

Rt Hon Michael Gove MP
Secretary of State
Department for Levelling Up, Housing and Communities
Fry Building
2 Marsham Street
London SW1P 4DF

26 April 2022

Dear *Michael,*

ADDITIONAL TAXES ON UK HOUSE BUILDERS

Following your announcement of the Building Safety Pledge on 13 April, I am writing to express the industry's disappointment and frustration that, alongside the announcement, was a statement of intent to levy another tax on development before seriously pursuing any other actors.

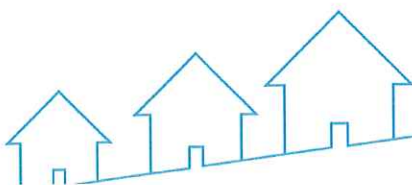
The announcement suggested a "wide-ranging agreement that will see industry contribute £5 billion to address the building safety scandal" which is misleading. As you know, the UK housebuilding industry has agreed to pay to remediate the buildings it has developed and will also be paying the £2.5bn to £3bn Residential Property Developer Tax (RPDT) already introduced to support the remediation of taller buildings built by other actors, including foreign developers, and pledges from signatory builders will take this commitment to more than £5bn.

The industry does not believe that an additional "Building Safety Levy" of another £3bn to pay for the remediation of other buildings and to tackle issues that are not of its making is fair or justified. We are concerned that an overall bill for UK house builders of more than £8bn that is suggested by the announcement will harm housing supply and create a distorted market leaving them disadvantaged in comparison with overseas developers and other housing providers.

The pledge: 'Polluter Pays Plus'

I am proud of the work of HBF since January to agree the terms of the pledge with your Department and which have now been signed up to by many of our members. The pledge sees signatory builders going even further than the 'polluter pays' principle that has been a key tenet of the Government's requests to industry. Companies have now committed to remediating 11m+ buildings they have developed since 1992, recompensing public money spent to remediate 18m+ buildings they have developed and paying the £2.5bn to £3bn RPDT.

Given the scale of commitments now made by UK house builders, it is right and fair to pursue other actors in the complex ecosystem of products, regulations and development. As you have acknowledged before, developers were let down by an inadequate regulatory regime and product accreditation system failings that are now obvious, as is being evidenced at the Grenfell Tower Inquiry.



Other actors

The approach from Government sets a dangerous precedent for the wider business community and the long-term fortunes of the UK economy. I note your comments to the House of Commons LUHC Select Committee on 21 February, that it is difficult to threaten consequences and extract cash from foreign developers and product manufacturers, but the response cannot merely be to pursue the same industry again and again, however much of an easy target it is perceived to be.

I welcome your strongly worded letter to the construction products industry. Our members share your obvious frustrations, but I note that no specific contribution is being sought from these companies, which declare billions in annual worldwide profits, and no particular deadline has been set for a resolution. We have seen your own interventions in relation to high profile sporting sponsorship deals, but none of this replaces an unsafe product on a building or contributes to the costs that leaseholders are facing. Last year, faced with an urgent situation and the need to generate revenue, the Government consulted on and implemented, at considerable pace, the new RPDT. That same vigour should now be applied to the pursuit of other actors.

A narrow band of companies broadly termed "UK house builders" have been threatened with consequences should they not sign the pledge. Meanwhile, other types of residential developer routinely competing with our members for land and services, remain outside of the scope of this threat. This includes large, well-capitalised developers and landowners operating primarily in London. In many cases these companies are already exempt from paying RPDT thanks to carve outs for specialist firms. These may be influential companies but I hope that your Department does not demur from pursuing such actors. We know from planning records that large volumes of mid-rise blocks have been developed by such developers and would be happy to compare these findings with your own records.

I fear that the message that is being conveyed by the Government's current approach, and its apparent ambition to levy another new tax on the same sector, is that if a firm wants to minimise costs and absolve itself of responsibilities, its directors would be advised to base the company overseas or slow play ministerial requests.

Building Safety Fund

I understand that the Building Safety Fund created to support the remediation of 18m+ buildings has so far assigned around £1.2bn of the £5.1bn allocated to the scheme. The pledge signed by HBF members in the past two weeks will see the Building Safety Fund receive significant reimbursements, likely totaling hundreds of millions and lead to many buildings that would have been remediated through this route now being taken on by signatory builders, resulting in a far reduced call on the BSF for remediating 18m+ buildings.

I would welcome your confirmation of the total amount being repaid by signatory developers and what assessment has been made as to the positive impact that pledges will have on BSF resources. As this funding is already in place, financed by HBF's members through RPDT, I would encourage consideration of giving 11-18m buildings access to the BSF or a similar scheme drawing on the same funding before another tax is introduced.

Data on 11-18m buildings

The press release of 13 April declared that £3bn would be sought from builders via another new levy to fund remediation of 'orphaned' buildings. I can only assume that this £3bn requirement is underpinned by the same questionable estimate that was the basis for the £4bn referenced in January – the basis of which we continue to be puzzled by.

We understand that DLUHC's estimates are predicated on a desktop exercise conducted by officials and consultants which starts from a position of estimating the total number of 11-18m buildings in the country. DLUHC's own footnotes suggest that there is significant scope for inaccuracy on this point which could overestimate the number. Indeed, other Government data sources suggest that the total number of 11-18m residential buildings may be lower than this headline analysis assumes.

Our members share the view of the LUHC Select Committee that for Government to still to be basing estimates of 11-18m buildings with safety issues on theoretical desktop exercises some five years after the Grenfell Tower fire is unsatisfactory. To improve this, many of our members provided data to officials in February and were led to believe that the DLUHC would share aggregated results with us. In the absence of that, HBF commissioned a leading accountancy firm to collate and analyse returns from more than 130 HBF members. We found that this cohort had built a very small percentage of the estimated number of 11-18m buildings that your Department considers may require remediation. Indeed, most had never built above 11m. Even extrapolating to account for those outside of HBF's membership, we estimate that UK home builders have developed only 10-20% of the 11-18m buildings which might need to be remediated.

Our latest understanding is that a very large proportion of the 8,000 or so buildings that DLUHC considers may require remediation were built much longer ago than the past 30 years and now require remediation because of a refurbishment. The alternative is that there are not as many 11-18m buildings in need of remediation as your consultants have determined. Without adequate transparency it is impossible to tell.

If the number of 11-18m buildings with building safety defects has been significantly overestimated, the logic behind introducing a vast new tax liability must be undermined. One possible conclusion will be that, in combination with RPDT, this newly proposed levy, amounts to a policy of stealth taxing UK builders to meet wider goals.

Next steps

Our members are responsible businesses paying UK taxes and doing the right thing for leaseholders. Many have never built mid-rise or high-rise blocks but all UK builders now seem to face the threat of another punitive tax burden to pay for the failures of regulation and the intransigence of other actors. This will include hundreds of SMEs, the very cohort of companies you are keen to see grow. Imposing this levy will make the barriers to entry and growth, which are already very significant, even greater.

Before Government initiates the processes necessary to raise yet more money from these supposed easy targets, we would very much welcome:

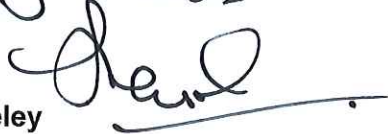
1. A clear commitment from product manufacturers commensurate with RPDT paid by developers. Taxing profits would make it more difficult for manufacturers to directly pass these costs onto house builders and others working in the construction sector

2. Much greater clarity on the number of 11-18m buildings in need of remediation and the likely sums needed to meet the 'orphaned' building remediation requirements. Because of the likely impact on housing supply, it is important that a robust and transparent estimate is made. Guesswork should not be the basis for a new tax
3. A better understanding of how other sources of funding are being treated to avoid double counting. This includes the impact of the pledge commitments (BSF reimbursements and the 18m+ self-remediation reducing the call on the BSF). It would reduce the funds and administrative time needed by Government for 18m+ buildings and should be used to support leaseholders in 11-18m buildings. This is likely something already under consideration but clearly communicating how this will reduce the overall bill and help remediate more 'orphaned' buildings would be useful
4. A more comprehensive approach to ensuring that other largescale property actors are asked to make an appropriate contribution, including influential property interests, mixed-use developers, the Build to Rent sector and foreign developers

I look forward to hearing from you and continuing to work with you and your officials in the months ahead.

Kind regards

My very best wishes



Stewart Baseley
Executive Chairman

*PS: It would be very useful to meet
or talk these issues through when
you doing reports.*