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Dear David Roberts

Withdrawal of zero-rated VAT on approved alterations to listed buildings: Response to HMRC Consultation Document *VAT: Addressing borderline anomalies*

1. Our membership

I am writing as Chair of the Historic Religious Buildings Alliance (HRBA), a group within the Heritage Alliance. Our membership includes representatives from all major Christian denominations and from the Jewish and Muslim faith groups. Between them, our members own the very great majority of listed places of worship in Great Britain. (I attach a list of our members to this letter).

2. General response to proposed change

Our parent organisation, the Heritage Alliance, has responded to this consultation, and we fully support their call for this proposed change to VAT to be dropped for all listed buildings, not least to allow time for a full review of its impact, especially given the irreversible nature of the change, the multiple policy impacts, the lack of prior consultation, and concerns over the underlying fact base on which the policy was developed.

The VAT exemption should be retained irrespective of building type or ownership.

3. Response to Question 20: Impacts

The HRBA wrote to the Chancellor of the Exchequer on 18 April. In that letter we described the impact the change will have on historic religious buildings of all denominations and faiths, and on the faith groups and wider communities who use them. I attach a copy of this letter, which forms part of our response to the government's consultation and especially our response to Question 20.

In the light of the various representations that have been made, we hope that the government will not carry through this proposed change. The two main mitigating actions, an increase in the Listed Places of Worship Grant scheme and the handling of the transition period are not sufficient to offset the impact the measure would have if implemented.

4. Listed Places of Worship Grant Scheme

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

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We appreciate that it is intended to increase the Listed Places of Worship Grant Scheme (LPWGS), and expand its scope to include alterations but this has considerable drawbacks.

4.1 Uncertainty

In this context, the Chancellor has stated that a grant scheme is a more flexible mechanism than VAT for providing specific financial support for the heritage sector.¹

But that very flexibility translates, especially in these times of austerity, into a potentially damaging uncertainty. Indeed, some such effect is already becoming apparent in the current scheme: the financial support provided by the present grants is very welcome, but in the last two financial quarters of 2011-12 the scheme only returned 46% and 55% of the cost of VAT on repairs, with this after-the-event uncertainty adding to the present difficulties of fund raising. As the future of the scheme is unknown after April 2015, this will add a new uncertainty, which is likely to affect fund raising adversely from next year.

In short fund-raisers do not know in advance how much VAT will be recovered from the LPWGS, and this almost certainly reduces the marginal impact of each pound put into the LPWGS by the government. For these reasons it is our view that, quite apart from anything else, best value for money is achieved by keeping VAT for alterations at zero.

4.2 Size of LPWGS grant

Closely related to the issue of uncertainty is that of the amount of money put into the scheme by the government. The additional sum of £5m which it is proposed to add to the scheme annually to cater for alterations is certainly a very significant underestimate of the extra tax which will be imposed on places of worship if the VAT changes do go ahead.

We are aware that the Church of England has taken up this point and is providing the government with estimates of the actual additional cost to them, which they are then prorating up in line with take-up of the LPWGS in order to estimate the overall cost to all historic religious buildings. We have no difficulties with their taking the lead on this; however if at any stage we can help with this assessment, please do not hesitate to contact us.

4.3 Review of the LPWGS

In the light of the various changes to the scheme, we believe that it would be sensible to carry out a brief review of the LPWGS well in advance of the end of 2014/15 (the last confirmed year for which it will apply). We expect to approach the government later this year to discuss when and how this might be done.

5. Response to Question 18 – Transitional arrangements

The proposed transitional arrangements, and proposed anti-forestalling arrangements, are set out in paragraphs 49 and 50 of the consultation document. It is proposed that the treatment of projects should depend on whether or not contracts were signed before Budget Day 2012, and that even if signed the zero rate will cease to apply after March 2013.

Unfortunately, this reliance on a signed contract does not take into account the realities of managing a building project for places of worship (and other voluntary

¹ The Chancellor to Loyd Grossman, Chairman of The Heritage Alliance, 18 4 12.

organisations), where projects are substantially under way, and financial planning locked down, well before a contract has been signed.

In the following paragraphs we discuss the timescales of a typical project

5.1 Phases of a project

There are typically three phases for a project intended to make significant alterations to a listed place of worship. Timescales vary enormously, but those given below are indicative. The list of tasks within in each phase are in no particular order.

1. **Definition and inception:** one year to do community audit, do some thinking and consultation, obtain some idea of cost from a quantity surveyor, create outline plan, create overall project plan, calculate finances, etc
2. **Fund raising and formalisation:** One year to eighteen months to fund raise. It is in the early stages of this phase that the project gets substantially under way, and locks into a formal and public budget which is then very difficult to undo. This is particularly the case with particularly with larger grant making trusts.

Once finance is in place the church can then do detailed drawings, obtain relevant consent(s), obtain quotations, and sign contracts.

3. **Carrying out the work:** carry out the work itself (time depends on work; as discussed below, it can easily spread over more than one year)

It is in the early stages of Phase 2. 'Fund raising and formalisation' *that it is extremely difficult to allow for a 20% hike in budget.* For example, grant-givers cannot easily be re-approached for the same scheme, and anyway they usually require work to be done within one year of the grant being awarded. We consider it very likely that many such groups that find themselves in these circumstances will be forced to cancel their plans.

I think many or most projects which are in the midst of fund raising [to alter a church building for community use], and find themselves hit by a 20% tax hike will simply run into the sand. They won't happen.

Professional fund raiser for church projects, 9 May 2012

It may be worth reiterating that the proposed expenditure must be properly underwritten before work starts (to comply with obligations under charity law). And because the volunteers who look after historic places of worship have no financial stake in the building, it is not usually possible to borrow against the value of the building in order to cope with increased costs.

As regards Phase 3. 'Carrying out the work', one major public grant giver now routinely requests that work will be done in two stages, the first investigative, the second more substantive stage being based on the results of the first. This can stretch the work out over more than a year and this longer period is even more likely if, as often occurs, work can only be carried out at certain times of the year to avoid disturbing wildlife such as bats.

5.2 Review

We reiterate our recommendation that a full review of the impacts should be undertaken before such a significant

tax relief is withdrawn. If the government presses on with the change, we have the following proposal for transition:

a) projects should be given transitional relief if they were substantially under way on Budget Day 2012. We would identify such projects as those where by Budget Day (i) contracts were signed or (ii) a written application to a grant-giving body had been made or (iii) all relevant consents had been obtained in writing.

b) extend the transitional period to two years, namely up to March 2014. This extension is to cater for those projects where work will take more than one year. Furthermore, under proposal (b), some projects falling into the transitional arrangements will have to complete fund raising before they can start work, and work may well not be completed much before March 2014.

I am copying this letter to DCMS. Please do not hesitate to contact me if you would like to discuss these issues.

Yours sincerely

Trevor Cooper
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email: HRB@theheritagealliance.org.uk

Historic Religious Buildings Alliance (HRBA) Membership
(organizations only)

1. Arthur Rank Centre
2. Association of English Cathedrals
3. The Baptist Union of Great Britain
4. Churches Conservation Trust
5. Church of England, Cathedrals and Church Buildings Division
6. Churches' Legalisation Advisory Service
7. Church of Scotland
8. Church in Wales
9. Churches Tourism Association
10. Divine Inspiration, Diocese of Coventry
11. Ecclesiological Society
12. Friends of Friendless Churches
13. Historic Chapels Trust
14. Historic Churches Liaison Group
15. Islam in British Stone
16. Jewish Heritage UK
17. Diocese of London
18. Maintain our Heritage
19. Methodist Church Resourcing Mission Office
20. National Churches Trust
21. Pastoral and Closed Churches, Church Commissioners, Church of England
22. SPAB: Society for the Protection of Ancient Buildings
23. United Reformed Church
24. War Memorials Trust
25. World Monuments Fund in Britain