

## ABOUT US

1. The Heritage Alliance is the largest coalition of heritage interests in England. We unite over 150 independent heritage bodies from English Heritage, the National Trust, the Canal & River Trust and Historic Houses to professional institutes, national amenity societies and research bodies. Our members represent over seven million people, including volunteers, trustees and staff. Most of England's historic environment is owned, managed or cared for by Heritage Alliance members.

## BACKGROUND

2. England's heritage industry is valuable. England's heritage sector directly contributes £14bn in gross value added (GVA). This is larger than the security industry, defence industry, the aerospace industry and the arts and culture industry in the UK. Indirectly, England's heritage industry contributes an additional £16.9bn, overall this is equivalent to 2% of national GVA. Additionally, the heritage sector directly employs 198,000 people, and also attracts over 200 million domestic and international tourists each year with £17bn spent at heritage sites<sup>1</sup>.
3. The impact of COVID-19 on the UK's heritage sector has been significant. During what would usually be their peak season, heritage sites have had to make difficult decisions about paying staff, utilising reserves and maintaining sites and collections. However, this challenging period of lockdown has highlighted the crucial role of heritage in people's lives and wellbeing and as the bedrock of a strong economy. Surveys demonstrate how much we craved physically accessing these spaces again, and lockdown brought into clear relief how much local environments matter and are integral in placemaking. For example, a survey of 2,000 UK adults found that the number one attraction people wanted to visit once out of lockdown was a National Trust park or property<sup>2</sup>. In addition, heritage visits generate incomes in local economies. A study into heritage and the UK tourism economy, based on a random sample of 62 completed National Lottery Heritage Fund projects funded between 2004 and 2007, estimated that for every £1 spent as part of a heritage visit, 32p is spent on site and the remaining 68p is spent in local businesses including restaurants, cafés, hotels and shops.<sup>3</sup> It is essential we protect the important contribution of heritage to place-making and local economies.

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<sup>1</sup> Historic England.

<https://historicengland.org.uk/content/heritage-counts/pub/2019/heritage-and-the-economy-2019/>

<sup>2</sup> Country Living.

<https://www.countryliving.com/uk/travel-ideas/staycation-uk/a32299271/first-place-brits-wish-to-visit-after-lockdown/>

<sup>3</sup> National Lottery Heritage Fund.

[https://www.heritagefund.org.uk/sites/default/files/media/about\\_us/hlf\\_tourism\\_impact\\_single.pdf](https://www.heritagefund.org.uk/sites/default/files/media/about_us/hlf_tourism_impact_single.pdf)

4. We appreciate the support of the government over this challenging period through the Culture Recovery Fund for Heritage run by Historic England and National Lottery Heritage Fund, the Job Retention Scheme and other emergency funding. We now urge the government to look beyond this financial year to the long tail of this Covid-19 crisis. An investment in the future of our historic environment is an investment in our country's future prosperity and in the public, who use and value it. 73% of UK adults agree that the UK government has a moral obligation to protect our heritage.<sup>4</sup>
5. The financial impact of the pandemic and the new lockdown is likely to continue affecting the heritage sector in the longer term, with members of the Heritage Alliance already experiencing loss of income, programming and redundancies, and despite the generosity of organisations in their digital offering over this period, the pandemic has made it much harder for many to engage the public in ways that are sustainable for resilience and income generation. Our heritage is at the forefront of our offer on the world stage, as well as at the heart of community, and will play a fundamental role in the recovery of the nation. The measures in this submission would represent a stimulus and investment in the future.

## SUMMARY OF REPRESENTATION

6. We have identified that tax changes should be considered as a priority to support the heritage sector's productivity, especially after the additional financial pressures and insecurity that coronavirus has initiated. The proposals suggested will not only protect our heritage, they will support the associated supply chains such as in construction, hospitality, and tourism at a crucial time while stimulating the economy and contributing to the Government's 2050 net zero emission target.
7. To help mitigate any further risks to heritage, the next phase of the plan to tackle the COVID-19 virus should consider the following key three funding priorities from The Heritage Alliance:
  - ❖ A VAT system which incentivises reuse through parity of treatment for the repair and maintenance of existing buildings as compared with new-build;
  - ❖ A commitment to the continuation of the Heritage Maintenance Funds scheme and reduction of the income tax rate on these funds to 20%;
  - ❖ A commitment to the continuation of the Listed Places of Worship Grant Scheme.
8. These three fiscal priorities are explained in detail below; however, we also offer support to several other priorities that would benefit the heritage sector, associated sectors and our national economy:
  - a. **The continuation of the temporary reduction in VAT to 5% charged on visitor accommodation and visitor attractions.** We agree with the Cut

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<sup>4</sup> ComRes, Public Perceptions of Heritage.  
[http://www.comresglobal.com/wp-content/uploads/2015/11/Public-perceptions-of-heritage\\_2015.pdf](http://www.comresglobal.com/wp-content/uploads/2015/11/Public-perceptions-of-heritage_2015.pdf)

Tourism VAT (CTV) Campaign that there is a competitive disadvantage suffered by the British tourism and hospitality industry as a result of having to pay VAT at 20%, approximately double the average rate applied across other European countries. A survey of more than a thousand hospitality and tourism businesses by the Cut Tourism VAT (CTV) Campaign, UKHospitality, the Tourism Alliance and the Association of Leading Visitor Attractions shows that if the VAT rate reverts back to 20% in April 2021, there will be an estimated loss of 310,000 jobs in hospitality and tourism, including in the heritage sector.

- b. **A continuation of the business rates reduction** for businesses in the retail, hospitality and leisure sectors in England for the 2021-22 tax year.
- c. **Continued funding for the heritage sector and its workforce** through the National Lottery Heritage Fund, and a well resourced Historic England, as well as other recommendations in our fiscal manifesto, [Backing the Bedrock](#).

## **PRIORITY ONE: VAT Reform for Building Repair and Maintenance**

- 9. Our historic environment requires repair and maintenance. This includes the maintenance, repair and retrofit of buildings, landscapes and collections. However, most heritage, including that which the Government has designated as nationally important, is looked after by private owners at their own cost, or by volunteers. These heritage spaces create places where people want to live and work and are the cornerstone to making the UK attractive to tourists; and they have been hit very hard this year.
- 10. Work to historic buildings is currently subject to 20% VAT, yet no VAT at all is charged on work on new buildings. This creates an environmentally unfriendly incentive to demolish old buildings. The Building Better, Building Beautiful report re-states this case, noting: “Among our specific proposals, we advocate radical reform of the VAT provisions so as to remove the incentive favouring new-build over re-use when it comes to discarded buildings. Such reforms will bring to an end the unnecessary and ecologically unacceptable destruction of adaptable and durable buildings, and their replacement by short-lived glossy boxes... Government should align VAT on housing renovation.” It also argues these tax regimes potentially more than double the tax liability to landowners who take a long-term interest in creating better places<sup>5</sup>.
- 11. Implementing VAT reform, which is now possible after Brexit, would not only ensure the continued existence of our beloved historic environment, it would kickstart the construction sector after the pandemic. VAT on repairs and maintenance has a suppressive effect on economic activity around construction and has resulted in consequential loss of capacity among heritage specialists who are essential for the appropriate care of historic buildings. This has had a negative impact on reviving or promoting enterprise, craft skills and apprenticeships<sup>6</sup>.

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<sup>5</sup> Building Better, Building Beautiful Commission.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/861832/Living\\_with\\_beauty\\_BBBBC\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/861832/Living_with_beauty_BBBBC_report.pdf)

<sup>6</sup> IHBC. [http://ihbconline.co.uk/toolbox/research\\_notes/vat.html](http://ihbconline.co.uk/toolbox/research_notes/vat.html)

- a. According to the Federation of Master Builders, a cut in the VAT on home improvement works would stimulate the industry, as tax would no longer be a barrier to homeowners doing repairs and making upgrades, including the energy efficiency, of their buildings.<sup>7</sup>
  - b. Research commissioned by Experian in 2015<sup>8</sup> found the impact of reducing the rate of VAT on residential repairs and maintenance from 20% to 5% (over the 5-year period from 2015 to 2020) was estimated to generate an stimulus of £15bn over the 5-year period to 2020 at a cost of £6.6bn over the same period.
12. Creating an equalisation at 0% VAT will be particularly impactful on levelling up to a greener infrastructure and way of life. We are aware that whilst the UK remained in the EU this was cited by Government as too difficult, but with our departure from the EU, an opportunity is now presented for simplification where VAT is set equally for all construction work whether new build or repair and maintenance. This will encourage UK homeowners to carry out energy efficient repairs and improvements, avoiding future carbon emissions from buildings. Given the Government’s stretching targets around reaching Net Zero by 2050, a renewed focus on place, quality of life, and a growing recognition of the role of heritage in achieving these important public outcomes, now is the time to ensure that Government is doing everything it can to create the right conditions for encouraging repair and recycling of buildings.
- a. Buildings are today the third largest greenhouse gas (GHG) emitting sector in the UK. The construction of new buildings emits 48 mega-tonnes of carbon dioxide in the UK each year – that is equal to the total emissions for the whole of Scotland.
  - b. Historic England commissioned Carrig Conservation International to undertake a research project for Heritage Counts entitled “Understanding carbon in the historic environment”<sup>9</sup>. Using actual data from two historic buildings, a life cycle assessment model was developed and used to compare the embodied and operational carbon emissions before and after energy efficient refurbishment was undertaken, as well as between demolition and new build versus repair and retrofit. The research shows that carbon emissions are reduced by more than 60% by 2050 as a result of the refurbishment and retrofit.
13. Our proposals for environmentally beneficial VAT reform include several options that could be considered by Treasury:
- ❖ Parity on VAT to match new build is ultimately essential and is possible now we have left the EU. A 0% equalisation would have the greatest impact. The Treasury would want to consider and analyse how this parity can be best achieved.

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<sup>7</sup> Federation of Master Builders.

<https://www.fmb.org.uk/about-the-fmb/newsroom/construction-recovery-needs-a-vat-cut/>

<sup>8</sup> Experian. <https://www.ihbc.org.uk/resources/VAT-research-FINAL.pdf>

<sup>9</sup> Historic England.

<https://historicengland.org.uk/content/docs/research/understanding-carbon-in-historic-environment/>

- ❖ We have previously proposed a way in which the Government could pilot and test a grant scheme which would refund the VAT charged in certain circumstances. This could operate along the lines of the Listed Places of Worship Grant Scheme, which sets a clear precedent and could be trialled in areas of great need such as Heritage Action Zones and Heritage High Streets. This pilot could test the positive impacts on productivity and take-up of repair with a view to further roll-out or VAT change.
- ❖ The VAT regime could be amended for a trial period to incentivise repair in this time of climate and financial crisis, with a view to extension if it is successful, with proper evaluation.
- ❖ Cut the VAT on specific heritage materials and works to 0% to encourage better conservation practices. The heritage sector will work with the Government to identify which heritage and traditional building materials and products would qualify for the cut.

## **PRIORITY TWO: Income Tax on Heritage Maintenance Funds**

14. Heritage Maintenance Funds (HMFs) are effectively the only measure on the statute book aimed explicitly at promoting heritage maintenance. However, at present, HMFs simply do not live up to their name.
15. For custodians, the principal attraction of setting up a maintenance fund remains the capital tax advantage (the exemption from inheritance tax). However, there is no ongoing tax advantage thereafter. This is because the annual income from maintenance funds is taxed at 45 per cent, the highest rate of income tax. In other words, funds that purport to be dedicated exclusively to promoting the maintenance of important heritage have nearly half the available income automatically removed each year by the Revenue. Consequently, the option to invest in a maintenance fund is hardly used. Information from HMRC indicates that there were 134 HMFs in existence in 2018. In other words, fewer than ten per cent of Historic Houses' member properties hold assets in the form of an HMF. Furthermore, approximately half of these are likely to be dormant (i.e. only contain nominal assets). Therefore, the income tax rate on these funds is insufficient and is causing a market failure in the provision of repair and maintenance to heritage assets.
16. Private owners of historic houses have an estimated collective conservation backlog of £1.38 billion, of which £500 million is deemed to be 'urgent'.<sup>10</sup> These houses are among the most significant heritage properties in the country, mostly listed at grade I or II\* and they have been particularly challenged during lockdown with a loss of visitors and revenue from weddings and private events. Lowering the tax rate on Heritage Maintenance Funds would inject more investment in repair and maintenance in properties that are dispersed across the country. Of Historic Houses' 1,500 members fewer than five are houses in the metropolitan area of greater London. This tax reform would therefore generate economic activity in

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<sup>10</sup> DCResearch. The Economic and Social Contribution of Independently Owned Historic Houses and Gardens: Final Report, October 2015, pp. 39, 66.

non-metropolitan, rural parts of the UK and support the Government's 'levelling up' agenda.

17. A strong (and costed) business case has been developed, supported by the sector, showing that reducing income tax on Heritage Maintenance Funds from 45% to the basic rate of 20% would generate a net benefit of £85.5m by 2023<sup>11</sup>. This benefit derives from the additional tourism visits that would be carried out (because more historic houses would be open to the public), the additional maintenance and repair work that would be carried out, and the general enhancement to wellbeing that arises from greater public access to well looked-after heritage assets.
18. We recommend a continuation of the Heritage Maintenance Funds scheme, supported by a reduction of the income tax rate on these funds to a basic rate of 20%.

### **PRIORITY THREE: The Listed Places of Worship Grant Scheme**

19. We call on the Government to confirm that the transformative Listed Places of Worship grant scheme will be funded at its current level (at least) beyond March 2021 so that recompense for the VAT incurred on eligible costs continues to benefit this internationally important class of buildings, enabling them to be kept in good condition and continue in use as social hubs.
20. We also ask for a commitment from the Government that it will continue to work with the Places of Worship Sector to review and respond appropriately to the needs of listed Places of Worship.

**For further information, please contact The Heritage Alliance.**

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<sup>11</sup> Historic Houses.

<https://www.historichouses.org/uploads/assets/uploaded/ba0b7979-fb87-4f8d-9fe3acac1d3bd96c.pdf>