



ADAM SMITH
INSTITUTE

Boosting Brownfield

Full Expensing for Brownfield Development

Adam Smith Institute and PricedOut

ABOUT THE ORGANISATIONS

Adam Smith Institute is one of the world's leading think tanks, recognised as the best domestic and international economic policy think-tank in the UK and ranked 1st in the world among Independent Think Tanks by the University of Pennsylvania. Independent, non-profit and non-partisan, it works to promote free market, neoliberal ideas through research, publishing, media outreach, and education. The Institute is today at the forefront of making the case for free markets and a free society in the United Kingdom.

PricedOut is a volunteer run housing policy group. They campaign for policies that make the housing system work better and call for action from government at every level to build more homes and reduce the cost of decent housing. They fight for everyone who wants to be a homeowner but can't afford to, and everyone who wants to move closer to work or amenities but can't afford to.

Cover Image - James Lawson

The Adam Smith Institute has an open access policy. Copyright remains with the copyright holder, but users may download, save and distribute this work in any format provided: (1) that the Adam Smith Institute is cited; (2) that the web address adamsmith.org is published together with a prominent copy of this notice; (3) the text is used in full without amendment (extracts may be used for criticism or review); (4) the work is not re-sold; (5) the link for any online use is sent to info@adamsmith.org.

The views expressed in this report are those of the authors and do not necessarily reflect any views held by the publisher or copyright owner. They are published as a contribution to public debate.

Copyright © Adam Smith Research Trust 2023. Some rights reserved.

Published in the UK by ASI (Research) Ltd.

23 Great Smith Street, London, SW1P 3DJ, 02072224995, info@adamsmith.org

INTRODUCTION

Following the new National Planning and Policy Framework (December 2023) having bolstered Brownfield prioritisation for building new homes and communities, there has been a lack of investment into per house housing investment. Whilst some stakeholders would point to government financing for building in order to spur development, at the cost of £12.8bn to Treasury coffers,¹ PricedOut and the Adam Smith Institute believe that private sector investment with already-existing tax incentives can solve our housing crisis.

In 2023, the Chancellor of the Exchequer declared in his Autumn Statement that Full Expensing (FE) would be made permanent.² In a nutshell, this policy measure allowed companies based in the UK to deduct the cost of plant and machinery from their corporation tax bill over a number of instalments. Economic analysis by the Office for Budget Responsibility found that the measure will increase business investment by £14bn,³ with downstream impacts on tax revenue, economic growth, and productivity gains being multiples of this. The policy lever to incentivise more business investment already exists in this form, essentially through moving around tax payment structures and cutting taxes in the medium-term. So, why can this not be applied to the most pressing, capital intensive problem facing the British economy and society? Housing.

Building on brownfield sites is expensive. Owing the UK's stringent environmental regulations on development and the often deleterious state of many brownfield environs, clean-up costs can be considerable. Viability for sites is not guaranteed, meaning that any investment in clean-up could go to waste, further disincentivising development on brownfield sites, despite a clear consensus that redeveloping these areas would be optimal for all parties. These risks and large disincentives remain the primary blocker to brownfield redevelopment, especially as gaining planning permission to build in these areas is significantly easier and thus less costly than fresh greenfield development.

Extending FE to the development and house building sector to build on brownfield sites has three primary payoffs. Firstly, and most importantly, more houses can be delivered. Using the our model explored below, 150,000 brownfield houses could be started per year, resulting in 450,000 over three years, and thus helping the government go some way in catching-up to their targets for housebuilding. In doing so, there would be considerable relief for the housing market's supply side, and especially first time buyers seeking affordable, well-connected homes closer to where they want to be. Secondly, the extension of this policy would go some way to rejuvenating the critical Small and

¹ I. MacFarlane, showhouse, <https://www.showhouse.co.uk/news/government-needs-to-spend-12-8bn-a-year-to-end-housing-crisis/>, accessed 27 February 2024.

² HM Treasury, 'Capital allowances — permanent full expensing for companies investing in plant and machinery', <https://www.gov.uk/government/publications/capital-allowances-permanent-full-expensing/capital-allowances-permanent-full-expensing-for-companies-investing-in-plant-and-machinery> accessed 27 February 2024.

³ Ibid.

Medium-Sized Enterprises in development and house building. Indeed, since 1990, there has been a collapse of these businesses by 65%.⁴ Without SME housebuilders and developers, additional supply constraints will continue to undermine the ability of the housing market to catch-up to already laggard supply. SME housebuilders collapse due to cash-flow constraints, which can be fixed by extending FE to the sector's brownfield site developments. A vital lifeline for a struggling sector which forms the baseline for future British productivity and GDP gains. Finally, the Treasury is in view to recover a *profit* from extending this policy. Over 12 years and with 450,000 houses started built over three years, the Treasury would receive £4.3bn in downstream tax from the growth of the sector and economic development near brownfield sites. Although the Treasury can often be averse to long-term expenditures, as highlighted by the Institute for Government's research into Treasury Orthodoxy,⁵ we believe that this policy mechanism would provide a healthy return in human capital development, increased standards of living, and excellent returns for short-term loss of revenues.

The Chancellor's brave and commendable step towards permanent full expensing provides a globally enviable new fiscal endeavour to encourage businesses to invest, employ, and contribute to the general prosperity of the United Kingdom. Applying FE to brownfield sites would be a unconscionable next step for a government seeking to fix the housing crisis, support business, and provide excellent, sustainable housing for Britons now and well into the future.

⁴ G.Davis, University of Cambridge, Transforming construction: impact case study, https://www.construction.cam.ac.uk/files/davis_web.pdf, accessed 27 February 2024.

⁵ Wilkes et al, Institute for Government, Treasury 'orthodoxy': What is it? And is it a problem for government?, <https://www.instituteforgovernment.org.uk/sites/default/files/2024-01/Treasury-orthodoxy.pdf>, accessed: 27 February 2024.

THE PROPOSAL

Current support for housebuilding is inadequate. The incentive to invest in the UK's built environment has markedly deteriorated in recent years. House builders face the increase in Corporation Tax (to 25%), as well as the introduction of the Residential Property Developer Tax (+4%), and the Building Safety Levy (equivalent to a further ~4%), which means the effective Corporation Tax rate is effectively well beyond 30%, but without any of the countervailing incentives to invest.

This lack of investment incentive particularly disadvantages brownfield relative to greenfield development. Brownfield regeneration requires significant investment up-front before a site can be brought into production, whereas greenfield sites do not. This therefore becomes a further reason why greenfield development continues while brownfield sites sit idle, or are turned over to commercial uses.

The challenges facing brownfield development are therefore well known - by expanding full expensing to brownfield development, a new door opens for desperately needed regeneration and housebuilding.

Indeed, expanding full expensing brings a number of significant benefits for all stakeholders involved in the housing market, from the Treasury to homeowners to the developers themselves.

Brownfield focussed

The public is clear that they want to see brownfield development prioritised over greenfield. This policy would allow the Government to send a clear signal that this is also its priority in setting policy. Adam Smith Institute polling in 2023 has demonstrated that there is a clear, cross-societal consensus on building on brownfield first.

Building on greenfield land is opposed in every region; however there are high levels of net support for building on brownfield sites

How much would you support or oppose building new housing in your local area if...

	North East	North West	Yorkshire & Humberside	West Midlands	East Midlands	Eastern	London	South East	South West
It meant building on greenfield land	-15	-27	-26	-15	-36	-57	-15	-46	-40
It was designed to fit in with the surroundings	+51	+52	+52	+53	+56	+38	+59	+47	+52
It was limited to brownfield sites	+62	+46	+52	+54	+60	+45	+41	+54	+53
It made local housing more affordable	+73	+56	+51	+52	+72	+41	+66	+55	+62

With a focus on brownside, sustainability remains at the heart of the building regime.⁶ Such a leaver, therefore, aligns with policy priorities from all party stakeholders and the reformed December NPPF.

Provides significant support to SMEs

The developers who would benefit the most from this policy would be those that have the highest cost of capital. This is overwhelmingly smaller developers that use project finance provided on a site by site basis, than larger developers who use balance sheet financing to bring forward development. A recent spate of collapses by smaller housebuilders has been dramatic, and will inevitably cause further degradation to the flexibility of the overall housing market.⁷ SME housebuilders deliver over 50,000 units per year, and are central to regional industry and labour market participation.⁸

These developers are also far more cash constrained, and will be likely to be able to embark on more projects simultaneously than would otherwise be the case, leading to an expansion in the capacity of the SME development sector. Applying full expensing to their operations would create much needed indirect support for these housebuilders, permitting the cash to continue operate and employ workers gainfully, contributing to the UK's skills bank and human capital.

Cost Neutral

Allowing full expensing of investment on brownfield land will be cost neutral to the Treasury as the benefit is in the timing of taxation, not in the total amount raised. This means the Government can provide a significant timing benefit, without causing damage to the Government finances. Indeed, we estimate that the rate of return for the Treasury would be between 12% and 17%, which would go some way in repairing public finances.

In fact given the large, positive impact this would have on scheme viability, and the number of other taxes paid on new development such as SDLT, CIL, RPDT, Developer Levy, and S106, any new sites brought into production as a result will likely make this policy a net benefit to the Treasury over the medium term.

Once a site is up and running most costs are expensed each year anyway, so the effect of the policy will be predominantly felt for those costs needed to bring a site into production.

⁶ Adam Smith Institute and JL Partners, 'Rooms for Debate: Polling on the housing crisis, green belt, and planning system', https://static1.squarespace.com/static/56edde762cd9413e151ac92/t/656289590bbe2574659fc32a/1700956514108/ASI+Polling_+Rooms+for+Debate.pdf

⁷ A. Daniel, Inside Housing, 'Bleak' prospects for SME house builders due to planning delays and rising costs, <https://www.insidehousing.co.uk/news/bleak-prospects-for-sme-house-builders-due-to-planning-delays-and-rising-costs-84826>

⁸ Competitions and Markets Authority, 'Summary of CMA market study final report into housebuilding', https://assets.publishing.service.gov.uk/media/65d8badb6efa830011dcc5bc/_Summary_of_housebuilding_final_report_.pdf

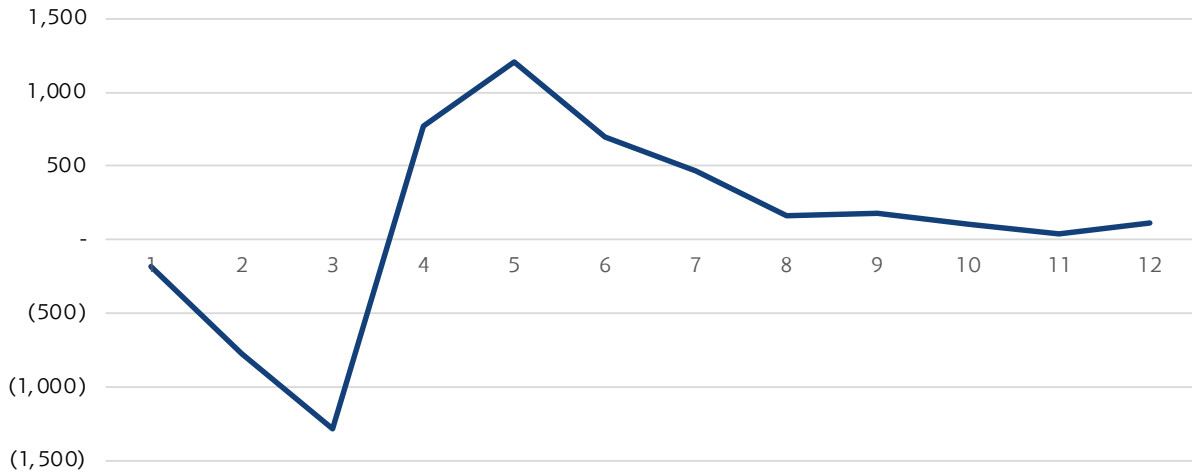


Figure 1: Annual cost and return to the Treasury from starting 150,000 brownfield homes in year one (£'m)

Improves viability

This policy has the potential to have a material impact on scheme viability, particularly where the business case is finely balanced. The scale of most brownfield schemes means they are considered on the basis of some form of return on capital employed, either in the form of an IRR, NPV, or ROCE calculation. Tax incentives to the investment made upfront, will reduce the initial capital outlay, and move many sites from being unviable to viable.

Those areas where the business case is more finely balanced are those where the remediation costs are particularly high, or the sales values lower. That is to say on those ambitious schemes which can unlock the most social value, and in areas most in need of regeneration and investment.

A clear investment signal

The investment case for UK housing delivery has been increasingly undermined by the deterioration in the operating environment, including the increase in the effective corporation tax rate well beyond 30% once Corporation Tax, RPDT, and the Building Safety Levy are included.

Other sectors have seen their headline Corporation Tax rate increase to 25% but with the countervailing introduction of full expensing to encourage ongoing corporate investment. The homebuilding industry requires the same clear investment signal in order for Britain to remain a place to invest, otherwise the case for international capital being allocated to the UK has unambiguously worsened.

Unlike a cut in corporation tax, the tax benefits of this proposal are only realised if businesses back the future of the UK and invest in the homes and communities that will grow our prosperity for the long term, channelling investment where it's most needed.

The Government is seeking to spark growth in the economy, with the Chancellor calling the budget "A Budget for Growth". By extending the headline initiative to achieve this to the investments made bringing forward brownfield development, the scale and scope of the investment generated for the UK will be increased enormously.

Improves placemaking

Finally, it is likely to lead to better placemaking and therefore to better housing outcomes. Good placemaking and design often demands that key amenities like, parks, schools, children's play areas, local amenities etc. are delivered first, with most homes delivered once a sense of place has been established.

In the current market this is too often neglected, and this policy will not only remove the disincentive in the tax system for engaging in good placemaking early in a development and thereby support the delivery of the benefits and amenities which people most value in new development.

Appendix

The model and data to support this policy can be found at [here](#).