BPF Budget representation February 2020

To: **budget.representations@hmtreasury.gov.uk**

5 February 2020

Introduction and summary

1. The British Property Federation (BPF) represents the real estate sector – we create the places across the country where all of us live, work and relax, enabling both economic and social wellbeing, and supporting most, if not all, other business sectors. We are committed to maximising our contribution through our Redefining Real Estate campaign, our long-term action plan to deliver better 'net positive' outcomes in local communities, help create a productive economy that delivers for everyone in the UK, attract and nurture a diverse and skilled workforce, and respond to the global climate emergency.

2. We seek a new partnership with this Government that allows us to better support one another in delivering a more productive economy, strengthening communities and unlocking sustainable, inclusive growth across the whole country. Our budget representation highlights three critical issues for our country where the Government and the property industry could better work together to overcome the shared challenges of: levelling up investment in our towns and cities; decarbonising our built environment; and building enough good homes. We summarise each below with further details in the appendices.

A. Levelling up investment in our towns and cities

Our sector is a significant investor in UK towns and cities - Government can harness that investment and therefore aid levelling up by:

1) *Reviewing the Green Book appraisal methods to ensure they support infrastructure investment across the UK and that appropriate weight is given to social and environmental factors.*
2) *Committing to a fundamental review of business rates in 2020, without the constraints of fiscal neutrality - and abolishing downward rates phasing without delay.*
3) *Investing heavily in local authority planning departments combined with more investment from the private sector.*

B. Decarbonising the built environment

Our sector has a critical part to play in decarbonisation and meeting net zero commitments. We recommend the following measures to help us achieve our targets:

4) *Launch mandatory in-use energy performance ratings for non-residential buildings.*
5) *Introduce business rates discounts for more carbon efficient buildings.*
6) *Zero rate VAT on repairs and maintenance of residential buildings, to ensure that tax is not a blocker to anyone wanting to improve the energy efficiency of their own home.*

C. Building enough good homes

Our sector is experiencing huge growth in investment in homes. Government can harness further investment in new homes through:

7) *Reforming the Housing Delivery Test to reflect growth aspirations in the Midlands and North.*
8) *Zero rating VAT on repairs, maintenance and management of residential housing.*
9) *Excluding Build-to-Rent from the 3% SDLT surcharge on additional dwellings (HRAD) – and ensuring the proposed overseas surcharge does not have adverse consequences for housing supply.*
10) *Implementing clear planning policies to support retirement living.*

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Wider Budget priorities

3. The election of a new Government with a strong parliamentary majority provides an opportunity to end the political uncertainty which has put investment and development decisions on hold. We urge the Government to be bold and take the actions which will support the UK's long-term future including investment in key infrastructure –including transport, digital connectivity, decarbonisation and housing.

4. In order to support the UK to thrive as we leave the EU, the UK must remain able to attract the skills it needs at all levels – from ensuring that businesses can attract and retain the brightest and best, to ensuring that the construction sector is able to deliver the ambitious programme of regeneration and housing delivery the UK needs.

5. Finally, the UK must continue to be the destination of choice for global investment. UK real estate is a hugely attractive asset class and the BPF has worked in partnership with the Department for International Trade to showcase the opportunities it provides. The Government must ensure that business and investor confidence in the UK is maintained and enhanced as we leave the EU – and that investment and opportunity are spread evenly across the UK.

Please get in touch if you have any questions or require any further information. We would welcome the opportunity to meet to discuss any aspect of our submission.

Yours Sincerely,

Melanie Leech
Chief Executive
British Property Federation
mleech@bpf.org.uk

Our submission is structured as follows:

Appendix 1: Policy recommendations
We set out the policy changes needed to help address the priorities in turn:
1. *Levelling up our towns and cities*
2. *Decarbonising the built environment*
3. *Building enough good homes*

Appendix 2: Policy costings
We set out estimates of impacts and exchequer costs of our primary tax policy recommendations, which include:
1. *Applying a zero rate of VAT to residential repairs and maintenance and management*
2. *Abolish the 3% SDLT HRAD surcharge for institutional investors in build-to-rent*
3. *Reforms to business rates*

Appendix 3: The British Property Federation
We set out further background on the British Property Federation – and the UK real estate sector we represent.

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Appendix 1: Policy recommendations

1. Levelling up our towns and cities

6. Having the right space in which to work, study and socialise is fundamental to increasing wellbeing and productivity; research suggests that factors such as lighting, air quality and noise have an impact on the value of worker's output per hour and these factors tend to be less supportive of productivity in older buildings. The property industry therefore has a key role to play in supporting the levelling up that our country needs.

7. To help us provide this space, the Government should invest heavily in infrastructure that improves physical and digital connectivity – particularly in areas that have historically seen relatively less of it. We also support greater devolution of powers to local government; local authorities need to be properly empowered and resourced to lead and deliver a compelling vision for the future. Finally, given the current challenges facing our town centres, the Government cannot any longer delay the fundamental reform that our business rates system needs.

Reviewing the Treasury Green Book

8. The ability of people, energy and ideas to circulate freely is crucial if we are to improve productivity. This requires heavy investment in physical and social infrastructure and in that context we welcome recent suggestions from Government that it would be making large amounts of public money available for these purposes. However, the basis on which the Government allocates its infrastructure investment needs to be reviewed to ensure it is fairly spread across the country and not reinforcing existing inequalities.

9. For instance, London and the South East have been the main beneficiaries of several government funds to support infrastructure and housing investment. A total of £866m was awarded through the HIF's Marginal Viability Fund and local authorities in London, the East and the South East received £434m, just over half of the allocated funding. As at March 2018, up to three quarters of funds allocated under Homes England's £2bn infrastructure loans fund have also been awarded to projects in London and the South East.

10. We recognise the acute need for housing and infrastructure in these areas, but focusing Government investment in these areas risks perpetuating imbalances in the UK economy. Accordingly, we would strongly support a review of the Treasury Green Book methodology that ensures government investment takes places across the country. In particular, we recommend testing whether too much importance is given to the impact of a project on land values (which tend to be higher in London and the South East) at the expense of wider social and economic benefits.

Business rates

11. We have long advocated for fundamental reform of business rates to ensure that the system is more responsive to changes in our economy to avoid stifling business. Put simply, the system needs to be much better at responding to and reflecting up to date rental values. To that end, our primary asks for long term reform are as follows:

    A. *The total business rates burden should be reduced*
    It is not sustainable for the business rates yield to increase with inflation every year. Business rates were roughly a third of rateable value (a proxy for rents) in the 1990s but are now more than half of rateable values, representing a tax rate of over 50%. This perpetual increase is not sustainable – and if it is not addressed, will continue to harm the economy of our towns and cities, and the tax environment will become increasingly unattractive to investors. We would recommend reverting to a tax rate of no more than a third of rents.

B. The total tax yield should fluctuate in line with the economy
Instead of increasing every year by inflation, the tax yield should fluctuate with the fortunes of the economy – or at least with a rental growth index - to ensure that business is paying tax which is more reflective of the wider economic conditions.

C. Revaluations should take place more frequently, ideally annually
While the business rates debate is currently focused on high streets; the way we use real estate more broadly is evolving as we respond to structural shifts in our economy and changes in consumer preferences. While we recognise the urgent need support for our high streets in the short term, the tax system must be agile enough to respond to these changes across all types of property, to avoid stifling business. To that end, revaluations should be conducted annually to ensure that businesses are paying a tax which is reflective of the true value of the space they are occupying.

12. The Government must also do more immediately to mitigate the intolerable strain that business rates is having on many businesses. In that regard, we would prioritise the following short-term measures:

A. Abolish downwards phasing
Because of downwards phasing, many businesses are paying a business rates liability which is still related to their 2010 property valuation. For retail, where rents have come down by around 30% in this time, it is preposterous that businesses rates liabilities are still linked to this out of date valuation. Abolishing downward phasing would simply allow businesses to pay a business rates bill which is based on a fairer and more relevant value – and should therefore be done without delay.

B. Extend empty rates relief
Charging rates on an empty property hits a landlord at the point they have no income to pay the tax. For retail especially, the oversupply makes it incredibly challenging to re-let a property very quickly, and empty rates liabilities will make it increasingly challenging for landlords to renovate properties for new uses as our high streets evolve. As a minimum, we would advocate for providing a longer period of relief after a property becomes vacant, of at least 6-12 months – and to reduce the burden after this point by at least 50%.

C. Incentivise improvements to properties, including green technologies and super-fast broadband
Business rates should not act as a disincentive to upgrade and modernize buildings – and the deployment of sustainable plant and machinery should be encouraged.

A simple and effective way to encourage investment in our existing commercial property stock, would be to delay factoring in any increase to a building's ratable value for say, 3 years after a refurbishment or improvement has taken place. This should significantly reduce any disincentive a building owner may have to improve their building – and allow time for new technologies and sustainability measures to be more commonplace – which will ensure that 'first movers' in adopting new technology and sustainability features are not penalised immediately by the business rates system.

We would also advocate for aspects of the Scottish business growth accelerator – in particular, the relief from business rates until first occupation would help incentivise speculative development, where 'pre-lets' have not been secured. The risk of incurring business rates on a new development if occupiers are not secured is a significant deterrent for investors. Such a policy would be particularly beneficial for incentivising development outside of our biggest cities, where securing 'pre-lets' tends to be more common.

Both of these suggestions would encourage investment more broadly – and importantly would ensure that people are incentivised to invest in their buildings, including in sustainable and technological enhancements. However, it would also be possible to incorporate more specific incentives in our tax system which link directly to the Government's wider digital connectivity or sustainability objectives – as suggested in the 'decarbonizing the built environment' section.

Better resourcing for local authority planning departments

13. Our country will not be able to adapt fast enough if the planning system is not set up to deal with the spatial and functional changes required. There is therefore a critical need for local authority planning to be better supported from both central government and the private sector. One of the contradictions in government policy since 2010 is that spending on the English planning system has been cut by 55% (inflation adjusted per head) – the greatest fall across all council activity – meanwhile housing targets over the same period have increased by 50% to 300,000 .

14. A future government should invest heavily in local authority planning departments to address these funding cuts combined with more investment from the private sector. The BPF supported the recent rise in planning fees in January 2018 and would be supportive of any government proposals that brought about a further performance-based increase.

15. We note that the broader issue of planning resource is due to be considered in the government's forthcoming Planning White Paper and we look forward to engaging in this process. The BPF also recently published our own Planning Manifesto which references in more detail our members' views on how local authority planning resourcing can be enhanced as well as the practical ways in which the existing planning system can be improved.

Up to date Local Plans, and government using existing powers to intervene more effectively

16. An up-to-date and effective Local Plan is an essential ingredient if we are to achieve the ambition of accelerating the planning process. However, currently only 42% of local authorities have up-to-date plans (i.e. less than five years old) with significant gaps in the areas with the greatest housing need.

17. Government, through the Planning Inspectorate, has powers to intervene where local plan preparation is inadequate and over time the housing delivery test will increasingly encourage local authorities to deliver more. There is certainly scope for government to go further in this area by requiring every local authority to have an up-to-date plan by 2021 and commit to meaningful intervention when this is not the case.

18. With an up-to-date local plan in place, many of the inefficiencies associated with the development phase of new placemaking projects would significantly reduce; in turn reducing the risk associated with those projects and increasing their viability – and the positive economic and social outcomes those projects generate.

Skills

19. The UK Apprenticeship levy should be reviewed and reformed to increase apprenticeship numbers and to boost investment in training. Devolution of skills policy and funding should also be accelerated.

Social infrastructure fund

20. Government should set up a social infrastructure fund to support community facilities in areas where land values won't deliver them. Land values vary across the country and in the North and Midlands may not support the provision of new schools, healthcare and other community infrastructure. Everyone deserves access to such facilities, wherever they live.

Support firms as they adjust to new economic conditions

21. Given the structural shift in retail and the challenges currently facing our high streets, the Government must make sure that Company Voluntary Arrangements (CVAs) are fit for purpose and applied fairly. The CVA process should be strengthened and improved by a number of changes, including:

    A. Implementing a review of CVAs, ensuring the voting procedure is fairer to those that the CVA compromises, extending the 14-day notice period to 28-days and allowing an independent panel (such as the pre-pack pool) to oversee them – this would improve transparency and creditor confidence in CVAs.

    B. Scrapping plans to reintroduce Crown Preference (to ensure CVAs remain a viable option over administration and firms can continue to raise funding from floating charge lenders).

2. Decarbonising the built environment – and meeting the net zero carbon target by 2050

22. The built environment accounts for approximately 40% of the UK's carbon emissions – and therefore has a crucial part to play in meeting our carbon net zero targets by 2050. The primary contributor of emissions from buildings comes from heating, and we therefore welcome Government's ambitions to decarbonise heating in buildings. Given much of the decarbonisation of the heating supply is likely to come from using electric heating as an alternative, we believe the Government should give careful consideration to the cumulative impact of drawing more and more energy from the electricity grid.

23. We would emphasise the need to carefully consider this now and not once associated regulations are in place. Future pressures on the electricity grid (e.g. electric vehicles, growing use of Internet of Things) should be considered as a nationally strategic infrastructure requirement and the Government should accordingly fund capacity upgrades as well as measures to decarbonise the electricity supply. Further, the government should make a significant commitment to decarbonising the UK's energy sources. With this long-term certainty the industry will feel empowered to simultaneously reduce its energy demand.

24. In addition, given the rate of renewal of the built environment, it is likely that 80%[1] of the buildings that will exist in 2050 have already been built, so decarbonising and improving the energy efficiency of our existing stock must be a high priority. In this regard, we acknowledge that it will be harder to enforce improvements to owner occupied buildings – particularly where the owner will need to bear some cost. Around 45% of commercial real estate and 62% of residential real estate is owner occupied[2]. It will therefore be essential to recognise the importance of addressing these challenges and developing policies and allocating funding to incentivise greater carbon efficiency of owner-occupied buildings.

25. Our recommendation to zero rate VAT on repairs and maintenance of residential property (which is touched on in greater detail in the housing section below) will ensure that tax does not act as a financial hurdle to people improving and modernising their homes. It is estimated that such a policy change would encourage £1bn of investment in energy efficiency improvements (such as insulation, modern boilers and double glazing). Further findings from research by Experian on the benefits of such a policy measure are outlined in Appendix 2.

26. In addition, and to coalesce with the Government's welcome announcement that it will consult on mandatory in-use energy performance ratings for business buildings, we suggest that thought is given to the role that business rates can play in further driving demand for efficiency improvements in commercial buildings. In particular, the mandatory disclosure of operational energy performance provides an opportunity to allow business rates reductions for the highest performing buildings, thus incentivising market uptake of efficiency measures, whilst easing the rates burden on sustainably minded businesses and real estate investors.

[1] https://www.ukgbc.org/climate-change/
[2] https://www.bpf.org.uk/sites/default/files/resources/PIA-Property-Data-Report-2017.PDF

3. Building enough good homes

27. The Government will need to support investment in all forms and all tenures of housing which meet the needs of our communities at all stages of our lives, with appropriate homes for our aging population one of the biggest challenges in this regard.

28. In order to address the housing crisis, the government must properly fund social housing - and to that end we support calls for government to invest £12.8bn a year to deliver 1.45m social homes by 2030. In addition, we believe there is scope for Government to be more ambitious in our housing delivery targets, and in the range of choice of housing we provide.

29. The Build-to-Rent sector is now making an increasingly important contribution to housing supply from close to 30,000 homes 5 years ago to over 150,000 homes across the UK today – and it contributed a quarter of London's housing output last year. The sector is driving up standards in the rental sector and has the potential to do much more with the right backing from Government.

30. In addition to supporting investment in new housing, for both sale and rent, the Government should also remove barriers to improving the quality and energy efficiency of our existing housing stock – which will be one of the biggest challenges in meeting net zero carbon targets by 2050. We propose changes to our VAT and SDLT rules to help unleash investment in build-to-rent, and to stimulate investment in upgrading and modernising people's homes.

Reform the housing delivery test

31. The BPF have supported recent Government measures to increase delivery - such as the new housing delivery test and the standardised methodology for assessing housing need.

32. However, there is room for more ambition on housing numbers in parts of the country, particularly in the Midlands and the North, where the current approach locks in recessionary trends and fails to take into account the future economic aspirations of these areas. Recent research[3], suggests the current "standard methodology" approach would deliver 500,000 fewer homes in the North by 2040 than a "business as usual" approach.

33. In addition, development finance tends to dry up during recessions. Therefore, we support interventions by Homes England in the shape of guarantees and recoverable funds.

VAT – reduce or zero rate VAT on residential repairs, maintenance and management

34. Our departure from the EU provides an opportunity to consider whether our VAT rules are appropriately supporting our economy and encouraging investment where it is most needed. Reducing the rate of VAT on residential repairs and maintenance and management would help unleash further investment in the Build-to-Rent (BTR) sector, as well as stimulate improvements to our existing housing stock.

35. The recoverability of VAT on construction costs is inordinately complex - with different costs recoverable depending on who the occupier is, whether the property is commercial or residential, and whether the property has been built for sale or for rent. In summary though, it is generally easier to recover VAT on expenditure incurred on commercial property than it is on residential property. This makes large-scale investment in residential property comparatively less attractive. Zero rating repairs and maintenance on

[3] https://static.turley.co.uk/pdf/file/2019-08/Report%20-%20Regional%20imbalances%20in%20population%20growth%20and%20housing%20provision.pdf

residential repairs and maintenance would simplify the tax system and help level the playing field in terms of VAT recovery for investors in different types of property.

36. While such a measure would be a significant boost to investment in build-to-rent; the potential benefits of such a policy change would be far more wide reaching – in particular, it would reduce tax barriers to improving the quality and carbon efficiency of our existing housing stock. Further details on the potential benefits and costs of such a measure are set out in Appendix 2.

SDLT – carve out the Build-to-Rent sector from the 3% higher rate for additional dwellings (HRAD)

37. SDLT is a barrier to investment – it reduces liquidity in the market and therefore reduces transactional activity – for both residential and commercial buildings.

38. The 3% SDLT surcharge on second homes exacerbates this transactional barrier for the Build-to-Rent sector. Institutional investment in housing was never the target of these measures – rather, it was aimed at second and third homeowners who were competing against first time buyers for the same property. Exempting investors that contribute towards the delivery of new homes would not detract from the original policy rationale and would actually have a positive impact on the supply of housing. We would advocate for something similar to the approach taken in Scotland, where transactions of six or more units are not subject to this surcharge.

39. Similarly, in respect of the proposed introduction of a surcharge for non-resident purchasers, it will be important for Government to mitigate the potential adverse consequences that this measure could have on the supply of new homes, including Build to Rent.

40. More broadly, while it is difficult to distill the impact of SDLT from wider political and economic factors, there is evidence to suggest that high rates of SDLT are stifling the residential market – including recent HMRC statistics which show a 7% decline[4] in SDLT receipts – the first decline since the global financial crisis. In an era where our economy is evolving and people change jobs more often in their lifetime, we would urge the Government to consider options to ensure that SDLT is not a blocker to social mobility.

Providing retirement housing choices

41. One of the most significant housing challenges the nation faces is an aging population and providing a range of choices for people in their later years, who may aspire to leave their family home, but do not have sufficient and attractive alternatives. The Government has clarified and codified planning policy on Build to Rent in recent years, with resultant increased investment. Similarly, Government should seek to define specific planning policies, that encourage and support a range of retirement housing products.

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835094/ASTP-Release-Bulletin-1819.pdf

Appendix 2: Policy impact and cost estimates

1. VAT – zero rate VAT on residential repairs, maintenance and management

42. The suggestion of reducing the rate of VAT on residential repairs and maintenance has been advocated for by a number of stakeholders for some time. Most notably, the Cut the VAT campaign, which was formed by a coalition of over 60 business and trade bodies, lobbied exclusively on this issue several years ago. Cut the VAT commissioned some research[5] by Experian in 2015 to quantify the impact of reducing the rate of VAT on residential repairs and maintenance from 20% to 5% (over the 5-year period from 2015 to 2020). While we would go further to suggest a zero-percentage rate on VAT on residential repairs and maintenance *and management*, this research gives some indication of the impact of this policy, including exchequer costings. We have drawn out below some of the estimates from the report:

    A. Economic stimulus of £15bn over the 5-year period to 2020.

    B. 42,000 extra full-time equivalent construction jobs and 53,000 jobs in the wider economy by the end of the period (with the majority of those jobs starting in the first year of the policy change).

    C. Extra expenditure of around £1bn on energy efficient measures.

    D. Help up to 92,000 homes benefit for retrofitting energy efficient measures over the 5 years period, including increased demand for double glazing, insulation, energy efficient boilers etc. This would have knock on benefits such as reducing the cost of living for those individuals and families, and thereby reducing the number of people in fuel poverty – as well as resulting in almost 240,000 tonnes of CO2 savings).

    E. The report suggests that reducing the rate of VAT from 20% to 5% would reduce the competitive advantage of the estimated £10bn informal economy in construction. Clearly, by reducing the rate even further to 0%, the competitive advantage would disappear altogether, which would help support compliance with building regulations, planning law, health and safety legislation, consumer protection provision and employment law – as well as additional tax collection from the sector in terms of income tax and NICs.

    F. The benefits mentioned were estimated to cost the exchequer £1bn in the first year or the policy change, and £6.6bn over the period 2015 to 2020.

2. SDLT – carve out the Build to Rent sector for the 3% higher rate for additional dwellings (HRAD)

The higher rate on additional dwellings (HRAD) raised almost £3.8bn[6] in 2018/19. However, given the Build-to-Rent sector is so new, and has had relatively few transactions to date, we would expect that the revenue raised so far is predominantly from the individual and smaller buy-to-let landlords who are competing against first time buyers – as intended by the policy. Therefore, we would not expect a carve out for transactions of 6 or more properties to significantly impact on Government's existing revenue stream from HRAD – while the impetus this policy change would give to the institutional investment in Build-to-Rent sector could be invaluable.

[5] Cut the VAT campaign research by Experian: https://www.fmb.org.uk/about-the-fmb/policy-and-public-affairs/domestic-refurbishment-and-energy-efficiency/

[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835094/ASTP-Release-Bulletin-1819.pdf

3. Business rates

Business rates has increased from approximately a third of rateable values (theoretically a proxy for rents) in the early 90s, to just over 50% of rateable value today. In the long term, we would propose that the rate of tax reverts to around a third of rents – and the system is reformed to ensure that rateable values are more reflective of rents in real time going forward.

Given business rates currently raises approximately £25bn[7]; a reduction to a third of rates would cost the Government approximately £8bn. However, the cost to the Government of inaction, particularly the ongoing damage to our high streets and knock on impact on jobs and growth could be far higher. The sooner business rates can be addressed, the more businesses can be supported to stay open, to the benefit of the local communities that those businesses serve. Furthermore, making the property tax environment fairer and more sustainable would encourage more investment into our built environment – which would stimulate jobs in construction and other ancillary industries.

While we appreciate that reducing the business rates burden by £8bn cannot happen overnight, we would encourage Government to address some of the most harmful aspects of the tax in the short term, and estimate the following costs to introduce the changes below:

<table>
<tr><th>Policy</th><th>Cost estimate</th></tr>
<tr><td>Remove downward phasing</td><td>£300m 2020/21, £200m 2021/22 (based on the estimates included in DCLG’s Nov 2016 consultation on transitional arrangements[8])</td></tr>
<tr><td>Abolish empty rates – or at least significantly reduce empty rates</td><td>While it is difficult to estimate the exact cost of abolishing empty rates, the cost of the relief in 2007/08 gives a useful indication of how much might be claimed.
<table>
<tr><th></th><th>Empty rates relief (£bn)</th><th>Net business rates yield (£bn)</th><th>Percentage</th></tr>
<tr><td>2007/ 08[9]</td><td>1.4</td><td>17.3</td><td>8%</td></tr>
<tr><td>2016/ 17[10]</td><td>0.95</td><td>24</td><td>4%</td></tr>
</table>
The above table shows that in 2007/08, empty rates relief represented 8% of net business rates revenues. In 20167/17, the more restricted empty rates relief claimed represented 4% of net revenues.</td></tr>
</table>

[7]MHCLG Local Government Finance Statistical release 13 Feb 2019 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/778324/NNDR1_2019-20_Stats_release.pdf

[8]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/572823/Transitional_Relief_consultation_response.pdf

[9]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/7025/1824743.pdf

[10]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/684793/NNDR1_2018-19_Stats_release_-_revised.pdf

	This would indicate that it might cost another £1bn to reinstate pre-2008 levels of empty rates relief. However, in reality, we believe this policy change would also impact on behaviours and would likely reduce the other reliefs that are applied for (such as charitable relief), and therefore, we would expect the net cost to Government to be much lower than £1bn.
Delay factoring in any increase to a building's ratable value for 3 years after a refurbishment or improvement has taken place.	We would suggest that this would be of negligible cost to Government - primarily because much of the investment generated may not have happened without such incentive. Furthermore, this policy would merely seek to defer any increase in tax due, rather than provide an absolute relief.

How could a reduction in business rates be funded?

We firmly believe that the total business rates burden must decrease in order to avoid stifling businesses any further. It is clear that the economy is changing, and the use of real estate is no longer as accurate a proxy for where value is generated in the economy as it once was.

To that end, we recommend that an independent review of business rates is carried out, in the context of wider business taxation (including business rates, corporation tax, VAT and employer NICs) to ensure that the Government is capturing a fair and sustainable element of the value generated by the modern economy.

In addition to ensuring that the suite of business taxes adequately captures value from the economy, the Government should consider whether existing property taxes and reliefs are fit for purpose and support growth. To that end, the recommendations of the Mirrlees review of 2011 are still relevant and worthy of reconsideration; in particular:

- The recurrent tax on residential property has historically been much lighter than the equivalent tax on commercial property. To that end, the council tax bands could be reassessed with higher bands added to help fund a reduction in the business rates burden.
- The Mirrlees review also questioned the value of the capital gains tax relief on primary residences, which is estimated to have cost the Government £27bn in 2017/18. The review recommended that the primary residence relief could be taken away in exchange for abolishing SDLT. Stamp duty on the acquisition of a property is generally considered to be far more damaging for the economy than a capital gains tax, which is at least only paid when a profit has been made. The SDLT tax yield (£14bn in 2017/18) is significantly less than the cost to Government of the private residence relief, so this change would be affordable for Government, whilst still leaving money left over to help fund a reduction in the business rates burden over time.

Appendix 3: The British Property Federation

The British Property Federation (BPF) represents the real estate sector – we create the places across the country where all of us live, work and relax, enabling both economic and social wellbeing, and supporting most, if not all, other business sectors. We are committed to maximising our contribution through our Redefining Real Estate campaign, our long-term action plan to deliver better 'net positive' outcomes in local communities, help create a productive economy that delivers for everyone in the UK, attract and nurture a diverse and skilled workforce, and respond to the global climate emergency.

We are increasingly investors in places people call home through build-to-rent - the new professionally managed developments that are driving up standards in the private rented sector. The sector is growing fast, with around 30,000 homes 5 years ago, to over 150,000[11] across the UK today – and we delivered a quarter of London's housing output last year.

Our investments help drive the UK's economic success; adding £101.2bn[12] to the economy each year – representing around 7% of GVA. This generates £11bn in taxes – and our customers pay £28bn in business rates each year. We also contribute £6bn a year to affordable housing, and other community infrastructure like schools, roads and open spaces, and we help people save for their old age – with about 8% of our pensions invested in property – boosting 46 million pension pots.

[11] https://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk

[12] https://www.bpf.org.uk/sites/default/files/resources/16688%20BPF%20Economic%20Footprint%20Report%2014.08.19.pdf