Spring Budget 2023

Analysis by the
British Property Federation

BPF

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Contents

View the UK Government’s Budget documents online **here**.

Numbers in [brackets] below refer to paragraph numbers in the Budget paper. Information provided by the Government (which may have been edited for length) is shown in **bold** type.

Tax and Finance

[4.45] Capital allowances: Full expensing – From 1 April 2023 until 31 March 2026 investments made by companies in qualifying plant and machinery will qualify for a 100% first-year allowance for main rate assets. This means companies across the UK will be able to write off the full cost in the year of investment, known as full expensing. Companies investing in special rate (including long life) assets will also benefit from a 50% first-year allowance in the year of investment. Expenditure on plant or machinery for leasing is excluded from first -year capital allowances due to longstanding concerns about abuse and wide scope for error. The government will work with industry to identify possible policy solutions that appropriately mitigate these risks.

> We have long called for bolder use of capital allowances – which could go some way to supporting our sector to regenerate our high streets and improve the energy efficiency of our commercial property stock. It is important that the Chancellor can follow through on his ambition to make this tax relief permanent, to provide certainty to businesses making long term capital investment decisions.

[4.66] Business rates technical consultation: summary of responses and NonDomestic Rating Information and Impact Note (NDRIIN) publication –The government is publishing a summary of responses to the Business Rates Review technical consultation, which closed in February 2022. This reconfirms the government's commitment to the Non-Domestic Rating reform package and sets out further detail on how this will be delivered in response to stakeholder feedback.

[4.67] Valuation Office Agency's Business Rates: Transparency and Disclosure consultation publication – The government is publishing a consultation on providing ratepayers with more information on business rates valuations. The consultation seeks to gather further views and understand any concerns on how this might work in practice for ratepayers, while balancing the need to protect data and confidentiality.

[4.68] Digitalising Business Rates: Connecting business rates and tax data – The government is publishing the summary of responses to its consultation and impact assessment on the design of the Digitalising Business Rates (DBR) programme. This document outlines the government's response to the feedback received which includes a reduction in scope, new legislation to deliver DBR, and an integrated system for ratepayers to interact with central government.

[4.69] Business Rates Avoidance & Evasion Consultation – Business rates provide essential funding for local services. Recognising concerns raised by stakeholders during the Business Rates Review, the government will ensure that revenue is protected by consulting on measures to combat business rates avoidance and evasion.

> While no new announcements on business rates were made in the Chancellor's statement, there were some relevant documents published or announced today. We will be engaging with both of the new consultations announced.

[4.60] Amendments to the rules for Real Estate Investment Trusts (REIT) – Amendments will be made to the REIT regime to enhance its competitiveness. In addition to changes announced in the Edinburgh Reforms launched on 9 December 2022, which will address unnecessary barriers to entry and ensure the rules are operating as intended, the government will also reduce administrative burdens for certain partnerships investing in REITs. The changes will variously apply from 1 April 2023 and Royal Assent of the Spring Finance Bill 2023.

> In addition to changes announced in last December's Edinburgh Reforms (in relation to single property REITs and changes to the development rules), the Government will also be making changes to the treatment of distributions to certain partnerships, which should simplify the distributions and withholding of tax for such investors. These announcements all seem broadly positive, and we look forward to seeing more detail on this in due course.

[4.64] Sovereign immunity from direct taxation – The government has carefully considered the responses to the consultation on sovereign immunity from direct taxation. It has decided that there will be no change to the current exemption, and that it will continue to operate as it does now. The government welcomes the constructive engagement with sovereign investors during the consultation, and over the longer term.

> We had expressed concern that these proposals would result in significant complexity for existing investment structures where sovereigns are treated as "qualifying" (good) investors (including the REIT regime and Qualifying Asset Holding Company regime). The Government's decision to stick with the status quo will provide stability and certainty for investment structures which have sovereign investors.

[4.62] Amendments to the Genuine Diversity of Ownership (GDO) Rules – The government will make changes to the GDO condition in the QAHC, REIT and Non-Resident Capital Gains (NRCG) rules. The GDO condition is intended to prevent funds that are only open to a small number of predetermined investors from benefitting from those regimes. The changes will improve the operation of the GDO condition for fund structures involving multiple pooling vehicles, and take effect from Royal Assent of the Spring Finance Bill 2023.

> We have engaged with Government on the GDO rules in the last few months and are supportive of these amendments which will clarify how funds with 'multi-vehicle arrangements' should apply these rules in practice.

[4.59] Amendments to Corporate Interest Restriction – The government will be making a number of modifications in connection with the Corporate Interest Restriction rules in order to protect Exchequer revenue, remove unfair outcomes and reduce administrative burdens for businesses. In most cases, these will take effect for periods of account

commencing on or after 1 April 2023.

> The corporate interest restriction rules are particularly relevant for our sector – as a capital-intensive industry which makes use of debt funding, many businesses will have higher interest costs, and therefore be more likely to be subject to these restrictions. We have been feeding into HMRC's efforts to help address aspects of these rules which result in unfair outcomes and unnecessary administrative burdens.

[4.77] VAT: fund management reform – Following the consultation on proposed reform of the VAT rules on fund management to improve legal clarity and certainty, which closed in February, the government is considering the responses and continuing to discuss the proposals with interested stakeholders. The government will publish its response to the consultation in the coming months.

> The treatment of fund management fees is important in the context of the Government's ambitions to ensure that the UK is a location of choice for the funds industry - and we look forward to seeing the outcome of this consultation in due course.

Devolution and Levelling Up

[3.115] In the Levelling Up White Paper, the government committed to negotiate trailblazer deeper devolution deals with the Greater Manchester and West Midlands Combined Authorities to set the blueprint for deeper devolution across the rest of England. These deals have now been agreed, subject to ratification, and will equip these authorities with deeper and additional policy levers to deliver on their priorities, including across local transport, employment, housing, innovation and net zero. This includes a greater role in simplifying and integrating ticketing in local transport systems; devolution of the majority of 19+ adult skills funding to mayors; a long-term commitment to local authorities retaining 100% of their business rates; and, for the first time outside of London, local leaders will now be able to set the strategic direction over the Affordable Housing Programme in their areas.

> Devolution has so far delivered positive results by providing places with a greater sense of agency, stronger leadership and clearer accountability, as well as better joint working across existing local authority boundaries. Crucial to this success is the strong link between local knowledge, local interest, and local delivery. Accelerating this process as outlined in the trailblazer schemes could unlock significant regeneration opportunities enabling West Midlands and Greater Manchester Combined Authorities to double down on their success. The retention of business rates and greater strategic control over Affordable Housing Programmes is welcome, providing long term certainty and funding.

[3.116] As part of the trailblazer deeper devolution deals, the government has committed to give Greater Manchester and West Midlands Combined Authorities single multi-year funding settlements at the next Spending Review. These settlements will be agreed directly with government through a single process and will cover their funding for devolved policy areas, including local growth and place, local transport, housing and regeneration, adult skills and retrofitting buildings to drive decarbonisation, for the duration of each Spending Review period. The single funding settlements will give the trailblazer MCAs the flexibility and independence they need to deliver for their areas while providing assurance of MCA performance through a single outcomes-based accountability framework. The government's ambition is to roll this model out to all areas in England with a devolution deal and a directly elected leader over time.

> A move away from the use of small, often competitive funding streams (especially on 'local growth' related funding) and toward more strategic, longer-term, allocations is welcome as is the focus on an outcomes-based approach which in partnership with private investment could unlock growth, regeneration and delivery of housing.

[3.119] The government is committed to empowering democratically elected local leaders at every opportunity. To this end, the government intends for the functions of Local Enterprise Partnerships (LEPs) to be delivered by local government in the future. Therefore, the government is minded to withdraw central government support for LEPs from April 2024.

DLUHC and the Department for Business and Trade will now consult on these proposals, before confirming a decision. The government will publish an updated policy position to confirm next steps by the summer.

> Local authorities should be at the heart of local economic development. A place where local leaders have vision and are prepared to be proactive in putting that vision into practice is a place that will attract private sector investment. However, private sector investment has a significant role to play in supporting what places want. How the private sector is involved and works in partnership with local leaders is therefore very important. We therefore look forward to the announced consultation exercise and specifically what it has to say about private sector involvement, and the public and private sectors working as partners.

[3.106] The government is launching the refocused Investment Zones programme to catalyse 12 high-potential knowledge-intensive growth clusters across the UK, including 4 across Scotland, Wales and Northern Ireland. Each cluster will drive the growth of at least one of our key future sectors - green industries, digital technologies, life sciences, creative industries and advanced manufacturing - bringing investment into areas which have underperformed economically.

[3.107] Each English Investment Zone will have access to interventions worth £80 million over 5 years. Local government and research institutions will be able to tailor their Investment Zone plan to their local circumstances.

[3.108] Investment Zones will have access to a single 5 year tax offer matching that in Freeports, consisting of enhanced rates of Capital Allowance, Structures and Buildings Allowance, and relief from Stamp Duty Land Tax, Business Rates and Employer National Insurance Contributions. Alongside this, Investment Zones will have access to flexible grant funding to support skills and incentivise apprenticeships, provide specialist business support and improve local infrastructure, dependent on local requirements. Local partners will be able to choose the number and size of tax sites, within the £80 million envelope, up to a maximum of 3 sites totalling 600 hectares. The amount of grant funding will depend on the number and size of tax sites.

> The short-lived Truss recipe for Investment Zones has been reformulated to focus on so called 'clusters', and Government has also today published this prospectus with more details. While we support the principles of zoned areas for targeted investment, this is a more limited offer than its previous iteration. However, any measure that seeks to incentivise development and combine private sector investment with public sector placemaking is to be welcomed.

[4.123] Levelling Up Partnerships – The Spring Budget announces the rollout of new Levelling Up Partnerships, providing over £400 million and bringing the collective power of government to provide bespoke place-based regeneration in twenty of England's areas most in need of levelling up over 2023-24 and 2024- 25. The government will ensure a fair geographic spread across the regions of England, inviting the following areas to develop a partnership including: City of Kingston upon Hull, Sandwell, Mansfield, Middlesbrough, Blackburn with Darwen, Hastings, Torbay, Tendring, Stoke-on-Trent, Boston, Redcar and

Cleveland, Wakefield, Oldham, Rother, Torridge, Walsall, Doncaster, South Tyneside, Rochdale, and Bassetlaw. Apportionment of this investment will be made on a case-by-case basis, and in each of these places, the government will work with local leaders and mayors in councils and combined authorities, local businesses from all sectors, community organisations and residents to identify and address the biggest barriers to levelling up.

> This is a new idea; one with relatively little information in the public domain and details remain limited. However, the local and bespoke nature of the proposition potentially provides a useful precedent for the BPF's Town Centre Accelerator proposals, whereby central Government provides support to local areas to develop a vision of a town centre's future shared between a local authority and property owners, creating a more certain (and therefore encouraging) policy environment in which to invest. We will be looking to better understand this policy in the coming weeks.

[4.124] Levelling Up Regeneration Projects – The Spring Budget announces £211 million for 16 regeneration projects in England. These projects have been assessed as high quality and will commence delivery later this year. Investment has been targeted towards the left-behind places in the Levelling Up White Paper or projects that are under £10 million to ensure quick delivery and a good spread of funding across England. All funding is subject to final subsidy checks.

[4.125] Levelling Up Capital Projects – £58 million will be invested in three levelling up capital projects in the North West of England. This will see a new community hub in Stockport, the transformation of Bootle town centre, and the redevelopment of markets as well as transport connectivity improvements in Rossendale.

[4.126] City and Metropolitan Regeneration Projects – The government has provided a further £161 million for high-value capital regeneration projects in city regions across England, including business premises and food science facilities in Tees Valley, and unlocking investment in a research campus in the Liverpool City Region.

[4.128] Levelling Up Fund Round 3 update – A third round of the Levelling Up Fund will proceed as planned later in 2023 with a further £1 billion to level up places across the UK.

> Regeneration funding announcements are welcome. However, the short-term, ad hoc nature of this funding is a poor substitute for a local authority's ability to undertake long term strategic funding of regeneration.

Housing and Planning

[3.131] At the 2021 Spending Review, the government demonstrated its commitment to investing in safe and affordable housing by confirming a settlement of nearly £24 billion.

> This was a disappointing budget for housing and certainly a missed opportunity to tackle the housing crisis. There is little mention of housing and no measures to support the growth or decarbonisation of the Private Rented Sector. There remains the commitment to invest in affordable housing, but no real terms boost to spending in the sector.

There was no mention of purpose-built or other types of student accommodation. The government has stated that it will require local authorities to work together with universities in their applications to become investment zones. This will necessitate an increase in the supply of student accommodation in these areas, and therefore it is vital that the question of provision is also included in any planning.

[4.135] New Housing Revenue Account Rate for the Public Works Loan Board (PWLB) – The government will bring forward a new discounted PWLB policy margin to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing. Any support for housing delivery is welcome and council housing delivery is increasing, but it remains a very small contributor to overall housing numbers, and from a small base.

[3.132] High levels of nutrient pollution in protected sites are stalling housing delivery across 74 Local Planning Authorities, reflecting a major barrier to the government's ambition of delivering 300,000 homes per year. The government has already provided significant support for protected sites that are affected, both to address the pollution at source and to support housing developers to deliver their environmental obligations.

[3.133] In recognition of the scale of the impact, the Spring Budget announces further support to ensure 'nutrient neutrality' obligations can be efficiently delivered, thereby reducing the risks facing developers building homes in affected areas. DLUHC will shortly launch a call for evidence from Local Planning Authorities, backed by a commitment to provide funding for high quality, locally-led nutrient mitigation schemes.

> We welcome the announcement of the call for evidence and funding commitment from government to develop high quality, locally-led nutrient mitigation schemes. Whilst the focus is naturally on housing development, it is important to note that this issue has also been impacting on the delivery of commercial projects, including essential warehousing and logistics schemes in affected local authority areas.

Any review needs to acknowledge this and therefore provide rounded support for all affected parts of the development sector.

[3.99] Boosting the supply of commercial development, in particular lab space, is key to supporting R&D needs and driving investment into high value industries across England, such as the life sciences and advanced manufacturing sectors Spring Budget 2023 67 in the Oxford-Cambridge corridor. Following the recent National Planning Policy Framework consultation the government will set out further details for supporting growth in this area in due course.

> It is positive that the Government is looking at how we can more proactively plan for our life sciences sector to ensure that enough land is coming forward through the planning system so this exciting sector can reach its full potential.

We would encourage government to use a similar proactive approach to planning for other employment uses such as industrial and logistics which in many areas serve as an important enabler of future Lab Space. We look forward to setting out the case for planning more positively for our wider employment uses in the anticipated 'Planning for Warehousing' Call for Evidence as part of the Future of Freight Plan.

Energy and Net Zero

[3.83] The transition to net zero is essential to long-term prosperity. The UK welcomes decisive international action to tackle climate change and has a world leading track record in reducing emissions, innovating in green technologies, and mobilising finance for the transition. In addition to the measures in the Spring Budget, the government will set out further action later this month to ensure energy security in the UK and meet our net zero commitments.

> We welcome the many references to supporting net zero in the Budget and look forward to further announcements later this month. We expect this to include a revised net zero strategy and the Government's response to the Skidmore review.

[4.79] VAT relief for energy saving materials. The government has published a call for evidence on options to reform the VAT relief for the installation of energy saving materials in the UK. The call for evidence will consider the inclusion of additional technologies and the possible extension of the relief to include buildings used solely for a relevant charitable

> We welcome proposals to broaden the scope of the current VAT relief and agree with the Government that changes are necessary to make the relief more effective and easier to access. However, the call for evidence fails to recognise that energy efficiency improvements are rarely carried out in isolation and that the installation of energy saving materials often forms part of a wider programme of work, under which conditions the relief doesn't apply. This is why we continue to call on Government to zero rate VAT on all repairs and maintenance work in residential buildings.

[4.13] Energy Price Guarantee (EPG) – The government will maintain the EPG across the UK at £2,500 per year for the typical household for an additional three months (April to June 2023). The planned increase to £3,000 per year will therefore be implemented on 1 July, rather than 1 April as previously announced.

> A three-month extension, which will be welcomed to tide people over the spring and reach a hoped for reduction in energy prices coming via the market.

[4.14] Energy Bills Discount Scheme – The Energy Bills Discount Scheme will provide all eligible businesses and other non-domestic energy users across the UK with a discount on high energy bills until 31 March 2024, following the end of the current Energy Bill Relief Scheme. It will also provide businesses in sectors with particularly high levels of energy use and trade intensity with a higher level of support.

> No change for business relief.

[4.16] Call for evidence on domestic customers on non-domestic meters – The government

continues to develop options to support domestic consumers on a non-domestic meter where they are facing lower levels of support than other domestic consumers. The Department for Energy Security and Net Zero (DESNZ) will issue a call for evidence before summer for domestic consumers who receive their energy via a non-domestic energy contract.

> We have written to the Government in recent months expressing concerns that fairness should dictate that domestic customers on non-domestic supply should get the same support as other domestic customers.

[4.17] Energy Bills Discount Scheme – support for domestic heat network consumers on non-domestic contracts – The government is providing UK domestic Heat Network customers on non-domestic heating contracts with a higher rate of relief, set at a level that will ensure that they do not face disproportionately higher energy bills than consumers under the EPG.

> We welcome this as only fair.

Healthcare

[3.80] At Autumn Statement 2022, the government asked Sir Patrick Vallance to lead the Pro-Innovation Regulation of Technologies Review to support innovation in key growth sectors. Sir Patrick publishes his report today on the regulation of emerging digital technologies and he makes interim recommendations on life sciences. Green industries will be addressed in the coming weeks. The new Government Chief Scientific Adviser, Professor Dame Angela McLean, will oversee forthcoming reviews into creative industries and advanced manufacturing.

> We welcomed Sir Patrick Vallance's letter, feeding back to the Chancellor on the interim recommendations of the Pro-innovation Regulation of Technologies Review, and it is encouraging that the Chancellor has accepted all the recommendations made. Sir Patrick's full report on Life Sciences will be published in May.

[3.75] The government also committed to considering the case for further support for R&D intensive SMEs. From 1 April 2023, the government will introduce an increased rate of relief for loss-making R&D intensive Small and Medium size Enterprises (SMEs). Eligible companies will receive £27 from HMRC for every £100 of R&D investment. The government remains committed to supporting R&D, and recognises the important role that R&D and innovation play for the economy and society.

[3.99] Boosting the supply of commercial development, in particular lab space, is key to supporting R&D needs and driving investment into high value industries across England, such as the life sciences and advanced manufacturing sectors in the Oxford-Cambridge corridor. Following the recent National Planning Policy Framework consultation the government will set out further details for supporting growth in this area in due course.

> Life Sciences is a high growth sector of the UK economy and we welcome the support pledged by the Chancellor to secure strategic growth and high productivity in the sector. It is one of the growth areas that could be driven within the 12 new Investment Zones. Investment into R&D SMEs will feed into the growth in lab space.

We await further details on the needed growth in lab space that the government has pledged following the recent NPPF consultation.

It is disappointing that other areas of healthcare lacked substantial mention. The only mention of primary care was that further details on the NHS' recovery plan will be published shortly. There was unfortunately no mention of housing with care or for older people.

Construction

[3.42] To help ease immediate labour supply pressures, the government commissioned the Migration Advisory Committee (MAC) to undertake a rapid Shortage Occupation List (SOL) assessment for the construction and hospitality sectors, ahead of its full review of the SOL concluding later in 2023. The government has accepted the MAC's interim recommendations, to initially add five construction occupations to the SOL, which will take effect before summer recess. The government will also review the SOL more regularly, based on recommendations from the MAC, so that the legal migration system is quicker and more responsive to the needs of businesses and the economy.

> The BPF is a member of the Construction Leadership Council, which made strong well-evidenced representations to the Migration Advisory Committee on key labour shortages, and we were pleased to see that work paying off, with the MAC adding five construction occupations in short supply to the Shortage Occupation List.

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