

The Heritage Alliance

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Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horseguards Road
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18th April 2012

Dear Chancellor,

Withdrawal of zero rate VAT on approved alterations to listed buildings

I am writing as Chair of the Historic Religious Buildings Alliance (HRBA), a group within the Heritage Alliance. The Alliance's Chairman Loyd Grossman has already written to you setting out the way the withdrawal of zero rate VAT will affect our heritage. The purpose of my letter is to examine in more detail the impact on historic religious buildings.

Our members include faith groups and charitable trusts who between them maintain almost all listed places of worship in the UK. Our other members include many of the other national bodies which have a stake in the long-term future of these buildings.

We believe the changes will see the volunteers who support religious buildings significantly cutting back on the alterations (such as toilets, heating, disabled access) needed to sustain them as resources for the wider community.

In this letter we discuss:

- the importance of listed places of worship
- the impact of the change to VAT on these buildings
- community use of listed places of worship
- policy issues arising from the distinctive nature of historic places of worship

The importance of listed places of worship

Our members were surprised and disappointed to read (in *VAT: addressing borderline anomalies*) that the government has set policy in this area on the basis that listed religious buildings are only a 'small minority' of listed buildings.

In fact there are about 19,850 listed places of worship in the UK, with some 60% owned by the Church of England, with most of the remainder being churches owned by other Christian denominations and a number

Our members are non-government, voluntary and private organisations that promote, conserve, study and involve the public in **our heritage**.

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of charitable trusts. A small number are owned by other faith groups.

Importantly, in the UK, some 57% of listed religious buildings are at the high grades of Grade I or II*. This is a remarkably high proportion, far higher than for listed buildings in general. In England, for example, where the data is to hand, only 8% of listed buildings are at these higher grades. So more than one half of listed places of worship are of the highest importance.

Furthermore these buildings form a substantial section of all highly-graded listed buildings. In England for example (where we have the best data), nearly one half of all Grade I listed buildings in the country are churches, as are about 28% of all Grade I or Grade II* buildings.

So these buildings are numerous, and important, and make up a large proportion of all highly-listed buildings: they should not be regarded as a 'small minority'.

Impact of change to VAT on listed places of worship

Our members were delighted that in October 2010 it was announced that there would be a four year extension to the Listed Places of Worship Grant Scheme for repairs to listed religious buildings. Its continuance is widely appreciated, despite the fact that the transitional arrangements to a cash-limited scheme continue to cause some very real difficulties.

We also appreciate the efforts the government is making via the Penfold Review and the recently-published National Policy Planning Framework to help realise the potential of historic buildings.

Our concern now is that the government's proposal to withdraw the zero rating of VAT from alterations to listed places of worship will have a serious detrimental effect on the future of these buildings. We fear this new burden will discourage the volunteers who maintain the UK's religious buildings from fund raising, and from dipping their hands in their own pockets to upgrade these historic buildings to the standards needed today if they are to earn their keep.

The following case study, written last week, may make this concern more concrete: *Here at [a market town], we are setting out on a phased redevelopment of the church and our next step is to provide toilets and a servery. Our budget looked achievable at around £115,000 and this is the kind of total towards which trusts might contribute, as well as the congregation and other local folk. Now it will rise to something nearer £140,000 and the total starts to look too high. Added to that, some of our applications have gone out with the old figure, so if the trusts make grants towards that lower sum -- with the one-year time restraint that is now common -- we will be left in a very difficult position.*

This is the church at the heart of a small market town that manages to serve an ageing congregation, the local garrison civic and school events, and increasing numbers of exhibitions and concerts. Last year about 25,000 people used the church (footfall count) and we desperately need a toilet! It's a very nasty and unnecessary change in policy. We look after our churches well and do not readily alter the structures as suggested in HMRC summary, we only alter out of necessity for contemporary use. Only if our churches are used will they be maintained and repaired!

Project adviser, church in market town

Community use of listed places of worship

It is widely recognised – not least by the government’s advisers, English Heritage – that one of the most effective ways of ensuring the future of a listed church or other place of worship is to provide practical requirements such as toilets, kitchenettes, disabled access, and measures to improve warmth and energy efficiency. A recent review of nearly one hundred churches that had made this type of modification to their building as part of a millennium scheme confirmed how often this had led to a significant increase in both financial and social sustainability, through wider community use. Yet we know, for example, that at present more than one third of listed churches do not have toilets in the church or nearby building, and that the lack of toilets is associated with reduced community use.

As an example, consider an inner city London church, describing recently completed works:

The church hall is directly linked to the church and is therefore also listed. There was no toilet for people with disabilities and, given that the hall also accommodates guests as part of the Winter Night Shelter programme, this had a serious impact on provision for the wider community. A walk-in shower which can be used by people in wheelchairs or with other mobility problems was incorporated into the scheme. The cost of this work was £35,913. Under the proposals it would have attracted VAT at 20%, amounting to a further £7,182.60.

We would like to emphasise that upgrading these buildings for community use is now generally accepted as an important step (in appropriate cases) towards their sustainability. As a sign of this, the Heritage Lottery Fund has recognised the value of improved community services in these buildings, and under its revised grant programme targeting historic religious buildings, is considering allowing costs equating to up to 15% of the total project costs to be targeted towards modest new facilities. It is most unfortunate that the government’s proposed change to the VAT regime pulls in exactly the opposite direction to this proposed strategic policy move on the part of HLF, which itself reflects the general understanding of those working in the sector.

Policy issues arising from the distinctive nature of historic places of worship

It may be useful to highlight some of the fundamental differences between listed places of worship and those listed buildings which are owned for commercial or domestic use. These are in addition to the fact that a very high proportion of listed religious buildings are at the higher grades of listing, and their use for community purposes.

- Almost always, those involved in places of worship have no financial stake in the value of the building, and gain no financial benefit from any improvement. (Places of worship are usually charitable bodies.)
- Much of the cost of maintaining and developing the buildings for future generations comes directly from the pockets of those involved (public money provides perhaps one third). This is pure discretionary spend by volunteers.
- Those who maintain listed religious buildings cannot normally use the building as security to borrow money on the commercial markets, so cash for projects often has to be acquired in advance by intensive and sometimes lengthy fund-raising.
- The buildings rely almost entirely on volunteers to provide manpower for fund raising.

- Although there is evidence that historic places of worship generate and support significant tourism, in most of them it is exceptionally difficult to charge visitors for entrance and there is no possibility of their being able to register for VAT.

More directly, as one vicar of a medieval church in a village in Norfolk said a few days ago, talking about the additional fund raising challenge to his congregation created by the change in VAT: *Our proposed heating system will now go up by £10,000. I think many churches will decide not to make improvements. I don't see anyone achieving anything through this measure.*

In passing, we should say that we believe that the factors listed above mean that it is unlikely that historic religious buildings have been influenced by the perverse incentive identified by the Treasury (preferentially going for alterations before repairs). My personal experience and that of many others is that those responsible for these buildings worry deeply about repairs, and certainly prioritise them over enhancing the facilities. Furthermore, grant-giving trusts and the denominational authorities (who are usually closely engaged in approving changes to listed places of worship) would frown at any attempt to alter the building before necessary repairs were in hand. We do not believe this is an issue for religious buildings.

In general, the above factors suggest that for this class of building specific policy levers may be required by government to achieve its overall objectives. In fact, the government appears already to accept this by suggesting there will be an extension to the Listed Places of Worship Grant Scheme (LPWGS). However there is some confusion whether this arrangement would simply mean the same amount of money being spread more thinly, which would be completely pointless. If the LPWGS is to be extended in scope, then its budget should of course be increased sufficiently to meet the increased tax burden placed on congregations (in line, in fact, with the fiscally neutral stance of the overall budget). Its future beyond 2015 would also need to be assured for this option to have long-term attraction, in line with its original purpose to overcome the apparent impossibility under European legislation of zero-rating repairs.

However, there is already anecdotal evidence that current uncertainty during the course of fund-raising on what size of grant will eventually be awarded (after the event) from the LPWGS, means that congregations are fund-raising to meet the worst case (as legally, they are required to be able to meet their expected bills before starting work). This may be making the LPWGS less effective at the margins. This problem would only increase if the scope of the LPWGS were extended. Rather than the difficulties associated with extending the LPWGS, the obvious solution is simply to maintain the zero rate for alterations.

Listed places of worship form an extremely significant proportion of our national heritage and the Heritage Alliance's Historic Religious Buildings group is of course especially concerned with their future. But rather than make religious buildings a special case, we would prefer that the Government reconsiders the proposal to withdraw zero rating on approved alterations to all listed buildings. Rather than addressing an anomaly, it is too blunt a tool to prevent unnecessary alterations and furthermore, undercuts positive private and voluntary sector initiatives to secure the viability of historic buildings for economic and social benefit.

We would of course be happy to meet with you or your senior officials to discuss this in more detail. I should say that we will be writing separately with our response to the

government's consultation document on proposed transitional arrangements.

I am copying this letter to Eric Pickles in DCLG (given the general community issues), Caroline Spelman at Defra (for its impact on rural communities), and John Penrose in DCMS (for heritage issues).

Yours sincerely

Trevor Cooper
Chair, Historic Religious Buildings Alliance, part of the Heritage Alliance