



Department for
Business, Energy
& Industrial Strategy

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Dear Ms Ward

Thank you for your email dated 25 October to HM Treasury, enclosing correspondence from Bankers for Net Zero, regarding the Heat and Buildings Strategy. Your email has been forwarded to this Department and I have been asked to reply.

Meeting the net-zero target will require virtually all heat in buildings to be decarbonised, and heat in industry to be reduced to close to zero carbon emissions. It will involve large-scale transformation and wide-ranging changes to energy systems and markets. The Government is committed to ensuring the costs of decarbonising the energy system are fair and affordable for all energy users.

The Government is boosting funding from 2022/23 to 2024/25 to help decarbonisation across the UK building stock. The Home Upgrade Grant will receive £950 million, Social Housing Decarbonisation Fund £800 million, and Public Sector Decarbonisation Scheme £1.425 billion. The Government is also investing £450 million in a Boiler Upgrade Scheme and a new £65 million in innovation for heat pumps, helping to make green options more affordable and attractive to all. It is also continuing to grow and decarbonise the UK Heat Network market through £338 million for the Heat Network Transformation Programme.

To support the cost reduction objective, the Whole House Retrofit (WHR) cost reduction trajectory competition was launched in June 2019. The competition provides funding for projects to achieve initial cost reductions of up to 20% in the deep retrofitting of buildings through economies of scale and streamlined installation practices. It is also incentivising the trialling of innovative retrofit technologies, including modular, off-site processes which will reduce the amount of time contractors need to spend installing measures in individual homes. £7.7 million has been awarded to three projects to retrofit over 300 homes in Cornwall, Nottingham, and Sutton. The projects are led by Cornwall Council, Nottingham City Council and the London Borough of Sutton, and will complete by March 2022.

As Bankers for Net Zero mentioned in their letter, private finance as well as Government support will be critical in order to transition all of our buildings to net zero by 2050. Since publishing the Green Finance Strategy in July 2019 the Government has launched the Green Home Finance Innovation Fund, which has awarded £1.8 million to three projects to develop and test innovative green finance products.

In the Heat and Buildings Strategy the Government sets out the need to establish a fit-for-purpose green finance market that provides a range of financing options to meet the needs of all consumers, especially those to whom less Government-funded support is available. The Government has consulted on setting requirements for mortgage lenders to support homeowners to improve the energy performance of the homes they lend to, with the aim of catalysing the development of a green finance market and making available affordable finance. A response to the consultation will be published shortly.

The Government is also currently consulting on phasing in higher minimum performance standards to ensure all homes meet EPC Band C by 2035, where cost-effective, practical and affordable, and setting long-term regulatory standards to upgrade Privately Rented Homes to EPC C by 2028 and considering setting a long-term regulatory standard for Social Housing, subject to consultation.

In terms of VAT reduction, consumers already benefit from a number of VAT reliefs on construction. The Government currently maintains a zero rate of VAT on new-build residential or qualifying buildings, to incentivise the construction of new homes. Additionally, a reduced rate of VAT at five per cent is also maintained, subject to certain conditions, for residential renovations such as building services and materials. This includes conversions of buildings from one residential use to another, converted from commercial to residential use and the renovation of properties that have been empty for two years or more prior to the renovation work. Further information can be found in HMRC's online guidance 'Buildings and construction (VAT Notice 708)', which can be found on the GOV.UK website at <https://www.gov.uk/guidance/buildings-and-construction-vat-notice-708>.

Going further would impose significant additional pressure on the public finances, to which VAT makes a significant contribution. For example, expanding the reduced rate already available to include all renovations and repairs is estimated cost to the Exchequer at least £3.75 billion a year. VAT raised around £130 billion in 2019/20 and helps to fund key spending priorities. As Bankers for Net Zero will know, any reduction in tax paid is a reduction in the money available to support important public services, including the NHS and policing. Finally, it is never guaranteed that any reduction in tax on a given service would be passed on by the business to the end consumer. Given this, there are no plans to change the current VAT treatment of construction, however, the Government keeps all taxes under review.

With regards to a Green Stamp Duty Land Tax (SDLT), any decisions would be the responsibility of HM Treasury. SDLT is currently a fair tax, where properties under £125,000 do not pay any SDLT and neither do first-time buyers buying a property under £300,000. This means that in 2019-20, 34% of people buying a property did not pay SDLT at all. Changes to SDLT would require a radical overhaul of this tax and the Government has concerns about the unintended impacts, such as on housing affordability and social mobility. SDLT continues to be an important source of Government revenue, raising several billion pounds each year to help pay for the essential services the Government provides. For these reasons, the Government does not have any plans to replace SDLT with a different form of tax. All aspects of the tax system are kept under review, however.

Regarding extending the enhanced capital allowances, the super-deduction is specifically aimed at helping along the investment-led recovery and giving businesses the confidence to invest now. The Treasury will review at next year's Budget what investment measures are appropriate for the period after April 2023.

Thank you once again for taking the time to write. I hope my response is helpful to Bankers for Net Zero.

Yours sincerely



Lauren Wood
BEIS CORRESPONDENCE UNIT