



# VAT-Rebates for Repairs to Publicly Accessible Heritage Sites

Research for Historic Houses



**HARLOW**  
CONSULTING



# Contents

<b>1</b>	<b>Introduction .....</b>	<b>5</b>
1.1	Background.....	5
1.2	Research aims and objectives .....	7
1.3	Methodology.....	7
<b>2</b>	<b>VAT and the Care of Historic Buildings .....</b>	<b>10</b>
2.1	VAT in the UK.....	10
2.2	VAT and the repair and maintenance of buildings.....	12
2.2.1	Existing commercial buildings .....	12
2.2.2	New commercial buildings.....	13
2.2.3	Existing residential buildings.....	13
2.2.4	New residential buildings .....	13
2.2.5	Long-term empty residential buildings and conversions .....	14
2.2.6	Special concessionary VAT schemes.....	14
2.2.7	Implications of the current VAT regime for buildings.....	14
2.3	The heritage sector’s campaign against VAT on repairs and maintenance .....	15
2.4	Sustaining historic houses: principles and policies .....	17
2.5	Taxation and the repair and maintenance of historic houses .....	20
<b>3</b>	<b>Survey Findings.....</b>	<b>23</b>
3.1	Sample and respondent profile .....	23
3.1.1	Site type and ownership.....	23
3.1.2	Heritage designations .....	24
3.1.3	Site locations and sample representativeness .....	24
3.2	Public accessibility of sampled properties.....	26
3.3	Tax status of properties.....	27
3.3.1	Conditional exemption .....	27
3.3.2	VAT Registration .....	27
3.4	Repair and maintenance expenditure and VAT .....	27
3.4.1	Expenditure data collected and data quality .....	27
3.4.2	Current and planned repair and maintenance expenditure.....	29
3.4.3	Gross and net VAT liabilities.....	30

3.4.4	Use of VAT mitigation strategies .....	33
3.4.5	Impacts of VAT mitigation strategies .....	36
3.4.6	Perceptions of VAT on repair and maintenance expenditures .....	37
3.5	Repair and maintenance requirements .....	41
3.5.1	Building condition .....	41
3.5.2	Trends in property condition.....	43
3.5.3	Support for and barriers to repair .....	45
3.6	Heritage properties' social and economic impacts .....	48
<b>4</b>	<b>Potential impacts of a VAT-rebate scheme.....</b>	<b>50</b>
4.1	Properties' anticipated use of additional recovered VAT.....	50
4.2	Public opening.....	51
4.3	Cost implications.....	53
<b>5</b>	<b>Conclusions.....</b>	<b>59</b>
	<b>Appendix: Case studies.....</b>	<b>63</b>

# 1 Introduction

## 1.1 Background

The importance of keeping important historic buildings in good repair is widely recognised. The cost of doing so, however, is frequently challenging. The cost of historic buildings repairs is often higher than for modern equivalents, due to the need for specialist materials and skills, which are often more costly and sometimes more difficult to obtain. In some cases, repair need is such that it would be difficult to obtain a viable return on the required investment. As Alex Wheldon, a valuer in the national Valuation Office Agency has noted, "Some historic buildings are burdened with the liability of large repair costs and bridging this "conservation deficit" is a key part of finding a suitable economic use and also adding value to the building."<sup>1</sup> The result is that without some kind of external support heritage properties will remain in poor repair for many years, and in some cases fall into serious decay.

Historic Houses' last large-scale member survey, conducted in 2022 and receiving responses from more than 320 member houses, has shown that COVID has exacerbated an already significant backlog of repairs and maintenance. Following the resulting disruption to routine repair and maintenance and to capital projects, the reported backlog of repair and maintenance in member houses is now estimated to amount to some £2 billion. This is in spite of an annual repair and maintenance spend in the region of £160 million, with further evidence that current expenditure is insufficient to meet the need for urgent repairs.<sup>2</sup> Moreover, the current inflationary environment, especially for construction work, is also likely to impact negatively on owners' ability to care for their properties.

The challenges of repairing and maintaining historic buildings are increased by the current fiscal regime. Most repair, renovation and improvement work to existing buildings is subject to Value Added Tax (VAT) at the standard rate of 20%. By contrast, work on new residential buildings and demolition is zero-rated for VAT. This is the most advantaged VAT status, as it means that developers and contractors are not required to charge VAT on outputs, so that consumers do not have to pay a sales tax on their purchases, but VAT paid for labour and materials used as inputs is either not charged or can be reclaimed. VAT is chargeable on the sale of the freehold of new commercial buildings, but most developers' input VAT is also recoverable, reducing effective development costs. While existing commercial buildings are by default exempt from VAT, meaning that VAT is neither charged on sales or rentals nor recovered on expenditures, owners can still 'opt to tax'. This means that VAT on repair and maintenance expenses can be recovered, provided that VAT is charged on sales and rentals. As in most cases commercial tenants or purchasers will themselves be VAT-registered, so that the VAT they pay is usually recoverable, opting tax generally has little net impact on the

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<sup>1</sup> Alex Wheldon, 'How we value heritage assets', Valuation Office Agency  
<https://valuationoffice.blog.gov.uk/2021/08/13/how-we-value-heritage-sites/>

<sup>2</sup> Historic Houses, *Changing Times, Valuing History: Historic houses for the twenty-first century* (2023), p. 8.

commercial viability of the development.<sup>3</sup> The result is that the current VAT regime acts as a form of market intervention that reduces the cost of newbuild relative to maintaining and developing existing buildings, especially residential buildings.

The heritage sector has long campaigned for reducing the VAT on the repair and maintenance of historic buildings, and this campaign broadened out further after the government removed the only significant VAT concession for historic buildings, zero-rating for 'approved alterations', in 2012. A series of reports and evidence to parliamentary select committees presented the case that cutting VAT would facilitate repair of historic buildings, to the benefit of both the national heritage and the environment.<sup>4</sup>

The campaign has, however, met with resistance from the government, which has consistently argued that there is little evidence that VAT is impeding repair or that a blanket reduction of VAT would provide public benefits sufficient to compensate for the resulting loss of VAT revenue.

Historic Houses has responded by advocating a more targeted scheme to reduce effective VAT rates on the repair and maintenance of historic buildings. This would provide VAT rebates on the model of an existing scheme that refunds VAT for construction works on listed places of worship (LPOW). This UK-wide scheme was established in 2001 and extended in 2012 when the VAT-concession for approved alterations to listed buildings was removed, to ensure that churches were not required to pay additional VAT on construction works. The LPOW grant scheme refunds VAT expenses on repairs of over £1,000, along with a single payment in any one year for VAT on minor repairs of more than £500 but less than £1,000. Historic Houses' proposal is that this scheme should be extended to other listed buildings that are routinely open to the public, meeting the minimum requirements for public opening used for properties that benefit from existing Inheritance Tax concessions (known as 'conditional exemption') and applied to potential applicants for special grants to

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<sup>3</sup> There is, however, a notable exception where VAT-registered tenants are engaged in non-business or exempt activities and so cannot recover VAT payable on rents.

<sup>4</sup> E.g. Jeremy Eckstein Associates (1999), *VAT and the built heritage: the impact of VAT on repairs and alteration to listed buildings; a survey and report commissioned by the Tax Group of the Joint Committee of the National Amenity Societies*; English Heritage (December 2000), *Power of place: the future of the historic environment*, p. 11; House of Commons Culture, Media & Sport Select Committee (20 July 2006), *Third report: Protecting and Preserving our Heritage*; NEF (2007), *Value Added: the economic, social and environmental benefits from creating incentives for the repair, maintenance, and use of historic buildings* (London: Prince's Regeneration Trust); Country Land and Business Owners Association (2007), *Averting Crisis in Heritage: CLA report on reforming a crumbling system*; House of Commons Culture, Media & Sport Select Committee (2010), *Funding of the Arts and Heritage*; Experian (2014), *An Estimate of the effects of a reduction in the rate of VAT on housing renovation and repair work: 2015-2020*; Heritage Alliance (2020), *Written evidence submitted by the Heritage Alliance [to the Treasury Select Committee]*; Federation of Master Builders & RICS (2021), *Cut the VAT: A proposal for building back better and greener*; Fraser of Allender Institute (2021), *The economic, social and environmental benefits of stimulating repairs and improvements to the Scottish built environment to aid a green recovery from Covid-19*; CIOB (2022), *Levelling the playing field, not Scotland's built environment*.

help deal with the impacts of COVID-19 that were available in 2020-21 through the Culture Recovery Fund.

In order to provide a better evidence base for the proposed VAT rebate scheme, Historic Houses has commissioned Harlow Consulting to undertake research into its potential costs and benefits. This report presents the findings from this research.

## 1.2 Research aims and objectives

The primary aim of the research is to understand the potential impact of introducing a VAT rebate aimed at supporting repair and maintenance works to publicly accessible listed buildings.

In order to do this, the research sought to fulfil the following objectives:

- to understand the nature of the existing VAT regime;
- to understand the VAT regime's impacts on owners and managers of listed heritage properties;
- to gather evidence of current and planned expenditures on repairing in-scope historic properties;
- to understand current net VAT revenues arising from repairs and maintenance of in-scope properties;
- to identify how many additional properties might open to the public were the preferred rebate scheme to be implemented;
- to use this evidence to understand the likely cost to the Treasury, and any potential reductions to the net cost from additional income generated by expenditure of the savings;
- to gather and understand the potential benefits of such a scheme, both in economic and social terms.

## 1.3 Methodology

The project employed a mixed method research approach combining desk research, depth interviews, a stakeholder survey, and modelling of the likely financial and behavioural impacts of introducing Historic Houses' preferred VAT-rebate scheme.

The first phase of the project involved a review of key documentation related to the current VAT system as it applies to the construction sector in general and the repair and maintenance of historic buildings in particular. The research collated research, policy and guidance documents produced by the UK Government, HMRC, Historic Houses and other organisations including: Historic England (HE), The Heritage Alliance, Historic Environment Scotland (HES), the Royal Institute of Chartered Surveyors (RICS), the Institute of Historic Building Conservation (IHBC) the Chartered Institute of Building (CIOB), and the Federation of Master Builders. This research informed a summary of the key issues related to the VAT

regime and the repair and maintenance of historic buildings that is set out in chapter 2 of this report.

The initial research also informed a series of depth interviews that were used to inform the development of research tools and to refine understanding of the implications of the findings. A total of ten interviews were held with senior staff with an interest in VAT and historic building repairs from:

- Historic England
- The Heritage Alliance
- English Heritage
- Historic Environment Scotland
- Four other major sector stakeholder organisations
- Two private owners of historic houses

The combination of the desk research and interview evidence provided the foundation for developing an online survey aimed primarily at Historic Houses' members but also open to other private owners of currently or potentially publicly accessible heritage sites.

The survey consisted of 50 questions covering:

- basic property details, such as property type, form of ownership, extent of opening, and annual visitor numbers;
- tax status, including whether the property is conditionally exempt, as well as VAT status and, in the case of VAT-registered businesses, basic details of the type of VAT scheme used.
- the respondent's total expenditure (inclusive of VAT) on repair and maintenance of their main heritage property and anticipated expenditure over the next five years;
- the gross amount of VAT paid and the net amount after recovery of VAT from eligible taxable inputs;
- the overall condition of the property, including the total value of any repair and maintenance backlog, and the amount of any urgent repairs required (defined as repairs that should be carried out in the next five years);
- the way that recovered VAT would be allocated as part of future expenditure;
- the nature of any business use of the property other than public opening;
- the benefits the property provides to its local community;
- attitudes to and views about the current VAT regime and its future development.

Survey questions were designed to be as comparable as reasonably possible to previous research into repair and maintenance in the heritage sector, notably the 2019-20 repair and maintenance of listed museum estate buildings.<sup>5</sup>

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<sup>5</sup> Simpson & Brown and Harlow Consulting (2020) *Understanding Museum Estate Management*, available from [https://archaeologydataservice.ac.uk/archives/view/management\\_he\\_2020/](https://archaeologydataservice.ac.uk/archives/view/management_he_2020/).



The survey opened to responses on 10 July 2024 and closed on 12 August 2024. The data were then checked and cleaned, producing a total of 121 valid responses. The analysis of the survey data was then undertaken and is presented in chapter 3 of this report.

The final stage of the project consisted of drawing together the quantitative and qualitative data from the survey to model the likely impact of a VAT rebate scheme of the kind supported by Historic Houses, the result of which are presented in chapter 4.

The parameters and form of the modelling drew on previous work of this kind, notably Harlow's 2023 project for Historic Environment Scotland, which modelled the implications of a VAT rebate scheme on repair and maintenance of listed properties in Scotland.<sup>6</sup>

This used data on prevailing effective net VAT rates together with planned expenditure estimates and anticipated new openings of heritage properties to model the expected direct cost to the Treasury in forgone VAT revenues, less additional revenue generated by additional economic activity resulting from expenditure of the returned VAT. In particular, information from the survey was used to estimate the additional repair and maintenance work that could be expected to be undertaken.

The findings of all components of the project were then drawn together into a final section outlining the impacts of the current VAT system on the repair and maintenance of privately owned major historic buildings and the potential impacts of the proposed VAT rebate scheme. These conclusions are presented in chapter 5.

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<sup>6</sup> Harlow Consulting (2024) *Advice to Historic Environment Scotland on VAT for listed property in Scotland*, <https://www.historicenvironment.scot/archives-and-research/publications/publication/?publicationid=7f9dc403-5a5c-4375-be2d-b154009a625f>

## 2 VAT and the Care of Historic Buildings

### 2.1 VAT in the UK

Value Added Tax (VAT) has been part of the UK tax system since the UK joined the then European Economic Community (the predecessor of the European Union) in 1973. The EEC required all member states to charge VAT as part of the move towards developing common tax structures. Although no longer part of the EU, the UK has retained VAT, which has become one of the most important sources of government revenue, generating approximately £160 billion a year for the Treasury.<sup>7</sup>

VAT is a consumption tax that is charged when value is 'added' to a taxable product or service, that is to say when the product or service is transferred as part of a commercial transaction. VAT payments are not cumulative, however: the VAT added to invoices can be reclaimed throughout the supply chain until the point of final sale.

The system works by requiring businesses to become 'VAT-registered' and to then keep track of their commercial sales or 'supplies' and their business-related purchases or 'inputs', along with the amount of VAT they have respectively charged or paid on them. Depending on whether the difference between the VAT they have charged and the VAT they have paid is positive or negative, they must either remit the surplus or reclaim the deficit from HMRC. The ultimate consumer, by contrast, is in most cases unable to reclaim the VAT paid, meaning that it is only at the point of consumption that the full VAT levy is received by the government.

The UK's VAT system has wide reach. By default, all commercial activity lies within its scope. Only non-commercial activity, which includes private, non-commercial transactions and certain kinds of government supply, is 'out of scope'. The default presumption is that all in-scope goods and services should be taxed at the standard rate of VAT, currently 20%.

While the principle of VAT is simple, in practice it is much more complex. There are numerous variations, exemptions, and exceptions that have transformed what was intended to be a largely uniform system into one that is extremely challenging to grasp in its entirety.

To begin with, smaller businesses turning over less than £90,000 are not required to register for VAT, and VAT-registered businesses with turnovers that fall below £88,000 may deregister, effectively taking them out of the scope of VAT. These smaller businesses are not required to charge VAT on their supplies to consumers, but they are also unable to reclaim VAT on their taxable inputs. Thus, non-VAT-registered businesses – estimated to be around

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<sup>7</sup> <https://www.gov.uk/government/statistics/value-added-tax-vat-annual-statistics/annual-uk-vat-statistics-2022-to-2023-commentary>

50% of all businesses – are effectively regarded as ‘final consumers’ by the current UK VAT system.<sup>8</sup>

In addition, a number of goods and services benefit from specific exceptions, which are intended to promote socially beneficial outcomes. To understand how these work, it is important to be aware of the various different VAT-statuses that apply to potentially taxable supplies in the UK. Some are eligible for reduced rate VAT, which is charged at 5%; some are ‘zero-rated’, which means that VAT is ‘charged’ but at 0%; and some are exempt, meaning that suppliers are not required to include the supply within the VAT system at all. These are described in more detail in the box below.

### VAT Rates in the UK

There are four basic VAT statuses for goods and services in the UK with differing financial implications for suppliers and consumers:

- **Standard-rate VAT** – currently **20%**, the commonest type of VAT, where suppliers charge VAT on their supplies and reclaim the VAT they pay on their business-related inputs.
- **Reduced-rate VAT** – currently **5%**, which reduces the cost of taxable supplies relative to standard rated equivalents, but still enables suppliers to reclaim the VAT they pay on their business-related inputs.
- **Zero-rate VAT** – available for certain basic important goods and services, where suppliers are not required to charge VAT on their taxable supplies but can still reclaim the VAT they pay on their business-related inputs.
- **VAT-exempt** – where the specific goods and services would otherwise be in-scope of VAT but have been specifically made not liable for VAT, meaning that VAT is not charged on transactions but input VAT cannot be reclaimed either.
- **Out of the Scope of VAT** – for non-commercial and certain eligible business transactions. No VAT is charged on supplies, but VAT paid on inputs cannot be reclaimed.

Where supplies are reduced-rated, suppliers must charge the consumer VAT but at a relatively low rate, currently 5%, but can still reclaim the VAT on their business-related inputs. Since all previous VAT payments on their inputs can be expected to have been reclaimed, then, the government will ultimately receive only this relatively small amount of VAT. This is therefore an advantaged tax status that is used where the government wishes to support or increase production and consumption of the reduced-rated goods or services.

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<sup>8</sup> ONS, *Business Population Estimates for the UK and the Regions 2022* ()  
[https://assets.publishing.service.gov.uk/media/632d8197d3bf7f567394f7b3/2022\\_Business\\_Population\\_Estimates\\_for\\_the\\_UK\\_and\\_regions\\_Statistical\\_Release.pdf](https://assets.publishing.service.gov.uk/media/632d8197d3bf7f567394f7b3/2022_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf)

VAT exemption is also a status that is used where the government wishes to reduce costs to the consumer. Here, no VAT at all is charged on the supply. But in this case, the VAT on inputs is not recoverable, meaning that the government will receive a variable amount of tax from the supplies, depending on the proportion of taxable inputs relative to the supply cost. In effect, this is the one area of the VAT system where VAT-registered businesses, non-VAT-registered businesses and consumers are all on an equal footing.

Zero-rating is different again. As with exemption, the consumer pays no VAT on the supply, but, unlike with VAT exemption, the supplier can recover all the VAT they have paid on their inputs. The government therefore ultimately receives no VAT payment in respect of those goods and services, even where inputs to the zero-rated supplies were otherwise taxable. This status is largely reserved for certain necessities, principally non-prepared foodstuffs.

Thus, VAT exemption, though on first impression it may sound like the best VAT status to have, is much less advantageous than zero-rating because VAT cannot be recovered on taxable inputs. Moreover, in many cases it may also be less advantageous than reduced rating. Where the exempt supply requires significant inputs that are themselves liable for VAT, a significant proportion of the final cost of that exempt supply may still be represented by VAT. For example, if standard-rated taxable inputs form 50% of the supplier's costs (not an unusual situation) the proportion of VAT in the final VAT-inclusive price will be just over 8.3% - more than if the supply was reduced-rated, where the proportion would be around 4.7%. Indeed, for the amount of VAT paid out of the final cost to the consumer to be less than the amount that would be due under reduced rating, the taxable inputs would have to represent 28% or less of the final VAT-inclusive cost of the supply. Exemption, then, is advantageous relative to reduced rating only in those cases where taxable inputs form a relatively small component of the final cost of the goods or services.

## 2.2 VAT and the repair and maintenance of buildings

Like other businesses, construction business are within the scope of VAT, and the default assumption is that all construction-related supplies should be subject to standard-rate VAT. In fact, however, construction is subject to all four different VAT statuses depending on the type of supplies made, making it one of the most complex of all sectors from a VAT perspective. In particular, there are basic differences in the tax treatment of new and old and commercial and residential properties.

### 2.2.1 Existing commercial buildings

Existing commercial buildings (defined as three years or more old) are VAT exempt by default, so major interests (sale of a freehold or, in England, Wales, and Northern Ireland, a long leasehold of more than 21 years, or Scotland a leasehold of 20 years or more) can be sold or rents charged without incurring VAT. However, input VAT, for example on repairs and maintenance, is not recoverable in these circumstances. It is nevertheless possible for a landlord to 'opt to tax' a commercial building, in which case the building becomes part of

the standard VAT system in all respects: input VAT becomes recoverable, at the cost of VAT becoming chargeable on all supplies made, whether in the form of future sale a freehold or long leasehold or rents charged to tenants. In most cases this makes little difference, as on sale the new purchaser will continue to opt to tax to recover their VAT, while VAT registered tenants will be able to recover any VAT paid on their rents. Once made, the option to tax is essentially irrevocable for a period of 20 years, unless certain very specific circumstances apply.

### 2.2.2 New commercial buildings

For new commercial buildings (defined as less than three years old), long leaseholds and rents remain exempt by default, but all other transactions are subject to standard rate VAT. This means that VAT must be charged on sale of the freehold but input VAT on the cost of construction and any continued expenses can be recovered. The purchaser of a new commercial building will in most cases opt to tax, as they will not otherwise be able to recover the potentially large amount of VAT that would be due on the transaction; this usually means that they will have to start charging VAT on rents charged to tenants, but where tenants are also VAT-registered this VAT will itself be recoverable so long as the building itself is being used for a non-exempt, business-related activity.<sup>9</sup>

### 2.2.3 Existing residential buildings

Most sales of existing residential property are private rather than business transactions, so are in principle out of the scope of VAT. Even where residential properties are being sold by a business, however, they are not generally subject to VAT, because existing residential property is VAT-exempt. This means that while VAT is not charged on sales of 'major interests' (freeholds and leaseholds of 21 years or more in England, Wales and Northern Ireland or 20 years or more in Scotland) or on residential rents, input VAT is not recoverable.<sup>10</sup> Because residential use remains an exempt supply, there is effectively no 'option to tax' for residential properties in the way that there is for commercial properties.

However, landlords who let property as a relatively minor part of their business may, subject to meeting a number of very specific conditions, be able to reclaim input VAT on expenses associated with their tenanted property.

### 2.2.4 New residential buildings

The situation is different again with new residential properties. These are generally zero-rated, meaning that no VAT is charged when they are sold or leased for the first time, but VAT can be reclaimed on inputs. Moreover, most construction works to build new residential properties are also zero-rated supplies, meaning that VAT should not be charged

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<sup>9</sup> To the extent that the building is used for a non-business or exempt purpose (such as the provision of certain financial services) the rent will be liable for standard-rate VAT.

<sup>10</sup> For the definition of major interest, see VAT Notice 708, Buildings and Construction, section 4.2, <https://www.gov.uk/guidance/buildings-and-construction-vat-notice-708>.

on to developers, meaning that there is no need to recover VAT for these kinds of works. Professional fees (for example those charged by architects, surveyors, and engineers), however, are not zero-rated supplies, so a VAT-registered developer will have to recover the associated VAT in the usual way.

In addition, DIY or self-builders can recover VAT on many of the materials they have purchased themselves for building their own house, to help 'level the playing field' with developers.

### 2.2.5 Long-term empty residential buildings and conversions

There are also special concessions for solely residential buildings that have been empty for two years or more, which may benefit from reduced rate VAT. Conversion works from a commercial to a residential building, or that change the number of dwellings in a residential building, or the refurbishment also generally benefit from the reduced rate. It is further possible to claim back the VAT paid on works or materials for any building that has been empty for ten years or more that is converted or refurbished for residential use. The resulting residential properties will not be liable to VAT on a freehold sale, while a leasehold sale would remain exempt. Finally, zero-rating is also given to projects that reconstruct for residential use either a listed building behind a façade (or adjoining facades in the case of corner site) that has been retained as a condition of planning permission; and to projects involving 'substantial reconstruction' of a listed building for use as dwellings.

### 2.2.6 Special concessionary VAT schemes

There are also various special schemes that may allow a zero-rating to apply, including schemes allowing zero-rated supplies for:

- installation of approved accessibility measures to domestic buildings;
- installation (and supply where the installer is the supplier) of certain approved energy efficiency measures (scheme operative until March 2027);
- use of a building for a 'relevant charitable purpose', which is essentially non-business use of a building by a charity.

### 2.2.7 Implications of the current VAT regime for buildings

The result of the current VAT regime is that most existing buildings are by default VAT-exempt, meaning that VAT cannot be reclaimed inputs. These inputs include repair and maintenance works, which consequently have VAT added at the prevailing rate, unless the business undertaking the works is not VAT-registered.

However, where buildings are used for taxable supplies—either because they support the activities of a VAT-registered business or because the owner has 'opted to tax'—then the input VAT on repair and maintenance is generally recoverable.

The result is a differential treatment that means that existing residential buildings are the only ones that are not able to benefit from any kind of reduction in, or recovery of, VAT on the costs of repair and maintenance.

## 2.3 The heritage sector's campaign against VAT on repairs and maintenance

Construction repairs and maintenance have been standard rated since VAT was introduced in 1973. However, in the past, VAT treatment for some works to listed buildings was more favourable. When VAT was first introduced, all alterations and improvements were zero-rated. Under Schedule 8 of the Value Added Tax Act (VATA) 1994, this was abolished for most alterations and improvements. However, zero-rating remained for extensions and 'approved' alterations to listed buildings (that is to say work that required and had received listed building consent), while buildings used for residential or charitable purposes benefited from zero-rating.

The difference in treatment between alterations and routine repair and maintenance to listed buildings struck many in the heritage sector as irrational and unfair. Looking after listed buildings is often more expensive and burdensome than looking after more recent buildings. For example, listed building owners must deal with:

- the greater cost of using traditional materials and techniques, and employing the highly skilled craftspeople able to use them, as routine repairs must be 'like-for-like', while anything more extensive will require listed building consent and need to meet the standards required by Historic England and local Conservation Officers;
- increased planning costs due to the need for listed building consent for any extensive repairs or alterations that may change the 'character' of the building that would not otherwise need permission, with the resulting need for additional professional advice and specialist planning documents;
- increased insurance costs, due to the greater cost of reinstatement where fully traditional materials and techniques are a required aspect of the reinstatement process.

Moreover, intentional neglect of a listed building can lead to enforcement action being taken by local planning authorities, meaning that there is an implicit obligation on owners of listed buildings to keep them in good repair. Yet, the VAT regime as it then stood, incentivised change to, rather than good repair and maintenance of, protected heritage buildings.

Reports from the Joint Committee of the Amenity Societies (JCNAS) in 1999 and English Heritage (the predecessor organisation to Historic England, the non-departmental government body with responsibility for the historic environment) in December 2000 called for a harmonised VAT rate of 5% on all building works, on the grounds that it would increase the market for historic building repair and maintenance.<sup>11</sup>

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<sup>11</sup> Jeremy Eckstein Associates (1999), *VAT and the built heritage: the impact of VAT on repairs and alteration to listed buildings; a survey and report commissioned by the Tax Group of the Joint Committee of the National Amenity Societies*; English Heritage (December 2000), *Power of place: the future of the historic environment*.

The government responded that it would take this proposal into account when considering future VAT treatment of building work. In the event, however, the only change to construction VAT that was made was the introduction of reduced rate VAT for refurbishment of empty properties and for residential conversions. The government explained that it

*“had seen no compelling evidence that the absence of a reduced VAT rate on repairs significantly hinders the maintenance of historic buildings, and no evidence that most of the benefit of a blanket relief for repair and maintenance work would not just go to middle and higher income households making improvements to houses already in a good state of repair.”<sup>12</sup>*

The one concession made was to introduce a special scheme to reimburse part of the VAT on repair works to listed places of worship in the four UK home nations so that the effective VAT rate was reduced to 5%.

The concession had little impact on sector views. When the Culture, Media & Sport Select Committee published its report into the protection of heritage in 2006, it noted that ‘The issue of VAT-rating for repairs to listed buildings united the sector perhaps more than any other in evidence’.<sup>13</sup> The views expressed by sector stakeholders were that the differential between new build and repair costs penalised maintenance and created perverse incentives to alter listed buildings or leave them to deteriorate to the point where only demolition and replacement were practicable.

When change finally came, however, in 2012, it was not to extend but to abolish the last remaining VAT-concession for listed buildings, zero-rating for approved alterations. The government argued that most alterations did not have heritage benefits and consequently unfairly advantaged owners of listed buildings. In partial mitigation for the change, the then coalition government did allocate some of the additional funds that were to be raised by the extended VAT (estimated at £85 million per year, rising within two years to £95 million per year) to the Listed Places of Worship scheme, allowing grants to be increased to cover approved alterations.

The loss of the single existing VAT concession for listed buildings led a group of heritage and construction organisations to come together to launch the ‘Cut the VAT Coalition’. The coalition sponsored an Experian research project to estimate the fiscal costs and benefits of introducing zero-rating for repairs and maintenance to all older buildings. The resulting report, published in 2014, estimated the cost at around £1.6 billion in the first year, but

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<sup>12</sup> Antony Seeley, ‘VAT on historic building repairs’, House of Commons Library Standard Note SN01450 (July, 2012), p. 9.

<sup>13</sup> Ibid.



argued that this would be reduced to less than £1 billion once the stimulus effects of the price reduction for repair and maintenance works began to be felt.<sup>14</sup>

The campaign has since been revived by the Royal Institution of Chartered Surveyors and the Federation of Master Builders, now with an increased focus on the environmental benefits of reducing the cost of repairing and alteration of older buildings.<sup>15</sup> The last few years have seen Scottish professional and sector bodies being particularly active in promoting the potential benefits of a blanket VAT-concession for repair, maintenance and improvement works, with a particular focus on the potential environmental and economic benefits of such a scheme.<sup>16</sup>

The government has, however, given little evidence of any interest in reducing VAT for repair, maintenance and restoration works to existing buildings or to a greater class of historic buildings than places of worship. There is now growing consensus that the Treasury is unlikely to contemplate any further tinkering with a VAT system that is, already, extremely complex, unless it can clearly be shown that such change represents the optimal way of securing an important socio-economic benefit.

Recently, Historic Environment Scotland commissioned Harlow Consulting to assess the potential impacts of a scheme specifically to introduce a VAT rebate for repair and maintenance of listed buildings. The findings were that it would be very difficult to demonstrate direct benefits from such a scheme that would outweigh the potential costs. In particular, it identified concerns that such a scheme may:

- provide reliefs to work that would have happened in any case;
- lead to inflation in the cost of specialist heritage construction works by driving demand in a situation where skills supply is currently constrained, thus eroding the benefit to owners of any concession granted;
- distract from potentially more effective and efficient forms of support for historic buildings repair.

## 2.4 Sustaining historic houses: principles and policies

Major historic houses present particular repair and maintenance challenges. They are often much larger than their modern equivalents and have frequently suffered many decades of relative neglect, in several cases extending back to the agricultural depression of the 1870s

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<sup>14</sup> Experian (2014), *An Estimate of the effects of a reduction in the rate of VAT on housing renovation and repair work: 2015-2020*.

<sup>15</sup> Federation of Master Builders and RICS (March 2021), *Cut the VAT: A proposal for building back better and greener*.

<sup>16</sup> University of Strathclyde, Fraser of Allender Institute (2021), *The economic, social and environmental benefits of stimulating repairs and improvements to the Scottish built environment to aid a green recovery from Covid-19* (2021); CIOB Scotland (2022), *Levelling the Playing Field, Not Scotland's Built Environment: a case for retrofit over demolition?*.

to 1890s that presented the first sustained challenge to the wealth and social dominance of Britain's traditional landed elite. The growth of succession taxes and estate duty in the later nineteenth and twentieth centuries further eroded the landed wealth that paid for the upkeep of many of the great historic houses until in the late 1940s the very future of the country house was in question and by the early 1950s it was estimated that a major historic house was being demolished every five days.

In the face of this situation, the Labour government of 1948-1951 commissioned Sir Ernest Gowers,

*To consider and report what general arrangements might be made by the Government for the preservation, maintenance and use of houses of outstanding historic or architectural interest which might otherwise not be preserved, including, where desirable, the preservation of a house and its contents as an entity.*<sup>17</sup>

The resulting report advocated a combination of protective regulations and supportive tax reliefs and grants to, as far as reasonably possible, ensure that houses were preserved, where possible in the hands of the families with which they had been historically associated.

Gowers set out a principle that historic houses were best preserved as homes with owners with a genuine commitment to their preservation. However, very few significant practical concessions targeted specifically at privately owned historic houses were in fact made, either by the Labour government or its Conservative successor.

Nevertheless, over the following decades, the UK introduced an increasingly comprehensive framework of heritage protection on the same basic lines as those recommended by Gowers, but with a broader scope. Regulatory change consisted of increasing protection from inappropriate change or demolition of buildings 'listed' for their historic or architectural importance. Direct support consisted of grants from the four Historic Buildings Councils established in 1953 in England, Wales, Scotland and then in 1972 in Northern Ireland.

It was only, however, in the 1970s that targeted support for country houses came in the wake of a major report commissioned by the fledgling Historic Houses Association, John Cornforth's *Country Houses in Britain: Can They Survive?* and the Victoria & Albert Museum's celebrated *Destruction of the Country House* exhibition of 1974. Not long after, the Heath government extended the established principle that works of art of national importance could be exempted from the new Capital Transfer Tax (which replaced estate duty) to include lands and buildings, a principle retained after the introduction of inheritance tax in 1985. It also became possible to ringfence assets in Heritage Maintenance Funds (HMFs) for repairs and maintenance of conditionally exempt properties that would then themselves be tax protected. It also became possible to vest buildings, land and

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<sup>17</sup> Sir Ernest Gowers, *Houses of Outstanding Historic or Architectural Interest: Report of a Committee Appointed by the Chancellor of the Exchequer* (London, 1950), p. 1.

chattels in charitable trusts that were sheltered from inheritance and transfer taxes. In the words of Peter Mandler,

*These concessions to a great extent realized the proposals of the Gowers Report ... it was now a matter of public policy that country houses were accepted as a national heritage, with their traditional owners remaining in possession as custodians or trustees. This formula could work because enough of the public valued the country house, and enough of the owners accepted some public responsibility.<sup>18</sup>*

Further tax concessions that supported the preservation of historic houses were made in the 1980s, notably Agricultural and Business Property Relief set at 50% for houses that met certain conditions, which was extended further in 1992 provided additional conditions were met.

Nevertheless, from the later 1980s onwards the system of tax concessions that had been put in place from the 1970s saw gradual modification. This was in part to secure greater public benefit in exchange for the concessions, notably in the form of greater public access to conditionally exempt assets, and in part to reduce the scope for legitimate tax mitigation by historic house owners. In particular, HMFs became less tax advantaged due to changes to income and inheritance tax rates, reducing the incentive to ringfence assets for historic house maintenance. This was followed by the removal of One Estate Election, which enabled estates that were partly in private ownership and partly in trust ownership to offset losses across the two parts of the estate, and the capping of Sideways Loss Relief, which impeded the extent to which rural estates with multiple business activities or types of income generating assets could offset losses in different parts of the business or in different tax years. Both had direct implications for repair and maintenance, by making it more difficult to offset repair and maintenance costs against income from rents.

While the benefits of the protective measures for historic houses were being constrained in this way, the role of historic houses in the cultural heritage and tourism expanded enormously. Both the number of houses open, and the sophistication of their visitor offer, has increased markedly since the 1950s. Historic Houses now estimates that its member houses generate £1.3 billion per year for the UK economy and support more than 32,000 full-time equivalent jobs.<sup>19</sup> This is part of a more general growth in the importance of the heritage sector to the UK economy,

Thus, while the Gowers Report's vision of supporting private ownership and management of heritage to enable broader public benefits from the optimal preservation and opening up of heritage remains the official position of government, the policy conditions for its implementation have been eroded significantly since the 1990s, in spite of historic houses playing a far greater role in the UK's cultural offer than when Gowers set out his recommendations.

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<sup>18</sup> Peter Mandler, *The Fall and Rise of the Stately Home* (Cambridge, 1997), p. 407.

<sup>19</sup> Historic Houses (2023), *Changing Times, Valuing History: Historic houses for the twenty-first century*, p. 4.

## 2.5 Taxation and the repair and maintenance of historic houses

The progressive tightening of concessions is in some ways an understandable response to a gradual receding of the acute threats to the survival of historic houses that were in evidence in the 1970s and early 80s. Wholesale decay of major historic houses is now infrequent and demolition almost unknown. Even so, backlogs remain large and expenditures insufficient to address them fully.<sup>20</sup>

Further information on repair and maintenance backlogs, urgent repair needs and current and planned expenditures were gathered in the course of this research and are reported in sections 3.4.2 and 3.5.1. These findings largely substantiate the picture of large repair and maintenance backlogs in spite of significant expenditures by building owners. The impacts of such backlogs, and the need for additional repair and maintenance, are likely to become still more pressing as a result of climate change. This is already bringing increased precipitation, more extreme storm events, and greater extremes of temperature and humidity. As a result, existing rainwater systems are often becoming inadequate, flooding has become more frequent, while all kinds of building materials are decaying more rapidly.<sup>21</sup> The result is a need for more frequent repair and maintenance and, in many cases, adaptation of historic fabric to make it more resilient in the face of these changing conditions.

This situation is particularly challenging as it has become increasingly difficult for private owners to secure grants for conservation and repairs to historic buildings. In England, public grant support from Historic England (in its role as successor to the Historic Buildings Council for England) does make grants to private owners, but generally only for buildings formally recognised as being 'at risk'.<sup>22</sup> In Scotland, grant support for private owners is available under the Historic Environment Grants Programme, but grants are highly competitive and allocations favour third-sector owned properties.<sup>23</sup> In Wales, the only currently available grants are to local authorities for buildings at risk.<sup>24</sup> In Northern Ireland, repair grants are offered for works to roofs and windows only and due to high demand are now targeted primarily at buildings at risk, thatched buildings, and building owners receiving state benefits.<sup>25</sup>

The main exception has been the Culture Recovery Fund, which did make generous grants to publicly accessible but privately owned heritage buildings. In these cases, however, the intention was tightly targeted at enabling existing projects potentially disrupted by the impacts of COVID-19 to go ahead as planned. The primary result, then, was to help sustain

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<sup>20</sup> Historic Houses (2023), *Changing Times, Valuing History: Historic houses for the twenty-first century*, p. 9.

<sup>21</sup> <https://historicengland.org.uk/advice/climate-change/risks-and-hazards/>

<sup>22</sup> <https://historicengland.org.uk/services-skills/grants/our-grant-schemes/repair-grants/>

<sup>23</sup> [https://www.historicenvironment.scot/grants-and-funding/our-grants/historic-environment-grants-programme/#what-we-can-fund\\_tab](https://www.historicenvironment.scot/grants-and-funding/our-grants/historic-environment-grants-programme/#what-we-can-fund_tab)

<sup>24</sup> <https://cadw.gov.wales/advice-support/historic-assets/listed-buildings/historic-buildings-grant>

<sup>25</sup> <https://www.communities-ni.gov.uk/topics/historic-environment/historic-environment-funding-grants>

repair and conservation activity in the face of unprecedented external challenges, rather than to promote the implementation of additional repair work. Even with such support available, 47% of respondents to the most recent Historic Houses member survey reported delaying or cancelling repair and maintenance projects as a result of the pandemic.<sup>26</sup>

Though the restricted focus of grants from the main heritage agencies is understandable at a time of pressure on public finances, the overall result has been to direct funding away from major privately owned heritage.

Historic Houses, as the principal representative organisation for the UK's privately owned heritage, has therefore argued that there remains a need for well-conceived government policy to support repair and maintenance of historic houses provided doing so generates a proportionate public benefit.

One potential means of doing this is to revisit the question of VAT, but not in pursuit of a blanket relief of the kind that the heritage sector has traditionally sought and the government consistently resisted. Rather, the approach would be to **introduce a more targeted scheme that supported repair and maintenance that directly generates public benefit**. Historic Houses has therefore called for 'a cost-effective VAT relief scheme for heritage repairs', stating that it

*should be made available to heritage businesses operating in listed buildings open to public access. This would provide a secular equivalent to the long-running Listed Places of Worship scheme.*<sup>27</sup>

The highly targeted nature of the scheme would reduce the likelihood of its leading to a spike in demand sufficient to have a significant impact on contractor pricing. The proposal might, therefore, be expected to support an increase in the amount of work being done, if it either led to reinvestment of the resulting savings in additional repair and maintenance work or encouraged reallocation of resources to repair and maintenance that would otherwise be spent elsewhere. In addition, a scheme focusing on publicly accessible heritage has the potential to incentivise further public opening of heritage assets, where this is a condition for receiving the VAT rebate.

#### **Key features of Historic Houses' proposed rebate scheme**

The scheme would operate to support publicly accessible listed buildings and would be:

- based on expanding the approach already used by the Listed Places of Worship Grant scheme;

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<sup>26</sup> Historic Houses, *Changing Times, Valuing History: Historic houses for the twenty-first century* (2023), p. 8.

<sup>27</sup>Ibid, p. 9.

- available to owners of listed buildings that are publicly accessible for reasonable opening hours on at least 28 days per year, including some Bank Holidays and weekends;
- set up to provide a rebate covering the cost of currently irrecoverable VAT paid on repairs and maintenance works.

The research presented here sought empirical evidence that could help understand better the likely costs of introducing such a scheme, and assess the likelihood of its leading to the realisation of these potential benefits. The primary foundation for doing this is a detailed survey of privately owned heritage sites.

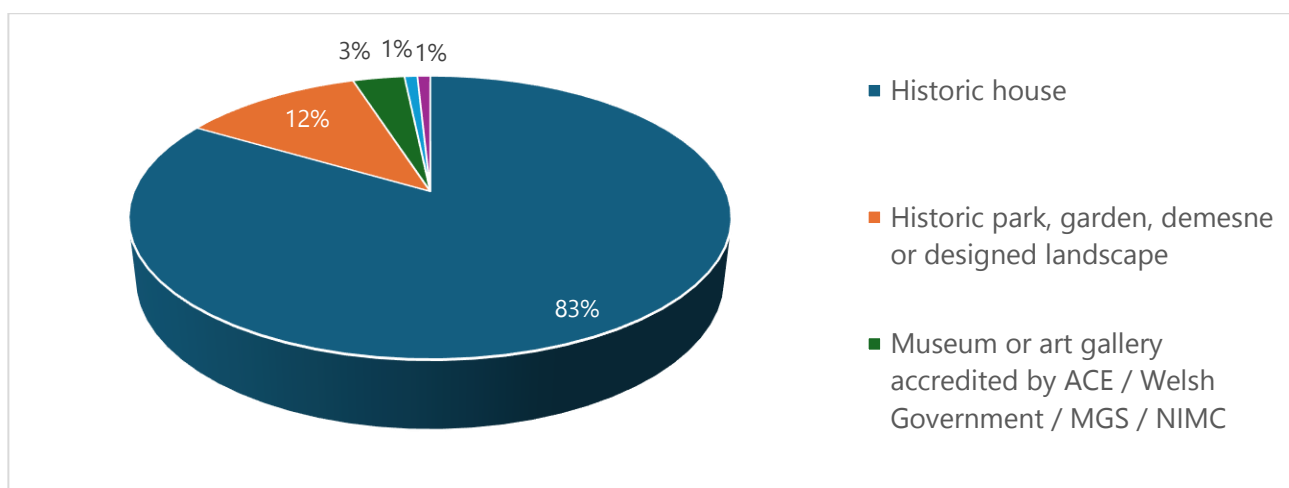
## 3 Survey Findings

### 3.1 Sample and respondent profile

#### 3.1.1 Site type and ownership

The primary audience for the survey was Historic Houses members. Thus, although publicised to the wider sector, the vast majority of responses received were from historic houses and gardens (95%). There were four respondent properties that classed themselves as museums, three of which were formally accredited by ACE. All but one of these were historic house museums. There was also one ruin, which was itself a ruined historic house. The single property classed as 'other' was a historic agricultural site.

*Figure 1 Property types reported by respondents (n=121)*



*Table 1 Numbers and percentages of property types reported by respondents (n=121)*

PROPERTY TYPE	NUMBER (n=121)	PERCENTAGE
Historic house	101	84%
Historic park or garden	14	11%
Museum or art gallery	4	3%
Ruin or monument	1	1%
Other	1	1%

All except one property were independently owned, in most cases privately, either through direct individual or shared ownership (61%), through a private or estate company (17%), or

a private trust (12%); a little under 10% were owned or managed by a charity and one belonged to a local authority.

### 3.1.2 Heritage designations

All respondents were asked to confirm that their heritage property was protected by a statutory designation. Only one respondent site's reported main building was not listed, but in this case the property included within it an important historic house with a Grade I listing. This response was therefore retained in the final sample.

The overwhelming majority (82%) of the properties were statutorily protected structures in the most selective categories of designation: Grades I and II\* listed buildings in England and Wales; Category A listed buildings in Scotland; Grade A and B+ listed buildings in Northern Ireland; or Scheduled Monuments. A further 13% were listed in lower categories (Grade II listed buildings in England and Wales and a Category B building in Scotland). The remainder of sites were registered parks and gardens (4%).

Just under nine out of ten respondents reported that in addition to the main listed property there were directly associated subsidiary structures that were either independently listed or protected as 'curtilage' to the main listed asset. Of those who reported they had such structures, all but one provided a detailed breakdown by listing grade.

Collectively, these amounted to a further 870 structures, of which nearly a quarter were highly designated (using the same definition as above), more than half were in lower designation categories, and the remainder, just over a fifth, were unlisted. This implies that on average each main heritage asset is associated with nearly two (1.75) further highly listed assets, just under four other listed assets, and one or two unlisted but protected curtilage structures, that is to say an average total of seven to eight additional directly or indirectly statutorily protected historic structures.

### 3.1.3 Site locations and sample representativeness

Properties were located across the UK, with the largest numbers of responses coming from the South West and East of England, and from Scotland, each representing 12% or more of the sample. The South East and North West also generated high numbers of responses.

There are inevitable uncertainties in any voluntary survey about the degree of representativeness of the achieved sample, notably due to the possibility of self-selection bias. This is where those who respond to the survey differ from the target population because they have characteristics that both make them more likely to respond to the survey and give answers that are different in relevant ways to those of the rest of the target population.



*Table 2 Numbers and percentages of respondent and Historic Houses publicly accessible properties by region*

REGION	HH Open Houses (n = 518)	Achieved sample (n = 121)
North East	13 (3%)	4 (3%)
North West	41 (8%)	12 (10%)
Yorkshire	32 (6%)	8 (7%)
West Midlands	48 (9%)	11 (9%)
East Midlands	40 (8%)	8 (7%)
East of England	59 (11%)	14 (12%)
London	14 (3%)	4 (3%)
South East	78 (15%)	12 (10%)
South West	92 (18%)	21 (17%)
Scotland	66 (13%)	15 (12%)
Wales	28 (5%)	7 (6%)
Northern Ireland	7 (1%)	5 (4%)

Where the sample frame (that is to say the population of potential respondents from which the sample is drawn) has characteristics with a known distribution, these can be compared with the achieved sample to identify whether there are any obvious problems with representativeness. In this survey, location is an unambiguous and easily checked characteristic. The limitation of the sample primarily to privately owned historic houses and gardens means that the achieved sample can be compared to the known locations of Historic Houses' members houses that are publicly accessible.

The proportional distribution of respondents' regional locations largely reflects the distribution of publicly accessible Historic Houses members. Among all regions, only properties in the South East were somewhat under-represented and those in Northern Ireland distinctly over-represented. In all cases, the achieved sample is well within the expected confidence intervals, with no sample proportion departing from the actual proportion by more than 5%. This suggests that, overall, the sample is credibly representative of independently owned historic houses that are, or have the potential to be, heritage destinations.

## 3.2 Public accessibility of sampled properties

The survey sought responses from properties that were either currently open or were considering opening to the public. Of the properties in the sample, 55% (n=67) are currently open for 28 days or more per year and 45% (n=54) are not.

Of the open properties, nearly 77% opened both the main historic building and grounds or gardens to the public, 13% the grounds or gardens only, and the remaining 9% the historic building only. The strong tendency, then, is towards comprehensive opening of properties.

The average (mean) number of opening days is 186 and the median is 168 days. There is a wide range from the minimum of 28 days up to 365 days. When these ranges are divided into those properties that open for 28-90 days, 91-180 days, 181 to 270 days and 271-365 days, there is a fairly even distribution. There was, however, a slight dip between 181 and 270 days and a slight increase between 271 and 365 days.

The most frequent (modal) number of days open is 365 (10 instances), and the next most frequent 28 (7 instances). There is therefore a clearly discernible tendency for properties to cluster at the extremes of minimal or maximal opening. There were also smaller clusters at or around 100, 180 and 200 days, suggesting a degree of approximation to round numbers, with responses around 180 days evidently representing opening for approximately six months of the year.

Of the 18 properties that reported opening for up to 90 days, 12 (equating to 18% of open properties) opened for 40 days or fewer, and 11 of those for 28 to 32 days. The broadly accepted minimum opening for properties to benefit from tax concessions such as conditional exemption or to be eligible for some publicly funded grants is 28 days. This implies that the properties opening for approximately that period are doing so primarily to meet this requirement. The cluster of properties opening for 28-40 days therefore suggests that such concessions are an effective incentive for public opening of heritage properties that would otherwise remain closed.

On average, open properties received nearly 40,000 visitors in the last year, but with a very wide range of visitor numbers. One property reported only 8 visitors, while the largest number was 330,000.

Visitor numbers show a relationship with the number of days open. Properties open 271 to 365 days a year reported an average of just over 86,000 visitors; those opening 90 days or fewer report just under 3900. Of the latter, those opening for 28 to 40 days reported an average of around 1850 visitors. This last finding reinforces the impression that properties opening for a period approximating to the expected minimum to receive tax benefits or grant eligibility are doing so in a relatively informal way in order to receive those benefits. Again, this suggests that tax and other incentives are effective in inducing otherwise closed properties to become more accessible to the public.

## 3.3 Tax status of properties

### 3.3.1 Conditional exemption

Conditional exemption is an arrangement that allows those who inherit nationally important heritage assets to do so without paying inheritance tax (IHT), provided that they meet certain conditions. The main conditions are to keep the property secure, in good condition and to permit 'reasonable' public access. Nationally, there are 356 current conditional exemptions for land, buildings and contents.

Of the sampled properties, just over 30% (equating to 36 properties) reported that they benefit from conditional exemption from inheritance tax. This represents around 10% of all such properties, nationally. This proportion is not unexpected given that they represent some of the UK's most important privately held heritage sites, which are likely to be well-represented among Historic Houses' member houses.

### 3.3.2 VAT Registration

The majority, nearly two-thirds, of the owners of the properties in the sample reported that they are VAT-registered. Properties that are open to the public are more likely to be owned or operated by VAT-registered businesses, with nearly eight out of ten reporting that status, as opposed to only half of closed properties. Broadly, the longer the reported opening period, the more likely the property is to be operated by a VAT-registered organisation, though, perhaps unexpectedly, there was a slight tailing off in the proportion for those open for more than 270 days a year.

Of the VAT registered properties, most (86%) operate one of the standard VAT schemes that require input VAT to be recovered on an item-by-item basis. The remaining 14% of VAT-registered properties use a simplified scheme, such as one of the flat rate schemes that allow a fixed proportion of tax-inclusive turnover to be remitted to HMRC in place of requiring detailed accounting of every input and supply made.

## 3.4 Repair and maintenance expenditure and VAT

### 3.4.1 Expenditure data collected and data quality

Respondents were asked to provide three figures related to their repair and maintenance expenditure and their related tax liabilities:

- (1) total expenditure on repair and maintenance including VAT over the previous year;
- (2) the total amount of VAT paid on repair and maintenance expenditure;
- (3) the total amount of any VAT that they were not able to recover.

All respondents provided figures for their VAT-inclusive repair and maintenance expenditure and most, but not all of these, specified the amount of this figure represented by VAT. The responses were a mixture of round and precise figures, suggesting that in some

cases respondents were giving approximations whereas in other cases they were deriving figures from precise accounting of expenditures.

Three respondents reported no expenditure (reported figure of zero) and the broader context of these responses suggested that these respondents are indeed likely to have had no or very modest repair and maintenance expenditures. They have therefore been included in the dataset for the purposes of estimating average expenditures on repairs and maintenance. The base for the VAT figures given below is therefore the full sample (after data-cleaning) of 121 respondents.

Respondents were also asked to report their anticipated expenditure over the next five years. This was to enable an estimate to be made of future VAT liabilities among the sampled properties, which is the foundation for extrapolating the probable cost of a scheme to reduce or eliminate VAT on repairs and maintenance of publicly accessible listed buildings.

Detailed scrutiny of the figures during data cleaning suggests that there were some inconsistencies in certain aspects of the reporting. Although the survey asked respondents to note that the maximum amount of VAT payable as a percentage of the VAT inclusive amount is less than 17% (the reciprocal of the 20% added to the VAT exclusive amount if all expenditures are standard-rated for VAT), many (29 responses) reported the VAT paid as greater than this. The implication is that they had either reported the VAT-exclusive rather than VAT-inclusive amount for their repair and maintenance expenditure or approximated the VAT paid by using the simpler 20% proportion. It is therefore likely that these properties have either underreported their repair and maintenance expenditure or slightly overreported their VAT paid.

In some cases, it seemed highly likely from the precision of the figures given that the repair and maintenance amount excluded VAT, and in these cases the VAT-inclusive figures were amended as part of the data cleaning process to include the VAT paid.

In addition, in five instances, repair and maintenance amounts were specified but no VAT was reported as being paid. This seems unlikely, as even where all works were carried out 'in-house' we can presume that some materials liable to VAT are likely to have been purchased and to represent an appreciable part of the reported cost.

In order to ensure that the potential impact of these quirks in reporting was understood, various parallel sets of figures were calculated:

- (a) The first inflates (1), the reported VAT-inclusive expenditure on repair and maintenance, by adding the reported VAT paid, to take account of those cases where the reported VAT paid was a proportion in excess of 17%. This is intended to account for the possibility that respondents were actually reporting their expenditure exclusive of VAT.
- (b) Similarly, another parallel set of figures was generated that reduces (2), the stated gross VAT liability, in these cases to be 16.7% of the reported VAT-inclusive cost, to take account of the contrary possibility that these respondents had over-reported

VAT by mistakenly giving their VAT liability as 20% instead of a maximum of 16.7% of the VAT-inclusive cost of repairs and maintenance.

- (c) Finally, a final parallel set of figures was developed for the five cases where expenditure was reported to have incurred no VAT, where these were retrospectively attributed VAT liabilities at the standard rate of 20%. This enables the maximum effect of any underreporting from the cases to be understood.

The resulting figures, and the average gross and net effective VAT rates, are presented in the following sections.

### 3.4.2 Current and planned repair and maintenance expenditure

The average reported VAT-inclusive expenditure on repair and maintenance of the respondents' main heritage asset was £156,067 per year. When the cases where there is a disparity between the reported expenditure and the gross amount of VAT paid are inflated by adding the reported VAT to the reported expenditure, the average annual expenditure increases to £160,686. These two figures represent the reasonable minimum and maximum possible average expenditures based on the reported data. In reality, there is likely to be a mix of respondents under-reporting the gross expenditure and over-reporting their VAT, so the true figure will almost certainly lie somewhere between the two extremes.

A similar approach was used to calculate the minimum and maximum values for the average annual repair and maintenance spend at VAT-registered and non-VAT-registered properties and for publicly open and currently closed properties. For the 80 VAT-registered properties the resulting average total reported VAT-inclusive expenditure was from £181,804 to £185,264. The corresponding figure for the 41 non-VAT-registered properties was from £105,848 to £112,731. The calculated average expenditure at the 67 open properties was estimated to be between £139,823 and £143,801, and the average expenditure at the 54 closed properties was estimated to be between £176,221 and £181,636.

Respondents were also asked how much they anticipated spending over the next five years, inclusive of VAT and all incidental expenses. The total amount reported was just over £63 million, an average of just over £523,000 per property. This equates to nearly £105,000 per year. Among publicly open houses, the anticipated expenditure was slightly higher than this at £113,559 per year and among closed houses it is rather lower £74,500 per year.

A considerable disparity in anticipated future spend was reported between VAT-registered and non-VAT-registered properties, with the former anticipating expenditure of, on average, around £131,341 per year and the latter a smaller amount of £52,512 per year. This is not unexpected given that larger properties and properties operating income-generating businesses are both more likely to be VAT registered and to need and be able to expend more funds on repairs and maintenance.

In all cases, the anticipated spend is lower than the reported most recent annual spend. There are two obvious potential explanations for this: the first is that planned expenditure

may not include adequate contingency for unanticipated emergency works, meaning that actual expenditure tends to exceed planned expenditure. The other is that the recent inflationary environment has increased other costs faster than income, meaning that there is less resource remaining to allocate to repair and maintenance. The former situation implies that actual expenditure is likely to be greater than planned for, the latter that expenditure is indeed likely to be less than in the immediate past.

### 3.4.3 Gross and net VAT liabilities

The effective gross VAT rate can be calculated by subtracting the VAT exclusive expenditure from VAT inclusive expenditure figure, dividing the result by the VAT exclusive figure, and multiplying by 100. Using the cleaned but otherwise unmodified reported figures, the average gross VAT paid as part of the reported average repair and maintenance expenditure of £156,067 was £24,301. This equates to an effective gross VAT rate of 18.4%.

These rates, however, change slightly if we seek to take into account the possibility of either under-reporting of VAT-inclusive expenditure or over-reporting of gross VAT paid, as discussed in sections 3.4.1 and 3.4.2 above. The maximum figure calculated for VAT-inclusive repair and maintenance expenditure (as defined in indented paragraph (a) in section 3.4.1) implicitly assumes that the (otherwise anomalously high) reported gross VAT liability (described in indented paragraph (2) in section 3.4.1) is correctly reported.

The minimum figure calculated for VAT paid (as defined in indented paragraph (b) in section 3.4.1) implicitly assumes that the unmodified reported VAT expenditure (described in indented paragraph (1) in section 3.4.1) is correctly reported.

In both these cases, then, these complementary figures should be used in combination to produce an internally consistent estimate of the average effective gross VAT rate. In addition, it is also useful to gauge the potential impact of the five cases where no VAT was reported as being paid (as discussed in indented paragraph (c) in section 3.4.1). If these cases are revised to include retrospectively calculated VAT liabilities at the prevailing rate, this will slightly increase the reported VAT paid in both cases.

Drawing these findings together, the average reported expenditure on repairs and maintenance over the last year was in the region of £156,000-161,000, and the gross amount of VAT paid in the region of £23,500 to £24,100. When using these figures to calculate the effective gross VAT paid, the different ways of handling the data are self-cancelling, meaning that the reported data suggest that it is in the range of just less than 17.9% to 18.5%.

These figures show that there is only negligible variation resulting from the five cases where no figures were given for gross VAT paid, but rather more uncertainty resulting from the known inconsistencies in the reporting of the VAT inclusive expenditure and the gross amount of VAT paid on that expenditure.

*Table 3 Estimates of average VAT-inclusive expenditures, gross VAT paid, and effective gross VAT rates, with variant correction factors, all respondent properties.*

FIGURES USED	Average total VAT inclusive R&M expenditure	Average gross VAT paid	Effective gross VAT rate
Unrevised (cleaned but otherwise unmodified) figures	£156,067	£24,301	18.4%
(1) (unrevised total expenditure); (b) (potentially overstated VAT-paid figures deflated); including 5 cases with zero VAT as reported	£156,067	£23,555	17.8%
(1) (unrevised total expenditure); (b) (potentially overstated VAT-paid deflated); 5 cases with retrocalculated VAT at standard rate	£156,067	£24,395	18.5%
(a) (revised total expenditure); (2) (unrevised VAT paid); including 5 cases with zero VAT as reported	£160,686	£24,301	17.8%
(a) (revised total expenditure); (2) (unrevised VAT paid); 5 cases with retrocalculated VAT at standard rate	£160,686	£25,142	18.5%

The overall net VAT rate can be calculated by replacing the average gross VAT with the average VAT that was actually paid by respondents, after recovering VAT from eligible taxable inputs. As with the calculations of gross VAT paid, the result varies according to whether revised or unrevised VAT-inclusive expenditure figures are used, but as the reported unrecovered VAT is the same regardless, there is no self-cancelling effect, meaning that the range of calculated values is somewhat wider, ranging between approximately 7.5% and 10%.

The impact of the five potentially anomalous cases reporting no VAT liability on expenditures is even less on the calculated net VAT liability than on the gross liability.

Table 4 Estimates of average VAT-inclusive expenditures, gross VAT paid, and effective net VAT rates, with variant correction factors

FIGURES USED	Average total VAT inclusive R&M expenditure	Average net VAT paid	Effective net VAT rate
Unrevised (cleaned but otherwise unmodified) figures	£156,067	£13,727	9.6%
1 (unrevised total expenditure); b (weighted VAT paid); including 5 cases with zero VAT reported	£156,067	£13,259	9.3%
(1) (unrevised total expenditure); (b) (unrevised VAT paid); 5 cases with retrocalculated VAT at standard rate	£156,067	£13,261	9.3%
(a) (revised total expenditure); (2) (unrevised VAT paid); including 5 cases with zero VAT reported	£160,686	£13,727	12.9%
(a) (modified total expenditure); (2) (unmodified VAT paid); 5 cases with retrocalculated VAT at standard rate	£160,686	£13,729	12.9%

Similar figures for gross and net rates can be calculated for VAT-registered and non-VAT-registered businesses. These indicate that the average effective gross VAT rate for respondents that operate as VAT registered businesses on their average expenditure of around £182,000 to £185,000 is in the range of 17.7% to 18.6%, and the average effective net VAT is around 2.6% to 4.6%.

For properties that are not VAT-registered, no VAT is recoverable, so there is no difference between the gross and net average effective VAT rates on their average expenditure of around £106,000. These are in the range of 18.2% to 19.8%. Here accounting for potential misreporting consistently leads to a lower net rate in the region of 18.2% to 18.4%

The most frequently cited reason for not being able to recover all VAT, cited by 77% of the 30 respondents who provided an explanation, was the use of the main heritage asset as a private residence. As residential property is exempt from VAT, VAT can be recovered on repairs and maintenance only to the extent that the property is used for making taxable supplies by a VAT-registered business.



In the case of historic houses which combine business and non-business use, this will need to be accounted for, and where exempt supplies are being made as part of the business itself, this will need to be accounted for through 'partial exemption'. This tends to require special negotiation with HMRC, because the 'standard method' for calculating the proportions of exempt and taxable supplies is difficult to apply in many historic houses. In 'standard' cases, the proportion of VAT that can be recovered from shared taxable inputs shared by the business's taxable and exempt supplies is based on the relative value of the taxable and exempt components of the business's supplies. Where a business operates in a private house, however, the exempt supply is primarily the private domestic use of the property by its owner. The result in these cases is that a reasonable apportionment between business and private use must be negotiated directly with HMRC on a case-by-case, business-by-business, and year-by-year basis.

It may be noted that in some cases, particularly at smaller properties, the potential to claim back at least some of the VAT on taxable supplies, which may potentially include repair and maintenance works, may not be being made use of. As noted in the following section, securing a partial exemption agreement with HMRC was the commonest course of action following the receipt of professional advice on VAT, suggesting that is at present inadequately exploited by property owners. In addition, one respondent to the survey was not reclaiming any VAT on repairs and maintenance even though they were operating an events business in the property, noting that they 'didn't think it qualified'. This also suggests a lack of awareness of, or difficulty knowing how to secure, partial exemption agreements.

#### 3.4.4 Use of VAT mitigation strategies

There appears to be a high level of awareness in the sector of legitimate means to mitigate VAT liabilities. The Country Land and Business Association, the membership organisation for landed estates, produces both concise and detailed guidance on VAT mitigation that is accessible to CLA members.<sup>28</sup> This sets out a number of ways that VAT liabilities can be reduced.

The questionnaire asked respondents whether they used any of the following ways of legitimately reducing their VAT liability on repair and maintenance works:

- existing concessionary VAT schemes intended to incentivise certain kinds of development work;
- using non-VAT-registered contractors;
- directly employing labour, such as a handyman or maintenance team, meaning that only supplies of materials are liable to incur VAT (though 'self-supply' regulations restrict the extent to which this can yield direct benefit);
- avoiding works that incur VAT.

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<sup>28</sup> The short guidance note is available to members via <https://www.cla.org.uk/advice/gn16-21-how-pay-less-or-no-vat-works-heritage-and-other-existing-buildings/>; the detailed guidance is CLA Advisory Handbook CLA69, *Saving VAT on work to heritage and other existing buildings*.

Overall, just under 70% of all respondents reported using one or more of these approaches. These ways of mitigating VAT can broadly be divided into those that are routinely available and those that apply in special circumstances. Among the routinely available strategies, the most obvious means of reducing VAT liabilities is to employ small contractors whose turnover is below the VAT-registration threshold. Where the services provided consist primarily of skilled labour rather than goods, this is highly advantageous to both the consumer and the contractor, as the VAT saved makes the contractor's services potentially more competitively priced than those of VAT-registered organisations without the countervailing disbenefit of losing out significantly on VAT recovery from taxable inputs. This was reported by a third of all respondents.

For those with sufficient need and means, VAT can also be mitigated in certain circumstances by directly employing labour for repair and maintenance works. More than half of all respondents said they employed direct labour for repairs and maintenance, and in circumstances where self-supply restrictions do not apply this will have the direct side effect of, reducing VAT bills.

The most drastic solution – not undertaking works that incur VAT – was reported by 20% of all respondents.

Two respondents also said that they sought to control repair and maintenance costs by undertaking works themselves: 'I carry out all repairs I am capable of myself'.

Most concessionary VAT schemes can be applied only in tightly restricted circumstances, and so cannot be routine means of reducing VAT liabilities. Even so, the questionnaire sought to understand how far respondents took advantage of these schemes.

Overall, 17% of respondents had made use of one of these schemes. The most frequently used schemes were:

- reduced rate VAT for supplies for residential conversions or renovations of premises that have been empty for two years or more, reported by 9 respondents, representing 45% of those who had made use of such special schemes and just over 7% of all respondents;
- installation of zero-rated energy efficiency measures, reported by 8 respondents, representing 40% of those who had used special schemes and a little less than 7% of the whole sample;
- zero-rate VAT for conversion or refurbishment of long-term empty premises, reported by four respondents, representing 20% of those who had used special schemes and just over 3% of the whole sample;
- zero-rate VAT for those substantially reconstructing a listed building, also representing 20% of those who had used special schemes and just over 3% of the whole sample.

Less frequently used schemes were those for accessibility measures, for DIY self-builders, and for eligible supplies to charities to benefit from zero- or reduced-rate VAT.

Taken together, the various schemes to encourage redevelopment that are most frequently used, being reported by 65% of the respondents who used any of the available special VAT schemes. Most respondents reported using just one of these schemes, but there were two respondents who had made use of multiple schemes, in one case all seven that were asked about.

Comparing the relative rates at which behaviours and approaches that have the effect of reducing VAT liabilities are deployed by VAT-registered and non-VAT-registered properties has the potential to offer insight into the extent to which they are specifically driven by a concern for VAT-mitigation. Where the deployment of a particular approach is significantly higher among non-VAT-registered properties than their VAT-registered equivalents, there is good reason to infer that the primary motivation for making use of it is indeed to reduce liability for VAT.

Direct employment of labour was actually more frequent among VAT-registered than non-VAT-registered properties, at 55% versus 44%. The small size of sub-samples means that this difference may not be significant. Even so, the lack of a significant difference coupled with the suggesting greater use of direct suggests that while legitimate VAT-mitigation may be a factor in encouraging property owners to employ salaried handymen or maintenance teams, there are probably other equally or more important reasons for doing so. The most obvious is that those properties that generate enough routine repair and maintenance work to keep at least one person employed full-time will save the property the profit on labour costs that would otherwise be charged by a contractor. In addition, the fact that many open historic house properties form part of wider estates will both increase the likelihood of meeting this threshold and reduce the additional burden of taking on a further employee. Thus, direct employment of labour can be financially advantageous regardless of VAT status.

By contrast, use of non-VAT-registered contractors was reported by only 25% of VAT-registered respondents but by nearly half of non-VAT-registered respondents. Thus, non-VAT-registered properties are around twice as likely as VAT registered properties to seek out non-VAT-registered contractors. Thus, reducing VAT liabilities appears to be a major driver of this behaviour.

Perhaps the most striking finding, however, relates to intentionally not carrying out works liable to VAT. This was reported by only 9% of VAT-registered respondents, but by nearly 40% of non-VAT-registered respondents. The responses from VAT-registered and non-VAT-registered respondents are relatively small subsamples, but even taking into account margins of error at 95% confidence level of around 8.5% in the case of the 9% of VAT-registered respondents and around 10.2% in the case of the 40% of non-VAT registered, this remains a significant disparity. The obvious inference is that VAT acts as a deterrent to carrying out repair and maintenance works where owners cannot recover all the VAT charged.

There is also evidence that professional VAT advice is sought by property owners and managers. It should not be assumed that this is invariably sought in order to identify

potential opportunities for savings: given the complexity of the VAT system, it may be driven by a desire for assurance that the property's current approach to VAT is compliant with HMRC requirements.

Nevertheless, in many cases the concerns are likely to be mixed: to ensure that VAT is being administered compliantly while VAT recovery is being optimised. An interviewee from a charity with large holdings of heritage buildings, for example, noted that whenever they begin a significant restoration project, professional advice is sought for both reasons, generally at a cost of around £4,000 to £5,000. The concern was both to ensure that potentially applicable VAT-savings had been identified and to provide assurance that the savings were being secured in a fully compliant way.

Some 46% of survey respondents had taken such advice, though, of those who had, only 26% reported consequently changing the way they managed their finances. The commonest change was to apply the 'partial exemption' process. This allows a defined proportion of the VAT incurred on supplies that are for mixed business and non-business use to be recovered based on an estimate of the relative weight of each use, and must be agreed with HMRC for each relevant business and for each applicable tax year.

There were also individual cases where respondents report taking up use of the specific legitimate means of mitigating VAT. Although cited only by single respondents, three strategies were specifically noted: undertaking more works in-house; avoiding works that incur VAT; and delaying repair and restoration works to enable the empty property concessions to apply.

Overall, then, there appears to be considerable care taken to make use of legitimate means to mitigate VAT, and we can presume that this is the explanation for the relatively low effective net VAT rate, even amongst non-VAT-registered properties, identified in section 3.4.3 above.

### 3.4.5 Impacts of VAT mitigation strategies

There was anecdotal evidence that the pursuit of these strategies could have negative consequences. As noted above, one of the survey respondents who had sought professional VAT advice had delayed implementing works to take advantage of the empty property concession. Thus, a VAT-concession intended to incentivise the reuse of empty properties can, perversely, serve to incentivise keeping properties out of use for longer, with all the attendant risks to the condition of the property that flow from this. Similarly, intentional avoidance of works that incur VAT is likely to lead to delays in implementing works until they become urgent. This is a particularly serious issue with heritage properties, where any resulting damage to the fabric can be difficult or impossible to fully rectify without loss of heritage significance.

Another obvious potential issue is that by incentivising consumers to seek out contractors who do not charge VAT, the current system also incentivises contractors to evade VAT. The survey asked respondents how confident they were that contractors were legitimately not

VAT registered. Some 23% felt that they could not be completely sure that all their contractors were legitimately operating without charging VAT.

A more direct heritage implication is that the system incentivises property owners to make use of non-VAT-registered contractors even if they do not necessarily have the level of skills and experience needed to work on important historic buildings. This was mentioned both in interviews with sector stakeholders and directly mentioned in five responses to open questions in the survey. An owner of a historic house noted that “they may not be the best at the job - there’s often a reason why a contractor isn’t VAT-registered”. Along similar lines, one survey respondent said that the eliminating VAT would enable them to ‘use fully qualified roofing, electric, plumbing etc companies instead of individual handymen who may not be fully qualified but are not registered for VAT’.

*“If we could recover all the VAT, it would] justify the additional cost incurred in using specialist historic contractors to repair the property to a higher standard than we would otherwise”.*

#### **Privately owned historic house, South East**

Further reinforcing this point, one survey respondent made special note of the fact that ‘We use the appropriate and qualified contractors where required and pay the VAT if required.’

Another noted the knock-on effect on the demand for traditional skilled trades, with VAT making it difficult to afford their higher cost:

*“We could get more done using traditional artisans e.g. dry stone wallers, heritage roofers, i.e. skilled trades which are being lost because we can't all afford to employ them all the time.”*

#### **Privately owned historic house, South East**

Finally, there are obvious potential negative consequences of owners of highly listed heritage properties either carrying out less repair and maintenance than they otherwise would, given that VAT curtails mostly fixed funding allocations, or deciding not to undertake potentially necessary or desirable repair and maintenance works in order to reduce VAT liabilities. Timely, appropriate repair and maintenance is fundamental to adequate conservation of historic buildings. Where deferral of works, especially to the building envelope, leads to failure or damage, the implications can be serious and potentially irreversible, as it is often difficult and sometimes impossible to repair historic fabric with the same materials or to the same standards as those available in the past.

### **3.4.6 Perceptions of VAT on repair and maintenance expenditures**

The survey provided respondents with a number of opportunities to answer open questions about the impacts of the current VAT system on the repair and maintenance of their properties. In addition, the stakeholder interviews explored in detail the current functioning of the VAT system and the way that owners of important historic buildings negotiate it.

The research revealed quite sharply polarised views that reflected very different experiences of the VAT system, depending on whether or not the property was operated by a VAT-registered business, and on the extent to which the property was operated purely as a business enterprise.

In general, VAT-registered properties which focused primarily on business activities reported that VAT on repairs and maintenance did not present a particular issue. For them, the VAT was entirely, or almost entirely, recoverable. The primary impacts were therefore in the increased administrative burden of being VAT-registered and in the increase in working capital required to cover the VAT expenditures pending VAT recovery. These negative impacts were only occasionally reported.

*“For us VAT is not a particular problem, as there is a commercial business and VAT is recoverable on most expenditure on the heritage property.”*

**Privately owned historic house, Wales**

*“VAT is not a major issue as the Estate has the ability to recover virtually all of the VAT incurred except where we carry out repairs to residential property.”*

**Privately owned historic house, Greater London**

Issues did arise, however, where organisations had charitable objects and/or made their property, or parts of their property, freely accessible. In these cases, the ‘business’ use of the property is reduced, and the extent to which VAT is reclaimable is commensurately reduced. Thus, in these circumstances, owners of historic buildings are effectively being punished by the tax system for providing free public access. One holder of multiple listed buildings reported that the need to optimise VAT treatment required costly professional advice, led to constant bureaucratic burden, and required the organisation to minimise the provision of non-chargeable use of properties, so reducing the public benefits that they would ideally have wished to provide.

The situation was also more mixed at VAT-registered properties that remained in use as family homes. In these circumstances, VAT is recoverable only to the degree that the property is used for business purposes, resulting in the need to secure a ‘partial exemption’ agreement from HMRC. Such agreements were frequently reported by respondents. This means that even where historic buildings are regularly publicly accessible, their partial use for exempt purposes reduces the extent to which VAT is recoverable.

*“Having a diverse income stream we come under partial exemption rules and are unable to claim VAT on a % of our business costs.”*

**Privately owned historic house, North West**

On the whole, however, this situation seemed to be accepted with resignation.

The situation was quite different, however, at non-VAT-registered properties. There was much evidence that VAT is perceived very negatively. An observation repeatedly made was the way that VAT effectively created an additional burden on the already difficult business

of caring for historic buildings. The considerable public benefits generated by owners investing in the care and maintenance of their properties deserved better support.

*"VAT is a huge financial burden."*

**Privately owned historic House, West Midlands**

*"[VAT] makes full and complete repair prohibitive."*

**Privately owned historic House, East Midlands**

*"VAT makes keeping the building in good repair even more difficult than it already is."*

**Privately owned historic house, Yorkshire and the Humber**

It might seem that an obvious solution for owners of publicly accessible heritage buildings would be to register for VAT, given the relatively large number of properties in the sample that were not VAT-registered (some 20% of open properties stated that they were not VAT registered). However, concern at the resulting administrative or other burdens of VAT-registration (especially when business use is a relatively small proportion of the overall use of the property) may be significant factors in discouraging VAT registration.

For example, one historic house owner interviewed for this research felt that transferring the opening of the property to a VAT-registered business would entail an unacceptable loss of control over their own home. The perceived balance of burdens and benefits is likely to be particularly negative where the bulk of the property remains in regular residential use, as will be the case at many properties, meaning that any prospective partial exemption would bring relatively small benefit in recovered VAT.

It was evident that, for many owners, looking after their building is a labour of love, not a rational economic choice, and that they were subjecting themselves to considerable financial burdens for the sake of protecting and preserving heritage. In this situation, VAT was both a practical barrier to better repair and, at least for a minority, a source of real resentment and perceived unfairness.

*"In the 1940s, my now Grade I listed house was due for demolition; had it not been for the patronage and dedication of private owners the house would no longer exist. This is why private owners of such important historical buildings should be entitled to a helping hand."*

**Privately owned historic house, South West**

*"The addition of VAT is a fund sapping figure when the goal is purely to improve the offering to the public."*

**Historic house charity, West Midlands**

*"VAT is a universal bugbear and adds 20% to the cost of any work. By law, we have the responsibility of looking after our listed buildings to the best of our ability. Even*

*if planning permission including Listed Building Consent are obtained for works to Historic & Listed Buildings, VAT is not reclaimable.”*

#### **Privately owned historic house, Scotland**

There were a number of responses that sought changes to the system to reduce VAT liabilities for repair and maintenance of listed buildings. Some respondents focused on reintroducing the former zero-rating of approved alterations. References to the loss of zero-rating on alterations also uncovered an issue of particular complexity. Even though there was never a special VAT status for the repair and maintenance of listed buildings, in practice some repair and maintenance works were effectively eligible for zero-rating. This is because there are many interventions that would, were they carried out on more recent buildings, be considered repairs, but would be considered alterations in relation to listed buildings. This is where they involve some element of change, for example in style or materials. Because of this change, they therefore require listed building consent (LBC). When LBC was granted, the interventions could be treated as ‘approved alterations’ enabling them to be zero-rated. This means that the loss of zero-rating for repairs and alterations had particular impacts on listed buildings. At least one respondent, presumably for this reason, believed that repairs and maintenance had been zero-rated and called for a return to this approach:

*“The reintroduction of government policy allowing repairs on listed buildings to be zero rated would be welcome.”*

#### **Privately owned historic house, South East**

However, most sought a more comprehensive tax relief that would recognise the special burdens imposed by ownership of listed buildings.

*“As we're all aware maintaining an Historic House is a hugely expensive and time consuming task. Not just the outside but inside as well. If repairs and improvements were zero VAT-rated that would be a helpful contribution for the heritage building we are protecting.”*

#### **Privately owned historic house, South West**

*“The VAT rate should be different for each grade of listing, with nil rate for most important buildings. Buildings are realistically liabilities not assets.”*

#### **Privately owned historic house, central Scotland**

There was, then, a clear sense that the current VAT situation reflected a failure by government to recognise the intrinsic demands of taking care of listed heritage and a failure to develop a meaningful *quid pro quo* for the additional burdens imposed by statutory protection.

*“The government have listed our heritage buildings because they are special and they want them protected; however, the VAT we pay on repairing and maintaining*



*them makes a mockery of their policy to protect them. Owners should not be taxed on repairing and maintaining a protected property.”*

**Privately owned historic house, South West**

Such perceptions, it should be noted, are liable to have economic impacts by increasing owners' concern to engage in legitimate mitigation strategies of the kind discussed in the previous sections, with their resulting negative impacts.

## 3.5 Repair and maintenance requirements

### 3.5.1 Building condition

The research sought to understand how property owners and managers assessed the condition of their property, their views of current condition, past and future trends in condition, and the total cost of carrying out all repairs needed and the cost of those repairs that are urgent.

Just over a third (36%) of properties have a formal condition survey. Those that had a condition survey and provided information about its date enabled estimates of how current the surveys are. Some two-thirds were five years old or less, that is to say within the five-yearly ('quinquennial') cycle of updating condition surveys that is largely accepted as standard in historic building conservation. However, nearly a fifth were more than ten years old, meaning that they are now likely to be badly out of date.

These figures suggest that most owners are reliant on their own judgment and *ad hoc* sources of advice to understand building condition. This means that some caution must be exercised when considering the reliability of the following findings. In particular, there is a likelihood that professional condition assessment would uncover issues that owners are not fully aware of.

This possibility was supported by anecdotal evidence from interviews, where one owner of historic house who had commissioned a recent building survey had uncovered a far greater range of required repairs than anticipated, and another where the owner said that they avoided securing professional advice as there was enough to contend with when dealing with immediately apparent repair needs. The actual condition of the properties in the sample may therefore be expected to be in somewhat worse condition than the survey suggests.

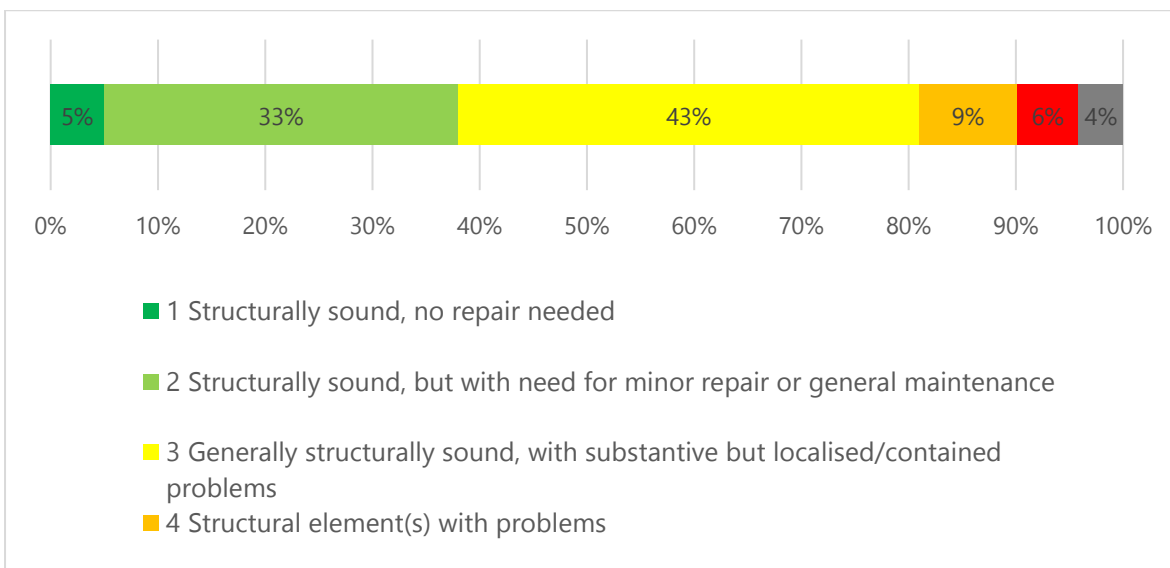
To counter this possibility and produce the most consistent possible results, survey participants were asked to rate the condition of their properties on a five-point scale, which can be summarised as follows:

1	Excellent	not in need of any repair
2	Good	in need of routine repair and maintenance
3	Fair	problems that are localised but could spread if unaddressed
4	Poor	problems that are spreading and could threaten the building
5	Threatened	problems that actively threaten the survival of the building

The vast majority of survey respondents (116 out of 121) provided an estimate of the condition of their property on the basis of this scale.

On the whole, the survey respondents suggested that the buildings were mostly in manageable condition, with more than 80% in fair condition better. However, of these most are reported to be in need of more than routine repair and maintenance and have currently problems that, though currently contained, could cause more serious issues if left unaddressed. A minority of around 15% are reported to have significantly more problems, including around 4% that have problems that present imminent threats to their survival.

Figure 2 Current reported condition of respondent properties (n=121)



The participants in the survey were asked to give estimated costs for carrying out all necessary, as opposed to desirable, repairs to their property, and also for carrying out all urgent repairs, defined as necessary repairs that need to be carried out within the next five years.

These costs must also be treated with a degree of caution. A high proportion (101 of 121) of the respondents gave information about how they had estimated the costs. Of these, just under 60% were relying entirely on their own judgement, based on either their past

experience of carrying out similar works (cited by 55%) or a simple 'best guess' (cited by 41%). The remaining respondents were able to draw on information or advice from a building professional or contractor, but even in these cases they were often supplementing this with their own experience or guesswork. This lack of professional input is likely to bias the figures; if we allow the validity of the observations above about awareness of building condition, it seems more likely to lead to an underestimate than overestimate of likely underlying requirements. These caveats should be borne in mind when considering reported repair, maintenance and restoration needs. ,

Of the 115 respondents whose properties were reported as being in need of repair (condition categories 2 to 5), 88 provided estimates of the cost of carrying out all outstanding repairs needed by their property. Among these respondents, the average estimated total repair need amounted to just under £1,994,000. In addition, respondents were asked to estimate the need for urgent repairs, defined as those that need to be carried out within the next five years, and 95 provided responses. Among these respondents, the average urgent repair need stood at just under £893,000.

This sum is more than the average of just over £523,000 that properties reported they planned to spend over the same period, though it should be noted that there are slightly different reporting bases, as more properties provided figures for anticipated expenditure than repairs needed.

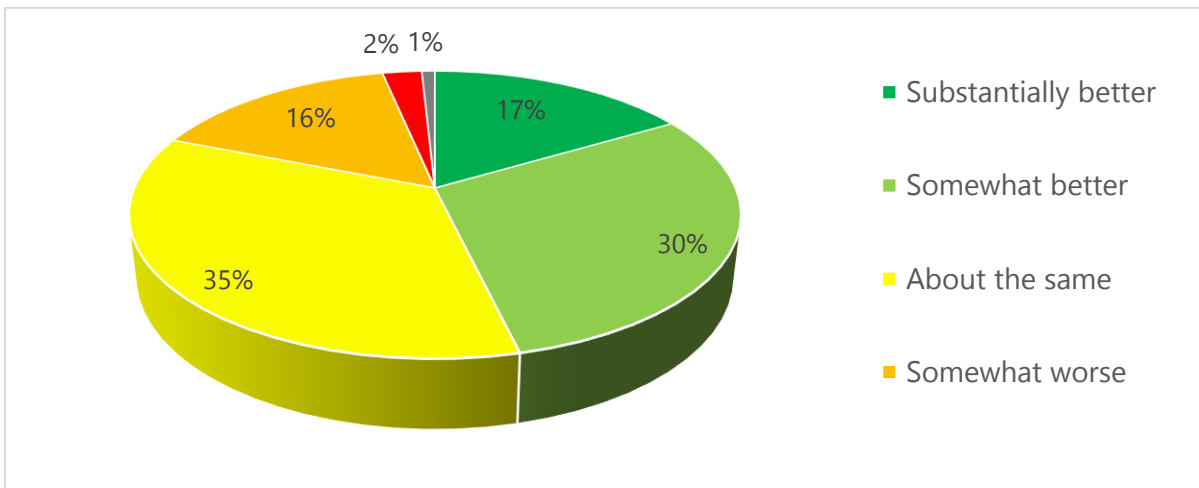
Those properties that are VAT-registered reported rather greater repair needs, at more than £2.5 million per property of outstanding repairs and just under £1.1 million of urgent needs. Properties currently open to the public reported similar figures: just over £2.7 million in total repair needs and £1.05 million of urgent repair needs. This is likely to reflect an underlying common factor. Both are likely to be larger and more culturally significant properties are more likely to be open, more likely to be VAT-registered, and by virtue of their physical scale (and the wear and tear resulting from public opening or business use, as discussed below) also more likely to have greater financial liabilities for backlogged repair and maintenance, even where overall building condition is comparable to that of non-VAT-registered properties.

### 3.5.2 Trends in property condition

The questionnaire asked participants to assess the relative condition of their building at present relative to five years ago. Overall, the trend was 'about the same' (35%) or improving ('substantially better' and 'somewhat better') (47%), as shown in Figure 3. As with current building condition, however, there was a substantial minority, in this case a little under 20%, that reported deterioration ('somewhat worse' and 'substantially worse').

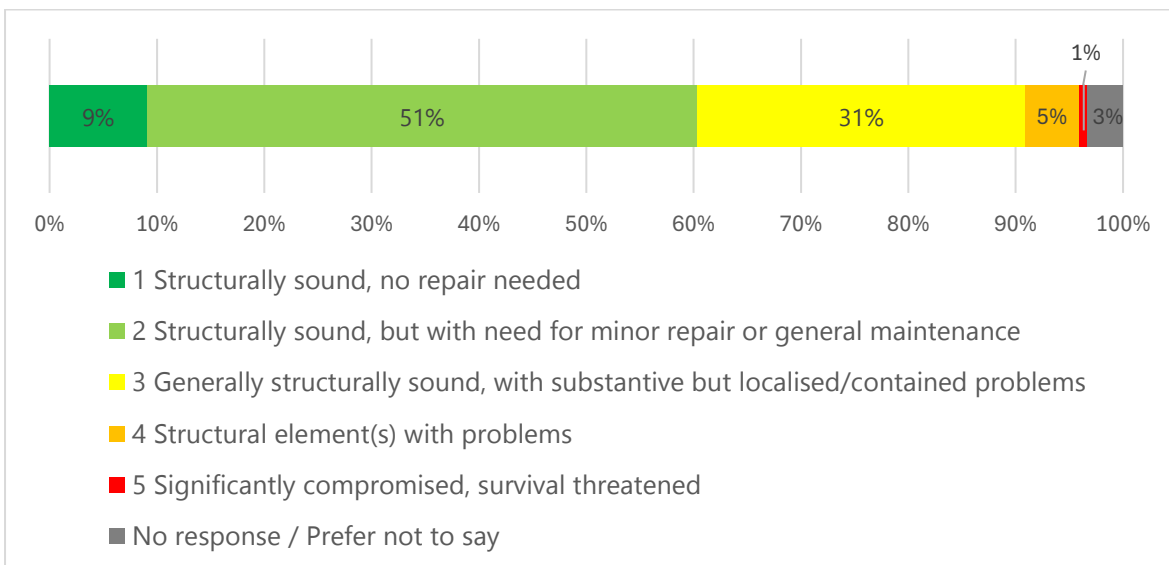
Survey participants were asked to assess the likely condition of their property in five years time if they are able to make the expenditures on repair and maintenance that they are currently planning. The proportions are shown in Figure 4 below.

Figure 3 Trend in building condition, five years ago to present (n=121)



Comparing this chart with the corresponding chart for current condition suggests that the current positive trend is expected to continue, with the proportion of properties in excellent (category 1) condition expected to nearly double, the proportion in good (category 2) condition to increase by more than half, and the proportion of properties in threatened condition to diminish by more than 85%.

Figure 4 Future building condition (five years from present) of respondent properties, assuming planned expenditures on repair and maintenance are realised (n=121)



Given that expected future expenditures are expected to be less than current expenditure, however, there is some reason to suspect that the expectation of such consistent improvement in condition may be optimistic.

There was no substantive evidence to suggest that the general condition of buildings varies markedly between open and closed or VAT-registered and non-VAT-registered properties.

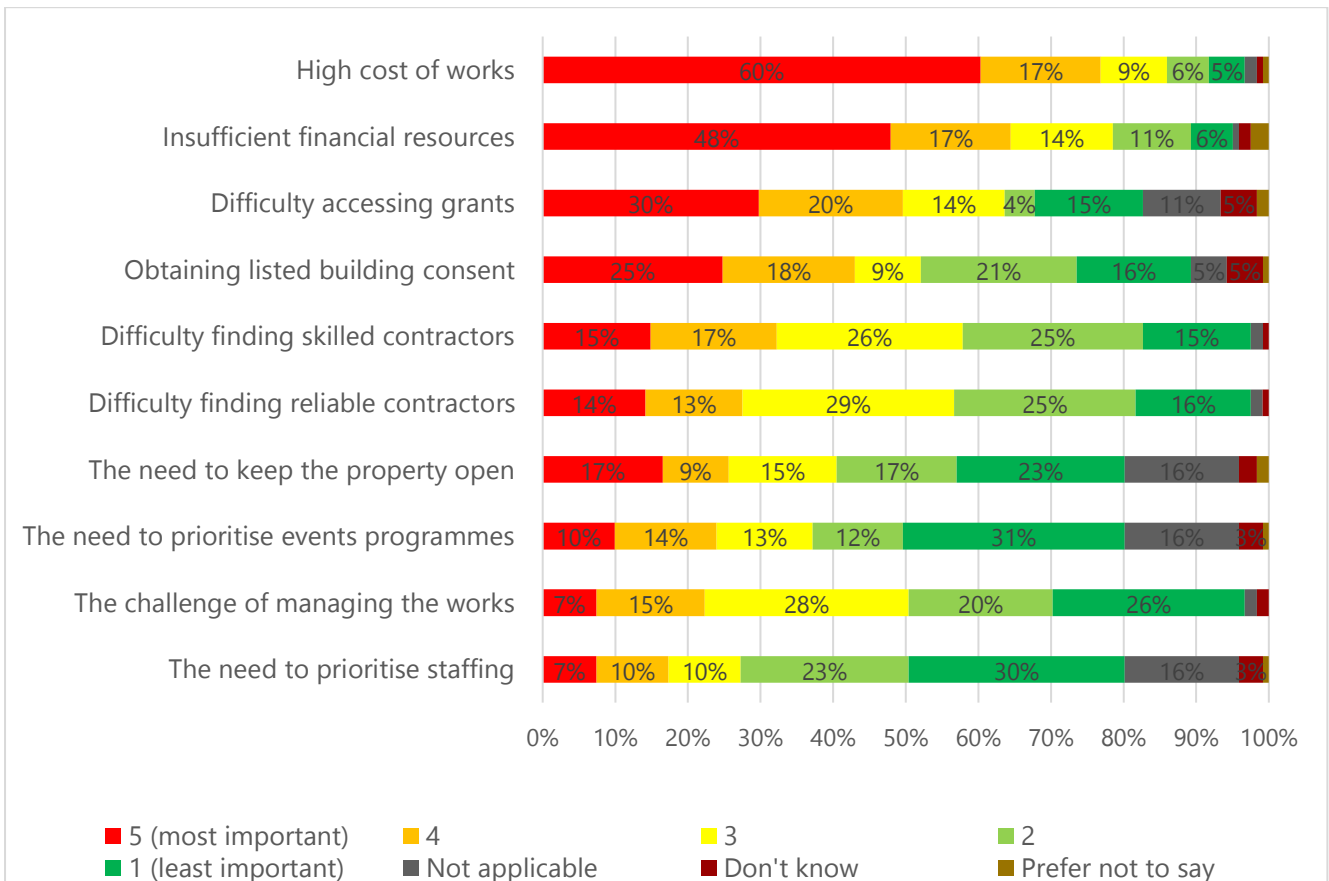
### 3.5.3 Support for and barriers to repair

The survey asked respondents to assess how much various factors presented barriers to carrying out repairs and maintenance. The factors were based on the experience of the research team of carrying out previous research into the repair and maintenance of listed buildings and heritage assets. Respondents were asked to give responses to seven barriers:

- The high cost of works
- Insufficient financial resources
- Difficulty accessing grant funding
- Difficulty finding contractors with the necessary skills
- Difficulty finding reliable contractors
- The challenge of managing the works
- Obtaining listed building consent
- The need to keep the property open while works were being undertaken
- The need to prioritise events programmes over carrying out repair
- The need to prioritise staffing levels over carrying out repair

Respondents were asked to assign each factor a score between one and five where one represents the least degree of importance and five the highest degree of importance. They were also able to provide details of any other barriers not identified in the question.

*Figure 5 Relative significance of selected potential barriers to repair and maintenance, on a scale of 1 to 5, where 1 is least important and 5 is most important (n=121)*



### 3.5.3.1 Financial factors

The scores indicate that financial factors were overwhelmingly considered to be the most important in constraining historic house owners' ability to undertake repairs and maintenance. The high cost of works was assigned the highest score by just over 60% of respondents and was scored at 3 or above by 86%. The closely linked issue of the financial resources of the individual property came second, scored at a five by 48% of respondents and at 3 or above by 78%.

Difficulty obtaining grants follows, albeit at some distance, rated at 5 by nearly 30% of respondents and at 3 or above by 68%. Thus, all three of the most significant perceived barriers to repair and maintenance are financial.

*"We are very behind due to cash constraints. Although the income is high the cost of maintaining the gardens and cost of events is also high."*

#### **Privately owned open historic house, East of England**

The survey also asked about the number and amount of grants received. Given the central importance of finance, the ability to access external grant support is arguably a correspondingly important potential factor in facilitating works. This is particularly the case where works go beyond routine repair and maintenance and extend to remediation of accumulated backlogs or significant restoration projects.

The competitiveness of grant application processes and the tendency to prioritise public or third sector applicants, it is to be expected that only eight of the respondent properties received grants. Of these, four were run by charities and four were privately owned. The former received an average of £812,436 and the latter an average of £174,044; it should be noted, though, that nearly three-quarters of the total grant given to privately owned properties was received by a single historic house through the COVID recovery grant scheme. When this outlier is removed from the sample, the average amount of grant received by the three remaining houses falls to £62,060. Of these three grants to privately owned properties, two came from the Historic Houses Foundation, one of the few grant-making bodies that routinely makes grants to privately owned houses as well as third sector historic houses. The other grant received was a government grant.

The low base of properties that received grant funding makes it difficult to generalise with confidence, but the extent of the disparity in the amounts of grant received between charitably and privately owned properties is sufficient to suggest how far private owners are disadvantaged relative to third-sector organisations when seeking grant support for works of conservation and restoration.

### 3.5.3.2 Planning and consent issues

Difficulties resulting from obtaining listed building consent (LBC) were the next most significant barrier. Evidence from depth interviews suggest there are at least two aspects to this.

- The first is a perception that there is insufficient flexibility in the current heritage protection system to enable historic building owners to implement the kinds of repair that they consider to offer the best balance of affordability, aesthetic suitability, and practicality.
- The second is concern at the state of conservation expertise in local authorities. An underlying factor in this appears to be a perception that well-established, highly experienced full-time conservation officers with strong local knowledge are retiring and being replaced by less expert successors, and sometimes by short-term contract or part-time staff.

The result is felt to be a) a lack of access to informal advice of the kind that historic house owners need to be assured that the works they wish to undertake and the associated LBC applications they propose to submit are appropriate and compliant; and b) increasingly slow determination times for LBC applications.

*“One of the main issues is obtaining timely listed building consent on any required repairs. [Our local authority] conservation officer works part-time and is not knowledgeable about the issues for historic houses.”*

**Privately owned historic house, North West**

### *3.5.3.3 Supply of heritage construction skills*

After financial and planning related challenges, difficulties sourcing appropriately skilled and reliable construction labour were the most widely felt barrier. Although far fewer rated these as the most significant barriers, high proportions of respondents rated them at three or above, suggesting that there is a current undersupply of craft skills. Qualitative evidence of this emerged particularly clearly in a case study interview, where the house owner stated that, in spite of good availability of funds, “finding skilled people who you can trust not to rip you off is very tricky”.

*“It’s a constant battle to find people you can trust, who can do the job, and who’ll actually turn up and do it.”*

**Privately owned historic house, South East**

Replies to open response questions suggest, moreover, that financial and skills challenges are tightly connected. As noted in sections 3.4.5 above and 4.1 below, a number of respondents reported seeking VAT savings by using non-VAT-registered contractors, even if they were less well-qualified, skilled or reputable.

### *3.5.3.4 Managing the works*

The next most widely felt factor is the challenge of managing the works. Although it was not rated at most important, more than half of respondents placed it at three or above. It is also reasonable to suppose that some of those properties that are routinely open also find it challenging to balance maintaining their visitor offer with undertaking necessary repairs and

maintenance, but these appear less to be significant factors overall because they only impact on those houses that are currently open to the public for most of the year.

### 3.6 Heritage properties' social and economic impacts

The vast majority of properties – 95 of the 121 – reported actively providing activities, events or schemes with some kind of public benefit. The most common, mentioned by more than half of these respondents, was providing educational visits. Nearly as many hosted charitable events, followed by offering free entry Historic Houses members, offered by more than 62%. Nearly half (46%) of properties offered volunteering opportunities and 35% offered annual memberships or provided free or subsidised cultural events. Nearly 34% offered free entry days for local residents and similar proportions opened on Heritage Open Days or offered free entry for children (22% and 23% respectively). A further 9% offered free entry for local residents.

Some properties also offered special additional events or activities. These included opening as part of the National Gardens Scheme; hosting local meetings, events or societies; taking part in Historic Houses' Invitation to View events, which aim to provide special access to houses that are usually closed to the public; and free entry for carers. A number of responses to open questions mentioned the work that the properties undertake with local communities.

*"We make a big effort to support local sporting clubs - with a strong emphasis on cross community work (nb Northern Ireland). Getting local children and teenagers involved in sports on land owned by the Estate has been very effective in reducing historic cross-community problems"*

#### **Privately owned historic house, Northern Ireland**

The survey also explored the kinds of economic activities (other than public opening) that properties supported, and 99 of the respondent houses provided answers. By far the commonest was acting as a location for filming, mentioned by 87% of those who provided responses to the question). Properties also hosted private events, notably corporate events and weddings, with each offered by more than two-thirds of those responding to the question. Nearly as many (57%) reported hosting public events, such as fairs, seasonal displays, musical or theatrical performances. It therefore appears that nearly three-quarters of properties are taking advantage of their commercial potential and around half are highly economically active, in many cases across multiple types of events, both public and private. The gross revenues received from these activities were given by 77 respondents, and among whom the average revenue amounted to nearly £340,000.

Respondents were asked to consider all their activities and identify the most important aspect of their property's role within their local community. Five aspects were cited by 20% or more of the 93 respondents who answered this question: their property's history and heritage value; acting as a focal point for the local area; providing accessible green space;



drawing visitors and driving economic activity locally; and providing employment opportunities.

The economic contribution was particularly important, with more than 30% of those who gave responses mentioning one or another economic benefit to the area, whether through direct employment of staff, through prioritising the use of local contractors and tradespeople, through providing facilities for local businesses, or through attracting visitors to the area.

*“The diversified businesses which have been put into the restored heritage buildings contribute a substantial amount to the local rural economy. An assessment done 5 years ago identified £1,000,000+ going into the local community as a result. We also employ around 25 persons.”*

#### **Privately owned historic house, North West**

These were followed by educational visits and charitable events, mentioned by around 15%.

*“We provide a venue, free of charge, for local charities who wouldn't be able to host vital fundraising events without a site.”*

#### **Privately owned historic house, East of England**

The overall picture is of a group of properties that are strongly conscious of their place in their communities and committed to supporting them, and that are also significant contributors to their local economies.

*“One of our ambitions is to be a force for good in helping local communities to thrive by providing employment, homes and support for local businesses and charities.”*

#### **Privately owned historic house, East of England**

It should be noted, however, that the interview research uncovered some negative consequences from opening up historic buildings, whether as visitor attractions or events venues. The primary negative impact is increased wear and tear to, in some cases highly sensitive, historic fabric. This can be a particular problem with weddings, where heavy drinking by guests can lead to inappropriate behaviour, intentional or inadvertent.

Even where this is not the case, the heavier use of the building can cause problems. A specific example at one of the case study houses arose from the use of a Jacobean staircase for group photographs, where the large number of people standing on the staircase had caused structural failure in the stair that required costly remediation. Another interviewee noted that the greater part of the property's allocated repair and maintenance budget was absorbed in rectifying damage arising directly from public opening. There consequently appears to be some degree of intrinsic tension between the use of properties to generate income and their preservation as heritage assets.

## 4 Potential impacts of a VAT-rebate scheme

### 4.1 Properties' anticipated use of additional recovered VAT

Respondents from those properties that were not able to recover all the VAT paid on repair and maintenance expenditure were asked a series of questions about how they would use the additional funds that would result from being able to recover all their VAT.

Of the 72 respondents who reported being unable to recover all VAT, 71 answered a multi-choice question asking about how they would expend the recovered funds. More than 80% said that they would invest in additional repair and maintenance works. These respondents were then asked to estimate the proportion of these funds that would be expended in this way and an open question on what the main benefits of being able to recover all VAT on repairs and maintenance would be. Of the 57 relevant respondents, 54 provided answers to these questions.

For these 54, the average reported allocation to additional repairs and maintenance was stated to be nearly 90%. More than seven-out-of-ten said that they would allocate 100% of the funds to repairs and maintenance, and nearly nine-out-of-ten said they would allocate 75% or more. Fewer than one-in-ten said that they would allocate less than 50%.

Of these owners, more than six-out-of-ten considered that the opportunity to undertake more repairs would be the primary benefit of being able to recover all VAT on repairs and maintenance.

*"If a reduced or nil rate VAT applied, this would free up resource to help us maintain the heritage asset better."*

#### **Privately owned historic house, South West**

Other closely related benefits were being able to undertake repairs in a more timely way; to save heritage; to afford better qualified or more skilled contractors (7%); to make it easier to undertake major works; to make it easier to justify undertaking minor works. The only other main benefit cited by more than a small number of respondents was to allow reinvestment in wider development or improvement of the property or associated properties, cited by 15% of respondents.

This last finding is supported by the other responses to the initial question asking for ways that recovered VAT would be used. While the second commonest response, cited by nearly 40% of respondents currently unable to recover all VAT, was that at least some of the funds would be used to reduce financial deficits, an approximately similar proportion said that they would also invest in development works to the main building or curtilage structures and around 20% said that they would invest in development works to the wider property.

The frequency of these responses suggests that when defining the proportion of recovered funds that would be allocated back to repair and maintenance, some were not giving responses consistent with their other answers. There were slightly more than 30% of the 54 relevant respondents who cited other potential ways of employing recovered VAT but who

nevertheless suggested that 100% of recovered funds would be allocated to additional repairs and maintenance. At least some (around 7%) respondents seem to be conceiving of such works broadly to include some element of development and improvement to the main heritage building and/or wider structures. Nevertheless, 35% of the 54 relevant respondents were consistent in citing only additional repairs and maintenance as the way they would spend any VAT savings and stating that 100% of recovered funds would be spent this way. A further 25% had reduced the stated percentage to account for other potential expenditures.

On balance, it should be assumed that the stated percentages that would be reallocated to additional repairs and maintenance somewhat overstate the likely reality, but that a very high proportion of funds would nevertheless contribute directly to additional expenditures on sustaining historic buildings.

## 4.2 Public opening

A VAT-rebate scheme to support publicly accessible listed buildings could be expected to incentivise at least some currently closed buildings to open to the public. That this is a significant possibility is reinforced by the finding cited in section 3.2 above that it seems likely that around 18% of houses open for 28 days or more are opening specifically to meet the requirements of tax concession or grant schemes.

This assumption appears to be borne out by the survey findings. The questionnaire asked whether respondents would be prepared to open to the public for at least 28 days if this would enable them to recover all the VAT on their repair and maintenance expenditures. Of the 54 currently closed houses who completed the survey, 20 (37%) said that they would open for a limited period in order to be eligible for such a scheme, and of these 12 would be prepared to open for three years or more. The low bases of respondents mean that the impacts of different required opening times are difficult to predict, but does provide indicative evidence that for a proportion of houses there is relatively low sensitivity to extended opening periods. This in turn implies that defining an appropriate required opening period would help assure maximum public benefit for a VAT-rebate scheme without negating the incentive to take part in the scheme.

The survey data can help inform indicative estimates of the number of Historic Houses member houses that would respond positively to the incentive of a VAT rebate scheme. **Such estimates will have limitations because of the low bases of respondents meaning that the range of possible values is wide. Nevertheless, careful contextualisation of the data suggests that it is possible to make inferences that result in a reasonable central value.**

The survey received 67 responses from houses currently open to the public. There are currently 518 Historic Houses members properties with publicised public opening. This implies a survey response rate of around 13% from these specific properties. In addition to currently open properties, the survey specifically targeted closed houses that would

consider opening the public. As there are no frame data about the proportion of Historic Houses member houses that are considering public opening, there are uncertainties about the response rate for this group. However, a very high response rate of 20% or more would be extremely unusual for any voluntary survey. A response rate from this group of just under 4% represents the effective floor, as it would imply that nearly all the approximately 900 currently closed Historic Houses members are actively considering public opening. This seems unrealistic, as Historic Houses represents the sector as a whole and is known to include members houses that are entirely closed and private and others that operate commercially to some degree, but in a way that intentionally avoids full public opening (notably those that function as 'exclusive use' venues or allow filming and photoshoots but otherwise remain private houses).

In this context, a similar response rate of around 13% would seem to be a reasonable central value, with the actual response rate being unlikely to diverge more than a few percentage points either side of this. Taking such a response rate as a working assumption would imply around 425 houses of the approximately 900 closed houses are considering new or additional public opening.

**The low base of responses precludes fully robust extrapolations of the proportion of these that would open in response to well-conceived VAT rebate scheme. Indicatively, however,** we can apply the proportion of properties that reported that they would open, with the caveat the true values could be considerably higher or lower: if we treat the 54 currently closed houses as a distinct subsample there is a margin of error of approximately 10% at a 90% confidence level. Doing this suggests that an incentive scheme could encourage around 160 additional publicly accessible heritage properties to open to the public (within a likely range from a minimum of around 115 to a maximum of around 200) of which around 95 would be prepared to open for three years or more (within a likely range from a minimum of around 52 to a maximum of 137).

In addition, a further 30% of currently closed properties said that they were 'not sure' if they would open. There is a possibility that some of these might respond positively to a well-conceived VAT-rebate scheme and decide to open in order to benefit from it. Without detailed, targeted research into the level of interest in such scheme among such properties it is not possible to gauge with any confidence how many might do so. They have therefore been excluded from the estimates but the possibility that they may contribute additional opening, should a VAT-rebate scheme be implemented, should be borne in mind.

Those closed properties that stated that they would be prepared to open in order to benefit from a VAT rebate reported an average anticipated annual spend on repair and maintenance of the property of over the next five years. These figures suggested that around £84,000 per year on average. If all potential newly open properties (that is to say including 'not sure' responses) are considered, the average falls to around £64,000 per year. Given the low bases, the variation may not be significant, but could imply that those with higher repair and maintenance expenditures are more likely to be receptive to participating in a VAT-rebate scheme.

The evidence therefore suggests that a VAT rebate scheme has potential to incentivise a substantial number of currently closed historic properties to open to the public, in many cases for several years or more, especially those that need to undertake significant repairs and maintenance in the foreseeable future.

There are some challenges estimating how many visitors would take advantage of increased opening of this kind. Though the average number of visitors to open properties that responded to the survey is high at nearly 40,000 per year, it should be assumed that properties prompted to open specifically by a VAT rebate scheme are likely to be open for limited periods and lack both the publicity mechanisms to attract and the infrastructure to handle large numbers of visitors. The survey data suggests that visitor numbers are relatively low at properties with opening days close to the 28-day minimum. Although the base of relevant responses is low, the 12 properties opening for forty days or less reported an average of 1850 visits per year, or around 65 visitors per open day. This seems to be a reasonable baseline figure for likely visitor numbers at properties liable to open as part of a VAT rebate scheme, though it should be acknowledged that numbers at individual properties may be highly variable depending on the size and profile of the property, its location, and the extent to which opening takes place as part of a broader portfolio of activities.

If we assume that the average visitor numbers for incentivised openings are comparable to those mentioned in the survey of around 1850 visits, this would amount to around 300,000 additional visits per year.

### 4.3 Cost implications

While it seems clear that the introduction of a rebate scheme would have direct benefits by facilitating additional or higher quality repair works to be undertaken, and by encouraging owners to make more heritage sites accessible to the public, it would also be expected to lead to a decrease in net revenue to the Treasury. This will primarily take the form of funds granted to pay for the rebate, which will equate to the amount of VAT that property owners would otherwise be unable to recover on their repair and maintenance expenditures.

The survey findings on repair and maintenance expenditure, prevailing net VAT rates, and the likelihood of additional properties opening to the public in order to take advantage of the scheme provide the basic information needed to quantify the likely immediate cost to public funds of introducing such a scheme.

The core cost of the scheme can be estimated by making the assumption that current effective net VAT paid by open and potentially open properties is likely to remain similar in future years, and using this to estimate the proportion of expected expenditures that would be expected to be paid in VAT and not recovered from HMRC, which would represent the net cost to the Treasury.

The actual funds that would have to be allocated to such a scheme, however, would vary depending on whether VAT-registered properties would cease to recover VAT in the normal way on repairs and maintenance and claim all VAT paid on eligible expenses through the rebate scheme, which would have the advantage of administrative simplicity, or only the remaining VAT still unrecovered after the standard VAT recovery accounting.

The calculated average effective gross VAT rates for currently open and potentially open properties are slightly lower for open than potentially open properties, at around 16.9% to 18.1% among the open properties and around 19.4% to 19.5% at potentially open properties. Given the low base of potentially open properties, however, it is not clear that this difference is significant. Of greater relevance for financial modelling, however, the net VAT rates show greater difference, with the average for open properties being in the range 3.4% to 6.4% and for potentially open properties 8.5% to 9.3%. Given that the true values are likely to lie towards the middle of these ranges (as discussed in section 3.4.3 above), an allowance of 5% net VAT seems realistic for open properties and 9% for potentially open properties.

Anticipated expenditure at currently open properties is around £114,000 per year and at potentially open properties around £84,000. It should be noted that these figures are below the current expenditures by some margin. In the case of currently open properties these are reported as around £140,000 and at potentially open properties just less than £180,000, though the latter figure is lifted by a single particularly high-spending property, which when removed leaves an average of £135,000. The last major Historic Houses member survey identified an average annual repair and maintenance expenditure of around £160,000. These findings converge to suggest that actual future expenditure is likely to be higher than anticipated, somewhat increasing the net cost to the Treasury of the scheme. It therefore seems reasonable to assume that actual future expenditures are likely to average around £120,000 to £140,000, with expenditure likely to be lower at potentially open houses than currently open houses.

These figures suggest that if VAT were to be rebated on these expenditures the expected direct cost to the Treasury is likely to be around £3.4 million plus or minus £400, for currently open houses and around £1.9 million plus or minus £700,000 from potentially open houses. A reasonable total cost to the Treasury for a scheme specifically targeted at privately owned, publicly accessible listed buildings with domestic use is therefore likely to be in the range £4 million and £6 million per year, depending on actual level of expenditure on repair and maintenance and take up of the scheme.

A broader scheme that included all listed building that are open to the public specifically as heritage destinations would clearly be more costly. English Heritage and the National Trust are major charities that own and manage a considerable number of heritage destinations. Wherever possible these are run as VAT-registered businesses meaning that VAT is fully recoverable. However, there are approximately 250 English Heritage sites and 37 National Trust sites that are accessible without charge. Where sites are free to access in this way, HMRC does not consider their owners to be making taxable supplies, meaning that VAT is

not recoverable on inputs. In Scotland, Wales and Northern Ireland, the equivalent organisations to English Heritage are all government bodies; in these cases VAT would either be recoverable on a standard business basis or not be chargeable. Evidence from English Heritage suggests that together they are currently unable to recover rather less than £1 million per year of VAT on repair and maintenance of listed buildings that are part of sites that open to the public as heritage destinations. The amount from the National Trust that is unrecovered, given the smaller number of freely accessible sites, would be expected to be proportionately smaller.

A broadly based scheme could, however, extend beyond these major bodies and potentially include a wide range of (mostly smaller) heritage sites that are either not VAT-registered or are free to enter. It is extremely difficult to quantify the number of such sites. There are no comprehensive datasets of all heritage destinations based around listed buildings or their tax status, and little available primary research into their repair and maintenance expenditures.

For this research, a dataset containing all listed buildings in the UK was compiled from official datasets. A random sample of 750 listed building entries was then checked to identify heritage destinations. Of these 750, a total of 12 were identified as the main list entry for a free or chargeable heritage destination. Some of these can be presumed to be either already represented in the sample or out of scope of a scheme, either because they are a Historic Houses, English Heritage or National Trust property and so already accounted for; are places of worship and so already eligible for a VAT rebate; could be presumed to be operating as VAT-registered businesses; were accredited museums, which already benefit from substantial government aid for repair and maintenance; or local authority operated, and so eligible for special VAT-recovery.

This left two which showed a high likelihood of being potential beneficiaries of a VAT-rebate scheme. If extrapolated nationally from the total number of listed building entries (just over 490,000) and bearing in mind the margin of error even with a sample of 750 cases (0.39% at a 95% confidence interval), this would suggest up to around 3300 additional potentially eligible heritage sites.

Many of these would be expected to have relatively low repair and maintenance expenditures, as we can assume that most sites with large expenditures would operate as VAT-registered businesses and would be able to recover all input VAT. It seems fair to assume that the average repair and maintenance expenditure would be somewhere in the range between those of English Heritage and Historic Houses members. Even so, it would still amount to a considerable cumulative addition to the anticipated cost.

If we allow an expenditure of around £50,000 per annum per site, an average net effective VAT rate of around 18% and a central value for the number of in-scope heritage destinations of around 1300, the total additional cost would be around £10 million, but with the clear caveat that **this is only an indicative figure**, within a wide range. The actual net cost could be considerably higher or lower, potentially up to approximately the actual

expenditure of the Listed Places of Worship Grant Scheme, which tends to expend around £30 million per year across the UK.

*Table 5 Expected direct yearly cost to Treasury of VAT rebate scheme targeted at residential or charitably owned, publicly accessible domestic buildings, using central values from ranges for key data.*

	Anticipated R&M expenditure	Effective net VAT rate	Estimated number of properties in population	Expected cost to Treasury (rebated VAT revenue)
Currently open Historic Houses properties	Approx. £140,000	4.7%	518	£3,408,000
Prospectively open Historic Houses properties	Approx. £120,000	9%	160	£1,728,000
English Heritage non-VAT registered properties	Highly variable		270	£740,000
National Trust non-VAT registered properties	Highly variable		37	Up to £250,000
<b>Est. cost for targeted scheme</b>				<b>£6,126,000</b>
Other properties	£50,000 (assumed)	18% (assumed)	1300 (estimated)	Approx. £10,000,000 (but with high uncertainty)
<b>Indicative total cost for broad-based scheme</b>				<b>Likely range: £11,000,000 - £20,000,000</b>



An indicative realistic total direct cost for a broad-based scheme is in the region of a further £16 million, but with large range of realistic possible values around that, reflecting the challenge of making dependable estimates the number of potentially in-scope properties beyond the core targets of the current research.

Reported intentions by survey respondents for expending the money received from a rebate scheme indicate an overwhelming preference for reinvestment in additional repair and maintenance or development works. Among survey respondents, the stated intention among both currently open and prospectively open properties is that in excess of 90% of recovered funds would be used for additional repair and maintenance work, amounting to around £3.7 to £5.7 million. Thus, there would be an uplift in repair and maintenance expenditures that would help address outstanding repair liabilities. In most cases, this also would be expected to generate additional tax revenues, though the net benefit to government revenues would be mitigated by the substitution effect: if we assume the cost of the grant scheme would have been utilised for other government expenditure, this too would have generated downstream economic activity and tax revenues.

In addition, it can be expected that 300,000 or so additional visits would also generate direct revenue for historic houses that would be liable to cover the cost of opening, and further incidental expenditure by visitors on hospitality both on site and with local providers. There most recent available reporting on the value of heritage to the UK economy suggests that each domestic heritage-related visit generates just over of £45 of visitor spend, though as the figures relate to late 2021 this estimate may be boosted by a post-pandemic rebound effect.<sup>29</sup> Even adopting a more conservative figure of £35 per visit, the implication is that a tightly targeted scheme would generate around £10.5 million of additional visitor revenue for the heritage-based economy.

If targeted specifically at privately owned historic houses and the main heritage charities, therefore, there is central estimate that the direct cost to HM Treasury of around £6 million per year, with likely direct economic benefit in visitor spend and increased repair and maintenance expenditure of at least £14 million. A substantial proportion of this would be expected to return to the Treasury through additional tax receipts.

A more broadly based scheme that was also made available to the main heritage charities would cost only very marginally more and would again almost certainly induce more economic activity than the direct cost of the scheme. Interviews suggested that English Heritage would be likely to reinvest all savings in additional repair and maintenance work. The substantial delegation of decision-making to individual properties in the National Trust makes it likely that there would be a broader range of allocations of any rebate received. Nevertheless, the bodies' charitable objects would ensure that the funds were used for publicly beneficial purposes. As we have seen, were a much broader scheme to be

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<sup>29</sup> CEBR, *The Heritage Sector in England and its impact on the economy: an updated report for Historic England* (August 2023), pp. 37-38.

considered, embracing all heritage destinations that are currently unable to recover VAT, the likely cost would be considerably higher, but again could be expected to generate correspondingly greater induced benefits.

It may be noted that if targeted specifically at privately owned, partially residential, publicly accessible listed buildings open as heritage destinations, the direct cost of the VAT rebate would be less than the amount currently allocated to the Listed Places of Worship Grant Scheme. Indeed, it would probably be less than the difference between the allocated budget of the Listed Places of Worship grant scheme and actual funding dispersed, with the surplus exceeding £10 million per year in each of the last three financial years.<sup>30</sup>

Retaining the benefits of the existing Listed Places of Worship Grant Scheme and extending comparable benefits to publicly accessible residential heritage buildings and the major heritage charities, English Heritage, the National Trust and the National Trust for Scotland could also almost certainly be accommodated within the existing funding envelope for the Listed Places of Worship Grant Scheme. If the current funding for tax rebates were to be increased from £42 million per year to £55 million per year (allowing some extra to take account of the increased cost of administering a broader scheme), its benefits could be spread much more widely. Notably, such a scheme would become accessible to smaller charitably and independently owned sites where full VAT registration is not realistic due to a combination low turnover and lack of financial and human resources.

The current Listed Places of Worship Grant Scheme is structured as a time-limited but renewable scheme. The current funding period ends in March 2025. This is therefore an opportune moment to think carefully about the optimal means of encouraging and supporting the repair and maintenance of the UK's heritage buildings. Overall, then, the evidence suggests that funding already allocated to VAT rebates for listed buildings would be better used if the scope of grants was increased, while a relatively small increase in the funding envelope of around £13 million would enable the whole range of the UK's heritage destinations to benefit from reduced repair costs while allowing reinvestment that would lead to improved building condition and substantial induced economic activity, both through additional heritage construction work being commissioned and greater numbers of heritage visits, with their associated wellbeing benefits.

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<sup>30</sup> Information provided to Historic Houses by DCMS.

## 5 Conclusions

The research undertaken for this project has produced a number of clear findings. The first relates to the functioning of the current VAT system in relation to repair and maintenance of historic buildings.

The effective VAT by the survey respondents actually paid is lower than the nominal rate, amounting to around 11% rather than 20%, largely because of the significant proportion (more than 65%) of properties that are VAT registered and able to recover all or most of the VAT paid on their repair and maintenance expenditures.

These effects, however, are felt differentially across the sector. Those properties that are VAT registered are largely able to recover all or most of their VAT, with net VAT rates for VAT-registered properties being in the region of 3% to 4%. Many of these properties stated that the current VAT regime makes no practical difference to the quantum of work they undertake or the way they choose contractors.

The situation among non-VAT-registered properties, however, is very different. Here, even after attempts to legitimately mitigate the impact of VAT, effective net VAT rates are only a little below the standard rate. The resulting cost is felt acutely, and often deeply resented, by owners who feel they are making real sacrifices to keep their buildings in the best condition they can, often with limited resources and with few external sources of support.

There is clear evidence that the VAT system as it stands creates a number of perverse incentives for these owners to:

- employ non-VAT registered contractors to save the VAT, even if they are not the best person for the job;
- do-it-yourself instead of employing a professional contractor; and
- avoid doing necessary works.

In addition, by creating additional demand for non-VAT-registered construction services, there is a risk of contributing to the wider issue of contractors seeking, legitimately or illegitimately, to keep declared turnover below the VAT turnover threshold, acting respectively to either limit company growth or incentivise tax evasion.

Because of the structure of the system, then, it seems that the properties that are most advantaged, with large visitor numbers and high expenditures, are most likely to be VAT-registered and to secure either full VAT recovery or a partial exemption agreement.

Even so, where properties have dual residential and business use, the existing system imposes administrative burdens on both owners and HMRC, who must define the extent of business and non-business use and then, where relevant, negotiate a reasonable 'partial exemption' for each relevant business and applicable tax year. There is much scope for ambiguity and unfairness where proportions of VAT are subject to individual negotiation in this manner, and for individual owners to fail to benefit where they do not realise that it may be possible to secure a partial VAT rebate. No less significantly, the complexity of the

system drives owners and managers into taking potentially costly specialist VAT advice, which it seems only infrequently yields implementable recommendations. Such is the complexity of the system that even specialist advice can be in conflict with HMRC's interpretation of the rules. Finally, the VAT system incentivises owners of historic properties to engage in business use, even though this can impose significant wear, tear and risk on the fabric, and to do so even where the owner would like to offer the property free of charge for community or public benefit.

A VAT rebate scheme would reduce or eliminate these perverse incentives and encourage owners and managers of listed historic buildings to use the best contractor for the job, rather than the one that happens to be operating below the VAT threshold. This would have a knock-on benefit of increasing market demand for specialist heritage skills, with potential longer-term benefits for skills supply.

It would also almost certainly encourage beneficial reinvestment of recovered VAT expenditures into additional repair and maintenance works. There is clear evidence that savings from a VAT rebate scheme would be reinvested in more repairs, with the vast majority of VAT-paying respondents saying that they would reinvest 100% of any savings in more R&M work, and the average proportion exceeding 90%. This does appear to include some element of development and improvement work; in most cases this would be directed at the main heritage asset and its curtilage buildings, but in some cases to the wider estate. Once again, this would be expected to have benefits in driving demand for and ultimately encouraging the supply of specialist heritage skills.

There is good evidence that such a tightly targeted rebate scheme would have further direct benefits by encouraging additional opening of heritage properties. The relatively large proportion of open properties in the sample that open for 28-30 days suggests that tax incentives do encourage public access. This research has estimated a central value of around 160 additional historic houses could be expected to open, in many cases for three years or more, should a VAT rebate scheme for publicly accessible properties become available. These could be expected to generate around 300,000 additional visits per year. Taken together with enhanced spend on repair and maintenance, the consequent economic benefits for those houses and their local communities could be expected to amount to some £14 million per year.

Moreover, a rebate scheme would support a part of the heritage sector and heritage economy that brings substantial broader social and welfare benefits to local communities. There is clear broader evidence from the open-ended survey questions of the substantial public benefit provided by houses of this kind to their local areas, notably through supporting charities, providing free or reduced cost entry to local residents, driving tourism and trade among local businesses, using local suppliers, directly employing staff, and contributing to local life and identity. The impression is of a group of properties that are strongly conscious of their place in their communities and committed to supporting them.

The benefits that would result from scheme would clearly come at cost. Drawing on the central values estimated for current and expected repair and maintenance expenditure,

prevailing net VAT rates, an appropriately targeted scheme would likely cost the Treasury around £5 million per year in forgone VAT revenue. This sum would, however, be partly counterbalanced by tax revenues from the associated directly induced economic activity, worth in the region of £14 million per year, as well as bringing the demonstrated wellbeing benefits of heritage-related activities, especially those involving historic buildings.<sup>31</sup>

If a rebate scheme were to be implemented, it would clearly be important for policymakers to specify its parameters in a way that would balance cost and benefit appropriately. In particular, the survey evidence showed some divergence in attitude towards the number of years of public opening that individual properties would be willing to accept in order to qualify for a VAT rebate scheme. The evidence suggests that a three-year minimum opening period would be acceptable to many houses that would seriously contemplate participation in such a scheme, and would arguably represent an appropriate way of ensuring that the additional revenue expended would secure optimum levels of public benefit.

Consideration would also need to be given to the eligibility of listed buildings that remain closed private residences, but which are situated in and contribute directly to the experience of open gardens or landscapes. The most appropriate response in these circumstances would seem to be permitting VAT rebates to be claimed for external repairs but not for internal works.

The relatively modest cost of a tightly targeted scheme means that it could almost certainly be wholly or largely funded from within a similar funding envelope to that for the Listed Places of Worship (LPOW) Grants, which is currently experiencing an underspend in the region of £10 million per annum. A modified form of the LPOW scheme that included privately owned, publicly accessible heritage in residential buildings would help ensure that the overall cost could be controlled relative to current government expenditure on supporting listed building repairs. In addition, if this approach were to be adopted, the existing administrative mechanisms of the Listed Places of Worship Scheme could be used and 'scaled up', making it relatively simple to implement. In addition, expanding the LPOW scheme, as a time-limited but renewable scheme, provides opportunities both for expansion of the scheme and for review of its costs and benefits of, at the scheme renewal dates. Given that the current LPOW funding period ends in March 2025, it would be timely to consider the benefits of extending or revising its eligibility requirements to permit a broader range of heritage assets to participate.

A broader scheme accessible to all heritage destinations would cost considerably less than the current LPOW scheme with an indicative cost of around £13 million per year, and could be expected to have proportionately greater downstream economic benefits, though these are more difficult to quantify given the smaller evidence base.

As an alternative, there could be a case for introducing a more generous interpretation of the rules relating to business and non-business use and partial exemption in respect of

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<sup>31</sup> Daniel Fujiwara, Thomas Cornwall & Paul Dolan, *Heritage and Wellbeing* (2014), pp. 5, 23-4.

repairs, maintenance and restoration where residential properties are operating as significant heritage destinations. This would have much the same effect as a tightly targeted scheme but would not entail the bureaucratic burden on government and individual property owners (along with the associated administrative costs) of running a grant scheme. Because it would have the same target as a tightly defined rebate scheme, the maximum cost of this kind of targeted intervention could be expected to be the same as the rebate scheme. Since it would, however, be available only to VAT-registered properties, the actual cost would almost certainly be considerably lower. This is because there are considerable numbers of non-VAT-registered houses that would not currently be eligible and it is unlikely that all would (or would be able to) register specifically to take advantage of such a scheme.

Some of these currently unregistered houses could, nevertheless, be expected to register for VAT, and such a scheme could be undertaken in conjunction with broader encouragement for those properties open to the public that are not currently in the scope of VAT to become VAT-registered. This would have the benefit of reducing the evident differences in behaviour between VAT-registered and non-VAT-registered businesses; it may also encourage a more entrepreneurial attitude among those smaller properties that are currently resistant to VAT-registration because the perceived benefits are at present less than the associated perceived burdens in complexity of record keeping and loss of a sense of ownership over the property.

There therefore appears to be good evidence that a VAT rebate scheme would address existing perverse incentives at a relatively modest cost that would, even applied quite broadly, be considerably less than the funding envelope for the Listed Places of Worship Grant Scheme, with a more broadly based scheme likely to be accommodated within a modestly expanded funding envelope of around £55 million. The scheme itself could be provided for either by extending the LPOW scheme or by introducing greater flexibility into the partial exemption rules, to take more generous account of the public benefits of public opening. There would be multiple heritage, economic and social benefits from introducing such a scheme, which could potentially help restore the balance of obligations imposed on, and support provided to, private and, potentially, charitable owners of significant heritage assets.

## Appendix: Case studies

Targeted case studies were undertaken to explore experiences and perceptions of VAT on repair and maintenance on privately and charitably owned heritage properties. These provide additional insights into the impacts of the current VAT system and the potential benefits of introducing a rebate scheme.

### Kingston Russell House

#### About the house

The house is a Grade I listed building, with Tudor origins. In 1690 the present house was added as a smaller wing at right-angles to the original structure; it consisted of a two-storey enfilade of 3 elegant rooms, backed by a long gallery. A copybook classical façade was added to one side in 1730. However, the owners soon moved away, and the house was rented out for over 100 years. Following the departure of its final tenant in the 1870s it was sold to a neighbouring estate. By 1906 it was virtually derelict – with much of its stone used to build estate cottages in the nearby village. The house was bought and rescued by a family in 1914. Two three-story wings were added, and the rump of the Tudor building demolished. But family tragedy struck, and between 1929 and 1984 it changed hands several times. The house was cut off from the estate surrounding it in the 1870s and although the present owner has brought back some of the surrounding parkland, it is not a house that can raise income through use of its land.



*It's unusual because it has the symmetry of the Georgian house – but it's small – ideal family house. Exactly the right house for a family and for us.*

The current family purchased the house 40 years ago it has recently been handed over to one of their children (who is able to work from home); it has been, and will continue to be, a family home occupied by people who send their children to local schools and remain part of the rural community, and who have to earn their living in order to pay for its upkeep.

#### Undertaking repair and maintenance

Each new owner in the 20<sup>th</sup> century did something to bring it back to life, replacing panelling that had been stored when it was empty; adding fine plasterwork and antique wallpaper; restoring and improving the garden. None the less when the house was purchased in 1984 many areas required urgent attention: replacing the old and dangerous wiring and heating system (a process that took two years); putting on a new lead roof to replace leaking asphalt on the 1690 building; removing the asbestos that was omnipresent from earlier restoration; and so on. Most recently rain and driving wind in the upper level of the gallery has caused extensive structural and decorative damage; water soaked the

walls and the floor, and threatened the fine plasterwork beneath. The leaded windows had to be individually removed and reconstructed pane by pane, a process that took many months.

### **The cost of repair**

The yearly running cost of repairs (at 2024 prices) has normally been between £12,000 and £20,000, but a larger repair project has been needed around every 10 years or so and has cost between £50,000 and £100,000. As the house is Grade I listed, repair and maintenance must be done 'like for like' which is extremely expensive, and can require elaborate professional fees and planning applications.

Other annual running costs depend on circumstances and choices – how much help is needed in the house, and especially how long it is possible to live with the heating turned off. However, there is an irreducible minimum of staff costs to prevent deterioration of the house and grounds. Maintaining the 6 acres of formal gardens (listed as of local significance) demands at least 4 days a week of help from a professional gardener, plus occasional inputs from outside contractors, however much time the family puts into working in the garden. Previous owners have employed at least one full time gardener, as well as domestic staff. Looking after the surrounding parkland adds to these costs.

### **Challenges surrounding repair and maintenance**

Although the main challenge facing repairing and maintaining a Grade I listed house is the cost, there are some additional challenges. One is understanding when to undertake repair work and how to prioritise it. The owner gave the example of the stonework façade, which is crumbling but does not (yet) pose a significant structural problem, or of the windows in the lower gallery, that do not yet leak as badly as those in the upper gallery that have just been restored.

The owner sees the marrying of new rules around energy efficiency with the requirements of a Grade I historic house as especially alarming; it is impossible to increase the insulation or to draught-proof effectively within listed-building constraints, there is not enough space to put in a plant room for a ground source heat pump, radiator sizes cannot be increased without wrecking the protected interiors, and it would be illegal to put in solar panels. There is no viable alternative to fossil fuels. Attempting to change the system would be prohibitively expensive, and probably unsuccessful.

The cost of insurance on the house has more than doubled this year, and is now greater than all the other annual running cost of the house put together, partly because rebuilding costs have rocketed in recent years. Owners of a Grade 1 house can be legally required to repair it exactly as it was before in the event of a fire, using traditional (and much more expensive) construction techniques. Many insurers will not offer cover at all, so there is not much opportunity to shop around.



## VAT and the difference it could make if changed

When the owner first started works on the house there was a 0% VAT rating for major work on listed buildings (technically, work for which listed building consent had been granted – which was treated the same way as new-build for VAT purposes). Now, repairs are charged at 20%, but owners are still required by Historic England and by local planners to maintain them in extremely expensive ways. A reduction in VAT rates targeted at the work required to maintain heritage assets would make a big difference, especially to major projects; repairs could be started sooner (leading to a reduction in damage), and more work could be done overall. In this house, the next two large projects will be replacing the flat roofs over the two wings (probably in lead) and trying to deal with some of the crumbling stonework. After that, it will probably be necessary to work on the remaining windows on both facades, which are likely to require complete renovation during the next ten years. These are all projects that are essential to maintain the structural integrity of the building.



*For example, the windows, we really restricted the number of windows we repaired due to the cost. So, if there was 0% VAT that's 20% more windows. We have a limited budget, and it would make a vast difference. In addition, having 20% more windows would avoid a lot of damage - a stitch in time saves nine.*

## Opening to the public

The owner says that the house and gardens are not ideally suited to opening to the general public. The house is 'too small', 'not grand enough', and the gardens are 'shabby'. He would be embarrassed to charge visitors. He is delighted to show people the house if they want to come and visit – indeed he tends to welcome them with a glass of wine or a cup of tea. But it is of more interest to specialist groups such as the Decorative Arts Society and the Georgian Group – both of whom have visited it recently – than to most people seeking a day out.

If it became a condition that the house needed to be open to receive a 0% rate on VAT for repair work, they would make more effort to attract visits. However, he said that it seemed to him that the real public interest was that the house should continue to be maintained as a heritage asset for future generations. Smaller Grade 1 houses like this are an important part of the built environment and the fact that they can't open themselves and offer visitor attractions (as larger houses do) should not preclude them from receiving the same help as larger houses when it comes to keeping them going. If anything, they need more help because they have no other potential sources of income.

## The importance of maintaining the house

The owner underlines that without the efforts of the owners of these types of houses, they would fall into disrepair. The owner also outlines the importance of ownership by someone engaged in the local community rather than someone rarely at the property. The current

owner explained that they use the local services, employ local people, and send their children to local schools.



*The government needs to realise just how marginal these smaller houses are and how they can very easily fall into disrepair or be owned by people who won't be there much. It's much better having someone who is perpetually engaged (in the local community) like us.*

*A lot of country house owners are hanging on by the skin of their teeth.*

## Boughton Monchelsea Place

### About the house

Boughton Monchelsea Place is an archetypal old English manor house, with its walls of mellow Kentish ragstone, mullioned windows, and crenelated parapets. The present appearance of the house is largely the result of a campaign of building in the later sixteenth-century, when Robert Rudston rebuilt and greatly extended an earlier house. Rudston's ranges were extensively remodelled in the eighteenth century, giving the main



*Photo courtesy of M. Kendrick © Matt Clayton Photography*

entrance front its current symmetrical appearance. At around this time a fine oak staircase was also added and formal gardens were laid out, including parterres and avenues, later replaced by sweeping lawns. Further additions and alterations were made in the late eighteenth and early nineteenth centuries, but since then the house has remained largely unchanged. The house is listed at Grade I; there is a Grade II listed manorial barn just to the

south, and a fine eighteenth-century sundial and Tudor archway also have separate list entries, also at Grade II. All these structures are set in the Grade II registered designed landscape, comprising pleasure grounds, an extensive deer park with lakes, and a kitchen garden, together with early nineteenth-century outbuildings.

The house was bought by the present owners, Marice and Dominic Kendrick, around twenty-five years ago. Having previously lived in London since graduating and beginning professional careers, they eventually decided to combine their love of country living and old buildings. They had not planned, however, to buy such an extensive and complex property – but Boughton Monchelsea Place happened to come onto the market when they were

looking. It was a house that they'd visited and loved, and where there was already a successful business opening the house for events. After checking that there was nothing seriously structurally amiss they decided to go ahead with the purchase. Mrs Kendrick took on the task of running the events business. Since then, she has been taking care of the house and associated business on a practically full-time basis.

### **Undertaking repair and maintenance**

Before they bought Boughton Monchelsea Place, the Kendricks commissioned a full structural survey, which uncovered some issues but found that the property was basically sound. Even so, there was much in need of improvement and they have since been engaged in an almost continuous cycle of repair, restoration and renewal. The first major project was relaying the drive, which takes a circuitous route through the parkland and is a kilometre in length. The house also had only two bathrooms to serve its twelve bedrooms, so extensive new plumbing work was a practical necessity. Since then, they have invested continuously in repair works, with some limited improvements made, notably the creation of a terrace on the south side of the house. Repairs are needed not just to the main house but to the outbuildings, including a historic barn, a summerhouse and the ragstone walls of the estate. Current repairs are focusing on external timberwork, which has involved numerous like-for-like repairs to timber casements.

### **The cost of repair**

The recurring cost for basic repair and maintenance of the house varies but is in the tens of thousands per year. The upkeep of the gardens is on top of this, with the annual cost in gardening staff and equipment maintenance reaching around £75,000, on top of which there is work by external contractors, such as tree surgery and fencing. In the last year, these have amounted to around £8,000, plus VAT of £1,600.

Specific repair and restoration projects are a further expense. Recent work has included the restoration of the listed barn, which was in poor and deteriorating condition, with rotten floors and failing wattle-and-daub infill. The restoration was highly specialised work so the owners had to identify and employ a firm with a solid track record of listed building restoration. Their chosen firm quoted £42,000, but further problems were discovered during the works, which meant that the eventual bill was nearly £54,000, with VAT adding a further £11,000. This was followed last year by the restoration of the summer house, which cost £10,500, again plus VAT. Currently the owners are engaged in a comprehensive overhaul of the windows, which is again on top of the routine repair and maintenance. The cost for this is again likely to be around £50,000, plus VAT. Future projects that the owners would like to undertake include the repair of the one-handed seventeenth century clock in the courtyard, the restoration of the attic rooms adjoining the former day nursery, and rebuilding a ruined cottage in the park.

Finally, in addition to basic repair and maintenance and planned projects, there are unexpected emergency works. For example, high winds toppled a length of the estate wall, which had to be repaired using traditional techniques. Quotes from reputable companies

were in excess of £5,000, again not including VAT. This led the owners to look for a sole trader, who was eventually able to carry out the repair for £4,000.



*"I don't think we were really prepared for how much cost would be involved."*

### **Challenges surrounding repair and maintenance**

The owners are fortunate enough to be in a financially secure position and are prepared to devote a considerable proportion of their income to sustaining Boughton Monchelsea Place. Since their original survey in 1997, they have not commissioned a condition survey, instead undertaking work as and when it becomes apparent that it needs to be done. Such is the cost and complexity of managing a house like this that they are not in a position to move from a reactive to proactive approach to repair and maintenance. The owner commented that even after their decades of investment the house could probably absorb £500,000 in basic repairs that would have a barely perceptible effect on the house's overall appearance, such as comprehensive masonry restoration and repointing and overhauling the roofs of all the outbuildings.

But finance is not the only obstacle to keeping the house in good repair. There are major challenges identifying contractors that are able to undertake work of sufficient quality who can be trusted to quote fairly and who are reliable. Those who are good are often older; when they retire, there is frequently nobody ready to continue the business.



*"It's a constant battle to find people you can trust, who can do the job, and who'll actually turn up and do it."*

Finally, although the owner felt that the planning system had become more flexible and reasonable at granting consent for works to listed buildings, the way the system itself works has become more bureaucratic and difficult to negotiate. A particular challenge is the increasingly difficulty in securing expert informal guidance from local authority conservation officers. This makes submitting listed building consent applications both more difficult and riskier. It is also now taking a long time to receive consent, placing further burdens on owners and managers of listed buildings.



*"The bureaucracy is another thing you have to fit in on top of keeping everything running."*

## The impact of VAT

Almost all the repair and maintenance works on the house have incurred standard-rated VAT. This makes costly repairs even more expensive. The owner felt that when the greater part of her and her husband's joint incomes are spent on repair and maintenance costs, having to account for VAT on top of the basic cost was very depressing. The owner acknowledged the pleasure that came from living in such a beautiful house but was clear that it would be difficult to regard what they do as a rational economic choice. Instead, they were motivated by their love for the love of the gracious old building and its surroundings, which has created a sense of care and responsibility for passing on the house to posterity in at least as good, and probably better condition, than when they took it on. She doubted that there would be many people to follow after them, noting that none of their own children had both the means or the motivation to continue their own commitment to the property. Without some kind of support the house's future may be doubtful: 'while it's lovely to have these old houses there isn't really much help to look after them'.



*"People think we're crazy for living here – they say that we could be going on fabulous holidays or buying expensive cars. But it's a labour of love and I do think with a listed building it's something you're looking after for posterity. I think there should be some support for it."*

## Opening to the public

The house previously had greater levels of public access, but this has since been intentionally reduced. The change has partly been a matter of wishing for greater privacy. It also, however, results from concerns about the security and sustainability. Public tours present challenges, with theft and damage a constant risk. Even private events can be problematic, with inebriated or ill-informed guests causing damage that may, in some cases, be irreparable. Moreover, the intensive use the property undergoes in these circumstances can be inadvertently destructive. While in use as a wedding venue, it had become customary to take group photographs on the seventeenth-century timber staircase. It was not, however, sufficiently robust to withstand the resulting repeated loading, which began to dislocate the steps from their bearings. And then there is general wear and tear: chips, scratches, and damage to timber floors from stiletto heels. In addition, there are the increasing health and safety expectations: old houses like this have frequent changes of floor level, are delicate, and often do not meet current requirements. Adapting the house to meet these requirements would be costly, time-consuming, and ultimately, not compatible with sustaining its heritage value.

For these reasons, they would be reluctant to open the house itself again even for substantial financial incentives: the damage and the cost of adaptation would outweigh the financial benefits. But the grounds provide the setting for outdoor theatrical performances,

which bring about 200 people for each of six performances a year. They also open the gardens regularly for charity, bringing in about 350 people a time, and offer pre-booked garden tours. In total, there are probably around 2000 visitors a year. While these visitors don't tour the house, they do see it in context as it is the focal point of the gardens. These kinds of visitor numbers, it may be noted, are comparable to those brought in by many of the houses that are meeting the basic 28-day opening requirement from HMRC. This shows how even houses that do not meet the formal criterion for support can, nevertheless, bring substantial benefits as heritage attractions and as contributors to their wider communities.

## English Heritage

### About English Heritage

English Heritage is an independent charitable trust set up by the UK government to care for historic properties that were previously in the care of the state. Tracing its origins to the Office of Works, the government department that took care of architecture and buildings from its creation in 1851 until its absorption into the Ministry of Works in 1940. From the passage of the Ancient Monuments and Consolidation and Amendment Act of 1913, the Office of Works was empowered to protect and take into public ownership sites of outstanding historic or archaeological interest. By 1933, 273 sites were in the care of the Office of Works. Almost all had ancient or medieval origins and they included some of the nation's most famous abbeys, castles, forts and ancient monuments. In 1983 the collection was transferred to a newly established Historic Buildings and Monuments Commission, which as soon renamed English Heritage. This new body both cared for the national collection of monuments and ran England's heritage protection system.

English Heritage proved to be highly effective at managing the national collection of monuments, both expanding the number and range of properties in care and transforming their presentation and interpretation. In 2015, it was decided to separate English Heritage into two separate bodies. One would remain a non-departmental government body take responsibility for the heritage protection system and is now known as Historic England. The other would be an independent charity, which would care for the English national collection of historic sites and would retain English Heritage's name and branding. The government provided an £80 million one-off grant to aid the transition to charitable status of the new English Heritage. Since then, English Heritage has continued to operate as an independent charitable trust, caring for approximately 400 sites.

Altogether, English Heritage's sites received in excess of 6 million individual visits in the last financial year and there were 560,000 family visits. The English Heritage membership

scheme has 1.2 million members. Total income in the last financial year was just over £140 million, while expenditure was just under £148.5 million.<sup>32</sup>

### **Historic buildings repair and maintenance at English Heritage**

English Heritage's initial £80 million grant from the government included £52 million of ringfenced funding for clearing the backlog of essential repairs and maintenance on the sites being transferred to the charity. This work has now been completed and means that the charity's properties are in relatively good condition. Annual expenditure on core buildings maintenance is around £4 million per year, plus around another £1 million in responsive works, and a further £6 million for major conservation projects. On top of this, around £4 million is spent on buildings services and a similar sum on landscape maintenance.

However, there remains a significant building repair, maintenance and conservation need. English Heritage has comprehensive systems in place to both assess and monitor condition and to prioritise repair and maintenance works. This means that the organisation has a very good sense of what is required. The current conservation need is estimated at some £120 million, of which around £50 million is high priority and should be undertaken within the next five years. The figures, it should be noted, are for the actual repair works themselves, but do not include preliminaries, access, or irrecoverable VAT, which can add up to 80% to the baseline cost. This means that the actual cost of delivery, based on previous experience, is likely to be around £18-19 million more, taking the total that would need to be expended to undertake all the works to around £140 million. If the current pattern of repair and maintenance is sustained, and property condition is assumed to be stable, English Heritage estimates that the were to be no additional conservation need, it would take until around 2060 to address all the required works. This makes no allowance for emerging problems during that time period.

Because of the high level of conservation need and the relatively fixed budgets for buildings repair, maintenance and conservation, cost is always a factor in determining which works get done. Many significant conservation project costs cost millions of pounds to implement. Difficult choices have to be made and, where resources are limited, project work is driven by risk: in part risk to historic fabric, but most of all risk to public safety – where there is a risk of harm to visitors, this has to be prioritised.

### **Repairs, Maintenance and VAT**

The current VAT regime is substantive consideration in relation to English Heritage's repair, maintenance and conservation of its historic buildings. The charity's sites are each individually classified for VAT. Where the site charges entry to visitors, it is classed as operating for business purposes and VAT on buildings repair and maintenance is recoverable in the normal way. However, where a site is free to access it is classed as a non-

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<sup>32</sup> English Heritage, *Annual Report 2023-24*, <https://www.english-heritage.org.uk/siteassets/home/0-about-us-new/01-policies-and-reports/01.09-annual-reports/01.09.2-annual-report-pdfs/annual-report-2023-24.pdf>.

business supply, meaning that input VAT is not recoverable. Only around one third of English Heritage's sites are chargeable and the rest are free to enter. In addition, there are a number of sites that have legacy 'local management agreements', where opening and closing are managed by a third party. Since the site does not generate revenue for English Heritage, these sites too are ineligible for VAT recovery. This means that there are around 300 sites where VAT is currently irrecoverable. English Heritage estimates that it pays in excess of £700,000 per year in VAT on these sites specifically in relation to buildings repair, maintenance and conservation.



*"Nearly 2/3rds of the properties in our care are subject to irrecoverable VAT as they are free to enter."*

Although in many cases these are smaller sites, this is not always the case. Kenwood House, for example, is free to enter as a condition of the original bequest that established it as a museum. This means that VAT is an extra charge on any works undertaken on the free to enter parts of the site. However, the service buildings are used for hospitality and therefore operate as a business. The result is that VAT is recoverable on works to the subsidiary buildings but is not recoverable on works to the main house. The area of the site where VAT is irrecoverable is a highly significant heritage asset which has the only purpose of providing public benefit through offering free access to its Adam interiors and highly important art collection.

Similarly, English Heritage undertook a major conservation project in Ironbridge Gorge. This area is one of the cradles of modern industry and its international cultural heritage significance is recognised by its status as a World Heritage Site. The Iron Bridge itself is the earliest large-scale, fully cast-iron bridge erected and is a key part of the World Heritage Site. It is an English Heritage property and was comprehensively restored in 2016-17 at a cost of £3.6 million. As a working bridge it is a free-to-access site, meaning that VAT was not recoverable. This amounted to several hundred thousand pounds.

### **The impact of VAT**

Because English Heritage's budgets for routine repair and maintenance and its core conservation budget are fixed, every pound spent on irrecoverable VAT is diverted from the care of the charity's historic buildings. Lower VAT bills would mean more expenditure on the charity's core charitable purposes.

No less significantly, the current regime provides a strong fiscal incentive to make sites chargeable even where the charity would prefer to make them freely accessible. This is especially the case where major capital works are proposed, as the VAT implications become very considerable.



A tangible example of this is the Bishop's Palace in Lincoln. It has long been recognised within English Heritage that this important medieval building is difficult to operate as a chargeable site. Those in charge of the visitor offer therefore wished to add it to the portfolio of free-to-enter sites. However, the ruins were in need of major conservation, amounting to some £2.5 million of capital works. In this situation, it was necessary to maintain the site as a chargeable visitor attraction, with its more favourable VAT treatment.

This is a situation that could be remedied by allowing English Heritage's accessible properties to be treated as a single business, with the free-to-enter sites being regarded as a part of a total visitor offer that generates revenues through its membership scheme. But without flexibility to make this change, the only solution would be to modify the VAT system, ideally by zero-rating heritage-related buildings repair and maintenance, at the very least for charities undertaking such works in pursuit of their charitable purposes.