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The Rt. Hon. Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

28 September 2021

Dear Chancellor

BPF BUDGET REPRESENTATION: SEPTEMBER 2021

The British Property Federation 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.

As we start to recover from the pandemic, the real estate sector stands ready to help build back better and deliver on some of the biggest challenges of our time: to help meet our net zero carbon targets; to level up our towns and cities; and to support the creation of new homes. 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 attract investment – creating and supporting jobs throughout the country.

Our budget representation highlights three critical areas where the Government and the sector can work together to build back greener, fairer and faster.

Build back greener, by decarbonising the build environment

Our sector has a critical part to play in decarbonisation and meeting net zero commitments. Property owners are already developing net zero plans for their assets, but Government can accelerate this work and stimulate wider economic growth by:

- zero rating 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;
- using the business rates system to incentivise investment in more carbon efficient buildings;
- changing capital allowances to accelerate tax relief on work to decarbonise the sector; and
- broadening the asset classes that a Real Estate Investment Trust (REIT) can invest into, so it can provide a route to channel investment into activities such as renewable energy generation

Build back fairer, by levelling up investment in our towns and cities

Our sector is a significant investor in UK towns and cities. The Government can harness that investment and deliver on the levelling up agenda by:

- radically reforming the business rates system and cutting the overall burden of taxation, increasing the frequency of revaluations, extending empty rates relief and abolishing downward rates phasing;
- accelerating the renewal of our high streets by providing seed funding to pilot Town Centre Investment Zones; and
- reviewing the way Company Voluntary Arrangements (CVAs) are used, and working with the sector to increase transparency and investor confidence.

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Build back faster, by boosting investment in the supply of new homes

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

- increasing funding for social and affordable housing;
- ensuring that new taxes on residential development are proportionate and targeted, and do not deter new investment;
- helping young renters step more quickly into home ownership, by allowing their rental deposits in Government approved schemes to count towards Lifetime ISA incentives; and
- working to ensure that reforms to the UK Funds regime deliver for real estate investors and continue to make the UK the destination of choice for global investment.

Further detail is provided in the attached **Appendix 1**.

A summary of all our budgets recommendations is attached at **Appendix 2**.

Yours sincerely

Melanie Leech CBE
Chief Executive, British Property Federation

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APPENDIX 1:
POLICY RECOMMENDATIONS

BUILD BACK GREENER
DECARBONISING THE BUILT ENVIRONMENT AND MEETING THE NET ZERO TARGET BY 2050

The built environment accounts for approximately 40% of the UK's carbon emissions. As such, the sector has a crucial part to play in meeting our net zero targets by 2050.

Around 80%[1] of the buildings that will exist in 2050 have already been built, so decarbonising and improving the energy efficiency of 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.

We are working with the UK Green Building Council to develop a long-term net zero plan and strategy for the sector, and have called on Government to invest in a national retrofit programme as part of our separate representation on the Comprehensive Spending Review. However, there are actions that Government can take now to support the sector and accelerate investment into greener, more sustainable buildings.

Our recommendations are set out below.

Zero rate VAT on residential repairs and maintenance, to align with the VAT treatment of the construction of new homes

Zero rating VAT on repairs and maintenance of residential property would ensure that tax does not act as a financial hurdle to people improving and modernising their homes. It would accelerate retrofitting activity across the sector and help meet the twin challenges of decarbonising our homes and delivering a post-pandemic economic stimulus. It is estimated that such a policy change could encourage £1bn of investment in energy efficiency improvements (such as insulation, modern boilers and double glazing)[3]. At the same time, it has been estimated that cutting VAT on home improvement works for the next 5 years would unlock nearly 350,000 additional jobs in construction and the wider economy[4].

Zero rating VAT on residential repairs and maintenance will also help landlords to upgrade their properties and incentivise greater investment in much needed build-to-rent housing, helping the Government meet its target of building 300,000 homes per year, by allowing the VAT costs on repairing and maintaining these buildings to be recoverable.

Use the business rates system to incentivise investment in more carbon efficient buildings

[1] https://www.ukgbc.org/climate-change/
[2] https://www.bpf.org.uk/sites/default/files/resources/PIA-Property-Data-Report-2017.PDF
[3] Cut the VAT campaign research by Experian: https://www.fmb.org.uk/about-the-fmb/policy-and-public-affairs/domestic-refurbishment-and-energy-efficiency/
[4] https://www.rics.org/uk/news-insight/latest-news/news-opinion/cut-vat-to-stimulate-economic-growth-and-create-greener-homes/

Our sector knows well that business rates are a barrier to investment in property improvements, including those aimed at increasing the energy and carbon efficiency of the property. This is because a business rates bill is based on the rental value of a property, which increases as improvements are made. The calculation of a business rates bill also includes certain plant and machinery items, so installing any of these items also comes with an associated business rates cost.

The high burden of business rates often means that the cost associated with improving the property outweigh the benefits and can make the investment unviable. Green technologies such as solar panels are included in the business rates calculation, which can be the tipping point of that investment not going ahead. This means that too often these investments do not take place, which runs counter to the Government's net-zero ambitions.

It is important that the tax rules do not create any additional barriers to this much needed retrofitting activity*. 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 rateable value for 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. Alternatively, the Government might go further and significantly reduce a building's rateable value where tangible environmental improvements, such as those which result in improvement in a building's EPC rating, are carried out.

*We also recommend a wider review of the plant and machinery regulations to make sure they are up to date and reflect modern ways of doing business – and importantly, support the zero-carbon agenda***.** The regulations were introduced in their current form in the early 1990s. Since then, there have been significant changes in how we do business and the typical plant and machinery used in a building. *Furthermore, we recommend that these regulations are reviewed more regularly going forward. We would suggest that every 3-5 years would be appropriate*.

Given that a full review of these regulations could take some time, *we would recommend that plant and equipment used in onsite renewable energy generation and storage, and electric vehicle charging points, are excluded from valuation in advance of the next revaluation in 2023***:**

Use capital allowances to expedite tax relief on retrofitting and energy efficiency improvement works

The commercial property sector faces the same retrofitting challenges as the residential sector, although feels often overlooked. We believe that capital allowances could play a much more impactful role in incentivising retrofit activity by ensuring that taxpayers receive tax relief much more quickly when investing in sustainability improvements – and certainly more quickly than 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. For example, some of the typical retrofitting upgrades which improve the energy efficiency of a property - such as solar panels, insulation, or upgrades to more efficient heating systems - currently only receive tax relief over 16-17 years.

To this end, we would recommend that Government make the following changes to the capital allowance rules:

(i) *create a new "Green Pool", which expedites relief for works which enhance the sustainability credentials of a building, over say, 1-3 years*;

(ii) *hold the Annual Investment Allowance (AIA) threshold at £1m* - or alternatively, a higher threshold could be targeted to facilitate tax relief on typical retrofitting works (for example, through a "Green AIA"); and

(iii) *reduce the Structures and Buildings Allowance period of relief 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.

Broaden the asset classes that a REIT can invest into, it can provide a route to channel investment into wider government priorities – such as renewable energy generation

There is a huge opportunity for the Government to utilise the REIT regime to help it achieve its objective of net zero emissions by 2050. In particular, by broadening the asset classes that a REIT can invest in, it could provide a route for capital to be channelled into renewable energy generation and other technology and infrastructure to enable that transition.

The REIT regime is currently unnecessarily restrictive in terms of the types of assets it can hold and the types of activities it can carry on and these restrictions inhibit REITs from being able to raise capital in the UK and overseas for desirable objectives, such as cutting net zero emissions by 2050. In addition, many infrastructure businesses involve activities which could be viewed for UK tax purposes as either investment businesses (earning rental income) or trading businesses (earning service revenues) depending on how they are organised and the contractual relationships with their customers.

REITs should be allowed and encouraged to undertake investment activities to help the Government to achieve its net zero ambitions, such as investing in, renting out and enjoying income from wind turbines, solar farms and other desirable asset classes and infrastructure.

We believe the ability to hold renewable energy and infrastructure assets in a REIT would lead to increased demand for these investment opportunities and increased investment into the UK. As such, *we would recommend that Government consults on the addition of a 'permissive list' within the UK REIT regime (in contrast to the existing 'negative' lists) that could be amended and updated as required by HMT through regulations.* Such a permissive list could specify assets and activities/businesses that would be treated as qualifying property rental business assets and generating qualifying property rental business profits for the purposes of the UK REIT balance of business tests and/or REIT tax exemptions, as appropriate.

BUILD BACK FAIRER
LEVELLING UP INVESTMENT IN OUR TOWNS AND CITIES

There is a crisis on our high streets, right across the UK.

Vacant units in some parts of the country are remaining vacant for months and years, turning high streets that used to be at the heart of local communities into ghost towns. In fact, according to the Local Data Company, 14.6% of retail and leisure high-street properties were empty in Q2 of 2021 and approximately a third of this space has been vacant for more than three years.

The causes of this crisis are well known. Changing consumer preferences and economic headwinds, particularly the shift to online and an unsustainable tax burden, is undermining physical retail's role on the high-street. 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.

Some towns and regions have been able to respond to these forces by implementing a progressive plan for renewal, often underpinned by an acknowledgement that the high streets of the future will generally be less retail focussed and more mixed-use and experiential. However, the pandemic has again accelerated the challenge, with local authorities finances stretched yet further, making the task of devising and driving forward a proactive plan for regeneration harder than ever.

The Government must recognise that these accelerated changes require an accelerated public-policy response. The tax system especially must support transformation and the levelling up agenda, and Government should look to ease tax rules that are creating unnecessary challenges. In particular, Ministers can no longer delay the fundamental reform that our business rate system needs. We set out recommendations below to better support the transformation of our high streets.

A fundamental reform of business rates

We have long advocated for fundamental reform of business rates to ensure that the system is more responsive to changes in our economy and supports – not stifles - business. Put simply, the system needs to be much better at responding to and reflecting up to date rental values. 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.

We welcome the fundamental review of business rates that HMT has been conducting over the last 18 months or so, and on behalf of the sector we have submitted a wealth of evidence which supports the need for wide-ranging reform. Our primary asks are set out below.

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.*

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. *<u>In line with this, the Government should abolish the fiscal neutrality rule.</u>*

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. We welcome the recent proposal to move to a 3-yearly cycle of revaluations in England, but Government needs to be more ambitious. *<u>The Government should publish a roadmap setting out a plan and timeline for moving to annual revaluations in England, and for moving to a shorter AVD.</u>* This will ensure that businesses are paying a tax which is reflective of the true value of the space they are occupying.

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.

Abolish downwards phasing

Because of downwards phasing, many businesses have been 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. *<u>The Government should therefore abolish downward phasing immediately</u>*, which 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.

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*<u>. Government should therefore extend empty rates relief.</u>* 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%.

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.

Town Centre Investment Zones (TCIZs)

Finally, in order to ensure local policymakers and stakeholders are equipped to meet the unprecedented challenges they are facing, *<u>we urge the Government to provide funding to pilot Town Centre Investment Zones.</u>*

Town Centre Investment Zones would be areas within which local stakeholders gain new policy powers and incentives that can enhance investment viability, on the condition that they have in place a

partnership model that aligns interests, as well as a coordinated plan for high-street renewal. They would embody a significant acceleration of the Government's efforts to support those areas most in need of change, allowing both the Government to deliver on its Levelling Up ambitions and those local communities to thrive.

Capital allowances

As touched on above, 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.

Support firms as they adjust to new economic conditions

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 increase in corporate indebtedness caused by the pandemic will mean that many high street firms will need to look to the UK's insolvency regime in order to ensure viability and minimise job losses. The routine abuse of CVAs seen over recent years has now been mirrored in the use of the new Part 26a Restructuring Plan procedure, severely undermined creditor confidence in the insolvency framework at the very moment in which it will be needed most. *We urge government to urgently review the way CVAs are being used and utilise its delegated powers to reform Part 26a Restructuring Plans to ensure investors have the confidence needed to support recovery*.

BUILD BACK FASTER
BOOST INVESTMENT IN THE SUPPLY OF NEW HOMES

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.

In order to address the housing crisis, the government must continue to increase funding in social and affordable housing development. We welcome the new Affordable Homes Programme but believe more funding is needed if we are to tackle the housing crisis and ensure that everyone has a safe, secure and affordable home. In our representation on the Comprehensive Spending Review, *we call on Government to increase investment in the sector beyond the current £12.2bn programme.*

We also 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. The commitment to introduce a Single Housing Infrastructure Fund (SHIF) remains important. It is also important that the SHIF supports housing delivery across the country.

Ensure new taxes on residential development are proportionate and targeted

The property sector contributes hugely to UK plc. Our investments help drive UK economic success, adding £101.2bn[5] to the economy each year, representing around 7% of GVA. This generates around £11bn in taxes - and our customers pay £28bn in business rates each year. Any additional taxes on the sector should be fair, proportionate and well targeted, and not deter much needed investment in new homes.

The proposed new residential property developer tax (RPDT), however, is poorly targeted, and when combined with the Building Safety Levy, risks disproportionately impacting on the Build-to-Rent (BTR) sector. This sector makes 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 contributed a quarter of London's housing output last year. Over four-fifths (82%) of all Build to Rent homes are delivered in the 20 key cities the Government has identified for exceptional housing growth. The sector is driving up standards in the rental sector and has the potential to do much more with the right backing from Government. The new tax puts this at risk.

The new tax is intended to fund building safety work. However, the BTR sector funds all its remediation and makes no call on public funding. It is unfair to suggest that these building owners and investors now be taxed additionally to enable remedial works to be funded within other forms and tenures of housing.

It has become clear that trying to include BTR within the RPDT regime will add significant complexity and create unfairness. It is a dry tax-charge and taxes receipts that do not exist at the point of taxation, and trying to untangle and tax development activities that are a means to long-term investment in the sector adds huge complexity, with abstract rules and valuations that do not follow the normal business practices, and creates uncertainty and a significant compliance burden.

The impact of new tax on the sector will be exacerbated further when the new building safety levy is introduced, with BTR being the most likely sub-sector to pay both the RPDT and the Levy. In most other sub-sectors, the dominant development type will be low rise. However, we estimate that less than 10% of recent BTR developments have been low rise. Nearly all the sector's output will be caught disproportionately by the RPDT and BSL on the more challenging urban brownfield development we engage on. *We are therefore calling on Government to exclude the BTR sector from the scope of the proposed new residential property developer tax.*

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 rental deposit is not able to count towards a Lifetime ISA, and they miss out on Government support. Rental deposits, however, are regulated through Government approved schemes and *we suggest rental deposit monies 'count' towards Lifetime ISA savings, allowing young renters to gain from Government top-up payments*.

Ensure reforms to the UK Funds regime deliver for real estate investors and for the UK

The UK's investment management industry is world leading – second only to the US, and bigger than the next three largest European hubs combined[2]. Given the strength of this sector in the UK, it is notable that the alternative investment fund industry is less strong in the UK – with many alternative fund structures,

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

including real estate funds, electing to set up in other European jurisdictions, notably Luxembourg. As such, we welcome the Government's UK Funds Review and in particular its willingness to consult further on improvements to the REIT regime to enhance its attractiveness to investors as part of Review.

We very much support proposals to implement a new regime for asset holding companies (AHCs) in alternative fund structures and welcome the decision to include overseas land as a qualifying asset class. Whilst we recognise that the new AHC regime is intended to apply to the whole alternative investment universe, this does not mean that all the provisions of the regime need to apply equally to all types of fund. *We would continue to encourage Government to consider a more tailored approach that acknowledges the nuances of different types of fund, including real estate funds.*

Any tax charge on entering the regime would be a disincentive to use the regime – and will therefore hamper the UK in meeting its overarching objectives – to bolster the UK's position as a centre for asset management services and create jobs across the UK. *Ideally, there should be no entry charge for the new regime. However, if an entry charge is required as a matter of policy then it must be appropriately targeted: companies should not have to pay tax on a gain that, in the real world, would never have been subject to tax.*

It will be important that the new AHC regime is able to interact with our existing real estate investment regimes, notably the REIT regime. This will ensure that funds with AHCs have full commercial flexibility as to what they choose to invest in– and investors are not put in a worse position by investing through an AHC structure. Failure to deliver this will send the worst possible message to investors.

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APPENDIX 2
SUMMARY OF BPF BUDGET RECOMMENDATIONS

BUILD BACK GREENER
Zero rate VAT on residential repairs and maintenance.
Use business rates to incentivise investment in more carbon efficient buildings by: ▪ delaying an increase to a building's rateable value for 3 years after a refurbishment/improvement; ▪ reviewing the plant and machinery regulations to make sure they support the net zero agenda, and review more regularly going forward; and ▪ excluding any plant and equipment used in onsite renewable energy generation and storage, and electric vehicle charging points, from valuation in advance of the next revaluation.
Use capital allowances to accelerate tax relief on retrofitting and energy efficiency works by: ▪ creating a new "Green Pool", which expedites relief for relevant works; ▪ holding the Annual Investment Allowance (AIA) threshold at £1m; and ▪ reducing the Structures and Buildings Allowance period of relief from 33 to 15 years.
Allow REITs to invest in green assets and activities, and consult on the addition of a 'permissive list' within the UK REIT regime.
BUILD BACK FAIRER
Deliver a fundamental reform of business rates by: ▪ reverting to a tax rate of no more than a third of rents; ▪ removing the fiscal neutrality rule; ▪ publishing a roadmap setting out a plan and timeline for moving to annual revaluations and a shorter AVD; ▪ abolishing downward phasing; and ▪ extending empty rates relief
Review the way CVAs are being used and reform Part 26a Restructuring Plans.
Provide funding to pilot Town Centre Investment Zones.
BUILD BACK FASTER
Increase investment in social housing beyond the current £12.2bn programme.
Exclude the BTR sector from the scope of the proposed new residential property developer tax.
Extend Lifetime ISA top-up incentives to renters' deposits.
Ensure reforms to the UK Funds regime deliver for real estate investors by: ▪ ensuring a tailored approach that works for real estate funds; ▪ ensuring there is no entry charge for the new regime; and ▪ ensuring the new AHC regime interacts with our existing real estate investment regimes, notably the REIT regime.

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The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

29 September 2021

Dear Chancellor,

Comprehensive Spending Review (CSR)

The British Property Federation 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. Our CSR submission enclosed sets out how the Government can harness the billions of pounds of investment we represent to deliver its key domestic priorities, working through effective national and local public-private partnerships.

Our submission supports the Government's priorities to:

1. Ensure strong and innovative public services - making people's lives better across the country by investing in the NHS, education, the criminal justice system and housing.
2. Level up across the UK to increase and spread opportunity; unleash the potential of places by improving outcomes UK-wide and working closely with local leaders; and strengthen the private sector where it is weak.
3. Supporting the transition to a Net Zero carbon-built environment across the country.

As a sector we provide 2.2 million jobs – directly employing 1 million people and supporting a further 1.2 million jobs – one in every 14 jobs in the UK. Our investment helps Britain's economy to grow, adding £101.2bn to the economy each year - 7% of UK GVA.

The measures in this submission will help the sector to thrive, drive investment in healthy sustainable communities and contribute to inclusive growth, aiding economic recovery. We look forward to working in partnership with Government to make that happen.

Yours sincerely,

Melanie Leech CBE
Chief Executive
British Property Federation

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British Property Federation - Comprehensive Spending Review (CSR) 2021 – Submission in Detail

APPENDIX 1 - British Property Federation - Comprehensive Spending Review (CSR) 2021 – Submission Summary

A. Ensuring strong and innovative public services - making people's lives better across the country by investing in the NHS, education, the criminal justice system and housing.

Compounding the pre-existing housing crisis, the events of the past 18 months have shown how important housing is to a functioning and fair society. Investment in social and affordable housing is vital to support large swathes of society, including key workers, who rely on it. The Government should:

i. Increase investment in affordable and social housing beyond the current £12.2 billion programme.
ii. Implement and support a successor scheme for the Housing Infrastructure Fund.
iii. Invest in substantial digitalisation and modernisation of the courts system to support incoming renters' reforms.
iv. Set out a clear plan to enable private sector investment in NHS infrastructure.
v. Create a stewardship and patient capital fund to support high quality placemaking.

B. Levelling up across the UK to increase and spread opportunity; unleash the potential of places by improving outcomes UK-wide and working closely with local leaders; and strengthen the private sector where it is weak.

The Government should build on the achievements of devolution to date and devolve further powers to Combined Authorities in areas such as affordable housing and skills. In addition, with an increasingly complex legislative and policy reform agenda, Local Authorities urgently need additional support to effectively deliver. The Government should:

i. Further devolve powers and spending to Combined Authorities in a targeted way.
ii. Ramp up capital spending on and delivery of key regional infrastructure.
iii. Introduce a Planning Modernisation Fund for Local Authorities.
iv. Invest in Valuation Office Agency transformation as part of a fundamental overhaul of business rates.

C. Leading the transition to Net Zero across the country.

The scale of the challenge to decarbonise our economy and society is enormous and the built environment – at around 40% of total carbon emissions – must be a key priority for Government. The Government should:

i. Support the decarbonisation of the built environment by continuing to expand electricity grid capacity & realigning energy tariffs.
ii. Invest in a national retrofit programme for domestic properties as a national infrastructure priority, ensuring a 'just transition' of homes whilst unlocking green investment and growing the green jobs market.
iii. Support Local Authorities by funding and upskilling in areas necessary to meet Net Zero 2050.

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APPENDIX 2 - British Property Federation - Comprehensive Spending Review (CSR) 2021 – Submission in Detail

A. Ensuring strong and innovative public services - making people's lives better across the country by investing in the NHS, education, the criminal justice system and housing.

i. The Government should increase spending on affordable and social housing

The spending commitments that Government has already made towards the affordable housing programme are very welcome. The events of the past 18 months have shown how important a stable and affordable home is to everyone. The coronavirus outbreak has also shown how much we rely on key workers and supporting their housing needs should be a priority for a resilient society. The Government should continue to increase investment in the sector beyond the current £12.2bn programme.

ii. The Government should continue to support all housing delivery through targeted funding streams

An important aspect of policy support for housing delivery over the past four years has been the Housing Infrastructure Fund, which is now closed for bids. It has unlocked significant sites for housing delivery through the provision of sizeable funding to support local infrastructure - mainly transport improvements.
If the Government is to continue to make strides towards its target of delivering 300,000 new homes per annum it is important a successor scheme is part of the Spending Review. The commitment to introduce a Single Housing Infrastructure Fund (SHIF) remains important. It is also important that the SHIF supports housing delivery across the country.

iii. The Government should invest in digitalisation and modernisation of the courts to support residential renter's reform

The Government has an ambitious agenda to reform residential tenancies, with the objective of moving away from Section 21 'no-fault' evictions. The Government has promised reform will balance the needs of landlords and tenants.
The absence of Section 21 will mean landlords and tenants relying far more on the existing court-driven process to determine grounds for possession including in cases where there is no dispute about the landlord's right to possession. Efficient access to justice is essential if it is to deliver fairness.
The Government has indicated it may improve efficiency through structural reform with a dedicated housing court. We support having a court with housing experts, but do not believe it will deliver the efficiency needed to support reform and deliver appropriate levels of service. Our courts for landlord and tenant proceedings still rely heavily on paper and phone calls. This often results in a poor service to court users and is hugely inefficient. Digitalisation would improve the process significantly and support the objective of reform.

iv. A clear plan to enable private sector investment in NHS infrastructure

The introduction of the Health and Care Bill and a plan for a fit for purpose NHS is welcomed, but there is still a need to provide clear pathways for the private sector to support NHS infrastructure through investment. It is now over four years since Sir Robert Naylor's Review of NHS Property and Estates, which identified that significant improvements must be made to the NHS estate in coming years to address backlog maintenance and deliver fit for purpose facilities, and that a proportion of any associated financing would require private sector involvement, particularly in the primary care estate.
Our members stand ready and prepared to contribute to the investment, skills, and expertise required and would therefore welcome the certainty of a strategy for NHS revenue and capital spending to align with the timescales of the NHS Long Term Plan.

v. The Government should support a stewardship and patient capital fund

A central theme within the Building Better, Building Beautiful Commission's final report *Living with Beauty* in January 2020 was the high standards of placemaking and development delivery that can be achieved in instances where long-term interest or 'stewardship' are apparent. The Commission ultimately recommended that for projects meeting a certain 'stewardship kitemark', the government should make available funding allocated through a patient capital fund to support expenditure on infrastructure, placemaking, and stewardship.
We would encourage the Government to adopt this recommendation and to explore the role that long-term operational interest in land (and associated incentives) can play in delivering positive outcomes for the population.

B. Levelling up across the UK to increase and spread opportunity; unleash the potential of places by improving outcomes UK-wide where they lag and working closely with local leaders; and strengthen the private sector where it is weak.

i. The Government should continue to devolve spending in a targeted way

We have been strong supporters of devolution and we believe that the Government should build on the achievements to date of strong Combined Authorities and use this Spending Review to broaden devolution across the country and to accelerate further devolution to those elected Mayors and Combined Authorities already performing strongly. We have heard consistently from the authorities we engage with that the most important area where devolution of powers and funding would make a real difference on the ground is skills and we strongly support this. We also urge you to consider building on the experience of London's Affordable Housing Programme to consider further devolution in this area across the country.

ii. The Government should ramp up capital spending on and delivery of key regional infrastructure

We regularly host industry leaders from the English regions, and it is clear that the poor state of regional transport infrastructure is a significant barrier to productivity and growth. It also inhibits investment into our regions. Delivering on strategic infrastructure projects is seen as a key test of the Government's aspirations to level-up and maintain international competitiveness. Projects such as Northern Powerhouse Rail, Oxford-Cambridge rail link, Crossrail 2, and improvements to the A1, A14, A303/358 corridor are all critical and pace of delivery is urgent.

iii. The Government should introduce a Planning modernisation fund

The Planning White Paper sets out the most ambitious reforms to planning policy since the 1947 Town and Country Planning Act. An important part of modernisation is digitalisation of the planning system, which should allow for greater participation by communities and a swifter application process for applicants.
If the Government's reforms are to maximise their impact from the start, however, it is important that local planning authorities start to prepare now, modernising their systems and upskilling so that they can hit the ground running with the Government's reforms.
Planning departments have suffered significant cutbacks over the last few years and to ensure that local government is prepared for the proposed planning reforms, this area will need investment to re-build capacity in the current spending round. The £12m allocated in 2020 was a welcome start, but if all 400+ planning authorities are to be prepared for the White Paper measures it will require significant further investment.
We therefore suggest Government should consider a Planning Modernisation Fund (PMF) as part of this Spending Review. This could be targeted in several ways, for example through a bidding process. Given that most local planning authorities will need to modernise though, there is perhaps merit in the PMF supporting all local planning authorities with dedicated modernisation funding, perhaps distributed on a per capita basis. Determining the resource and funding required to implement planning reforms could be piloted at first with a selection of local planning authorities.

iv. Valuation Office Agency transformation as part of business rates reform

As part of the Government's fundamental review of business rates, the Government is proposing to move to a 3-yearly cycle of revaluations in England. To enable this, all ratepayers are likely be placed under a duty to provide real-time information to the Valuation Office Agency (VOA) on lease events and capital improvements. If the VOA is to successfully manage this transition it will require additional funding to modernise its systems, its skill sets and its

processes. This funding should be sufficient to enable the VOA to complete the transformation of its operations in time for the new 3 year-cycle of revaluations to start in 2023.
To ensure the burden on taxpayers is kept to a minimum, it will be important that the VOA is required to work with other parts of Government when developing its systems in order to make proper use of data already submitted. For example, we note that HM Land Registry (HMLR) is working on its protocols for achieving fully digital registration, which under the current law will include registration of leases with terms of more than 7 years. There should be an opportunity to pull out key lease information automatically if the VOA, HMLR and HMRC are properly joined-up.

C. Leading the transition to a Net Zero carbon built environment across the country.

i. The Government should support the decarbonisation of the built environment by continuing to expand electricity grid capacity & realigning energy tariffs

The electrification of heat and transport is increasing demand on the electricity grid, and it is important that there is sufficient funding to allow for the proactive expansion of capacity in key areas including connecting new housing and commercial developments to the grid and lay the foundations for reaching net-zero by 2050. The cost of domestic electricity tariffs must also be realigned to ensure that zero direct emissions heat sources (such as heat pumps) remain competitive with gas and to ensure that the adoption of zero carbon heat does not exacerbate fuel poverty. One solution could be to reduce the environmental and social obligation costs for electricity in relation to gas - such costs account for 23% of an electricity bill compared to less than 2% for gas (Source: Ofgem Companies Consolidated Segmental Statements, August 2020).

ii. The Government should invest in a national residential retrofit programme

Homes represent 20% of UK greenhouse gas emissions and an even higher proportion of energy use. It is estimated that of the 29 million existing homes in the UK, at least 19 million of these need significant investment to retrofit them for a net zero future. We therefore believe that residential retrofit should be considered a national infrastructure priority. This will require financial support for a Central Retrofit Agency to coordinate action across numerous key stakeholders as well as separate pools of funding to support homeowners to implement fabric efficiency measures, transition to low carbon heat sources, and where possible install infrastructure for renewable energy generation.
The need for government support is particularly important to ensure a 'just transition'. Not only will the capital costs of interventions be out of reach for many households, but the anticipated move to electrify heating could mean increased operational costs and bills, causing significant potential difficulties for the fuel poor.
The CLC's National retrofit Strategy identifies that up to 2024, £5.3bn of government investment will unlock £12.4bn of government revenue and be matched by £11.4bn of private capital.[6]

iii. The Government should support Local Government upskilling to aid the Net Zero transition

The range of regulatory and policy reforms needed to deliver the transition to Net Zero carbon is significant and will require significant leadership and delivery by local authorities.
These include but are not limited to a greater emphasis on sustainability and net zero through the planning process (NPPF), the implementation of Biodiversity Net Gain mandates, the enforcement of new minimum energy efficiency standards, the use of tightened building regulations, and requirements for electric vehicle charging infrastructure in new and existing buildings.
Local authorities will need greater resourcing and new skills to deliver the transition to a more sustainable built and natural environment and the programme of capacity-building and up-skilling needs to be kick-started at the forthcoming Spending Review.

[6] https://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2021/05/Construction-Leadership-Council-National-Retrofit-Strategy-Version-2.pdf