Budget representation: supporting the Covid recovery

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To: Submitted to the Budget 2021 representation portal

Introduction and background

1. The British Property Federation (BPF) represents the real estate sector – an industry which contributed more than £115bn to the economy in 2019 and supported 2.4 million jobs[1]. We promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive the UK's economic success; provide essential infrastructure and create great places where people can live, work and relax.

2. As we focus on the recovery from the pandemic, the real estate sector stands ready to support some of the biggest challenges of our time: to help meet our net zero carbon targets; to support the creation of new homes; and to deliver on the transformation of our high streets. The need to invest in development across the country has never been greater, and with the right fiscal framework, government can remove unnecessary barriers, and kick start investment – creating and supporting jobs throughout the country.

3. However, while the vaccination rollout offers hope that the worst of the public health situation will soon be over and recovery is in sight, the next few months will be very difficult for many businesses and their property owners, particularly those in the hospitality and leisure sectors at the sharp end of the pandemic's economic fallout. Property owners and occupiers in these sectors are co-operating to get through the crisis together, but there remains an urgent need for government support with property costs.

4. As a minimum, businesses in hospitality and leisure should continue to receive full business rates relief for a further year until April 2022 and the VAT reduction for hospitality should be retained. More targeted relief should also be available for retail and other businesses which continue to be impacted by the pandemic. The government should also continue to consider financial support for the payment of rent, ideally by way of grant funding, or alternatively, some kind of fiscal support, like tax credits, to provide some relief where landlords have agreed concessions with tenants.

5. The built environment represents approximately 40% of the UK's carbon footprint – and as such, reducing carbon emissions is a huge priority for our sector. Retrofitting existing buildings is essential to improving the energy efficiency of our property stock, and is a necessary precondition to overcoming our reliance on fossil fuel energy sources. It is a significant endeavour that will take decades to action and will require coordinated support from government, property owners and occupiers.

6. The government can support this retrofitting activity by removing the fiscal barriers that stand in the way of this immense task – and in doing so, help deliver greener, safer homes, while creating and supporting hundreds of thousands of green jobs over the coming decade. We set out the policy recommendations that we consider will be most impactful to support the green growth agenda, alongside policies to support the delivery of more and better-quality homes, and the transformation of our high streets, within the appendix.

[1] https://bpf.org.uk/media/2659/16688-bpf-economic-footprint-report-140819.pdf

7. We welcome the opportunity to provide this brief submission - please do not hesitate to get in touch if you require further information.

Rachel Kelly
Assistant Director (Finance)
020 7802 0115
rkelly@bpf.org.uk

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Appendix: policy recommendations

Green Growth

Retrofitting

8. The built environment represents approximately 40% of the UK's carbon footprint – and as such, reducing carbon emissions is a huge priority for our sector. Retrofitting our existing buildings will improve the energy efficiency of our property stock, and amongst other things, reduce our reliance on oil and gas for heating.

9. A significant proportion of the sector's emissions are attributed to heating, lighting and electricity use in our homes. The Committee on Climate Change has highlighted this fact and recommends action to help homeowners, tenants, and landlords to deliver better efficiency in the domestic building sector. We would encourage the government to support this crucial endeavour by removing related barriers.

Residential – zero rate VAT on repairs and maintenance

10. We fully endorse the Construction Leadership Council's Retrofit Strategy, to green our existing homes: (CLC-National-Retrofit-Strategy-final-for-consultation.pdf (constructionleadershipcouncil.co.uk). In particular, we would draw out the proposals to reduce the rate of VAT on repairs and maintenance – and would go further to call for a zero rating of VAT on repairs and maintenance of residential buildings. This would be one of the most impactful tax changes to support the improvement of both the energy efficiency and health and safety standards of our homes – and will ensure that the VAT treatment of constructing new build homes, and repairing and maintaining our existing stock is aligned.

11. ***Commercial – expedite capital allowances for retrofitting works***

12. Commercial property faces the same retrofitting challenges over the coming years. We believe that capital allowances could play a much more impactful role to ensure that tax payers receive tax relief much more quickly when investing in sustainability improvements – and certainly quicker that the 16 years that many of the common retrofitting works will receive tax relief over if they fall within the integral features/special rate pool. Some suggestions for consideration include:

    a) A new 'Green Pool', which expedites relief for works which enhance the sustainability credentials of a building, over say, 1-3 years.
    b) The Annual Investment Allowance (AIA) threshold could be held at £1m - or alternatively, a higher threshold could be targeted to facilitate tax relief on typical retrofitting works – e.g. through a 'Green AIA'.
    c) The Structures and Buildings Allowance period of relief could be reduced from 33 to 15 years – or alternatively, the link with the capital gains tax rules could be removed to create a true incentive, and not just a timing difference for tax relief. For simplicity, there would be merits it bringing in these rules in for all properties (which would also help with the other challenges we face, such as town centre transformation). However, alternatively, this incentive could be targeted at those building which reach excellent sustainability standards – or where a refurbishment results in a significant improvement in energy efficiency.

13. In addition to incentivising this retrofitting work, the government must also review existing tax rules and ensure that they are not creating any unintended barriers to this effort. In particular, the business rates 'plant and machinery' rules should be reviewed, to ensure that investment in onsite renewable energy generation is not subject to business rates. Furthermore, the REIT regime criteria should be reviewed to ensure that the 'balance of business' test does not prevent property owners from investing in renewable energy generation to support their property portfolios.

Housing for all

14. Increasing the quantity and quality of our housing stock remains one of the biggest challenges for our country. The build-to-rent sector has huge potential which could be supported to create new high quality and professionally managed homes in this country.

Zero rate VAT on repairs and maintenance

15. The reduction of VAT on repairs and maintenance touched on above will not only better support our green agenda, it will also incentivise greater investment in build-to-rent housing, by allowing the VAT costs on repairing and maintaining these buildings to be recoverable – which will ensure better alignment with commercial property, where these costs are already broadly recoverable.

16. Other policy measures which will support the housing market now include:

    a) ***The SDLT holiday should be extended beyond April 2021, and ideally indefinitely***. SDLT creates a huge barrier to property transactions and to labour mobility. We may be at the very early stages of our recovery come April – and as such, reintroducing full SDLT risks putting the property market into stagnation. To that end, we also call for a reduction in the 3% surcharge for Build-to-Rent developments, to ensure that SDLT does not create a barrier to investment at this crucial time.
    b) ***Supporting development finance –*** the Build-to-Rent sector's development pipeline has been resilient during pandemic conditions. Sites have continued to start and reach completion, and applications continue to made and advanced for planning permission. The only barrier to the sector's current growth could be the impact of more conservative lending practices on the availability of development finance. We are hearing anecdotal evidence that lending conditions are tightening and it may therefore become necessary to consider if support is needed, via the Government's Housing Guarantee programme.
    c) ***Lifetime ISA being extended to renters' deposits*** - young people who are making their way in the world and renting a home are at a disadvantage to those who stay at their parental home, in that their deposit on renting is not able to count towards a Lifetime ISA, and miss out on Government support. We suggest rental deposit monies 'count' towards Lifetime ISA savings, allowing young people to save more quickly.
    d) ***Housing for older people must be supported –*** The UK has an ageing population. This has significant implications for the availability and delivery of purpose-built homes to serve the needs and aspirations of older people. In addressing the longstanding housing crisis, greater attention must be given to the types of homes we are delivering, in particular those that incorporate elements of care and promote wellbeing later in life. The BPF recently produced and published a report which provides clarity on the spectrum of housing models available to address the needs of an ageing population, considers the limitations in delivery that currently exist, and acknowledges that a cross departmental response is needed to address the current under-provision.

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Town Centre transformation

17. Our town centres are going through a significant period of change. The shift to online shopping over the last decade has put pressure on our high streets – and there is acknowledgement that the high streets of the future will be less retail focussed and more mixed use and experiential. The pandemic has accelerated the trend towards online shopping, and will also have a profound change on our business spaces, as we adapt to new ways of working. The tax system must support this transformation, and respond where the tax rules are creating unnecessary challenges. We set out recommendations below to better support the transformation of our high streets.

Business rates

18. Even before the pandemic struck, retail rents outside of London had fallen by around 30% in nominal terms (closer to 50% once inflation is taken into account) over the past decade, and the level of empty shop fronts on our high streets had also been increasing over that time. However, the business rates system has not reflected these changes in market rents quickly enough, which has put unnecessary pressure on already struggling businesses.

19. We would encourage government to bring forward the results of last year's fundamental review, and act quickly on the recommendations. In the medium term, the business rates system must be responsive enough to reflect current rental values in closer to real time – to that end, we would encourage more frequent valuations, and a greater level of information sharing between the VOA and ratepayers. Furthermore, the business rates system must not penalise landlords by charging business rates on empty units, which is an unfortunate but inevitable part of the evolution of the high street, and takes away investment capital from the very stakeholders that want to invest in repurposing and reimagining our high streets.

20. In the short term, the government must commit to continued business rates relief for those businesses in the leisure and hospitality sectors, as well as more targeted support for retail and other businesses which continue to be impacted by the pandemic. In addition, the transitional phasing mechanism should be abolished without delay. This mechanism, which phases in a new valuations over time, runs completely counter to the objective of a valuation, which is to ensure businesses are paying tax which is broadly reflective of the value of the space they are occupying. Transitional phasing is a hindrance to this process and should be removed.

Capital allowances

21. As touched on under the green growth policies; capital allowances could be expedited to provide quicker tax relief where capital expenditure is incurred – such as for the significant physical transformation that we need to see to our high streets in the coming years. Maintaining the AIA at a high level, or reducing the timeframes over which SBAs can be claimed would also be helpful policy changes in the context of our town centre transformations.

Company Voluntary Arrangements (CVAs)

22. The increased corporate indebtedness the pandemic has meant for high-street firms undoubtedly means that many will need to look to the UK's insolvency regime in order to ensure viability and minimise job losses. The routine abuse of the company voluntary arrangement (CVA) and pre-packaged administration processes that we have seen over recent years has however severely undermined

creditor confidence in that regime. We urge government to urgently review the way CVAs are being used as the economic fallout of the crisis takes hold so as to ensure the investor confidence needed to support recovery.

Town Centre Investment Zones (TCIZs)

23. Finally, in order to ensure local policymakers are equipped to meet the unprecedented challenges they are facing, we believe they need a suite of policy tools more suited to delivering rapid, town-specific change. We therefore urge the government to consider introducing Town Centre Investment Zones, in which various regulatory and tax powers are handed to local authorities on the condition that a clear, coherent local plan for high street renewal and partnership is in place, and the new powers will be used to achieve its aims.