March 2011

Home Builders Federation (HBF)
Budget Submission 2011

The Home Builders Federation (HBF) is the principal trade association representing the interests of private housebuilders in England and Wales. Our members, who include companies ranging from major national firms, through regional companies to smaller local companies, are responsible for more than 80% of the new homes built every year.

Executive Summary

1. House building has a major **economic role** to play – direct and indirect output and employment growth, facilitating labour mobility and helping to reduce unemployment, facilitating housing chains, helping to solve Britain's long-term affordability crisis, contributing significantly to the supply of Affordable Housing. Chronic long-term undersupply has severely worsened since 2007.

2. The **housing market recovery** from early Summer 2009 to early Summer 2010 has steadied, with residential transactions and mortgage approvals falling year-on-year in the second half of 2010. House building in Great Britain in 2010 fell to less than 125,00 completions (103,00 in England), the lowest peacetime level since 1923. Evidence from the new homes sector in 2011 suggests the recovery is fragile and house builders are cautious about the outlook for 2011. Completions are unlikely to rise much above last year's record low and may fall further.

3. **Mortgage availability**, and especially the shortage of affordable higher LTV mortgages, is the biggest immediate constraint on demand and house building. The home building industry has limited capacity to compensate for the mortgage famine on its own. Mortgage regulation, as proposed in the FSA's MMR, poses a very significant threat to the future of the housing market.

4. In the medium to longer term, the **supply of permissioned, viable land** poses potentially the biggest obstacle to a recovery in home building unless the radically new planning system is made to work effectively and unless the national and local policy and regulatory cost burden is very significantly reduced.

Summary of Recommendations

5. Government needs to do everything possible to encourage an increase in **mortgage availability and higher LTV mortgages**. Government could play a valuable role in arranging high-level discussions between lenders, insurers, house builders and the FSA to explore solutions such as mortgage indemnity insurance.

6. The FSA must be persuaded to ensure its proposals for **mortgage regulation** support a sustainable recovery in the housing market, rather than pose a major risk to the housing market, house prices and house building.

7. We urge the Government to consider re-introducing the very successful **HomeBuy Direct** (HBD), keeping the essential characteristics of the original scheme but perhaps modifying the terms to make public money go further.

8. Tax incentives for a **first-time buyer savings scheme** would encourage young people hoping to buy a home to save towards a higher deposit.

9. The current unfair slab system for **SDLT** should be replaced with a fairer slice system. The SDLT treatment of multiple purchases of homes by rental investors should be reformed to help encourage new sources of housing finance and demand. The current very limited SDLT exemption for zero-carbon homes should be extended, perhaps to homes meeting the expected changes to Part L in 2013.

10. The Treasury should allow **residential investment in SIPPs**, perhaps restricted to UK dwellings and subject to price caps.

11. The Government must ensure the National **Planning Policy** Framework is strongly pro-growth and pro-development. The impact of the New Homes Bonus should be closely monitored and early action taken to increase the incentive if it does not appear to be working adequately. DCLG should firmly discourage local authorities from adopting unviable levels of policy and regulation on the assumption that they will become affordable after a period of rampant house price inflation.

12. We need to see clear evidence that the mechanisms to control the national **regulatory burden** are working in practice. We are most concerned that the onerous policy and

regulatory burden imposed by local authorities is not adequately addressed by the proposed Local Standards Framework. Because the regulatory burden is so complex, and because there are no easy answers, we believe Government should set up a small, expert working group of officials, developers and local authorities to address the issue and come up with workable solutions, coordinating with parallel work on the NPPF. Neither officials nor developers can solve the problem on their own.

13. The **public sector**, which controls between a quarter and a third of all potential **residential development land**, should actively seek to increase the supply of land, whether by outright sale or in partnerships with developers.

14. The assumed **price of carbon** must be set at a sensible level in arriving at Allowable Solutions and a cost-effective definition of zero carbon. The price assumed by DCLG and the Hub is far above the price assumed by Treasury in recent consultations.

15. HBF continues to have serious concerns about HM Treasury's and HMRC's proposals for changing the **tax rules relating to self-employment** in construction and would therefore ask the new Government to reconsider the original proposals and agree not to pursue them.

Background Conditions to Housing Supply

House building has major economic role to play – if it is allowed to

16. New home building makes a significant contribution to the economy. Before the downturn, we estimate new home building accounted for:

    - 8.6% of Fixed Capital Formation
    - 1.5% of GDP
    - 335,000 direct jobs, with as many as four times this number dependent on home building in the wider economy
    - And 17% of construction industry output
    - New housing creates an estimated 11 net jobs per £1m of construction investment

17. New home building creates demand for skilled labour in local communities across the country. Because of its potential for job creation and its relatively low import content, housing produces high economic returns for the UK economy.

18. Over the longer term, housing supply has an enormous impact on the labour market: supply, mobility, cost, unemployment.

19. Once planning permission is obtained, home builders are able to respond very quickly to market conditions or to Government measures, rapidly creating jobs and economic activity in local communities.

20. New homes play a crucial role in the housing market. Although accounting for only about 10% of housing transactions, new homes allow many property chains to be completed because sales of new homes are not dependent on another purchase.

21. Higher levels of new home building offer the only long-term solution to poor housing affordability and to enabling young people to meet their aspiration for home ownership.

22. A high proportion of Affordable Housing is provided through planning obligations (S106) agreements on private housing sites, so increased private home building will automatically bring an increased supply of Affordable Housing.

23. England suffers from a chronic undersupply of housing, a situation that has been seriously worsened by the housing market crash since 2007. Housing completions in 2010 were at their lowest peacetime level since 1923. This undersupply has many adverse social and economic consequences.

24. As discussed below, by far the biggest immediate constraint on home building is the restricted availability of mortgage finance, especially higher loan-to-value (LTV) mortgages. But once the mortgage market returns to something like normal, the supply of permissioned, viable land will act as a major constraint on supply unless the new planning system is successful and the regulatory burden on home building is significantly reduced.

25. The longer and slower the recovery, the more the mismatch between housing demand/need and supply will grow, and the greater the adverse social and economic consequences.

Housing market conditions fragile

26. The housing market staged a modest recovery between early Summer 2009 and early Summer 2010, but since then the recovery has steadied.

27. Year-on-year growth in mortgage approvals for house purchase and residential transactions turned sharply negative towards the end of 2010. Quarterly private housing starts (DCLG) in England were still showing positive year-on-year growth in the final quarterly of 2010, but the rate of growth had slowed dramatically, a slowdown mirrored in the annual rate of growth of NHBC private warranty registrations (UK). And it is very striking that total housing completions in England have so far shown no recovery, with declines year-on-year in both private and RSL completions (England) in each of the four quarters of 2010., GB housing completions, which are likely to have been under 125,000 in 2010, were at their lowest peacetime level since 1923.

28. In the first two months of 2011, visitors to new home sites were up on a year ago, a welcome trend. Net reservations and net reservations per site (a key new home sales indicator) were running well above the second half of 2010.

And house builders cautious about the outlook

29. HBF members remain cautious about the outlook for 2011. They are concerned about economic growth and employment, future Bank Rate increases and the impact of banks' refinancing requirements on mortgage availability and mortgage terms. In the January HBF Monthly Survey, 32% of companies said they expected sales in 2011 to be ahead of 2010, against 27% expecting lower sales, a positive balance of only +5%. By contrast, a balance of +25% in January 2010 said they expected sales to rise in 2010. There must be a danger the market has stalled at historically low levels, with completions in 2011 no better than in 2010, and possibly lower.

Mortgage availability the biggest immediate constraint on home building

30. By far the biggest immediate constraint on effective housing demand is mortgage availability, particularly the absence of higher LTV mortgages for first-time buyers. Home builders can only build additional homes if they can sell them, so that the mortgage famine is directly holding back house building.

31. In the December HBF Monthly Survey, out of a list of seven demand constraints, 89% of home builders quoted mortgage terms as a 'major constraint', followed by mortgage availability (76%) and buyer confidence (75%).

32. The most recent 2008-based household projections, which put projected household growth at 232,000 per year from 2008-33, show that underlying demand/need for housing is very strong, especially when compared with today's historically low levels of home building. Between 2000 and 2009, household growth exceeded growth of the housing stock by an average 43,500 per year.

33. The CML estimates that between 2007 and 2010 there were 800,000 fewer first-time buyer households than recent trends and demographics would suggest, a figure home builders would endorse based on their own experience in sales offices. There can be no doubt that if mortgage availability were to improve and higher LTV mortgages returned, home builders would be able to raise house building quite significantly from today's historic lows. The industry could probably increase output by around one third using current stocks of permissioned land and with current overheads, although site trades would have to increase broadly in line with the increase in home building. Initially this would be done by increasing production on current sites, lifting the level of sales per site per week. However given sufficient confidence in the mortgage and housing market outlook, home builders would then begin to add to output by opening new sites.

34. The industry has already done a great deal to help itself. Most companies offer sales incentives to help purchasers buy a home in the current difficult economic and mortgage market conditions. Many larger companies have made significant use of share-equity schemes. We estimate that companies' own shared-equity schemes and HomeBuy Direct have together accounted for around one in ten new home sales since the downturn.

35. However the industry has limited balance sheet capacity, and certainly cannot hope to compensate for the full impact of the mortgage famine. Also, every £1 of house builders' capital locked up in shared-equity is capital not available to invest in new land and production.

And mortgage regulation is a major threat to recovery

36. The implications of the FSA's Mortgage Market Review (MMR) proposals published in the latter part of last year are deeply worrying. Research commissioned by the CML indicated the proposals would have a very detrimental impact on the number of people who would be able to borrow sufficient funds to buy a home, thereby doing enormous damage to the housing market and wider economy. However even the FSA's own analysis showed a significant minority of borrowers would not be able to borrow at all, or could only borrow a reduced amount, and the FSA acknowledges its proposals would lead to "significant falls in house prices from the reduction in lending". It is tempting to suggest the MMR's proposals are based on the assumption that the best way to avoid borrower risk is not to lend at all.

But permissioned, viable land supply is the key to increasing housing supply in the medium to longer term

37. The supply of permissioned land is ultimately in the hands of local planning authorities which have monopoly power to grant residential planning permission.

38. HBF warned before the election that the Conservative Party's radical proposals for changing the planning system, however successful they might be in the medium to longer term, would require proper transition arrangements. No such arrangements were made, and predictably the system is now in a state of hiatus, with home builders, local planning authorities and the Planning Inspectorate all very uncertain about how to make planning work as we move towards the new system. At the very least this is delaying planning permissions, and so restricting the recovery in home building.

39. One immediate impact was that a number of growth authorities slashed their housing numbers. For example, Bristol and the surrounding authorities, Milton Keynes and Leeds cut their housing allocations by 88,000. However many other authorities have found more subtle ways to hold back future house building, some because of genuine uncertainty, some no doubt deliberately.

40. We are working closely with DCLG ministers and officials on the Localism Bill and National Planning Policy Framework (NPPF) and we very much welcome the commitment to economic growth and the balanced approach to sustainable development (economic, social and environmental, not just environmental). But we are in the very early stages, so it is impossible to know what the final NPPF will look like and whether it will maintain such a strong pro-growth, pro-development message.

41. We very much hope the new localist planning system is a great success. This would allow home builders to prosper and would be of enormous benefit to the wider economy. But there are many obstacles to overcome before we can confidently reach this conclusion.

42. In the meantime, quarterly statistics now compiled by HBF and Glenigan for residential planning permissions reveal that after a modest upturn in dwelling permissions in the second half of 2009 and first quarter of 2010, the trend since then has been downwards. This is probably a reflection of several influences: local authority resistance to granting planning permission, uncertainty about the new system, and house builder caution because of the economic and mortgage environment. On sites of 10 or more units, the data show 154,000 homes were granted detailed planning permission in 2010, compared with 264,000 in 2006 and 252,000 in 2007. In 2010 Q4, 33,000 dwellings were granted detailed permission, only 45% of the total in 2006 Q4 and 51% of the 2007 Q4 total.

43. One frequent objection to new housing is that districts do not have the required infrastructure. In some cases this objections is simply a new form of NIMBYism. In others, local authority infrastructure demands are excessive and need to be scaled back. What was affordable at 2007 land prices and S106 contributions is no longer affordable. At the end of the day, housing supply and infrastructure should come together, with house building contributing towards infrastructure funding through S106 agreements or CIL. But central Government also needs to support its pro-growth, pro-development approach to planning with adequate central Government infrastructure funding.

44. Residential land viability has two components: the developer must earn a market return or investors will not invest; and development must generate sufficient land value to persuade land owners to sell. Almost all regeneration schemes are unviable at present, and most sites outside the very highest value areas, including most large strategic greenfield sites (which require enormous infrastructure investment), are not viable once the additional costs of zero carbon are factored in. The modest flurry in house builders' land buying over the last 12-18 months has been heavily concentrated on smaller sites (for completions before the 2016 zero-carbon changes to Part L) in the high-value, economically buoyant south.

45. Most development costs – building, infrastructure, profit, overheads, financing, consultants' fees, land value – are essential to create development value. By contrast, most policy, regulation and red-tape simply add costs to development without creating any additional value for home buyers, and so no additional sales value. This is the only significant discretionary component of costs which can be reduced to restore viabilities.

46. The Spending Review commitment to reduce the burden of regulation on home building was extremely welcome, although we are well aware that it poses enormous challenges for government. Most notably, DCLG is going to have to find regulatory cuts to compensate for the substantial extra costs of Part L in 2010, 2013 and 2016, Defra is going to have to find regulatory cuts to compensate for the increased costs of the provisions of the Flood and Water Management Act, and perhaps most difficult of all, a way must be found to reduce the very significant policy and regulatory cost burden imposed by local authorities.

Budget Recommendations

Demand-side Measures

Mortgage availability

47. We appreciate there are no magic-bullet policy interventions to bring about a significant improvement in the mortgage market, but the Government does have considerable influence. It should do everything possible to encourage mortgage lenders to increase the supply of mortgage finance, particularly for the new homes sector, increase the supply of higher LTV mortgages so that first-time buyers can return to the market, and stop the discriminatory lending policies many lenders operate for new homes (i.e. the terms offered for new home buyers are less favourable than those offered to second-hand property buyers). House builders' experience with various schemes shows conclusively that 95% LTV mortgages are the key to restoring first-time buyer numbers. Most can put together a 5% deposit, but much lower numbers can stretch to a 10% deposit.

48. HBF and individual house builders have been holding discussions with a range of lenders, insurers, funders and other organisations to try to find creative solutions to absence of higher LTV mortgages, especially 95% mortgages for first-time buyers. We suspect there is no need for direct policy intervention, but the Government could play an important part in facilitating discussions between key parties and demonstrating by its involvement the importance of developing innovative schemes. Home builders can do a great deal themselves, but they cannot solve the problem on their own. We have explore many ideas, including mortgage indemnity insurance, insurance schemes in which the developer pays a refundable deposit into a ring-fenced account to cover potential lender losses, tapping funding for second-charge mortgages from outside the mortgage sector, etc. It is clear from most of these schemes that they need scale, standardisation, and above all the involvement of the major lenders, if they are to have a significant impact.

Mortgage Regulation

49. The FSA's MMR proposals must shift from a narrow focus on eliminating almost all risk, whatever the wider consequences, towards supporting a sustainable recovery in the mortgage market. While the FSA is independent of Government, the Government surely cannot stand back and allow the FSA to do enormous damage to the housing market, home building and the economy.

50. We note in passing that we are very pleased with the FSA's cooperative response to the industry in the context of second-charge mortgage regulation. This is a very important area for the industry because, as noted above, shared-equity schemes have been essential to maintaining new home sales over the last three years.

HomeBuy Direct

51. HomeBuy Direct (HBD) was judged a major success by the industry and the HCA. It helped some 9,500 first-time buyers to buy a new home and supported an increase in home building.

52. We would urge the Government to consider re-introducing HBD, given the fragility of the housing market and the likelihood that home building will remain close to current historic low levels for some time yet.

53. In designing a replacement shared-equity scheme, while it is very important to maintain the essential characteristics of the current scheme now that they are understood and accepted by lenders, home builders, housing associations, financial advisors and home buyers, the terms could be made more flexible (e.g. amending the 70/15/15 split or the interest-free 5-year period). In addition, the public cost of administering the scheme (£1,500 per dwelling) could be significantly reduced or eliminated if handled by the private sector, allowing HCA funds to go further.

54. One great benefit of HBD is that, once announced, it could be implemented almost immediately because the infrastructure and documentation are all in place and all the key parties are familiar with the scheme.

55. To illustrate the impact of revised terms, if the average HCA investment was cut to 10% (from 15%), £200m would fund 12,500 first-time buyer sales (against 8,300 at 15% and 3,400 social rented units for the same level of funding). If the £1,500 per dwelling paid to HomeBuy Agents was saved completely by allowing the private sector to carry out this function (probably through approved Independent Financial Advisors), this money would produce an extra 520 sales at a 15% HCA share, or nearly 1,200 additional sales at a 10% HCA share.

56. It is perhaps worth noting that the free-standing HBD scheme was perhaps more successful than HBD linked to Kickstart because the allocation to plots and sites was very flexible. HBD funding could follow demand. By contrast, HBD on Kickstart sites is restricted solely to this limited number of sites. It is impossible to predict the precise location and intensity of demand in advance, and indeed demand can change over time, so sales success requires maximum flexibility.

First-time Buyer Savings Scheme

57. We urge the Treasury to give serious consideration to introducing incentives for a first-time buyer savings scheme, working with lenders and, if necessary, the home building industry. Because of the high price of housing and mortgage constraints, we need to encourage young people hoping to buy a home to return to the savings habits of the early post-war decades.

Stamp Duty

58. For many years there have been calls for the current unfair slab system of SDLT to be reformed to a slice system in which buyers crossing one of the SDLT price thresholds pay stamp duty at the higher rate only on the price above the threshold. We would strongly urge the Treasury to consider this long-overdue reform. The cost would be relatively modest, given the low levels of transactions at present, and it would provide further support for housing demand which remains very fragile.

59. We would also urge the Treasury to change the rules regarding the stamp duty treatment of multiple purchases by residential landlords. One of the deterrents to establishment of a large-scale, professional, institutionally-funded private rented sector is that multiple purchases are liable for 4% stamp duty as they are treated as a single transaction, whereas a private buy-to-let landlord will usually pay the lowest rate, or avoid stamp duty altogether, when buying one or two properties independently. This change should not mean any significant reduction in revenue for the Treasury because such transactions are currently not likely to be very common.

60. The zero-carbon target poses an enormous challenge for the industry, not least because it will impose very significant additional costs on home building which customers will not fully pay for through higher prices. To help the industry establish a zero-carbon new home price premium so as to offset some of the increased capital cost the Treasury should re-consider the current SDLT incentive for zero-carbon home buyers. One option would be to offer a reduced SDLT rate, or a full exemption for dwellings meeting the Part L changes planned for 2013, rather than waiting for the full Part L zero-carbon changes in 2016. We

would be very happy to talk to Treasury officials about alternative tax-incentive ideas to help smooth the path to zero carbon.

Residential Investment in SIPPS

61. We would once again urge the Treasury to reconsider its previous decision not to allow housing investment within SIPPs. At the time there was a risk this might add fuel to an already booming market, clearly not an issue today. This would tap additional funding for investment in housing at a time when mortgage finance is severely constrained. It would provide a new source of housing demand and benefit private home building at no additional cost to the Treasury. We believe this would be a particularly attractive proposition at present with savings rates so low and house prices at more affordable levels. It would also provide a new, more stable, long-term source of investment to compensate for the fall in buy-to-let demand since 2007, demand which may never return on the scale experienced up to 2007 because it was so dependent on capital growth expectations. It may be desirable to put restrictions on this scheme, such as requiring investment in UK property, and possibly capping the price of eligible units.

Supply-side Measures

Permissioned Land Supply

62. The Government must stand firm on its objective to make the planning system pro-growth and pro-development. It would be extremely worrying if this objective was watered down as the NPPF passed through public consultation and Parliament.

63. The Government must closely monitor the impact of the New Homes Bonus and take early action if it becomes clear the Bonus is not having the desired incentive effect, especially in areas with strong housing demand pressures.

64. One especially worrying trend is that many local authorities to say that because of the mortgage famine and low levels of home building, they do not need to plan for increased levels of home building across the plan period. In effect these authorities are planning for permanent recession. This cannot be right and should be firmly discouraged by central Government and the Planning Inspectorate.

Viable Land Supply

65. The mechanisms are in place to control, and hopefully reduce, the national regulatory burden on home building. We now need to see these measures working in practice.

66. However we are most concerned that the proposed Local Standards Framework (LSF) is a very inadequate response to the excessive burden of local authority policy and regulation.

It addresses only one relatively small part of the local regulatory burden, and then only focuses on regularising rather then reducing local demands, it ignores the big-ticket items such as Affordable Housing, other S106 planning obligations demands/CIL, and public open space, and we have grave doubts that the LSF, as currently proposed, would work. We have submitted detailed proposals for an alternative approach to the Housing Minister, but DCLG is still devoting enormous official and industry resources to progressing this flawed proposal.

67. At present, the Government's house building deregulation activity appears fragmented, there seems only limited understanding of the true nature and scale of the regulatory burden (or the implications of the Spending Review commitment) and, to date at least, we have seen little practical benefit. Indeed, we have seen a number of new regulatory proposals put forward in the last few weeks, a situation we find entirely inconsistent with the Spending Review commitment.

68. There are no easy answers. We cannot achieve a significant reduction in the regulatory burden simply by abolishing of a few forms or procedures. The cost impact of the big-ticket items listed above, along with the forthcoming changes to Part L and the provisions of the Flood and Water Management Act, demand a radical look at deregulation.

69. We suggest that the Government (either DCLG or Treasury) should convene a small expert working group drawn from Government, the development industry and local authorities to carry out an urgent, hard look at the policy and regulatory burden and draw up practical proposals for meeting the Spending Review commitment. Neither officials nor the industry can solve this enormous challenge on their own. The group's work would have to be coordinated with parallel work on the NPPF to ensure consistency.

70. We are especially concerned that some local authorities are in effect basing their plan policies on an assumption of rampant house price inflation during the plan period by sticking to onerous policy demands (e.g. Affordable Housing) which make sites unviable today but, it is assumed, will be achievable later in the plan period because prices will rebound. Even more worrying, the Planning Inspectorate has reinforced this assumption in a number of key decisions. Basing a long-term plan policy on the assumption of rampant house price inflation is extremely bad policy making and should not be permitted.

Public Sector Land Supply

71. To increase the supply of housing, the industry needs a substantial increase in the supply of permissioned, viable land. In its study of the homebuilding industry (2008), the OFT concluded that the three databases it used "suggest that the public sector accounts for between a quarter and a third of all land currently deemed suitable for residential

development". Therefore the public sector could make a very significant contribution to residential land availability.

72. To this end, the Treasury should actively encourage all public sector land owners to review their land holdings and, wherever possible, dispose of surplus land. Receipts from land disposals would help mitigate the impact of budget cuts and reduce public debt, while also increasing the supply of land for home building.

73. The Government may wish to consider setting financial objectives for surplus public sector land disposal, so that it becomes an integral part of the deficit reduction programme of departments and public bodies.

74. Disposals may take the form of outright disposal for cash up front, or alternatively receipts can be deferred so that the public body disposing of the land shares in the uplift in land value as the housing market recovers. Because home builders are experts at assembling and developing land, they are able to devise flexible and creative solutions, depending on the financial and housing requirements of individual public sector land owners.

75. By entering partnerships with private developers, public land owners would help overcome the industry's development funding constraints created by the credit crunch.

76. We are very pleased the onerous standards imposed on private housing development of public sector land have been removed, as requested in our Spending Review submission.

Zero Carbon

77. Work is now progressing on Allowable Solutions and how the Green Deal might be tapped to reduce the capital cost of zero carbon.

78. A key issue, with a major influence on the final definition of zero carbon, is the price of carbon. We are very puzzled by the Zero Carbon Hub's assumption of £75 per tonne of CO_2 for its Carbon Compliance work when recent Treasury consultations consider scenarios with prices in the range £20-40 per tonne in 2020 and £70 per tonne in 2030. It has not proved possible to get to the original source of the £75 figure – the Hub took it from a DCLG RIA, but we have not yet found out where DCLG took the figure from.

79. The price of carbon used in arriving at Allowable Solutions must be sensible, and it must not assume that new homes pay a disproportionately large price for reducing carbon emissions compared with other sectors, especially the second-hand housing stock.

80. To avoid squandering scarce land value and creating unduly damaging opportunity costs in terms of lost housing supply (due to non-viability) and/or other policy objectives (e.g. Affordable Housing, social infrastructure), the definition of zero carbon should be predicated on achieving the most cost-effective reduction in carbon emissions. Unfortunately this has never been an objective of the policy, so that the outcome is bound to result in an unnecessarily high capital cost, and unnecessarily large opportunity cost.

False Self-Employment

81. The Federation continues to have serious concerns about HM Treasury's and HMRC's proposals for changing the tax rules relating to self-employment in construction.

82. The Treasury and HMRC published a summary of responses in March 2010 to the consultation conducted in 2009 on their proposals that workers in construction should be deemed to be employed for tax purposes unless they qualify for one of three possible exemptions. We are concerned that this summary document still proposed to pursue a change to the tax rules on broadly the lines originally proposed - which it is acknowledged would have an adverse effect on the industry's costs and flexibility.

83. The evidence base used to justify the proposals was in our view questionable and insufficient (we believe the impact assessment previously undertaken was flawed) and any change of this nature might well have much wider ramifications for the employment market. To pursue something like the original proposals would be inconsistent both with the recognition of the need to tackle the increasing burden of regulation on home builders and the principles of better regulation. It would also be difficult to reconcile with the Government's wish to reconsider IR 35.

84. We would therefore ask the new Government to reconsider the original proposals and agree not to pursue them in the light of our genuine concern.

John Stewart
Director of
Economic Affairs