Budget 2012: Infrastructure and PPP/PFI

On 21 March 2012, the Chancellor delivered his 2012 Budget speech in which he set out plans in three key areas of Government strategy: a stable economy, a fairer, more efficient and simpler tax system, and reforms to support growth.

Highlights from the Budget that are likely to be of particular relevance to the infrastructure sector are summarised below. For full details of all of the Budget measures and Ernst & Young’s commentary please refer to Ernst & Young’s Budget website at www.ey.com/UK/en/Services/Tax/Budget

Strong, sustainable and balanced growth

A key theme of the Chancellor’s speech was achieving strong, sustainable and balanced growth. As part of this strategy, the Chancellor reiterated the Government’s ambition to create the most competitive tax system in the G20.

Tax measures announced, aimed at reaching these goals, included further reductions to headline corporation tax rates as well as new or extended measures to promote entrepreneurial investment, research and development and creative businesses.

Of particular interest to the Infrastructure sector were announcements, following on from The National Infrastructure Plan 2011, of significant investment in rail and road networks, high speed broadband and science and technology projects. To support these projects, the Government announced simplifications to planning requirements and procedures as well as a feasibility study into new ownership and financial models for the national road network.
Infrastructure initiatives

The Budget report confirmed or announced the following initiatives and infrastructure spending commitments:

- Plans to develop a national roads strategy.
- A feasibility study into new ownership and financing models for the national road network, based on experience within the water industry.
- Investment of £130m in the Northern Hub rail scheme, including confirmation of the plan to electrify the Transpennine railway between Manchester and Leeds and to build the Ordsall Chord between Manchester Piccadilly and Manchester Victoria stations.
- Changes to the planning system with a view to simplification and deregulation. The Government will remove duplication in the consenting regime for major infrastructure development by bringing forward legislation to adjust the scope of special parliamentary procedure. The Government will also shortly publish draft revised guidance intended to make the regime clearer and easier to use.
- £56m for the Bexhill to Hastings link road.
- Investment of £100m to improve accommodation for military personnel.
- Belfast, Birmingham, Bradford, Bristol, Cardiff, Edinburgh, Leeds, London, Manchester and Newcastle have been selected as the UK’s ten ‘super-connected’ cities as part of a £100m investment in broadband coverage. £50m will be available to a second wave of ten smaller cities.
- £150m investment in mobile coverage for rural homes and along key roads.
- £60m investment in a UK centre for aerodynamics.
- A new £100m fund to support investments in major university research facilities. The fund will allocate its first bids in 2012/13 and will be seeking co-investment from the private sector.
- A £30m earn back initiative that seeks to unlock £1.2bn of infrastructure investment across the Greater Manchester city region.
- £150m for large scale projects in core cities, financed by Tax Increment Financing (TIF 2), which allows Local Authorities to borrow against future business rates growth.
- The Government will consult on the role that REITs can play in supporting the social housing sector.

The tax changes

The corporation tax changes announced by the Chancellor are a continuation of the five year reform programme announced in the Emergency Budget in 2010. Some of the key messages for the Infrastructure sector are summarised below:

Corporation tax - continuing rate reduction

The headline rate of corporation tax is not, as expected, to reduce to 25% with effect from 1 April 2012, but will instead be reduced to 24%.

The headline rate will continue to fall 1% each year thereafter until the rate is reduced to 22% by 2014

Capital allowances

As previously announced, from April 2012 expenditure on plant and machinery for which RHIs or FITs are received will not qualify for enhanced capital allowances (ECAs). As also previously announced, expenditure on solar panels will be designated as special rate expenditure for capital allowances purposes from April 2012. There continues to be support for ECAs on other qualifying technologies.

From April 2012 the availability of capital allowances on fixtures will be conditional on businesses following a new statutory mechanism for fixing a value for fixtures within two years of a sale.

These changes will add to challenges for those projects impacted by previous changes to the capital allowances regime. The impact of these changes will need to be balanced against the benefit of further reductions in the main rate of corporation tax rates (as well as any potential enhanced allowances for projects situated in Enterprise Zones - see below).

Enterprise Zones

Enhanced capital allowances (100% on plant and machinery) will be available from 1 April 2012 for expenditure on qualifying assets at designated sites in Enterprise Zones at Irvine, Nigg and Dundee in Scotland, Deeside in North Wales and the London Royal Docks enterprise Zone.
This is in addition to the announcements of ECAs in English Enterprise Zones in 2011 and the additional zone in Humber announced in February 2012. For projects located in these areas, the potential availability and cash flow benefit of these enhanced allowances should be explored.

**Research and development (R&D) credits**

From April 2013 the Government will introduce an ‘above the line’ credit for R&D, with a minimum rate of 9.1 per cent before tax. Loss making companies will be able to claim a payable credit. Consultation on the design of the credit is expected shortly. One anticipated benefit of this credit is aligning reporting of tax benefits and costs of research and development and as such this will be welcomed by large companies (including those in the infrastructure sector) where projects include research and development.

**Anti-avoidance**

As anticipated, a number of Anti-avoidance measures were announced.

**General anti-abuse rule (GAAR)**

Consultation was announced in respect of the details of a GAAR. A consultation document is due to be issued in summer 2012 with the aim of legislation being included in Finance Bill 2013.

**Stamp Duty Land Tax (SDLT) sub-sales rules**

Legislation will be introduced, with effect from 21 March 2012, to restrict the application of SDLT sub-sales relief and to make it clear that the grant or assignment of an option cannot satisfy the requirements of this relief.

**Environmental and carbon taxes**

**Carbon price floor**

The Government will set 2014/15 carbon price support rates equivalent to £9.55 per tonne of carbon dioxide in line with the carbon price floor set out at Budget 2011.

The Government will also make a number of additional legislative provisions with effect from 1 April 2013. These include:

- Amendments to the treatment of solid fuels.
- Fossil fuels used to generate heat in good quality combined heat and power (CHP) plants will not be liable to the carbon price support rates.
- The introduction of a generating capacity threshold of two megawatts before electricity.
- All generators will be required to self-account.

**Landfill tax**

The standard rate of landfill tax will increase by £8 per tonne from 1 April 2013 to £72 per tonne. The lower rate of landfill tax will remain frozen at £2.50 per tonne.

**Climate Change Agreements**

Climate Change Agreements (CCAs) will be extended to 2023. The climate change levy discount on electricity for CCA participants available from 1 April 2013 will be increased to 90 per cent as part of a package of measures to support energy-intensive industries.

**CHP levy exemption certificates (LECs)**

As announced in Budget 2011 the Climate Change Levy exemption for electricity from Combined Heat and Power (CHP) plants supplied indirectly to business energy consumers will be removed from 1 April 2013. Electricity utilities will be able to continue to allocate CHPs until 31 March 2018 to give them time to use up their stocks.

**VAT**

As announced in last year’s Budget, Finance Bill 2012 will include provisions to amend UK law to ensure that there is a clear transposition of EU agreements relating to the VAT treatment of public bodies carrying out their statutory duties in competition with the private sector.
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