

Mr David Roberts
HMRC
VAT Projects Team
3C/10, 100 Parliament Street,
London, SW1A 2BQ

18 May 2012

Dear Mr Roberts,

Re: VAT: Addressing borderline anomalies – section 7 ‘Approved alterations to listed buildings’.

Please find enclosed a joint response to section 7 of the current HMRC consultation, ‘VAT: Addressing borderline anomalies’, from the following 12 organisations:

The Bathroom Manufacturers Association, the Campaign to Protect Rural England, the Electrical Contractors' Association, the Federation of Master Builders, the Glass and Glazing Federation, the Historic Towns Forum, House Beautiful magazine, the Institute of Historic Building Conservation, the National Federation of Builders, the National Federation of Roofing Contractors, the National Home Improvement Council.

Together, our organisations represent businesses and individuals with a strong concern for the future of our heritage. Our coalition includes a wide variety of organisations from professional bodies and trade associations to heritage and environmental NGOs.

Please do not hesitate to contact me directly if you require any further information.

Yours sincerely,

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A joint response to the HMRC consultation - 'VAT: Addressing borderline anomalies'

Section 7 – 'Approved alterations to listed buildings'

Executive summary

1. All of our organisations oppose the decision to remove the zero rate of VAT on approved alterations to listed buildings and we think it vital that the Government reconsiders this measure rather than rushing into an irreversible change.
2. We fundamentally disagree with the case for introducing legislation to remove the zero rate of VAT on approved alterations to listed buildings and therefore believe the Government has moved well beyond the appropriate stage in the consultation process for seeking comments. The case for a full and proper consultation exercise is strengthened by the irreversible nature of this change.
3. The costs of owning, managing and ensuring the continued use of a listed building are a great deal higher than the costs that apply to non-listed buildings. The zero rate is not a tax advantage for the rich as the Government has implied, but is usually the only incentive available to those willing to care properly for our historic built environment.
4. It is disingenuous to claim that alterations have no heritage benefit. Approved alterations are controlled by Listed Building Consent, which is required to trigger the VAT relief. Without alterations needed to ensure our historic buildings are suitable for modern use, they will be left to fall into disrepair.
5. In light of the current economic climate the timing of this change is ill-considered, and there is a real risk of severe damage to this part of an already subdued construction sector.

The consultation process

6. HMRC has invited responses from businesses and consumers affected by the change, but the consultation appears to restrict these responses to comments on legislation that has already been drafted. Our organisations disagree with the case for introducing legislation to remove the zero rate of VAT on approved alterations to listed buildings and therefore believe the Government has moved well beyond the appropriate stage in the consultation process for seeking comments. Furthermore, once this zero rate has been removed, all subsequent governments will be powerless to reintroduce it regardless of the negative consequences. In light of the irreversible nature of this change, the matter should be subject to a full and proper consultation exercise with a clear and sufficient evidence base so that the policy options can be considered. We hope that this response, and the many others, addressing the principle of the policy rather than the nature of its implementation will persuade the Government to reconsider its approach.
7. The remaining points in this response address (but are not limited to) questions 18 to 20 in the consultation document.

Proposed transitional arrangements

8. Question 18 and 19 state, *“The transitional arrangements are intended to provide protection for contracts already in place on Budget day and allow sufficient time for the completion of work and the making of first grants by developers. HMRC would welcome comment on whether these transitional periods are sufficient and whether owners, builders and developers foresee any difficulties in their operation.”* And *“It is possible that some substantial reconstructions may be already underway at Budget Day without a written contract being in place. The proposed transitional arrangements therefore also provide relief where 10% of the reconstruction of the building was completed (measured by reference to cost) before budget day and the reconstruction meets the original tests for zero-rating. We would welcome views on how likely this set of circumstances is to occur and whether this additional transitional relief is necessary?”*

9. We have serious concerns about the proposed transitional arrangements. Listed buildings works require a large amount of time and planning. Therefore, many projects are well underway with thousands of pounds spent on planning and other professional fees to enable the actual building works to go ahead. Some projects will be completed within 12 months, others will take longer. Given the nature of the listed building consent system it is unlikely that any project will take less than 12 months to get from the planning stage to the completion of all building works.

10. Under the current proposals the change in most cases will apply retrospectively. The transitional arrangements do not provide protection for projects that are already underway if there was no written contract in place before 21 March 2012. Based on the large amount of anecdotal evidence received from our own membership and supporter networks this will create significant problems. Under the current proposals, if there was no written contract in place before 21 March 2012 owners have until 1 October to complete the work. One owner told us they had received Listed Building Consent on 20 March 2012 and with most projects taking longer than 6 months to complete, the transitional arrangements do not allow sufficient time for the completion of work on projects already underway.

11. Projects of this nature are planned according to known costs. Now many owners are facing the prospect of being asked to pay up to 20% on top of the anticipated cost. Introducing this change retrospectively removes the much needed certainty in the tax system and causes untold damage to the confidence of all groups affected in the competence of the Government.

12. Further evidence that the transitional arrangements do not provide protection for existing projects can be seen from the examples of projects that have already been scrapped, despite the considerable amount of time and effort already spent planning the works. One such example comes from an architect in Oxfordshire whose client has cancelled a £600,000 alteration and extension project on a Grade II listed dwelling despite two years of work that has been undertaken in order to successfully obtain Listed Building Consent. This has resulted in the loss of half a man year of employment for an architect as well as approximately 5 man years of work for a building contractor and 5 man years of work for suppliers.

Impacts on businesses and consumers

13. Question 20 states *"We have considered impacts on businesses and consumers of the changes to alterations for listed buildings and these are set out in the Table of Impacts in Annex B. We would welcome comment on these impacts (including any specific impacts on small businesses) and would particularly welcome details of any impacts we have not identified."*

14. Our organisations have identified a number of impacts that the Government has not given proper consideration to. These likely impacts strengthen the case for an in-depth review and analysis based on an adequate evidence base.

Increasing the burden of listed building ownership

15. The 2011 'Heritage Counts' report from English Heritage suggests there could be between 630,000 and 895,000 individual listed buildings in England alone. According to the Heritage Lottery Fund Government spending cuts mean there is now around £700 million a year less public investment in heritage across the UK. It is very apparent, therefore, that the future of our heritage depends almost entirely on individuals and groups that are passionate about maintaining the use of historic buildings.

16. Where people are willing to accept the additional responsibilities attached to the ownership of a listed building, it is highly unlikely they will do so in the interest of financial gain. The costs of owning, managing and ensuring the continued use of a listed building are a great deal higher than the costs that apply to non-listed buildings. In the interests of appropriate heritage conservation, the planning and consent system reduces an owner's freedom to change a listed building and increases the cost. In turn, specialist skills and materials in limited supply add even more the cost of a listed building project. The cost premium of listed building ownership is almost always at least 30-50%, and in some cases very much more than that.

17. Therefore, the economic viability of listed building projects often hangs in the balance. Certain funding programmes, such as the Townscape Heritage Initiative (THI), have been set up to recognise the regeneration need in certain conservation areas where local conditions mean the cost of the works is often considerably more than the increase in value following the completion of the project.

18. One such project hoping to receive THI grant funding is a project to convert the upper floors of a Grade II listed building in the town centre of Keighley in West Yorkshire. The building is in an area of economic deprivation and the cost of the works (£845,000) is considerably more than the increase in value following the conversion (£90,000). The increase in VAT will add approximately £25,000 to the total cost, which has put the project at risk. This would leave behind an unused building and lasting consequences for this town and its historic environment.

19. Furthermore, the suggestion by politicians that the majority of 'consumers' affected by this change are wealthy owners is entirely unsupported by the evidence. Listed building owners include individuals living in small town centre apartments, rural cottages, former coach houses and redundant farm buildings to name a few examples. Owners of listed buildings span the social and

economic divide. According to English Heritage research, 50% of people living in listed buildings are in socio-economic groups C1, C2, D and E.

20. Neither are places of worship the only type of building adversely affected. Town halls, schools, community centres and other types of establishment all serve a purpose in the public interest and will be affected by the change. The Russell Group of universities will also find it even harder to maintain their building stock.

21. As well as private owners, it is evident that voluntary sector activities will be badly affected by this change. In the context of the Government's ambitions to create the "Big Society" and encourage more philanthropic activities, it is very difficult to understand the approach being taken. Far from being just a "tax advantage for the rich" as the Government has implied, the zero rate is in most cases the only surviving incentive for those willing to care properly for our historic built environment. We urge the Government to think again before permanently removing it.

Undermining efforts to create a sustainable future for listed buildings

22. Although the zero rate only applies to alterations and not to repair and maintenance work on listed buildings, the assumption that the majority of alteration work is not necessary for heritage purposes is also misguided.

23. Alterations are needed to ensure buildings built hundreds of years ago are suitable for modern living, recreational or business purposes. Common alterations involve layout changes to maximise the space and make the building more habitable. Owners also encounter inappropriate structures such as garages and conservatories installed without consent, which they are advised to remove by conservation officials. Without these necessary alterations, people will see no use for our historic buildings and they will be left to fall into disrepair or never be restored to the status they once enjoyed. The result is irreparable damage to our heritage.

24. Furthermore, the idea that the zero rate creates a 'perverse incentive for changes as opposed to repair' does not accurately reflect the nature of many projects that include a mix of alterations and repair. Alongside necessary alterations owners will often take the opportunity to repair and refurbish valuable historic elements of their building such as the roof, guttering, doors, stairs, and fireplaces. Without the alteration, the repair is much less likely to happen.

25. It is also disingenuous to imply that alterations have no heritage benefit when they are controlled by Listed Building Consent. A large amount of time and money must be spent seeking and following advice from conservation experts before an owner can even get to the stage where consent has been granted. Removing the zero rate of VAT takes away the incentive to apply for Listed Building Consent and is likely to lead to owners ignoring the consent system.

26. A further problem is created by the evident contradiction between this change and the statements in the Government's new flagship planning policy document, which encourage the economic and sustainable use of historic buildings. Less than one week after the Budget, the Government explicitly acknowledged "the wider social, cultural, economic and environmental benefits that conservation of the historic environment can bring" in the new National Planning Policy Framework. The Government fought hard to promote growth through the planning system, but now risks undermining the new potential for creating skilled jobs in the construction, low-carbon and

tourism sectors by immediately creating another barrier to the most sustainable type of development.

Aggravating the existing weakness in construction sector

27. The economic impact of this change is likely to be felt acutely given the existing weakness in the construction sector. Revised figures from the Office for National Statistics show construction sector output fell by 4.8% in Q1 2012 compared with the previous quarter, which helped drag the UK economy back into a technical recession. Removing this VAT relief will have an adverse effect on the construction industry. Projects are already being cancelled or curtailed and owners will commission less work in the future leading to a further fall in construction activity.

28. The downturn has had the largest impact on the small businesses operating in the construction sector. According to the independent state of trade survey, commissioned quarterly by the Federation of Master Builders, construction SMEs have contended with a shrinking pool of work for 17 consecutive quarters. Faced with smaller workloads, SME contractors reduced headcount in the first three months of 2012. During this same quarter the survey recorded the most negative employment balance for a year.

29. Contractors specialising in heritage conservation are typically small businesses. Listed building projects typically account for 70 to 80% of the turnover of this type of firm. If demand for their services falls and this turnover shrinks, the business and employment tax revenue will also shrink. Without knowing the analysis that underlies HM Treasury's figures on the likely impact on demand, it is very hard to challenge the expected increase in revenue. However, by attacking an already subdued sector of the economy it is difficult to believe that any net benefits to the Exchequer will be realised.

30. Specialist heritage contractors also have a strong apprenticeship tradition, needed for passing on the specialist craft skills. In a sector where there are not enough vacancies to meet the demand from people who want to train, this change will be a further barrier to creating apprenticeship places and employment opportunities. Closing the door on the next generation of tradespeople with specialist craft skills also makes it even harder to look after our historic buildings in the future and increases the risk to our heritage.

Driving work towards the informal economy

31. In the housing repair, maintenance and improvement sector the informal economy is estimated to be worth approximately £9.3 billion per year. SME contractors already struggle to compete not only with self-employed tradespeople below the VAT registration threshold, but with those operating in the informal economy and avoiding all tax obligations. This change hands an even bigger competitive advantage to contractors operating in the informal economy.

32. If the Government removes the main lever that encourages owners of listed buildings to incur the additional cost of seeking and obtaining consent, there is little to stop owners avoiding all additional cost burdens. Not only does this have a negative impact on the net tax revenue for the Exchequer, but it places listed buildings at risk of damage caused by unskilled tradespeople.

Conclusion

33. The arguments above show that a 20% increase in VAT, applied so suddenly, is likely to be very damaging. The zero rate enables the sympathetic adaptations and regeneration projects that are necessary to protect our heritage to go ahead when they would otherwise be unaffordable.

34. The Government is using this tax increase to raise money for the Exchequer. However, removing the zero rate of VAT could make the difference between a future for listed buildings and losing them all together, which will have serious economic consequences including damage to our tourism industry and jobs losses in the building industry.

35. The Government should review and reverse the decision to remove the zero rate of VAT for alterations to listed buildings from October 2012.

36. Notwithstanding this view, we have registered serious concerns about the transitional arrangements currently proposed in the consultation document. If the Government intends to press ahead with the removal of this zero rate, the proposed transitional arrangements must be reconsidered to enable those who have, or are seeking, Listed Building Consent a chance to complete their projects within a reasonable amount of time.