



## **European Commission Consultation Paper: Review of Existing Legislation on VAT Reduced Rates**

### **Homes for Scotland Response December 2012**

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#### **Introduction**

Homes for Scotland is the authoritative voice for the home building industry in Scotland. With a membership of 160 organisations together providing 95% of all new homes built for sale in Scotland each year, we are committed to improving the living in Scotland by providing this and future generations with smart and sustainable homes where people want to live.

We welcome the opportunity to respond to the European Commission's consultation on reduced VAT rates, given our inherent interests in the much needed supply of new build homes. In that context, our concerns lie with any change to the legislation which has the potential to impact on the ability of member states to offer reduced rates (zero) on new build housing. This response relates to section 6.4 on housing.

#### **Housing as devolved matter**

With the UK being the member state, it is crucial that the European Commission takes into account the activities and impact on Scotland as a devolved administration. Housing supply has deteriorated at a similar rate across the UK, with housing need growing fast, therefore similar concerns may be raised by organisations in England, Ireland and Wales. However housing is a devolved matter to the Scottish Government and for that reason the particular interests of Scotland within this section of the consultation must be accounted for.

#### **Housing Supply in Scotland**

In Scotland, new housing supply is at its lowest level since the end of the Second World War. It is anticipated that in 2012 completions will be no higher than the 15,112 recorded by the Scottish Government as complete in 2011. National Records of Scotland anticipate that by 2033 we will need an extra 450,000 new homes in Scotland to meet expected demand (that's an average of 21,428 each year). At present, we are simply not building enough new homes in Scotland.

#### **Why new home building should be supported**

Like Homes for Scotland, the Scottish Government considers that an adequate supply of housing is vital both for economic growth and to enable people and communities to meet their aspirations.

*“Housing is a key part of our physical, economic, and social fabric. Getting housing “right” would contribute to our Purpose of sustainable economic growth to enable all of Scotland to flourish. It would also help us achieve the country’s full potential through better educational and employment opportunities, healthier lives and a more prosperous and equal society.*

*Accessible, affordable housing and attractive local environments can contribute significantly to our wider aims to tackle poverty and health inequalities and to build confidence and capacity in communities. High quality housing and its surrounding environment helps to give our children the best start in life – for example through play areas where they can develop social skills and improve physical health.”*

*“For 2020, our vision is for a housing system which provides an affordable home for all. **To achieve this we will need a strong recovery in the construction sector and a substantial increase in the number of homes of all types.**”*

(‘Homes Fit for the 21st Century: The Scottish Government’s Strategy and Action Plan for Housing in the Next Decade: 2011-2020’)

In achieving an increase in housing supply, the Scottish Government acknowledges that the objectives are challenging given the context of:

- *a sharp decline in housing construction diminishing the medium-term capacity of the construction sector;*
- *more restrictive financing of the private housing market, in particular a structural decline in mortgage availability;*
- *the projected growth and ageing of the population of Scotland, and reduction in the average size of each household;*
- *the prospect of sustained cuts to the availability of public funding, imposed on Scotland by the UK Government; and*

Now is clearly not the time to make it more costly to deliver much needed new homes.

## **Understanding the consultation proposals**

The European Commission consultation is suggesting that VAT rates could be equalised across Europe to help contribute to ‘Resource Efficient Europe’.

Our understanding is that in supplies relating to housing (provision, **construction**, renovation and alteration) unless ‘improved sustainable materials’, ‘higher waste recycling’ and ‘improved design’ is used member states would not have the scope of the reduced VAT rates. We understand that ‘reduced VAT rates’ incorporates zero rated items and we are obviously concerned about the impact on new build.

Would this mean that a minimum set of building standards would have to apply across Europe and if a member state was building below this minimum they would lose their discretion to zero rate new build? Currently in Scotland, increases in building standards to help achieve the country’s ambitious climate change targets mean that new homes built today are already 70% more energy efficient than they were in 1990.

We would like to think that the high standards in Scotland would mean that it would meet any minimum standard set in Europe (even for warrants approved earlier than 2007 or 2010 - the most recent years when the standards were increased), but we would not wish to risk that not being the case.

While accepting the notion that VAT could provide an effective financial incentive or 'stick' for member states to use to ensure the provision of energy efficient homes which in turn would assist the European Commission in contributing to 'Resource Efficient Europe, Homes for Scotland is completely against any change to the legislation that would introduce uncertainty around VAT on new build housing.

If VAT was chargeable on new housing supply overnight we would potentially lose our home building industry in Scotland, and I would suggest the UK and wider Europe. Market prices of new build homes do not currently reflect the higher build costs of 'green' homes. If VAT had to be absorbed in addition to the cost of sustainable materials there would be very limited potential for profit within the sector and companies would collapse or exit the market.

We would urge the European Commission not to make any changes that affect the ability of member states to apply discretion for lower or zero rates for the provision of new build homes.