after 22 November 2023 will be exempt from the EGL. The government has published a technical note on the exemption and will legislate in an upcoming Finance Bill. The EGL will end as planned on 31 March 2028.

> As we argued in our Towards Net Zero research, the introduction of the Electricity Generator Levy risks dis-incentivising investment in renewable energy such as solar PV. We welcome the fact that the Government has reviewed the policy as we called for and are pleased to see confirmation that the Levy will end as planned in 2028.

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