Budget 2020
Submission by The Royal Institution of Chartered Surveyors

Introduction

The Royal Institution of Chartered Surveyors (RICS) is the largest organisation of its kind for professionals in property, construction, land and related environmental issues. As an independent chartered organisation, RICS regulates and maintains the professional standards of 130,000 qualified professionals and over 10,000 firms.

We are an internationally recognised standard setter and regulator for the land, property, construction, and infrastructure sectors. Over 80,000 of our qualified professionals work in the UK, where our goal is to deliver a healthy and vibrant property and land sector as a key pillar of a thriving economy.

We are not a trade body; we do not represent any sectoral interest, and under the terms of our Royal Charter the advice and leadership we offer is always in the public interest.

Since 1868, we have been committed to setting and upholding standards of excellence and integrity – providing impartial, authoritative advice on key issues affecting businesses and society.

Our sector is vital to economic development, helping to support stable and sustainable investment and growth across the UK. We therefore have an interest in fiscal and policy measures which impact on the built environment.

We believe the government needs to provide a holistic approach to monetary policy and support for the built environment – ranging from big picture international issues, such as future infrastructure investment and workforce migration, to local and domestic issues such as resources for council planning departments and domestic taxation.

Failure to address these issues in a planned, cohesive way will have a serious impact on the wider economy, exacerbating the existing housing and infrastructure deficit.

Executive summary

The government needs to introduce a package of measures to protect and improve the built environment and enable it to contribute to a sound and dynamic economy post Brexit and beyond.

Our Budget Submission covers the stand out issues for the built environment that the chancellor can tackle in the forthcoming Budget. Starting at a macro level by working towards a replacement for the European Investment Bank Group, down to a review of the UK's property taxation systems that could lead to improved housing condition and market activity and support for the UK's ailing high streets.

Our key recommendations include:

- Establishing a UK Infrastructure Investment Bank with a remit to fund and support domestic infrastructure projects.
- Incentivising and supporting the upskilling of the existing workforce, with training including PropTech, disruptive technologies and modern methods of construction (MMC), that will shape how built environment professionals will operate in the future.
- In conjunction with industry leaders, take action to tackle the gender pay gap, enable career progression, and support access to senior leadership roles to increase the retention of woman mid-career in the built environment.
- Promoting the development of guarantees for MMC products which have a similar level of lender and consumer confidence as those available for standard construction methods.

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- Strengthen the presumption in favour of MMC in public infrastructure schemes and support local authorities and housing associations to meet housing need using MMC through a mix of financial incentives and policy. For example, introducing a presumption in favour of MMC for social housing and incentivise construction of MMC factories in areas of high unemployment.
- Holding a robust audit of knowledge and experience gaps in local authority planning departments, including additional resource to support current staff and recruit additional staff with specific expertise in those areas identified as deficient. Without suitable resource, planning departments could impede the delivery the large scale infrastructure investments
- Engaging and supporting the private sector in the creation of viable markets for eco-system services.
- Undertaking a full-scale review of the stamp duty land tax (SDLT) system.
- Committing to sustained funding and a package of financial incentive mechanisms for retrofitting existing buildings, driving standards and regulation, and supporting industry in delivering the robust pipeline of skills required to undertake this challenge.
- Designating the energy efficiency of the UK's building stock a national infrastructure priority with appropriate long-term investment.
- Introducing a uniform reduction of 5% across VAT for the home improvement regime.

Infrastructure funding

The previous government's policy of reduced public spending led to many areas of the UK becoming dependent on funding from the European Investment Bank (EIB) to deliver critical infrastructure.

Indeed, the total investment of the EIB and EIF into the UK in 2018 was €932m[1]; which is significantly lower than the €1.8bn in 2017– half of which was directed towards infrastructure, though this is a significant drop from €6.9bn investment in 2016[2]. These funding streams support vital infrastructure projects across the UK and provide investors with confidence. As the UK leaves the EU, and potentially losing EIB and EIF funds for UK infrastructure, we could see 'shovel ready' energy and transport projects being stalled.

We are, however, pleased to see the government is looking to provide "colossal new investments in infrastructure" as a pillar of its economic approach. To meet this target, we would urge the government to match the pre-EU referendum levels of EIB/EIF funding through capital investment- It would also be prudent to establish a dedicated infrastructure investment bank as a replacement for the EIB.

RICS has pioneered a global, industry-led, collaborative approach to developing international standards that contribute to greater market transparency and confidence, and we look forward to working with government to ensure our departure from the EU can best serve the built and natural environments, and by extension, society as a whole.

Similarly, by embedding International Construction Measurement Standard 2nd edition (ICMS2) in its infrastructure investment protocols and procurement processes, the investment bank, and UK government, can ensure accurate capital expenditure calculations, cost-benefit analysis, and whole-life costing.

Construction sector workforce

For some time now the UK construction sector has struggled to deal with a construction skills shortage and is on the cusp of a retirement 'cliff-edge'. The sector's needs and issues in the UK are well

[1] https://publications.parliament.uk/pa/ld201719/ldselect/ldeucom/269/269.pdf
[2] http://www.eib.org/en/projects/regions/european-union/united-kingdom/index.htm

documented - we have an ageing workforce with about 30% of the sector over 50 and set to retire over the next 10 to 20 years

However, the growing housing and infrastructure workload requires the UK to attract 400,000 more recruits a year to meet current housing and infrastructure needs - equating to one recruit every 77 seconds. Quantity Surveyors alone account for 7,325 of this total need[3].

Despite continued growth in the numbers of surveying apprenticeships both at level three and most importantly at degree level, the sectoral need for chartered surveyors is still not being met. The skills shortage poses a challenge to growth and delivery for construction businesses, which is continually highlighted in RICS quarterly UK Construction and Infrastructure Market Surveys.

Given the construction sector makes up a significant part of the UK economy, representing 8% of GDP, 9% of employment, and attracting £150bn in annual investment, government must acknowledge the sector's vital role in enabling growth and development in the UK. It is only by government action to develop and support a skilled and diverse workforce that the homes and infrastructure we need each year will be delivered.

The drive within the construction sector to lower carbon emissions has given rise to an increasing interest and uptake in green construction methods. In addition to the requirement of an upskilled workforce, across specific skilled labour to management of evolving digital technologies, there is a need for a new approach to sustainable project management including the use of tools such as ICMS2.

- Government should incentivise and support the upskilling of the existing workforce, with training including PropTech, disruptive technologies and modern methods of construction that will shape how built environment professionals will operate in the future.

Modern methods of construction

The UK's construction sector has shown resilience in continuing its contribution to the economy over a difficult decade. However, at a national level, we can see increasingly significant issues such as skills shortages, stagnant productivity growth, variable quality, output lagging behind targets, and slim margins for builders.

Offsite manufacture and MMC represents an opportunity to address many of these issues in addition to increasing capacity and investment in the industry. Its characteristics can supplement our existing capacities, support alternative models for delivery and allow for more options to be considered when tackling the complicated process of housebuilding. While MMC is not a panacea that will resolve all the problems in the sector, once fully embedded, will go some way to improving our capacity to meet need.

Modern offsite construction is relatively untested and is still in an evolutionary phase. Data on the costs of construction, value and performance of using offsite is not robust yet. As techniques evolve, cost information and performance changes with the previous data becoming obsolete. This makes it hard for the industry to estimate costs, assess benefits and plan appropriately.

This is an issue for investors, lenders, valuers and insurance/warranty providers naturally concerned about product durability, value and ongoing maintenance cost. The Build Offsite Property Assurance Scheme (BOPAS) is a significant provider of confidence and assurance within the sector by warranting specific construction systems.

Accreditation for MMC, such as BOPAS, needs to be championed and strengthened. Stakeholders need to be satisfied that there is an industry seal of approval which builds assurance for warranty providers and insurers, as well as for lenders and investors. Accreditation models like BOPAS can help to mainstream MMC.

[3] https://www.arcadis.com/media/4/B/9/%7B4B999107-2F44-42E2-94D7-43FDD0963378%7D9784_Talent%20Scale%20FINAL%20WEB_2102.pdf

- We therefore believe there is an important role for government to promote the development of guarantees for MMC products which have a similar level of lender and consumer confidence as those available for standard construction.

MMC can also help stimulate economies in less preforming areas of the country. Much has been made of the Northern Powerhouse and Midlands Engine, regions which have been traditionally industrial and manufacturing hubs but now experiencing contraction as traditional industries have moved out or shut down.

As MMC requires many of the same skills base, retraining could utilise the existing work force within these regions, especially the steel, car manufacturing and other fabrication industries.

- Government should support upskilling of the existing workforce to meet the needs of MMC through policy and funding. It should also explore how it can encourage and incentivise construction of MMC factories in areas of high unemployment.

Planning

The planning system in the UK has been under pressure for some years and while the introduction of the National Planning Policy Framework was a major step forward, some of the changes instituted more recently have been counterproductive.

We have a plan-led flexible planning system which drives development, but its very flexibility encourages time-consuming negotiations and costly appeals. Recent changes have been introduced to reduce negotiation on developer contributions. This, together with moves to reduce land prices and further tax profits earned by land owners, has led to concerns for the pipeline of development projects. This uncertainty will lead to less developable land coming forward and fewer projects in the next two years.

We would like to see greater support for planning in general and the planning profession, in particular. Through cuts to local government funding, local authority planning departments have witnessed a skills shortage and the impact has been noted in the RICS Construction & Infrastructure Market Surveys over the past five years.

Funding cuts have seen some planning teams reduced to a point where the strategic planning policy function has little, or no, resource and the development management teams can struggle to cope with processing the varied case load of planning applications they receive, particularly when dealing with large complex schemes.

While the concerns of chartered surveyors, especially those working in the housing sector, regarding planning delays and restrictive regulations have moderated since the start of 2018, they remain elevated. RICS professionals working with, or as, developers continue to report that while some local authorities are 'open for business' others are not.

- A robust audit of knowledge and experience gaps in local authority planning departments is essential, with additional resource to support current staff and recruit additional staff with specific expertise in those areas identified as deficient.

- We believe any funding to support the resourcing of planning departments should also be matched by the requirement to reinstate Chief Planners as part of the senior management team given their pivotal role as place makers.

Land management

New approaches to the valuation, appraisal and management of natural capital and ecosystem services can transform the way land is managed, how development is undertaken, and how assets are appraised, valued and ultimately paid for.

A focus on natural capital and the development of active ecosystem services markets can assist in alleviating the impacts of climate change. Optimum management of natural assets can bring benefits such as flood mitigation and carbon sequestration.

Government and the private sector will both need to be engaged with the creation of viable markets for eco-system services. However, for the full range of potential benefits available from the most efficient management of natural capital to be unleashed across all the economic, environmental and social indicators, private investment will be essential.

- We believe government should engage with and support the private sector in the creation of viable markets for eco-system services.

Stamp duty land tax

Stamp duty land tax (SDLT) is in constant transition. Like all other forms of taxation, any changes to the SDLT regime need time to embed and have an impact on the market. However, successive budgets since 2014 have introduced changes of varying degrees. This means it is been difficult to assess and evaluate what impacts these changes and iterations have had on the buying/selling activity of the UK's residential stock.

Despite numerous changes, we believe that the SDLT regime remains out of kilter with the UK housing market. At present, it assigns buyers with an additional financial liability when affordability for many prospective buyers is stretched, or out of reach altogether. Indeed, the current framework is geared towards first time buyers and, in many cases, is deterring existing homeowners from considering a move. This leads to gridlock in the market which is a key contributor to the decline in housing market fluidity.

The current piecemeal approach to SDLT has disrupted confidence and ultimately negatively impacted upon sales activity which, in turn, has disturbed the market.

Indeed, it is difficult for the market to assess the impact of regular SDLT changes, which increase nervousness and can frustrate house moves when rates increase without warning; for example, a buyer may lack additional funding to pay the extra tax.

We therefore believe government should establish a review to address all fiscal measures which impact housing supply, the taxation of homeowners and landlords, and encourages innovation and improved infrastructure. The product of this review will be a strategy developed to ensure the provision of safe, sustainable and affordable housing for all; and a modernised residential property tax system fit for purpose for the 21st century. More information is detailed in the appendix to this submission paper.

Decarbonising existing housing

The built environment accounts for nearly 40% of national energy use and approximately one-third of UK emissions, yet progress in the decarbonisation of buildings has been limited and the challenge going forward even greater.

An overhaul to the energy performance of the UK’s housing stock is needed to effectively address this trend and aim towards net zero. Domestic buildings are responsible for nearly a fifth of the UK’s carbon emissions and, as such, should be the focus of government policy priorities.

It is estimated that 70% of the UK’s existing buildings will still be in use in 2050. Given this, enhancing the energy efficiency of existing housing stock through a range of retrofitting measures is critical. Government must commit to sustained funding and a package of financial incentive mechanisms for retrofitting across both low income and ‘able to pay’ households, drive standards and regulation, and support industry in delivering the robust pipeline of skills required to undertake this challenge.

- Government should designate the energy efficiency of the UK’s building stock a national infrastructure priority, with appropriate long-term investment and bring in line with the National Infrastructure

For a number of years RICS has, alongside many other stakeholders, urged government to use a fiscal lever to encourage consumers' interest to invest in their property. We believe that motivations to enhance energy efficiency may be better realised through a financial mechanism focused on the wider home improvement and repair market.

While the current UK VAT regime for home renovation and repair does include a number of measures that attract a lower rate of VAT and aims to enhance energy efficiency, they are limited by specificity and viewed as complex.

- By considering a uniform reduction to 5% across VAT for the home improvement regime, government could provide a needed boost in the adoption of retrofitting measures being taken in tandem with home improvement upgrades across the UK.

This is reflected in RICS' December 2019 Residential Market Survey in which more than half of the survey's respondents said a reduced rate of VAT would increase energy efficient refurbishment, with almost two thirds of respondents believing the willingness to pay for energy efficient homes will rise in the next three years.

To fully decarbonise built assets and achieve net zero, both the operational carbon and embodied carbon over the whole life of the asset must be addressed. Retrofitting provides an opportunity to achieve significant embodied carbon savings through re-use rather than re-build with standards such as ICMS2, further allowing for considerations to be taken of carbon savings when choosing retrofitting options.

Business rates

We believe government must fulfil its previous promises to conduct a thorough review of the current business rates system - including reliefs and the appeals system - and assure businesses and industry that they will actively listen to their voices on this issue. This review should provide conclusive guidance for the future of the non-domestic rates system.

With the Non-Domestic Rating (Lists) Bill falling at the end of the previous parliamentary session, government must reaffirm its commitment to more frequent revaluations and reintroduce this bill so that it can pass into law. More frequent revaluations should lead to greater confidence in the system and result in assessments that more accurately reflect current market conditions, and therefore reduce the incidence of appeals.

5 February 2020

Appendix to RICS Budget Submission

Making the Case: Stamp Duty Land Tax Review

The UK's housing market suffers from a chronic shortage of supply; and this is negatively impacting affordability for those who buy, and those who rent, their homes.

The housing market is highly complex. It is affected by many issues including: supply of land, access to credit for construction companies and buyers, interest rates; plus concerns about Brexit and its potential impact on the economy. Where demand exceeds supply, rents and house prices rise; consequently, Stamp Duty Land Tax (SDLT) exacerbates the problem as potential home-owners and landlords have to fund not only acquiring a property, but SDLT which increases with value.

SDLT regime remains out of kilter with the UK housing market

The current framework is overly geared towards first-time buyers at a time when house prices in localities where new buyers may want to live may be too expensive, which is particularly true of London, the south east, and hi-tech cities including Cambridge and Bristol. Furthermore, not only is such relief limited to properties with a value of up to £500,000, but also no single or joint purchaser can have bought a home before.

Existing homeowners have a difficulty too; when seeking to trade down they have to find a buyer who can afford their house (plus SDLT), and then have to pay SDLT on their replacement property. Worryingly, the higher rates of SDLT are deterring existing homeowners from considering a move, with many opting to refurbish or extend their properties which not only raises a property's value but increases the struggle to find a buyer when they come to sell. The result is gridlock in the market which contributes to the decline in working mobility and housing market fluidity.

The current piecemeal approach is not working

The Stamp Duty (SDLT) framework has seen changes on an annual basis since 2014.

Regularly changing regimes disrupts confidence and ultimately negatively impacts upon sales activity which, in turn, disturbs the market.

Indeed, it is difficult for the market to assess the impact of regular SDLT changes, which increase nervousness and can frustrate house moves when rates increase without warning; for example, a buyer may lack additional funding to pay the extra tax.

Buy to Let and Rents

Those looking to enter or expand the portfolio in the private rented sector, or those wishing to purchase a second home, are faced with an additional SDLT liability of 3% of the price paid for the property. Past governments have not distinguished between an acquisition for third party letting, which increases the supply of much needed rental accommodation, and an acquisition of an additional property; arguably, an increase in the supply of let property would benefit the government, particularly as rental income and disposal of rented property generate tax.

SDLT Review

During the UK General Election in December 2019, RICS called on all political parties to include a full-scale review of the tax regime for residential acquisitions in their manifestos; with a view to undertaking, or outsourcing, this assessment if they formed a new government.

RICS made this call because there were concerns, as set out above, that government intervention was not increasing the supply of housing but rather exacerbating the problems of a difficult market.

Transparency and Neutrality are Essential

We urge Government to organise a review which extends beyond SDLT and addresses how Government intervention may encourage the supply of all tenures, and not just home ownership. We suggest that a neutral grouping should execute this undertaking where it would operate at arm's length from Government. Alternatively, the review could be outsourced to an appropriate Parliamentary Select Committee; in this instance, the Treasury or Housing, Communities and Local Government Select Committees.

A non-Government related review panel approach would increase transparency and depoliticise the issue. This would be beneficial to the approach, process, and the outcomes as a neutral review should attract cross-party acceptance of its conclusions. The review should start with what the Government hopes to achieve from SDLT and other taxes, whether it is revenue generation, market fluidity, mobility or another objective; and end with a conclusive view on whether the tax is fit for purpose. We strongly advise that the financial impact of any proposal should be modelled and, if a significant change is required, a transitionary process and period is explored.

Review Criteria

RICS professionals are front and centre of the residential market and have developed this critique as a means to start the discussion about increasing housing supply. Here are some examples of issues that have been tabled by Government, opposition, or market leaders which could be addressed as part of the review:

- Shifting SDLT burden from buyer to seller
- Reduction for more energy efficient properties or reduced carbon emissions
- Exemption or reduction for downsizers
- Reformed council tax as a replacement for SDLT
- Second home supplement
- Surcharge for non-UK Buyers
- Long term empty and second homes taxation
- Transitionary arrangements

This review should be established with a clean slate, with a wide-ranging review which focuses beyond SDLT, addressing all measures which impact housing supply, including planning, the taxation of homeowners and landlords, and encourages innovation, and improved infrastructure. The product of this review will be a strategy developed to ensure the provision of safe, sustainable and affordable housing for all; a modernised residential property tax system fit for purpose for the 21st century.

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