

# FINANCE AND INSURANCE

DATE: 1<sup>ST</sup> MARCH 2017

ISSUE NO: 7

## FINANCIAL ADVANTAGES

Self-build finance is different from financing the purchase of an existing house and, although building societies and banks readily lend to people building their own homes, there are a few points that need to be borne in mind.

Under current government legislation new builds are VAT zero-rated. Furthermore, as stamp duty is applicable to the purchase price of the plot only, excluding the house yet to be built, there is also only a very limited liability to Stamp Duty. Plots priced below £60,000 are free of stamp duty, with sites priced at between £60,000 and £250,000 attracting stamp duty of only 1%.

## BUDGETING YOUR BUILD

Your overall budget will be dictated by the amount of equity that you have and/or your borrowing ability. Although some people are able to fund a self-build project entirely from their own means, others will need to borrow money up front in order to finance the purchase of the plot as well as to provide cash-flow during the actual build period. The majority of lenders will advance between 75% and 85% of the land cost and, during the construction period, most will provide 75% - 95% of the construction costs after each stage of the build has been finished. Once the whole project is completed the house can be valued and lenders will provide a mortgage of up to 95% of the value of the house and land, just as they would for a ready-built house.

However, there is one mortgage, the 'Accelerator Self-Build Mortgage', which has been specifically developed by BuildStore for the self-build market. Accelerator lends up to 95% of the land purchase value and up to 95% of the total build-cost in advance of each build stage. Alternatively, for those with enough equity in their existing home to cover the build, but not wanting to release this equity by selling their present home and moving into rented accommodation or a caravan on site during their build, BuildStore offer a unique short-term finance product. This is called 'Advance' and provides up to 90% borrowing on land, and up to 90% borrowing on build costs, paid in advance of each stage. For further details call BuildStore direct on 0870 872 0908 or visit their website: [www.buildstore.co.uk/finance](http://www.buildstore.co.uk/finance).

Your house may yet not be built, but your borrowing ability as a self-builder is exactly the same as if you were looking for a mortgage for an existing house. You will be judged on your ability to repay the loan, and your lender will therefore look at your earnings and apply all the usual criteria. This will be judged against the final valuation of your completed property, as no lender will lend more than the property will be worth when completed.

The cost of the total project will obviously depend on the size of your new home, the final specification and the finishes that you select, as well as the cost of your site and your chosen method of construction, i.e. use of main contractor, project management, self-build or a combination of these methods. However, we would suggest that, as a 'rule of thumb' guide to calculating the complete cost of building a Scandia-Hus home, you allow an all-in price per square foot of £95 - £105 for a Full Self-Build; £100 - £130 for Project Management; £130 - £170 for the employment of a Main Contractor.

**MORTGAGES**

Most High Street building societies or banks will offer self-build finance. Some will lend on land, while others won't and, if they do, the percentage of the value that they will be prepared to advance is variable. So it will pay to 'shop around'.

Most lenders will require detailed planing permission on the site prior to advancing funds, some also require building control approval. All lenders require some form of warranty, the most common being NHBC, Premier, Buildzone or LABC warranties.

Regardless of lender, remember that your home may be at risk if you do not keep up repayments on your mortgage or other loan secured on it. Mortgages are subject to status and security and are available to those aged 18 and over. Written quotations are available from all lenders on request.

**CASH FLOW**

Some lenders have specific self-build schemes, and virtually all will lend in installments or stages payable in arrears of each stage of the build. Each stage will be inspected by the lender's surveyor before payment is released. To ensure good cash flow, it is essential that inspections be made promptly.

The payments to your builder or project manager are usually made in five stages :-

1. On completion of foundations
2. On commencement of first fix carpentry, electrics and plumbing
3. On completion of external cladding / brickwork
4. On commencement of 2<sup>nd</sup> fix electrics, plumbing, dry lining and decorating
5. On completion of all work.

Payments to Scandia-Hus are made in four stages :-

1. A Reservation Order payment on commencement of planning application drawings
2. 45% with order confirmation
3. 45% four weeks before despatch of the building set to the site
4. 10% on day of delivery of the building set to the site

**VAT**

Under current government legislation there is no VAT on new houses. Therefore, any VAT paid on construction materials during the build period will be reclaimable at the end of the project. Provided Scandia-Hus provides a 'supply and fix' service, i.e. also undertakes the erection of the structural frame of your new home, VAT will be levied only on materials **NOT** installed as part of the shell erection service, e.g. plasterboard, second fix joinery, ventilation and heating systems, etc. These items usually account for approximately 30% of the total value of the building set. VAT, at the standard rate, will be payable on these items only, and can be reclaimed on completion of the project.

If you engage a builder he will reclaim the VAT paid on materials supplied by him, and his invoices to you will be zero-rated. However, there may still be some items that you decide to buy yourself, e.g. wall paper, bathroom fittings, etc. and you will be able to reclaim the VAT on these as described below.

Self-builders who manage their own builds have to pay VAT on construction materials as they go along, but they are able to reclaim this in one 'hit' on completion of the whole project. There is no need to register for VAT, but your claim must be submitted to the local Customs & Excise within three months of completion of the build. This is done on the forms supplied with the special Refund Scheme for Do-it-Yourself Builders (Notice 719), obtainable from the Customs & Excise VAT Office.. All invoices and receipts should be made out to you personally as the self-builder and, because a refund can be substantial, it is essential to keep all your financial paperwork in good order. Once your claim has been submitted it will usually be processed within a month.

Where you use builders or sub-contractors who both 'supply and fix', VAT should not be charged, so make sure that their invoices to you are zero-rated. For further information please refer to our Fact Sheet No. 12 – Value Added Tax.

**STAMP DUTY**

As mentioned above, stamp duty is not payable on the final value of your new home. Stamp duty is due merely on your plot – not including the house to be built on it - and then only on sites valued at over £60,000. For plots

valued between £60,000 and £250,000 VAT it is levied at 1% of the total cost of the land.

## INSURANCE

### Structural Warranties

Lenders will insist on a structural warranty on your new home and, even if you do not need to borrow money, we strongly recommend that you take out a warranty, as this will be required by the purchaser in the event that you decide to sell your new home within a ten-year period. There are a number of companies on the market offering structural warranties, the main ones being the NHBC (National House Building Council) , Premier, Labc and Buildzone. Taking out a policy with any of these companies will ensure that, should anything later go wrong with your home, you would be able to make a claim against your insurance policy. Each of the warranty companies operate special schemes for self-builders and each offer a 10-year guarantee.

You will not need an architect when building with Scandia-Hus, as we undertake all the design work and provide the required design certification, structural calculations and sap ratings, as well as prepare and submit planning and building regulations applications on your behalf, all as part of our 'package'. However, some people elect to engage an architect to supervise their build throughout the construction period and to issue an architect's certificate on completion. Although this is not necessary and will involve you in additional expense, we are always happy to work with customers' architects.

### Site Insurance

Regardless of whether you self-build or engage a builder or project manager to construct your new home, you will need to have adequate site insurance during the construction period, covering site labour, materials and building work in progress, as well as visitors to the site. If you engage a main contractor, this should automatically be covered within his price. However, if you are undertaking the build yourself there are several specific insurance schemes for self-builders (see below). Site insurance is expensive - perhaps as much as £800 – but it is essential to have adequate cover.

Site insurance consists of :-

- **Public Liability.** This covers damage to third party property or injury to any person (except employees) while on your site, whether they be visitors or trespassers. Third party property claims may also arise from damage to underground services or to a neighbouring property.
- **Employer's Liability.** This provides cover against injury to 'employees', which includes labour-only sub-contractors on your site.
- **Contract Works.** This protects your investment against damage to or theft of materials on your site and damage to your building in the course of construction. You should ensure that cover is provided on an 'all risks basis', covering fire, theft, storm, flood, vandalism, subsidence, impact, accidental damage, etc.

If you are planning to undertake part of the work yourself, we would advise you to take out personal injury insurance for the duration of the building project. You may also like to investigate the merits of taking out a contractor's insurance, guarding against the possibility of one of your sub-contractors going out of business.

There are a number of companies on the market who offer a complete range of cover. Most site insurance is taken out over a two-year period, but terminates on completion of the build. One company specialising in self-build insurance is BuildStore, who have produced a special site insurance package called 'BuildCare' which, at no extra charge, automatically converts to buildings cover from completion of the build until the end of the two-year period. This saves the average self-builder the cost of one year's building insurance.

BuildCare provides competitive site cover, and it also includes legal expenses protection as part of the package. This covers your costs should you need to go to court over a breach of contract, and provides a legal help line to offer you advice and guidance. In addition the BuildCare package covers the insurance of your mobile home or caravan on site, if applicable. Personal Accident or Additional Expenses cover are also available for a small extra premium, covering a claim made in the first 2 months after completion, and providing cover against any additional travel or rent expenses incurred.

You may wish to contact BuildStore direct on 0870 872 0908 for further details on 'BuildCare', or visit their web site [www.buildstore.co.uk/finance](http://www.buildstore.co.uk/finance). Alternatively, any High Street insurance specialist will be able to advise you on site insurance.