CIF Budget Submission 2023

Delivering the Built Environment

Contents

CONSTRUCTION INDUSTRY FEDERATION

Presented to the

Minister for Finance

and the

Minister for Public Expenditure and Reform

President's Foreword

Heraclitus the Greek philosopher once stated that "*There is nothing permanent except change.*" The last few years have sharply illustrated this point as Brexit, the Covid pandemic and the war in Ukraine have utterly and dramatically changed the world.

Our industry, as always, has adopted significant change in the way we physically carry out the work and how we supply our projects with all the necessary materials. The industry is always changing and in recent years has adopted Modern Methods of Construction and Digital Construction at a rapid pace.

Bathroom pods, timber and steel frame homes, student apartment pods and building information modelling are becoming the normal way of constructing. Houses can now be constructed in a 22-to-28-week timeframe on site, modular hospital extensions can be completed in weeks from design to construction and we can visually inspect a building using virtual reality systems before they are constructed.

These examples of rapid construction and delivery came to the fore during the Covid pandemic, and it illustrates what is possible when all stakeholders work together to deliver Ireland's much-needed infrastructure.

A lot more can be achieved if we resource the capacity of the whole of the construction delivery process from inception, design, planning and procurement through to construction.

This exceptional period in our history has also brought about exceptional challenges in our supply chains and the cost of materials. It is therefore vitally important that we seek ways of mitigating these exceptional cost pressures in our sector so that we can continue to deliver. We welcome the various changes to the Public Works Contract that have been introduced to mitigate material cost increases, but they are limited in their scope and application. Improved and expanded data analysis of material cost inflation is needed to ensure that the material cost index is reflective of prices in the market for materials and fuel.

As ever, the industry is willing and able to adapt, change and deliver.

Frank Kelly
President, CIF

Executive Summary

Executive Summary

The CIF welcomes this opportunity to engage with the Departments of Finance and Public Expenditure and Reform on the current status of the construction industry and what is needed to ensure Ireland has a strong and competitive construction industry which can deliver a sustainable built environment to support Ireland's economic growth trajectory over the next decade and beyond.

The sector has never been as important to the Irish economy as it currently is for several reasons, given its central role in delivering the substantial State-backed investment plans to address Ireland's housing crisis and infrastructure requirements and climate change targets over the next two decades, to accommodate the extra one million people expected to be living in Ireland by 2040 (versus 2016).

The construction industry has shown considerable resilience in how it has dealt with the unprecedented challenges presented by Covid-19. Following a total lockdown period of 23 weeks over the two years 2020-2021 and supported by a range of business and income supports over the period, the industry managed to rally through in very difficult circumstances. Construction output volumes overall contracted by 4.4% and 4.2% respectively in 2020 and 2021, albeit the sector performance was very mixed over the period.

However, the confluence of macro-economic and geo-political factors that have led to a sharp rise in construction materials and supply chain disruptions poses a major risk to the industry outlook. Hyperinflation in many building and construction materials, as well as fuel, are placing a strain on the cost of delivering some of the infrastructure projects in the National Development Plan (NDP) as capital budgets are already determined. The commercial viability of many residential schemes is also challenged by this hyperinflationary cycle.

There have been significant underspends of public capital investment, of around €1.7bn in the last three years which means that some public building and infrastructure projects are not progressing as quickly as expected.[1] Moreover the planned level of Exchequer capital investment in the National Development Plan 2030 (NDP) for 2023 is €11.6bn, which is just 1.8% in nominal terms above the estimated outturn for 2022. With construction inflation expected to be well above this level, the prospects are for a decline in the volume of public capital expenditure next year, which does not augur well for the pipeline of construction projects.

Budget 2023 provides an opportunity to revisit the capital investment planned for next year and beyond. CIF members believe that it is critically important that momentum is not lost regarding delivery of projects in the NDP on time and within budget. EY research shows that every €1bn spend on construction projects generates a total spending of €1.8bn and €0.66bn in gross value added. The NDP is also vital in facilitating and providing essential infrastructure for the projected population increase of one million people over the lifetime of the National Planning Framework. The CIF however believes that the population projections in many regions are understated and need reviewing.

This budget submission addresses four core themes for the industry and seeks support from Government in several areas to ensure the industry can continue to be effective and improve the productive capacity of the economy, thereby sustaining economic growth, notwithstanding the uncertainties that are disrupting the economic outlook. Now, more than ever, is the time to focus on investment in high quality housing and infrastructure to ensure a sustainable quality of life for all citizens.

> “ Budget 2023 provides an opportunity to revisit the capital investment planned for next year and beyond.

1 https://www.gov.ie/en/collection/abfe6-fiscal-monitors-2022/

CIF's Budget Submission 2023 sets out the construction industry's **recommendations** under **four key themes**

THEME 1: Sustainability

THEME 2: Residential Supply

THEME 3: Infrastructure and Regional Development

THEME 4: People

THEME 1: Sustainability – Recommendations

Recommendations	Rationale
1. There is a need to build on the momentum generated with the establishment of the Construction Technology Centre earlier this year, by allowing tax credits for research and development (R&D) and innovation within construction enterprises, independent of scale. These can support companies who are actively pursuing Modern Methods of Construction (MMC), including off-site fabrication, modular construction, the use of advanced materials and developing management processes to encourage maximum efficiency of labour and materials.	Much higher levels of MMC will need to be implemented in the future to meet sustainability and productivity goals. To encourage adoption, Government support for companies, especially small enterprises, will help to speedily transform the sector. Indeed, more R&D tax incentives support is warranted for construction SMEs, following OECD research which found small firms tend to be more responsive than larger firms to the availability of R&D tax incentives.[2]
2. Introduce supports - tax credits or allowances - for contractors that decarbonise their businesses and who invest in equipment that lowers carbon emissions, such as, for example, plant contractors and building companies that convert to the use of HVO (Hydrotreated Vegetable Oil) fuel. Other vehicle conversions to more sustainable fuels, such as electric or compressed natural gas, should also qualify as part of a national campaign to convert construction plant and vehicles to more sustainable forms of fuel.	Such supports will provide cashflow and protect viability in the next 12 months, as well as ensuring a viable transition to greener practices. Use of traditional fossil fuels, like diesel, is one of the largest contributors to Green HG emissions. Incentivising the use of HVO fuels or electricity could significantly decrease GHG emissions directly attributable to the construction sector.
3. There are a number of potential mechanisms mentioned in the Climate Action Plan to increase retrofit activity levels which should be immediately brought forward to encourage the retrofitting market. These policies include 1) an energy efficiency focused tax incentive as a catalyst for home improvement activity 2) a residential retrofit low-cost loan guarantee scheme and associated low-cost residential retrofit loan, and 3) SEAI grant support.	Policies targeting climate change targets should be urgently prioritised to improve the cost of retrofitting for homeowners and landlords. Currently, the €12.9bn funding made available in the NDP for residential retrofitting, which is back-end loaded to the second half of the decade, should be brought forward to ensure earlier than planned progress towards our retrofitting targets.
4. Exempt retrofitting or the regeneration of buildings from the planning process, provided the contractor uses decarbonising technologies to renovate and refurbish existing old public buildings to a BER B2 energy rating.	Allow older underutilised buildings in our cities towns and villages to be renovated and retrofitted for residential purposes. An ex-post evaluation of this measure should be undertaken to ensure standards are complied with.
5. Introduce sustainable development initiatives for city and village centre regeneration, such as, for example, a tax incentive scheme targeted at certain areas (main streets in cities, towns, and villages), to encourage the restoration of unused buildings for residential purposes. It is proposed that the scheme would be open to individuals and developers to ensure maximum take-up and maximum environmental benefit. Eligible expenditure would be allowed as a deduction against PAYE over 7 years; 15% in the first 6 years and 10% in year 7.	This would be a sustainable development initiative, which would allow for the refurbishment of vacant and derelict buildings that plague the main streets of cities, towns, and villages across the country. More details on these initiatives are provided under Theme 2, dealing with housing supply.

2 How effective are R&D tax incentives? OECD available at Microsoft Word - PolicyNote_microBeRD_FINAL.docx (oecd.org)

THEME 2: Residential Supply – Recommendations

Recommendations	Rationale
1. A tax incentive scheme targeted at certain areas (main streets in cities, towns and villages), should be introduced to encourage the restoration of vacant, derelict and unused buildings for residential purposes. The period of vacancy or dereliction would be specified for qualifying purposes and include the possible expansion of the existing building. It is proposed that the scheme would be open to individuals and developers to ensure maximum take-up and maximum environmental benefit. Eligible expenditure would be allowed as a deduction against PAYE over 7 years; 15% in the first 6 years and 10% in year 7. This would need to take place in conjunction with changes to the taxation system for smaller landlords and the introduction of a National Minimum Standard for compliance purposes with the Building Regulations and Fire Regulations.	This would be a sustainable development initiative which would allow for the refurbishment of vacant and derelict buildings which plague the main streets of towns and villages across the country. It would yield accommodation relatively quickly in centres with significant infrastructure provision in place; these restored buildings could be used to provide much-needed supply for the expanding population as well to accommodate the influx of Ukrainian refugees; given the targeted locations for this scheme, it would generate significant environmental and social benefits, and deliver an overall win-win situation for local economies.
2. The Help to Buy scheme has been a welcome initiative for first-time buyers securing their first home and has helped to bridge the gap between the price of new homes and second-hand homes. The extension of the scheme, in conjunction with the First Homes scheme (to commence end-June 2022), would maximise access to owner occupation for first-time buyers. The extension to end in December 2022 was welcomed in the last budget and it is recommended that the scheme be extended to provide certainty to first-time buyers for another three years to December 2025. The extension of the scheme, a key public policy instrument, is vital to the consumer and the industry after such a disruptive period due to Covid and the war in Ukraine.	The Help to Buy scheme, in conjunction with the First Home scheme to be launched at the end of June 2022, provides certainty to new home purchasers, and has become extremely important since house prices started to accelerate during Covid 19 and since the escalation in construction inflation in 2022 to date. Help to Buy has not had an inflationary impact on new house prices. New house prices have been relatively stable for several years (the rate actually fell shortly after Help to Buy was introduced) and in Q4 2021 rose by 5.3%, largely driven by material costs inflation. In contrast, second hand house prices rose by 16.5% in Q4 2021. The Help to Buy scheme is a tax relief measure to aid those saving for a deposit and has facilitated 33,035 approvals from applicants since its introduction. Stability in major aspects of public policy is vital in the current market cycle. Most of those availing of the scheme may have struggled or not been able to purchase a house without Help to Buy and therefore the scheme has aided supply to a constrained market.
3. In a situation where development contributions are not replaced by a more equitable Local Property Tax for all property owners, a rebate of contributions paid should be provided to first time buyers over a defined period and banks should factor this rebate into the mortgage repayment model. As an alternative proposition to lessen the burden on the purchasers of new homes and help spread the cost of new infrastructure to all buyers of homes, consideration should be given to the introduction of a 1% levy on all second-hand home transactions.	Both proposals are intended to address the principle of fairness in the tax system and address the fact that new home buyers are paying a significant charge for the provision of infrastructure in their areas, which benefits the whole community in the local area. Thus, until adequate funding is found to provide the essential public infrastructure to service residential lands, either from a more equitable local property tax or other source, and in order to improve the affordability for new home purchasers, these two proposals are being mooted.

THEME 2: Residential Supply – Recommendations

Recommendations	Rationale
4. To address the exodus of small-scale landlords from the private rented sector, their rental income should be treated as a separate class of tax; such landlords should pay tax on their rental income at the standard income tax rate of 20%, i.e. a maximum of 32% including PRSI and USC.	The exodus of small-scale landlords from the private rented sector, is impacting the supply of affordable rented accommodation in many locations where there is an absence of the large scale 'Build to Rent' accommodation. This measure also aligns with the sustainable Initiative for the regeneration of derelict, vacant and underutilised buildings in cities, towns, and village centres, as such buildings can only accommodate smaller numbers of residential units.
5. Regarding VAT on housing, the new European Union VAT Directive [2022/542] should be examined to investigate if housing could be deemed to fall within the scope of application of the super reduced rate of VAT of between 0% and 5%, which is allowed for in the directive.	This is seen as one measure to address the increasingly serious affordability issues for housing, which are being further exacerbated by the recent extraordinary production cost and regulatory increases. If this VAT reduction was to be introduced, its success would require the introduction of the other proposals to increase supply. This measure could be assessed in the context of a detailed review of all aspects of the regulatory system that impacts delivery in the built environment.
6. Consideration should be given to the introduction of a targeted scheme whereby eligible expenditure on the purchase of a new apartment would be allowed as a deduction against PAYE over 7 years for purchasers and investors (small-scale landlords) in high-density residential developments in designated areas to be identified by local authorities; this scheme would apply up to a maximum number of apartment purchases by any one individual.	Such a scheme would support compact growth, national planning, sustainable development patterns and taxation structures impacting on the built environment and encourage compact growth. This scheme would also ensure that sustainable development is encouraged along bus and rail corridors that exist and are planned. Many apartment schemes have planning but are not proceeding due to viability challenges exacerbated by the hyperinflation in construction material costs.
7. All current and future proposed taxation, legislative and regulatory measures should be subject to an economic impact assessment, a cost benefit analysis, or a regulatory impact analysis to ensure they do not increase development and construction costs. Any funds raised from taxation measures to be introduced under the Housing for All Plan should be ring-fenced for the provision of essential infrastructure to enable the efficient delivery of residential development.	Due to the extraordinary increase in the cost of development and construction in recent years, any further regulatory or tax measures need to be rigorously assessed to ascertain their intended and unintended consequences. Moreover, there should be no tax measures imposed on lands that are under development or lands that are inhibited from development due to infrastructural constraints, which are not within the developer's control as they would simply increase the cost of residential delivery.

THEME 3: Infrastructure and Regional Development – Recommendations

Recommendations	Rationale
1. Increase and front-load investment in construction projects. It is critically important that a range of projects are at a 'ready to go' phase so that if one is delayed for any reason, another similar project can be procured. A portion of the capital carried over in the Public Capital Programme could be reassigned for the purpose of undertaking design and planning of infrastructure projects up front.	Many projects can be progressed with relatively small amounts of funding so that design and planning can proceed. There is concern that significant capital carryovers have arisen in 2019 (€215mn), 2020 (€710mn) and 2021 (€819mn). This underspend amounts to €1,744mn over the three years, or over half of the capital allocated to Housing, Local Government & Heritage in 2022.[3] The capital investment set out in the National Development Plan 2030 must be spent by contracting authorities on time to prevent future carryovers.
2. CIF members welcome the more recent measures introduced to manage material cost inflationary pressures but consider that it is necessary to continue with the reform of the Government's public sector contract and procurement processes. Government must increase the capacity of the state to manage the inception, design, planning and procurement process by ensuring extra resources are allocated to critical delivery agencies such as An Bord Pleanála, the Office of Government Procurement and the planning and housing departments in local authorities.	These reforms are critical to the delivery of the NDP, Housing for All and Climate Action, which must be delivered and cannot be delayed any longer due to the impact of other internal/ externally driven events.
3. Expand the role of the National Development Finance Agency (NDFA) to ensure a streamlined and efficient means of delivering infrastructure assets. The NDFA could act as a 'centre of excellence' for the design, planning, procurement and construction processes of state led infrastructure development.	Expanding the role of the NDFA to allow it to inform the development of an infrastructure needs statement, which would be evidence-based, objective and rigorous, would ensure that a single body, separate from the promoting agencies, would be responsible for the selection of projects which meet the policy goals and objectives of the agreed vision set out in the National Planning Framework and the National Development Framework 2030.
4. An inter departmental analysis should be conducted like a regulatory impact assessment of the regulations surrounding the built environment that impact the delivery of projects. We welcome the ongoing review of planning law in this regard and believe a thorough analysis that compares our regulatory environment with comparator European countries may provide evidence for efficiencies and cost reductions in delivery.	This analysis should include reviews of the Public Spending Code, procurement procedures, environmental regulations, building regulations, and all other regulations that affect inception, design, planning, procurement and construction of the built environment.

3 https://www.gov.ie/en/collection/abfe6-fiscal-monitors-2022/

THEME 3: Infrastructure and Regional Development – Recommendations

Recommendations	Rationale
5. The Public Works Contract needs to be brought into alignment with international norms such as the NEC form.	Similar mechanisms, which were introduced under the OGPs Inflation Framework Agreement to manage material inflation and supply chain disruption, need to be embedded in all future contracts alongside the other reforms that are committed to in the NDP, particularly in relation to risk management, collaborative contracting and quality in award.
6. It is recommended that a dedicated fund be created within Irish Water for 'local network reinforcement', which would be administered jointly with Local Authorities to enable it to accelerate essential water infrastructure projects for residential and non-residential investment. It is essential that funding is provided and assigned on a multi-annual basis to infrastructural delivery agencies including Irish Water, TII, NTA, local authorities, etc to ensure a streamlined delivery model for infrastructure. It takes several years from inception to deliver any infrastructural project.	The provision of water and wastewater infrastructure is currently inadequate. Thus, an increase in the capital allocation for Irish Water is vital as 40% of their current budget is already allocated to existing plant and wastewater facilities. Some of this will be taken up by increased material costs. This dedicated fund for local network reinforcement could be partly funded from the underspend last year of the Public Capital Programme, which amounted to €819mn.

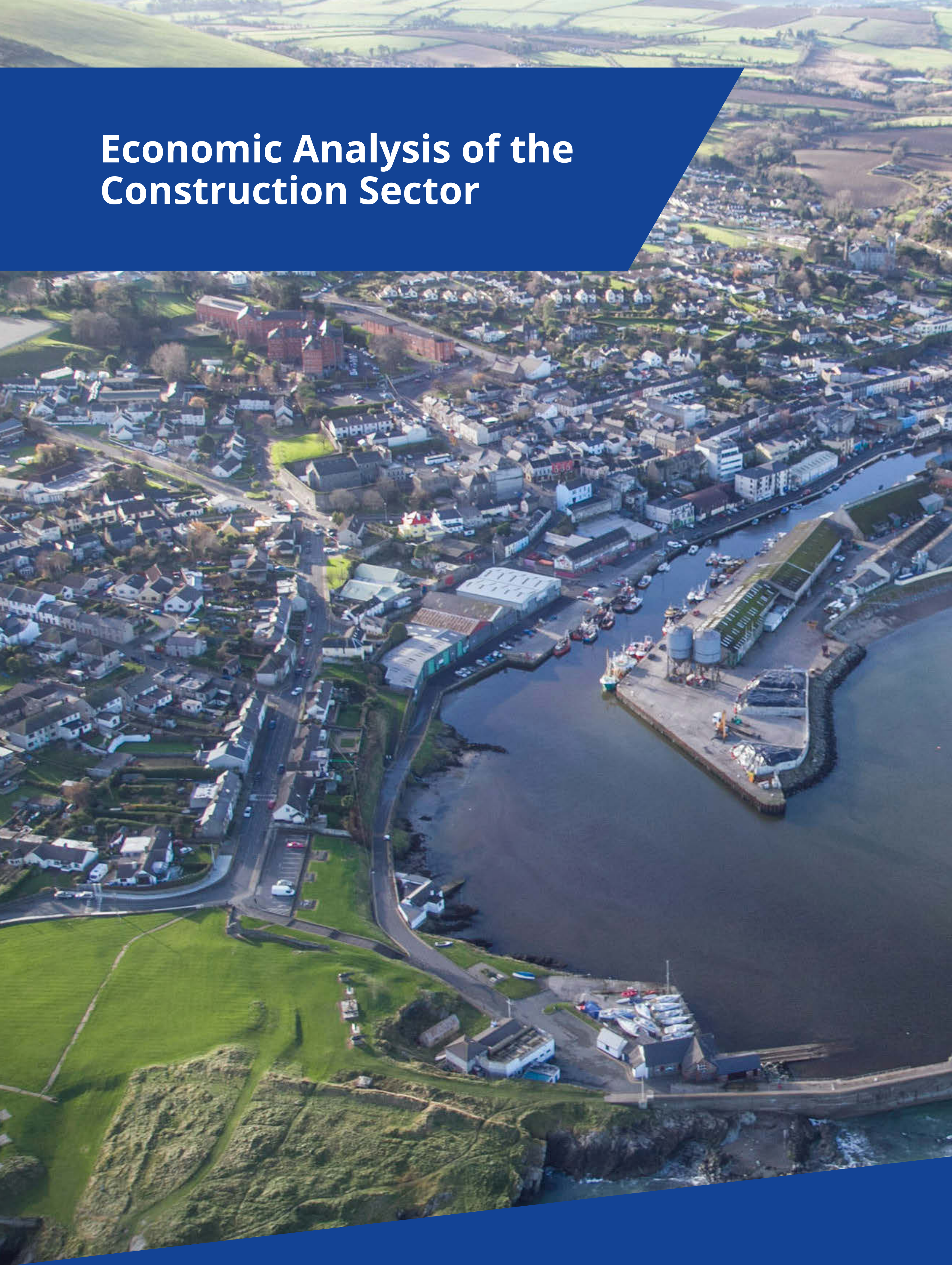
THEME 4: People – Recommendations

Recommendations	Rationale
1. Ensure that the future skills and talent required are secured by continuing to increase investment in reskilling and upskilling, and, increasing the capacity for training apprentices in the construction industry by investing in the Educational and Training Board and the National Construction Training Centre in Mount Lucas.	Many of the apprentice training centres around the country report difficulty accommodating the number of apprentices in the system specifically phase 2 Electrical. The facilities cannot accommodate the current volume registering and the backlog caused by Covid resulting in many apprentices experiencing lengthy delays in progressing their training. In many instances, the centres report difficulty recruiting trainers due to misalignment between pay rates for trainers and for skilled workers in private industry.
2. Support a media campaign to attract young people to the construction sector like the campaign for the tourism sector. Support a national careers and retention campaign for construction to promote career opportunities and diversity within the sector.	In line with the EGFSN Report on the built environment (September 2020), the several marketing initiatives currently being undertaken by a range of organisations to promote the sector or specific trades should be better coordinated to make it more effective, and this marketing effort should be supported by education and training providers. This campaign could be informed by ongoing research to ascertain the reasons as to why people do not perceive the sector as offering a long-term career of choice, and why people are leaving or not attracted to the sector, and corresponding mitigation strategies should be developed.
3. It is critically important that the development of skills to enable digital transformation and the adoption of modern methods of construction and construction technology are at the core of any skills training initiatives.	A key focus of the recently established Construction Technology Centre should be the provision of effective training through a range of mechanisms (e.g., 1-2 day training courses, CPD workshops) in collaboration with local technological universities and/or other educational supports (e.g., Skillnet Ireland), where appropriate, to ensure the requisite digital skills are provided to equip the workforce with the digital and technological skills needed for the industry to thrive. These specific skills are required to boost productivity in the sector, reduce costs and improve project delivery times, while also increasing quality and environmental outcomes.
4. Reinstate in a targeted manner, the Apprenticeship Incentivisation Scheme (AIS) to support SMEs and micro businesses to recruit new apprenticeships.	Industry recommends the re-instatement of the Apprenticeship Incentivisation Scheme (AIS), which was withdrawn in December 2021, to specific skill areas that are key to delivery of Government NDP commitments. Specifically, the funding should be targeted at the apprenticeships with low levels of registration such as blocklaying, plastering, painting, and decorating. The payment to employers in these sectors should be enhanced as these trades are crucial for the delivery of Housing for All. The AIS could be funded by the National Training Fund.

THEME 4: People – Recommendations

Recommendations	Rationale
5. Provide grants to employers for the provision of Safe Pass and Construction Skills Certification Scheme (CSCS).	Safe Pass and Construction Skills Certification Scheme (CSCS) programmes are mandatory training programmes in the construction sector. The provision of these programmes is an added cost to employers in the sector for which there is no financial support from the State. Contractors in the Republic must compete with their counterparts in Northern Ireland who receive grant aid, from Government for similar training. We propose to introduce financial support, by way of training grants, payable from the National Training Fund, to support employers in this sector
6. The student fee, payable by apprentices while in college in Phases 4 and 6 is a disincentive to apprentices and should be removed and funded by the National Training Fund.	Previous governments introduced a student fee for apprentices while they attended Phases 4 and 6 of their training. This fee is set at 1/3 of the standard student fee. The fee has proved to be a disincentive for apprentices and is unfair and a point of contention. The apprenticeship scheme is funded by the National Training Fund, a fund that is generated from a levy on employers and which is currently vastly in surplus. Given that Government is promoting apprenticeship as a mechanism for career development, we believe now is the time to remove this fee and replace it with payment, directly from the NTF to third level colleges.

Economic Analysis of the Construction Sector



Economic Analysis of the Construction Sector

The CIF welcomes this opportunity to engage with the Department of Finance on the current status of the construction industry and what is needed to ensure Ireland has a strong and competitive construction industry which can deliver a sustainable built environment to support Ireland's economic growth trajectory over the next decade and beyond. The sector has never been as important to the Irish economy as it currently is for several reasons:

- The sector is central to delivering the substantial State-backed investment plans to address Ireland's housing crisis and infrastructure requirements over the next two decades, to accommodate the extra 1 million people expected to be living in Ireland by 2040 (versus 2016).
- It also needs to meet the building needs of the private sector, many of which are subject to significant uncertainties at this time due to the delayed impact of Covid, remote working, rising construction inflation (18.2% year-on-year in April 2022[4]) and supply disruptions, which have been exacerbated by the war in Ukraine.
- All firms in the industry and in the supply chain responsible for delivering construction and infrastructure projects, need to pay attention to environmental, sustainable, and circular economy imperatives, given Ireland's target to reduce greenhouse gas emissions by 51% by 2030.

Construction is a significant contributor to GDP and economic activity

The economic impact of the building and construction sector is considerably larger in the economy than the initial amount spent directly on construction. This is because other firms throughout the supply chain also contribute to the economy through various output and employment multipliers, as the additional wages and profits generated in these firms are spent on goods and services in the wider economy. Based on an assessment of economic impact multipliers for construction by EY, it is estimated, after all direct, indirect, and induced economic impacts are considered in the construction supply chain and the wider economy, that in 2021, every €1mn of construction activity:

- Delivers an additional €0.66mn in Gross Value Added (i.e., profit and wages) to GDP
- Creates 8.9 full-time equivalent (FTE) jobs across the economy
- Returns €0.16mn in tax revenue to the Exchequer

Applying these multipliers to the construction output estimates from the CSO 2019-2021 and allowing for productivity improvements in the economy over time, would provide the following aggregate contribution of the sector to overall economic activity. Of note is the Gross Value Added (GVA) impact of the sector, which is the sum of wages and profits, and represents the contribution of the construction industry to GDP. Although the industry delivered a direct GVA of €7.06bn in 2021, the industry added a further almost €9.7bn in profits and wages to GDP last year because of its wider economic impacts across the economy.

4 The CSO Wholesale Price Index for Building and Construction materials was up by 18.2% year-on-year in April 2022.

Table 1: Estimates Economic Impact of Construction

€mn, current prices	2019	2020	2021
Value of Construction Output	24,238	23,990	25,207
Gross Value Added/GDP of Construction	6,776	6,653	7,058
Economic Impact of Construction Sector:			
Gross Output in Economy – activity*	44,340	43,770	45,730
Gross Value Added/GDP	16,310	16,080	16,740
Exchequer Revenues **	3,980	3,870	3,940
Total Direct Employment (Q4)	147,100	135,000	158,300
Direct FTE Jobs (est)	140,480	128,930	151,180
Total FTE jobs Supported by the Industry	261,100	259,540	290,870
% of Total Employment	11.1%	11.4%	11.6%

Source: CSO National Accounts, EY Economic Impact of Construction, July 2020 available at https://cif.ie/reports-and-publications/

* Note gross output contains an element of double counting. Therefore, Gross Value Added (GVA) is the better metric.

** Includes payroll, profits, and consumption taxes only.

The construction industry is also a vital sector of the Irish economy as it is one of the most labour-intensive forms of economic activity and thus is also an important contributor to job creation and long-term productivity. In the past seven years, since employment in construction reached its lowest level (Q1 2013), the industry has generated the highest proportion of the total jobs created across the economy, at 12.9% or 79,100 jobs. The industry currently employs 159,300 persons directly (Q1, 2022) or 6.4% of all persons in employment. However, considering the full-time equivalent (FTE) of the construction workforce, as well as indirect jobs created in the construction industry supply chain and elsewhere in the economy, the industry in total supports approximately 291,000 jobs across the entire economy or 11.6% of the entire employed workforce.

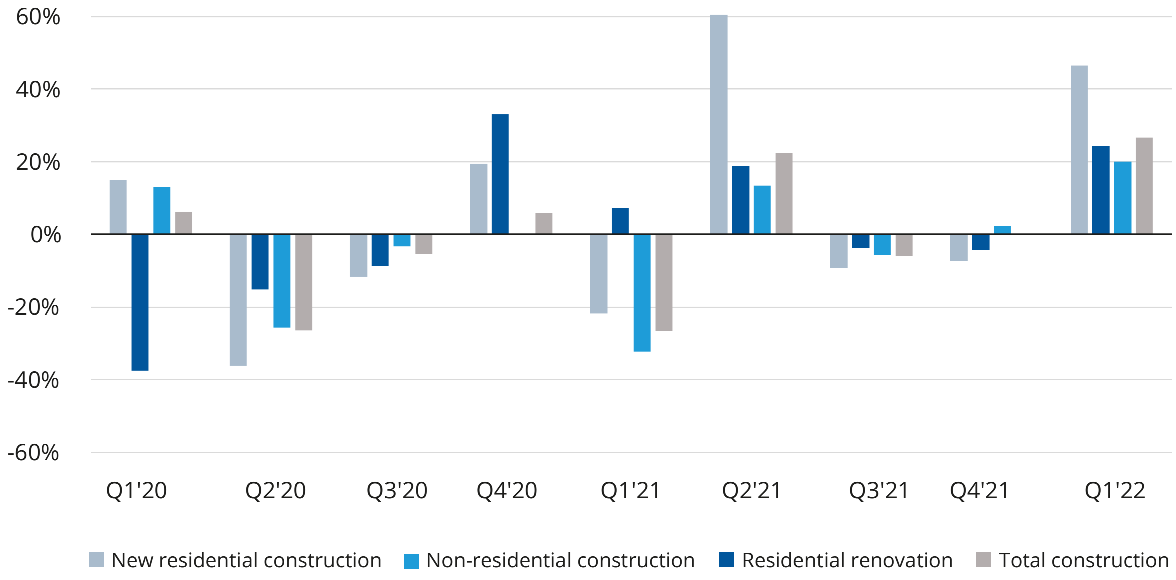
A resilient industry recovering post the pandemic, but is now facing challenges that could disrupt the sector over the coming years

The construction industry has shown considerable resilience in how it has dealt with the unprecedented challenges presented by Covid-19.

Following a total lockdown period of 23 weeks over the two years 2020-2021 and supported by a range of business and income supports over the period, the industry managed to rally through in very difficult circumstances.

Construction output volumes overall contracted by 4.4% and 4.2% respectively in 2020 and 2021, albeit the sector performance was very mixed over the period. All sectors recovered strongly in Q2 2021, reflecting the lockdown in Q2 2020, which saw some of the highest contractions across the sectors. The best performances were recorded by new residential construction in Q4 2020 (+19.4% year-on-year (YoY)) and in Q2 2021 (+60.4% YoY), reflecting the opening up post Covid, while non-residential construction volumes contracted by 4.0% in 2020 and by 6.1% in 2021, albeit with a very mixed performance over the two years. CSO data recently published for Q1 2022 shows a substantial recovery got underway, albeit on the back of an almost complete lockdown in Q1 2021. Output in the sector increased by 26.6% YoY in the quarter, with the strongest rebound recorded by new residential construction (+46.4%), while non-residential construction volumes also performed strongly (+20% YoY).

Figure 1: Building and Construction Investment in Republic of Ireland
(Volume percentage changes year-on-year, by quarter, Q1 2020 to Q1 2022)



Source: CSO, National Accounts, http://www.cso.ie

The overall value of building and construction output ended the year 2021 at €25.2bn, 4.0% in value terms ahead of the corresponding output achieved in 2019.[5] The corresponding reduction in volume terms was 8.4% over the same period. Despite this period of volatility and uncertainty, the industry maintained its share of GDP at 6.0% (11.5% of GNI*) in 2020 and 6.4% in 2021 (11.3% of GNI*).

Table 2: Performance of Construction Pre- and Post-pandemic

Current Prices, €bn.	**2019**	**2020**	**2021E**	**2022F**	**2023F**
GDP	356.5	372.9	421.5	467.1	498.5
GNI*	215.6	208.2	223.4	242.0	256.8
Construction output	24.2	24.0	25.2	29.1	32.1
Construction as % of GDP	6.8%	6.4%	6.0%	6.2%	6.4%
Construction as % of GNI*	11.2%	11.5%	11.3%	12.0%	12.5%
Constant 2019 Prices					
Real GDP %	4.9%	5.9%	13.5%	6.4%	4.4%
GNI* %	2.6%	-3.5%	5.5%	3.7%	3.1%
Construction output - volume % change	5.7%	-4.4%	-4.2%	4.8%	4.1%

Source: CSO National Accounts, 2021 - 2023 projections from the Department of Finance Stability Programme Update 2022 (April 2022) at https://www.gov.ie/en/publication/1ca1d-draft-stability-programme-update-2022/. Construction output projection for 2022 and 2023 from Euroconstruct, June 2022.

5 This figure of €25.2bn excludes €1.4bn in transfer costs (i.e. costs associated with the transfer of land and buildings), which if included, generates the total value of investment (i.e., capital formation) in the building and construction sector of €26.6bn in 2021. This was 5.8% above the corresponding value of construction investment in 2020. In volume terms, investment in the sector declined by 3.4%, after construction inflation of 9.5% in 2021.

This significant economic impact set out above reinforces the importance of ensuring that residential and non-residential projects are delivered as speedily and efficiently as possible. With the construction industry projected to deliver a gross output of €32.1bn next year (2023 prices), this implies a total contribution to GDP of around €21bn. This is in addition to delivering an additional 27,000 of new homes plus a range of private and public sector non-residential and civil engineering projects.

The key challenges ahead for building and construction

The estimated outturn for building and construction in 2022 expects output in the sector to increase in value terms by 4.8%, which will represent 6.2% of GDP (12.0% of GNI*). The preliminary projection for 2023 is for a further volume increase of 4.1% to 6.4% of GDP (12.5% of GNI*). The industry can continue to sustain its significant economic impact if it is able to deliver the substantial planned public investment of €165bn over the next decade in the relaunched National Development Plan 2021-2030 and the 33,000 homes on average required over the next decade, while also meeting the requirements of the private non-residential sector and accepting that all of this must be delivered in a sustainable manner. However, there are several major challenges which could derail this cautiously optimistic outlook and will require support from Government in several areas to enable all firms in the industry to move forward together to ensure a best-in-class construction industry over the medium-term.

These include:

1. The challenge of delivering housing and infrastructure in a rising building cost environment and one in which viability concerns were already impacting residential development projects.

2. The challenges with productivity, albeit recent efforts to boost productivity through the recent establishment of the Construction Technology Centre will help enhance productivity and generate significant economic benefits, resulting in a higher GVA (i.e., profit and wages) for the industry.

3. Given the very fragmented nature of the sector – 92.8% of construction firms employ less than 6 persons – there is the important issue of how to encourage these micro and small firms to embrace sustainability and adopt technology and play their role in addressing productivity and climate change.

4. Specifically, regarding labour resources, the availability of skilled labour will be a further challenge given competing demands from the new build and retrofitting sectors. The challenges for the sector will be ensuring a sufficient level of skilled personnel, given issues with attracting new entrants into the trades and the ageing of the construction workforce.

> “Following the reopening of the economy in 2022 post Covid-19, which had led to supply chain issues, these issues have been further exacerbated by the war in Ukraine, which combined with the recent escalation in construction materials and energy prices, are creating exceptional conditions for contractors.

Building cost inflation

Following the reopening of the economy in 2022 post Covid-19, which had led to supply chain issues, these issues have been further exacerbated by the war in Ukraine, which combined with the recent escalation in construction materials and energy prices, are creating exceptional conditions for contractors. The Society of Chartered Surveyors (SCSI) estimated the YoY tender price inflation (January 2021 to December 2021) for building projects at 13% last year.[6] The CSO Wholesale Price Index for Building and Construction materials increased by 6.2% in the first four months of 2022, and was up by 18.2% YoY. However, for some materials, prices were up by in excess of 30% YoY, with steel and timber recording annual increases of more than 70%. These excessive price rises are putting a strain on the cost of delivering some of the infrastructure projects in the NDP, as capital budgets for the year are already determined.

There was, for example, a capital carryover of €819mn which was not spent in 2021, while the total public capital expenditure at the end of April was 20% behind the planned profile of expenditure for the first four months of the year.[7] The underspend was substantially higher for the bigger infrastructure spending departments like Transport (-41.3%) and Housing, Local Government and Heritage (-38.4%).[8]

The latest Purchasing Managers Index for the construction industry (May 2022[9]) reported that the overall picture remains broadly positive with construction activity continuing to expand in the month. However, a further rise in material costs during May fed into weaker demand for construction services and generated a fall in new orders for the second consecutive month. Government departments reported reduced competition for public sector contracts in the April survey and challenges related to completing projects underway during 2021 for the same reasons. The hope is that the measures introduced in May 2022 to address the impacts of exceptional inflation and supply chain disruptions for public sector contracts [the ‘Inflation Co-operation Framework Agreement’[10]] will safeguard public sector projects already under construction and mitigate the risks of significant losses being sustained by contractors.

However, private sector building projects are faced with the same challenges, which are adding significantly to uncertainty for both contractors and clients, and when compounded with planning delays on some projects, all are impacting delivery timelines and viability.

The following sections address the four specific themes which inform the recommendations set out in the Executive Summary.

6 Tender Price Index - April 2021 - Society of Chartered Surveyors Ireland (scsi.ie)

7 https://www.gov.ie/en/publication/39322-fiscal-monitor-april-2022/

8 It is acknowledged that this period covers the first four months of the year only and that capital expenditure may be a lumpy with payments made in a number of single payments throughout the year, rather than on a monthly basis. As the year progresses, the extent of any underspend will become evident.

9 BNP Paribas Real Estate Construction PMI, May 2022

10 https://constructionprocurement.gov.ie/20-may-2022-publication-of-inflation-supply-chain-delay-co-operation-framework-agreement/

Key Budget Themes

THEME 1: Sustainability

– moving swiftly to decarbonise our economy

Introduction and context

Climate change poses unprecedented challenges for our society. Urgent action must be taken to decarbonise our economy, increase energy efficiency and reduce our dependence on fossil fuels. The construction and built environment sectors have a major role to play in delivering Ireland's commitment to a 51% reduction in Ireland's overall greenhouse gas (GHG) emissions from 2021 to 2030 and achieving net-zero emissions no later than 2050.

In the light of concerns that Ireland is unlikely to meet climate change targets by 2030, the construction sector, together will all sectors, will need to do significantly more than planned to reach its targets. This reinforces the need to implement the actions in the Climate Action Plan 2021 sooner rather than later[11].

One approach to achieving the transition to a lower carbon intensive construction sector is by the adoption of more sustainable, modern, and efficient construction methods. In this regard, the CIF welcomes the establishment of a dedicated National Construction Technology Centre (CTC) earlier this year. This CTC will be central to the industry transformation that is required to boost productivity by pushing the research and innovation agenda to identify technology opportunities for the sector, initially, though not exclusively, with regard to the residential construction sector. The CTC will address innovation in, for example, the planning and design, construction and management and maintenance and operation phases. This Centre will provide for the development of advanced materials, testing and validation of system, certification, and proof of concept. Special financial resources in the form of tax credits, for example, should be provided to SMEs in the sector to ensure they actively participate and benefit from the work undertaken in the CTC.

In their report on heating emissions, the SEAI identified district heating as having the potential to provide 50% of houses in Ireland with heat. This would involve major infrastructure changes and construction over the coming decades. The same report stated that the primary barriers to uptake relate to planning, regulation, and financial factors. Similarly, in relation to retrofitting and regeneration of old buildings, the SEAI also stated that more rapid decarbonisation of buildings requires policy measures that influence consumer choice. Government policy can enable the huge transformation that is required in the construction and regeneration of buildings. This could be achieved by innovation tax credits linked to the new CTC.

New and existing infrastructure, especially publicly funded, will continue to become more and more important in tackling climate change. The procurement of public funds will require green criteria to be met by 2023 while increasing amounts of private investment are being directed towards green projects. Both the physical asset and the operational process will be increasingly scrutinised to assess the sustainability of the delivery. It is important for the industry to prepare for the implementation of such criteria, and for Government initiatives to be in place to ensure productivity can continue to increase in the presence of such standards.

Detailed recommendations relating to sustainability are contained on page 7.

11 Climate Action Plan 2021, https://www.gov.ie/en/publication/6223e-climate-action-plan-2021/

THEME 2: Residential Supply

– in the context of Regional Development, Compact Growth and Sustainable Development Initiatives

Introduction and context

As the economy's recovery from Covid has been robust, despite issues such as inflation and the war in Ukraine, housing remains a core political, economic, and social issue. The existing challenges in the market are gathering momentum, despite the announcement of a range of Government schemes and subsidies to support housing supply, affordability, and viability as well as the announcement of the largest planned housing investment programme ever in the State under the Housing for All (HfA) Plan. Combined with the added demand from the influx of Ukrainian refugees displaced by the conflict, the current confluence of factors is creating a very challenging housing market. This is adversely impacting potential house buyers and renters.

Several schemes have been introduced by Government or are imminent since the CIF's last budget submission. Measures to support affordability, whether referring to the Local Authority Affordable Purchase scheme, the Cost Rental scheme, the First Home scheme or the extension of the Help to Buy scheme until end 2022 in the last budget, are very welcome policy initiatives. However, the common denominator is that they all require an increase in supply if they are to be successful. Equally, the 5,000 affordable homes expected under Project Tosaigh and the further 5,000 apartments in the main cities, under the Croí Conaithe fund, are encouraging supply side initiatives. Clearly, the delivery of supply is the core issue and any measures deemed to boost supply while supporting affordability and sustainability and reducing the cost of delivery, are the focus of the recommendations below.

Although the housebuilding industry almost doubled output between 2016 and 2019, Covid restrictions led to significant delays in home building over the last two years. The total level of newly completed units was 20,514 in 2020 and 20,473 in 2021, compared with 21,047 in 2019 and less than 10,000 in 2016.

There are encouraging signs in the housing commencements data which show a total of 30,724 units commenced in 2021 and 32,456 in the year to April 2022 compared with 26,237 pre-Covid in 2019. The data also showed an exceptional increase in the number of apartments built over the past five years – 25% in 2021 compared to 12% in 2016 – many of which are high density Build to Rent schemes in the urban areas. This imbalance in the type of new supply is receiving much attention and is raising concerns about the tenure choices available for individuals and families in the market.

Unfortunately, the confluence of factors mentioned above continues to cause severe and exceptional interruptions to industry supply chains. At the time of drafting this submission, evidence is growing that recent material cost increases are having an extremely negative impact on supply, with reports of schemes being put on hold or not even commencing. As a result, in recent weeks and months, the focus on construction and development costs has come into sharper focus, with increased concerns around the viability of a greater number of schemes.

To address the rising cost of production, the industry is beginning to adopt modern methods of construction, with timber frame, steel frame and the insulated concrete formwork system of housing construction now as the norm rather than the exception. However, even with these systems, the increased costs of production are placing housing supply at risk in many areas. This is especially the case in many regional areas that have only recently seen the resumption of private residential construction activity and where consumers may now not be able to secure more finance to cover the increased costs of production.

Returning vacant and derelict buildings back to use

A separate issue concerns the number of vacant and derelict buildings across the country. This issue, together with measures to restore these units back to use, has received considerable attention over recent months. Estimates from Geodirectory suggest that there are around 90,000 vacant dwellings – or one in 20 dwellings - and 22,096 derelict properties nationwide[12]. The analysis found that:

- The five cities in total accounted for one-third or almost 30,000 vacant units, with Cork recording the highest number (9,387) ahead of Dublin (8,028). Donegal had the second highest number (8,461) of vacant units.
- Derelict buildings are concentrated in the West, most notably in Mayo, Donegal and Galway, which account for 34% of the total, while the five cities have less than 5,000 derelict homes between them.

Measures to tackle derelict buildings across rural Ireland were announced at the beginning of 2022 when plans to provide a grant of up to €30,000 to support the restoration of derelict properties to living standard were mooted. The scheme is due to be brought forward under the Croí Cónaithe Towns and Villages initiative as a measure to unlock the potential of those areas across the country. However, the CIF considers there is considerable scope to address the issue of vacancy and dereliction with more comprehensive sustainable development initiatives in the form of incentives to refurbish the many vacant and derelict buildings which plague the main streets of cities, towns and villages across the country. These restored buildings could be used to provide much needed supply for the expanding population, as well as to accommodate the influx of Ukrainian refugees.

CIF members are proposing a targeted tax relief scheme which would provide capital allowances over seven years for the construction costs associated with the regeneration and restoration of unused buildings within specified areas of city and town centres and villages. In this regard, the existing Living City Initiative (LCI) offers a reasonable template for a scheme to restore vacant and derelict buildings to the housing stock.

While it is acknowledged that the LCI has not been popular, there are several restrictions which limit its availability in practice, the removal of which could greatly widen its applicability. Currently, there are three main types of relief under the scheme – 'owner occupier' relief, 'rented residential- relief and 'commercial' relief. Owner occupier relief is where a person refurbishes a property for use as their main residence. However, rented residential relief and commercial relief allow parties to develop buildings and allow use as rented residential or commercial premises. Eligible expenditure is allowed as a deduction against PAYE.

Broadening these reliefs could give scope to encourage the restoration of unused properties. While the process for claiming relief does not appear unduly onerous, the suggestions below should ***prima facie*** help to increase the attractiveness of the scheme. CIF members are seeking a tax incentive scheme which would be targeted at certain areas (main streets in cities, towns and villages), where the period of vacancy would be specified and there would be no restrictions on expansion of the existing building. It is proposed that the scheme would be open to individuals and developers to ensure maximum take-up and maximum environmental benefit. Eligible expenditure would be allowed as a deduction against PAYE over 7 years.

12 Geoview Residential Building Report, Q4 2021

Living City Initiative limitations	Proposed scheme for vacant and derelict buildings
Confined to limited 'Special Regeneration Area' of six cities	Target at certain areas, e.g., main streets in cities, towns and villages)
Residential property built before 1915*	Refer to 'period of vacancy' e.g., 5 years, rather than a specific period
Restrictions on property developers claiming relief	Allow developers to use the scheme as well as individuals
Restrictions on expenditure spent on extending building	Remove these restrictions to allow for expansion of existing buildings
For owner occupier relief, relief is spread evenly over ten years; for rented residential relief and commercial relief, qualifying expenditure is to be written off at the rate of 15% per annum for the first 6 years with the remaining 10% available in year 7 by way of accelerated capital allowances	Qualifying expenditure to be written off against income tax over 7 years: 15% in the first 6 years and 10% in year 7

Recognising the many complexities in bringing derelict and vacant buildings up to the current standards sought by the building regulations, such a scheme should be introduced in conjunction with a streamlined "national minimum standard" deemed to satisfy the building regulations. Significant issues in relation to compliance with fire regulations and conservation regulations in many city and town centres exist for underused, derelict, and vacant buildings. These regulatory issues, combined with additional construction and retrofit costs associated with the regeneration of old building stock and the taxation structures for small private landlords, are a significant deterrent to regenerating the existing built environment. The introduction of such a measure would also assist in the need to identify additional accommodation facilities for Ukrainian refugees. It would also yield accommodation relatively quickly in centres with significant infrastructure provision already in place.

Addressing the viability of apartments in urban areas

Section 23 type relief was a generic term used to describe various types of property-based tax incentives in respect of rented residential accommodation in tax incentive areas. These types of schemes have a long history and were first introduced by Section 23 of the Finance Act 1981. The relevant legislation is contained in the Taxes Consolidated Act (TCA) 1997, the most recent of such schemes were terminated in 2008.

Given the current challenges with the deliverability and viability of apartments in urban areas, CIF members believe there is now a case to be made for a re-introduction of a similar type of scheme. Historically, Section 23 relief took the form of a deduction against rental income from the premises for expenditure incurred on the purchase, construction, conversion, or refurbishment of a qualifying property. If under a new scheme, a 'Qualifying Premises' could be defined as a new apartment block in prescribed urban areas, Section 23 provides a blueprint for how the relief might work. The broad template already exists on the statute books and CIF members believe that there is a case to make that this type of relief is not unprecedented in the state, albeit one would be looking at a more targeted application than available historically.

The proposal is for tax relief to be provided for new apartment blocks in certain urban areas against qualifying expenditure over 7 years, 15% in the first 6 years and 10% in year 7. The design of any such scheme such as what is proposed here, and exactly who would qualify, should be subject to further analysis and consider what was and was not effective in the original Section 23 scheme.

Tax treatment of small-scale landlords

In the private rental sector, the taxation structures for smaller landlords act as a disincentive to the provision of rental accommodation and are a factor in the failure to regenerate older properties in city and town centres.

Rental income is generally chargeable to tax under Case V of Schedule D under the Taxes Consolidation Act (TCA) 1997 and is chargeable to tax as income tax where the rental income accrues to individuals, and corporation tax where it accrues to companies.

In the case of individuals, any rental income surplus is generally chargeable under the following heads of charge:

- Income tax at rates of 20% /41%
- PRSI at rates of 4%
- USC at rates of 2%/ 4.5%/ 8%.

For income tax purposes, the marginal rate of income tax, PRSI and USC on rental profits will be somewhere between 26% and 53%.

Data from the Residential Tenancies Board (RTB) show that 6,824 private landlords left the market between 2018 and 2020, with a total of 165,736 private landlords registered with the RTB at end of Q4 2020. Research from Sherry FitzGerald showed that private landlords accounted for 28% of their total sales in 2021, with one landlord buying an investment property for every two landlords leaving the market. Although institutional landlords providing large Build-to-Rent apartment schemes have entered the market in the last five years, the exodus of small-scale landlords from the private rented sector, is impacting the supply of affordable rented accommodation and in many locations where there is an absence of the large scale Build to Rent accommodation.

Much of the exodus is due to the tax treatment of landlords and limitations on the deduction of expenditure incurred. Accordingly, CIF members recommend, in relation to the tax treatment of landlords, that rental income should be treated as a separate class of tax and landlords should pay tax on their rental income at the standard rate of 20%, i.e., a maximum of 32% including PRSI and USC.

Developing a more equitable and fairer taxation system to contribute towards the provision of essential public infrastructure

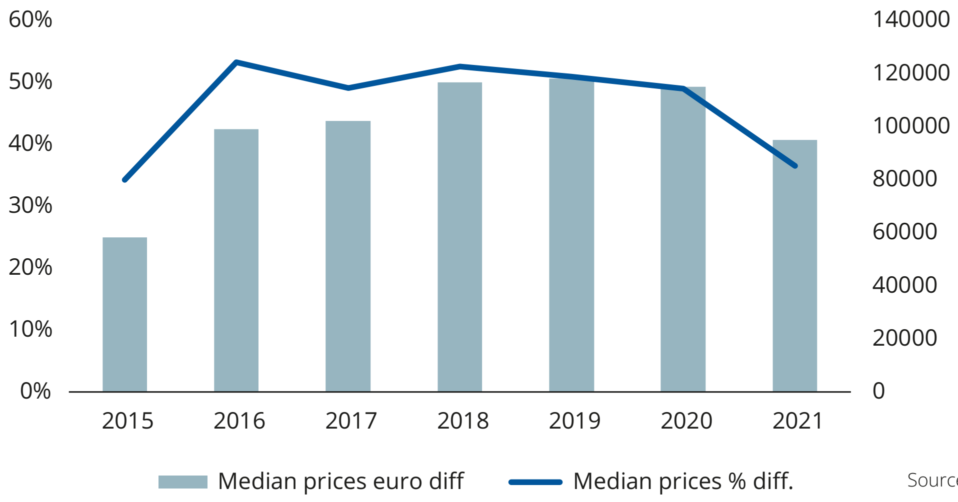
Costs relating to development contributions, and the main utilities, water and electricity, are a significant cost to the delivery of residential units.

The charging of such development contributions is intended to partly fund the provision of essential public infrastructure and the servicing of land for private residential and non-residential development. Thus, new home buyers are paying a significant charge for the provision of infrastructure in their areas, which benefits the whole community in the local area.

A key principle of taxation is fairness. Thus, in a situation where development contributions are not replaced by a more equitable Local Property Tax for all property owners, a rebate of contributions paid should be provided to first-time buyers over a defined period and banks should factor this rebate into the mortgage repayment model.

An analysis of market-based transactions over the past five years shows a persistent and significant differential between the prices for new and second-hand residential properties. Taking median prices, the differential was 47.6% on average over the past five years or €109,000 in absolute terms. Therefore, as an alternative proposition to lessen the burden on the purchasers of new homes, consideration should be given to the introduction of a 1% levy on all second-hand home transactions. Based on the median price of a second-hand home of €260,000 and the total market-based transactions of 38,733 in 2021, a 1% levy would generate revenues of circa €100mn. This revenue would help spread the cost of new infrastructure to all buyers of homes, albeit most of the population at large would still not be making a fair contribution.

Figure 2: Residential Property Prices – New versus Second-hand
Percentage and absolute difference each year, 2015-2021



Source: CSO.

The Help to Buy Initiative

The Help to Buy incentive (HTB) was introduced by the Minister for Finance under Rebuilding Ireland, Action Plan for Housing and Homelessness, to assist first-time buyers to fund the deposit required to purchase or self-build a new house or apartment to live in as their home.

The HTB provides for a refund of income tax and Deposit Interest Retention Tax (DIRT) paid over the previous four tax years. Retrospective applications for eligible applications run from 19 July 2016 with revised eligibility criteria now in place for applications currently in place until 31 December 2022. Relief is currently available up to a maximum of €30,000 or 10% of the purchase value, up to a maximum of €600,000 until 31 December 2022.

The HTB for first-time buyers has had a positive impact on the rate of commencement of new residential scheme units, with a substantial increase in the rate of new housing completions since the introduction of the scheme. There were 33,035 approved claims by first-time buyers of new homes since the inception of the scheme.[13]

Budget 2022 saw the HTB extended in its current form until the end of 2022. Without the HTB, the rate of commencement of new homes would likely have been lower and several potential buyers would have failed to secure the required deposit for their first home of choice. Without this form of Government support, it is likely that a cohort of 'would be' buyers, who do not qualify for social housing, would have failed to become owner occupiers, and would have stayed living in the private rented market, with adverse consequences for rental levels.

Assessment of Housing Affordability
• The HTB has had 33,035 claims approved to date, at a total value of €630.9mn, which corresponds to an average of €19,100 per claim.
• The scheme plays a pivotal role in providing certainty to builders delivering new homes and enables them to secure sales and finance to proceed with their developments, and in many cases without which the development may have been unviable. Irish House Building Association (IHBA) members report on average 75-80% take up of the HTB for those who qualify.
• Data from the Banking and Payments Federation Ireland (BPFI) shows that there were 35,211 new homes purchased with a mortgage by first-time buyers between July 2016 and March 2022. A significant proportion of these first-time buyers would have purchased homes for up to €600,000 from 19 July to 31 December 2016 and up to €500,000 from 1 January 2017 to date and would therefore have benefitted from the HTB.

13 Help to Buy (HTB) monthly statistics (revenue.ie)

Property Value €'000	Number of HTB approved claims	Percentage of Total
€0-150	456	1.35%
€151-225	2,783	8.22%
€226-300	**10,192**	**30.12%**
€301-375	**11,663**	**34.46%**
€376-450	6,357	18.78%
> €450	2,392	7.07%
All Values	**33,843**	**100.00%**

Source: Help to Buy Incentive (HTBI) monthly statistics (revenue.ie)

The VAT contribution from the properties which were subject to the HTB, based on the average first-time buyer new house price over the period since the scheme's introduction, is estimated at €1.34bn. This figure excludes the additional economic activity and jobs, which the investment in new housing would have generated over the period.

Value of approved claims made (31 May 2022)	€630.9mn
Total number of approved claims (31 May 2022)	33,035
Average number of claims from €1 million in State support	**52**

HTB approved claims to May 2022	33,035
Average FTB new property price (July 2016 – March 2022)	€340,200
Total value of HTB transactions (est)	€11,238mn
State benefit in terms of VAT @ 13.5% (est)	€1,337mn

Building and maintaining market confidence and certainty for first-time buyers is important in the current climate. With national residential property prices (mix-adjusted) up by almost 50% since the scheme was launched (38% in Dublin; 59% outside Dublin), the extension of the scheme, in conjunction with the First Homes scheme (to commence end-June 2022), would maximise access to owner occupation for first-time buyers. It will also help to address the affordability of new homes, given the significant gap between new and second-hand property prices (Figure 2).

CIF members are therefore seeking the retention of the HTB for another three years until 31 December 2025 for purchasers of new homes, in conjunction with the First Homes scheme (to commence end June 2022), as a critical measure to address the affordability gap vis-à-vis second-hand properties.

HTB has not had an inflationary impact on new house prices. New house prices have been relatively stable for several years (the rate of increase fell shortly after HTB was introduced) and in Q4 2021 new house prices rose by 5.3%, largely driven by material costs inflation. In contrast second hand house prices rose by 16.5% in Q4 2021.

The Help to Buy Scheme is a tax relief measure to aid those saving for a deposit and has facilitated 33,035 approvals from applicants since its introduction. Stability in major aspects of public policy is vital in the current market cycle. Most of those availing of the scheme may have struggled or not been able to purchase a house without HTB and therefore the scheme has aided supply to a constrained market.

https://www.cso.ie/en/releasesandpublications/ep/p-rppi/residentialpropertypriceindexapril2022/newandexistingdwellings/#

Recent supply chain issues and cost increases because of Brexit, Covid and the war in Ukraine, are unparalleled and disruptive. With construction material price inflation increasingly impacting price points, builders must charge to make the production of new homes commercially viable. Both schemes are vital in addressing the ability of individuals to purchase new homes.

The residential construction industry needs a period of stability and readjustment to help stabilise supply chains and allow the industry a chance to regain momentum and increase supply. The Help to Buy scheme and the welcome introduction of the First Home Scheme are vital to both supply and demand. They will provide some comfort to the consumer and to funders that there is stability and continuity in public policy measures aimed at increasing supply. These measures will also help provide confidence to the industry during a very disruptive period.

VAT on new housing

The issue of lowering and/or removing VAT on new housing has been raised on several occasions in the past to address affordability. The CIF is aware that a new European Union VAT Directive [2022/542] has been published and will be incorporated 1 January 2025, which is intended to provide a legal framework to co-ordinate the application of reduced rates throughout the European Union. [14] The main objective is to update the list of goods and services which can qualify for a VAT rate of VAT below the standard rate of VAT.

The directive provides several changes, including that member states are permitted to have a super reduced rate below 5% and a zero rate will be permitted, but the scope of application of this super reduced rate and the zero rate is restricted. Housing is listed as one of the activities that can come within the scope of the special reduced rate and the zero rate. However, while housing can potentially come within the scope of these reduced rates, it is expected that there will be many sectors seeking to have their activities placed in these categories. Under the directive, member states have 17 months to make submissions to the Commission outlining the activities to fall within each category. The directive is complex and thus, the CIF recommends, given the serious affordability issues for housing which are being exacerbated by the recent extraordinary production cost and regulatory increases[15], that the Department of Finance reviews the detail of the directive and investigates the application of this super reduced rate of VAT of between 0% and 5% for housing to fall within this category.

14 Council directive (EU) 2022/542 of 5 April 2022 amending Directive 2006/112/EC and (EU) 2020/285 as regards rates of value added tax.

15 In recent years there have been increases in regulatory costs due to the introduction of new Codes of Practice for Water infrastructure, the introduction of water connection and bonding charges, changes to the building regulations, and increases in development contribution charges.

Sustainable development initiative to deliver Compact Growth

A key national strategic objective of Project Ireland 2040 is the careful management of

"The sustainable growth of compact cities, towns, and villages [that] will add value and create more attractive places in which people can live and work."

The plan seeks, as a top priority, to activate these strategic locations and achieve density and consolidation, rather than more sprawl of urban development. CIF members are concerned that, as material costs increase dramatically, there is a real danger that many proposed apartment schemes in Ireland, including those in the Dublin region, are now at risk of not proceeding, thereby delaying delivery on the above key objective. Thus, to expedite new residential development in these targeted locations, consideration should be given to the introduction of a targeted scheme whereby eligible expenditure on the purchase of an apartment would be allowed as a deduction against PAYE over 7 years for purchasers and investors (small-scale landlords) in high-density residential developments in designated areas identified in the relevant local authority development plans. This scheme, which would only apply up to a maximum number of apartment purchases by one individual, could ensure that sustainable development is encouraged along existing bus and rail corridors that exist and are planned for. Such a scheme would support national planning, sustainable development patterns and taxation structures impacting on the built environment and encourage compact growth.

In conclusion, it is recommended that all the above proposals should be subject to either an economic impact assessment, a cost benefit analysis or a regulatory impact analysis to consider the expected positive and negative impacts of each proposal. We note that EU State Aid rules may have limited the scope of similar type schemes in the past and this would need to be carefully considered in designing any comprehensive proposals.

Total demand for new homes over next decade estimated at 468,000 excluding the needs of an estimated 80,000 to 100,000 Ukrainian refugees

In this regard, it is worth recalling that Ireland's population is projected to increase by around one million people or by 20% over 2016 levels to almost 5.7 million people by 2040 (National Planning Framework (NPF) baseline scenario). Over the ten years, 2021 to 2031, Ireland's population is projected to increase by an additional 368,400 to 5.4 million. The population projections in the NPF preceded the influx of Ukrainians, which is expected to be of the order of 80,000 to 100,000. Moreover, based on the level of supply over the past decade and the forecast average annual demand of 28,200 new homes (ESRI baseline scenario) over the period of the Housing for All Plan, the estimated pent-up demand at the end of 2021 was around 155,000 new homes. Combined with the projected requirement of close to 313,000 in the Housing for All Plan, this generates a total demand for more than 468,000 new homes over the next decade to 2030. CIF members believe that the above schemes are required to expedite this level of supply and provide certainty to new home purchasers, immigrant workers, foreign direct investment and housebuilders that sufficient accommodation will be available at an affordable price to accommodate demand.

Detailed recommendations relating to residential supply are contained on page 8.

THEME 3: Infrastructure and Regional Development

Introduction and Context

All regions in Ireland have seen significant population and employment growth in recent years. We contend that investment in vital infrastructure, such as water, public transport, energy and the electricity grid, schools, hospitals, and roads, needs to be accelerated to ensure existing bottlenecks in the economy are addressed. CIF members comment that many of the most important issues across the counties they work in are related to inadequate infrastructure. Infrastructure is seen as the enabler of all other development and as already noted, facilitates economic activity in the wider region in which it is located.

The Government sets out commitments to public capital investment in buildings and infrastructure each year in a multi-annual capital investment framework, which is published by the Department of Public Expenditure and Reform (DPER). The commitments for the coming decade were provided in the updated review of the National Development Plan 2021-2030 (NDP), which was published on 4 October 2021.[16]

The revised NDP includes departmental capital allocations in nominal terms over the period to 2030 to support economic, social, environmental, and cultural development across the country. The total planned investment is €165bn from 2021 to 2030.

Looking to 2023, the total Exchequer capital provision in the NDP is €11.61bn, which is just 1.8% in nominal terms above the estimated outturn for 2022 (€11.4bn) in the April Fiscal Monitor. With construction inflation expected to be well above this level, the prospects are for a decline in the volume of public capital expenditure next year, which does not augur well for the pipeline of construction projects. The hope is that the capital allocation for 2023 provided in the 2023 Budget will allow for a real increase in public capital investment after taking construction inflation into account. This is particularly important given the ongoing escalation in building costs and supply chain disruptions. The level of capital investment in infrastructure needs increase in volume terms if the economy's medium-term growth potential is not to be eroded.

> “ We contend that investment in vital infrastructure, such as water, public transport, energy and the electricity grid, schools, hospitals, and roads, needs to be accelerated to ensure existing bottlenecks in the economy are addressed.

---

16 https://www.gov.ie/en/publication/774e2-national-development-plan-2021-2030/

17 Public sector construction projects will include investment in a wide range of different projects, e.g. educational buildings at all levels, hospital and health projects, local authority buildings, public sports and cultural buildings, heritage and tourism, transport (road, public transport, ports, airports), energy transmission and distribution, water services, telecommunications and broadband,

18 Using categories as listed in the previous footnote.

19 https://www.gov.ie/en/collection/abfe6-fiscal-monitors-2022/

20 Minus_Embargo_IE_Construction_ENG_2206_LITE.pdf (web-view.net)

The public capital provisions include other capital investment (i.e., machinery and equipment, trains, buses, ICT equipment etc.) and there is no transparency on the actual spend on construction and infrastructure projects in the year. Recognising the wide range of building and infrastructure projects across Government departments and state agencies, DPER should consider publishing an annual review of the investment in building and construction by type of project against actual planned levels.[17] This could be similar to that provided in the Fiscal Monitor report in regard to gross capital expenditure, but would be by project sector rather than by Government department.[18] Alternatively more detail could be provided in the annual Revised Estimates for Public Service Expenditure reports on projects funded in the public capital programme. This type of information will become increasingly important to identify investment in new and renovation/refurbishment works separately if the environmental impacts of the investment are to be quantified.

There have been significant underspends of public capital investment of around €1.7bn in the last three years, which means that some public building and infrastructure projects are not progressing as quickly as expected.[19] This development is difficult to fathom when there are projects where design and planning could be commenced to ensure they are at the 'ready to go' phase earlier than they would otherwise be.

Much commentary has been devoted to the housing crisis over recent years and much progress has been made, though more needs to be done. Regarding infrastructure, however, the civil engineering contracting sector has been consistently weaker than other sectors of construction, with activity levels declining for three successive months in May 2022, according to the latest Construction PMI.[20] Civil engineering contractors rely predominantly on the public sector for their workload and require certainty and visibility on the pipeline of work if they are to plan their resources over the medium-term. This is critical to delivering sustainable and balanced regional economic development.

Detailed recommendations relating to Infrastructure and Regional Development are contained on page 10.

THEME 4: People

Introduction and context

There is a significant programme of construction work to be delivered across the housing and private non-residential building sectors (e.g., offices, retail, industrial (incl. data centres), hotels, private cultural and sporting facilities, student accommodation, private health and education facilities and agricultural buildings), as well as in the public non-residential building (health, education and other public buildings) and infrastructure sectors (roads, land, air and sea transport, water, energy, telecommunications and digital) over the next decade and beyond. The construction industry's capacity to deliver this volume of work to a high quality requires an available supply of skilled male and female workers to ensure the industry is well positioned to adapt and prosper in the future.

While the industry is adopting significant changes in the way it undertakes construction work and supplies the necessary materials for each project, it will require a pipeline of skilled workers who are well trained in traditional building skills as well as new construction methods. Several policies over recent years have reinforced this requirement:

- The move to improve productivity and reduce onsite labour in the sector with the increasing adoption of, for example, modern methods of construction and digital construction, which requires specialised labour cohort to operate the specialised equipment and assemble the prefabricated components.
- The Climate Action Plan 2021 is heavily dependent on a comprehensive retrofit programme to support the achievement of the target to reduce residential and commercial emissions in the built environment by between 36% and 50% between 2018 and 2030.[21] The construction labour force is adapting to this change and will require an expansion in the range of skills and technical occupations if this target is to be achieved. A November 2021 report on the skills required for zero carbon projected that the demand arising from retrofit and the installation of heat pumps and solar panels, would generate a labour demand of 16,600 workers by 2024 and 17,400 by 2030.[22]
- The substantial planned level of building and infrastructure investment in the public and private sectors will require an increasingly competent workforce. The skills in the built environment already represent a diverse range of skills and occupations, ranging from core occupations (55% of employment currently, e.g., carpenters, electricians, architects) to niche occupations (10%, e.g., floorers, roofers, crane operators) to more general support and administrative occupations (35%).[23] Going forward, employment is likely to increase to support growth in the economy and a range of new occupations are already emerging, while a transformation of the sector away from physical labour will be required to ensure the industry moves up the value chain and remains attractive to new entrants.

---

21 https://www.gov.ie/en/publication/6223e-climate-action-plan-2021/ p118

22 https://www.gov.ie/en/publication/49bd0-skills-for-zero-carbon/

23 A report from the Expert Group on Future Skills Need in the built environment Sector to 2030 described three groups of occupations in the built environment [Core, Niche, General] which comprised the total employment figure of 205,400 in December 2019 https://www.enterprise.gov.ie/en/Publications/Building-Future-Skills.html

24 https://www.gov.ie/en/press-release/a1167-ministers-heather-humphreys-and-simon-harris-launch-new-drive-to-recruit-construction-workers/

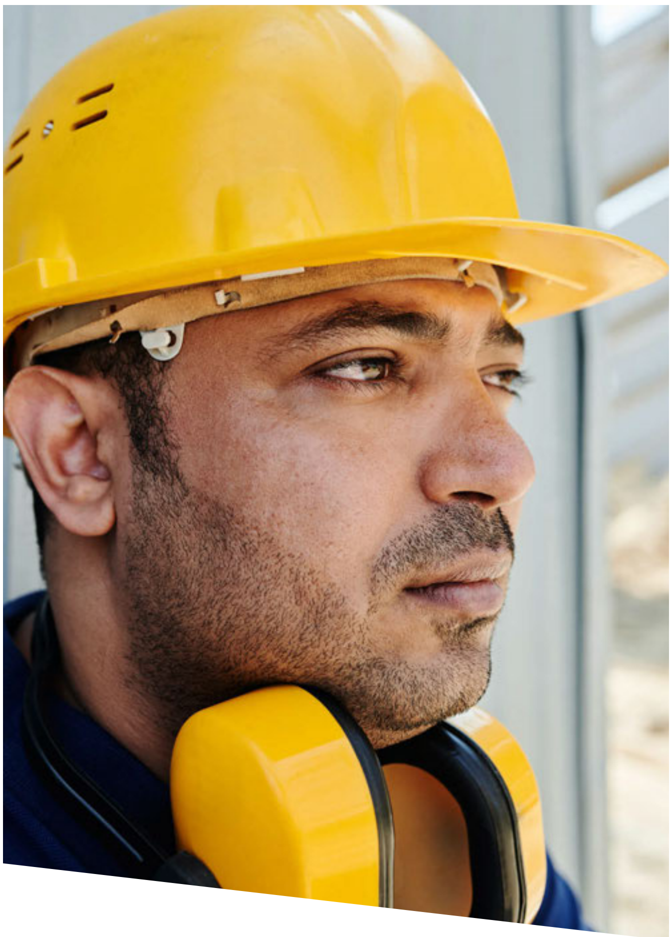
A recent initiative, the FutureBuilding Initiative, was launched by the Department of Social Protection and the Department of Further and Higher Education, Research, Innovation and Science, dedicated to spearheading activation and recruitment for the construction sector and promoting training, apprenticeships, upskilling, and associated careers in construction.[24]

Figures from both departments estimate the total housing construction labour demand will need to rise from approximately 40,000 full-time equivalent workers at its 2019/2020 level, to 67,500 workers by the middle of the decade. This represents the need for 27,500 additional construction sector workers over five years to deliver the Housing for All targets only.

A key risk to the future skills capacity of the industry is that the number of applications for key construction apprenticeships over recent years has been lagging significantly behind the required levels that an expanding industry needs to sustain demand. Moreover, many workers in the industry prior to the pandemic may have returned to their country of origin over the past two years, thereby contributing to current labour shortage concerns. Therefore, the targeted recruitment and training measures suggested are vital for future skills demand.

Detailed recommendations relating to People are contained on page 12.

“ A key risk to the future skills capacity of the industry is that the number of applications for key construction apprenticeships over recent years has been lagging significantly behind the required levels that an expanding industry needs to sustain demand.



CIF Headquarters
Construction House
Canal Road
Dublin 6
D06 C6T2

Phone: 01 406 6000
Email: contact@cif.ie

CIF Cork
Construction House
4 Eastgate Avenue
Little Island
Cork

Phone: 021 435 1410
Email: cifcork@cif.ie

CIF Galway
Construction House
8 Montpelier Terrace
The Crescent
Galway

Phone: 091 502680
Email: cifgalway@ cif.ie

www.cif.ie