The Society of Chartered Surveyors

Submission to the Minister for Finance

In advance of

BUDGET 2011

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Contents

Executive Summary and Key Recommendations

The forecasts for the construction sector which were presented to Government by the Construction Industry Council in 2009 have been proven correct, as over 80,000 construction workers have lost their jobs and the output of the sector fell to below its optimum level in 2010. Unless serious effort is made to create a functioning property taxation regime, reform funding of central and local government, and deliver capital investment in construction, further declines are inevitable.

The SCS believes that an annual property tax is the fairest, simplest and most stable form of taxing property in Ireland. The introduction of such a tax must be part of an overhaul of taxation, including the zero-rating of stamp duty for all property transactions for the next two years, and a moratorium on the tax for those who have recently paid stamp duty on the transaction. This submission outlines the optimum form of collection, and the role of geographic information to inform the rollout of the tax.

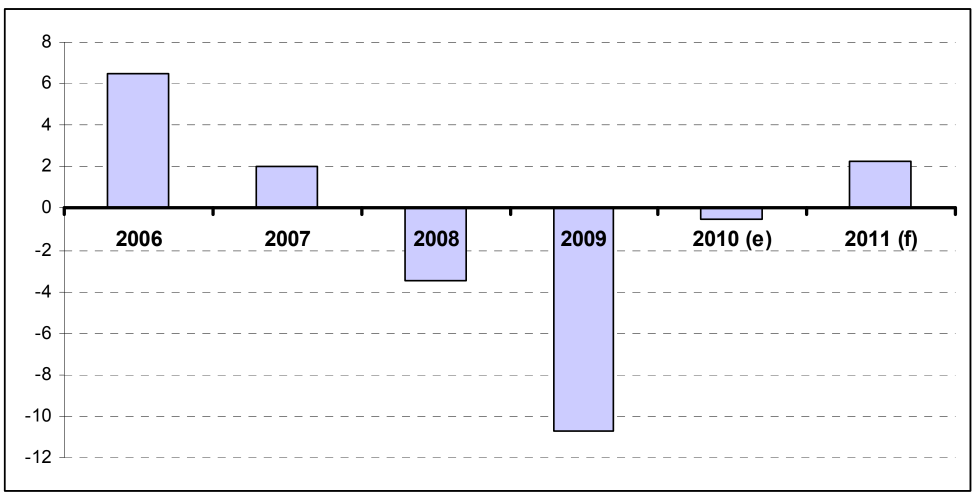
In the field of local government financing, reform of development contributions and commercial property rates is vital to encourage a functioning property market. Domestic water charging should be introduced in Budget 2011, with metered and charged to incentivise local authorities to invest in repair of the national water network.

In the field of government capital investment, the government has recently revised its capital spending plans, and these plans must now be delivered in full. Budget 2011 presents the government with an opportunity to invest in the improvement of Ireland's built environment, support energy efficient building, and maintain important jobs in construction, through targeted investment in the upgrade of commercial and residential property.

1. Economic Outlook in 2010 and 2011

Indicators for the Irish economy are mixed. Latest estimates for Irish GDP have returned to positive growth, and GNP figures are expected to do likewise, however consumer and investor sentiment remain extremely depressed. The cost of government borrowing is increasing and this is placing new additional burdens on the Exchequer, which must be overcome before economic balance can be restored. Domestically, over 2010, a monthly pattern of falling taxation receipts and reduced public spending have emerged, widening the exchequer deficit and increasing the borrowing requirement of the State. Unemployment remains stubbornly high, undermining the potential for future economic growth.

Chart 1: GNP Change 2007 – 2011 (% annual)[1]



Budget 2011 must have an overarching aim of restoring balance to the exchequer and stimulating confidence amongst consumers and investors. Protecting existing jobs, creating new jobs, stimulating new economic activity and achieving Ireland's optimum long-term economic growth should be at the heart of Budget 2011.

This submission outlines two main areas of concern for the construction and property industries:

- Reform of government revenues from construction and property
- Creation of employment through targeted public investment

1.1 Overview of the construction and property sectors

In 2009, the Construction Industry Council warned that unless a series of additional funding measures were put in place to support public and private construction activity, the sector would fall below its long-term optimum size to sustain future economic growth.[2] Latest indicators show that the output of the construction sector has declined below its optimum size, leading to massive job losses in the construction and property sectors.

Both government and industry have recognised the importance of capital investment in building and civil engineering in securing employment in construction and the wider Irish economy, and stimulating private sector activity. Since 2006, employment in construction has fallen rapidly, as the scale of underspend increased.

The chart overleaf shows the dramatic declines in investment in Irish commercial property since 2006. Not only does this represent a loss to the Irish economy through reduced property transaction taxes, but it also represents a loss of economic activity, employment and potentially further erosion of Ireland's attractiveness to international and domestic investors.

Chart 3: Investment turnover: Commercial Property[3] (€ thou)

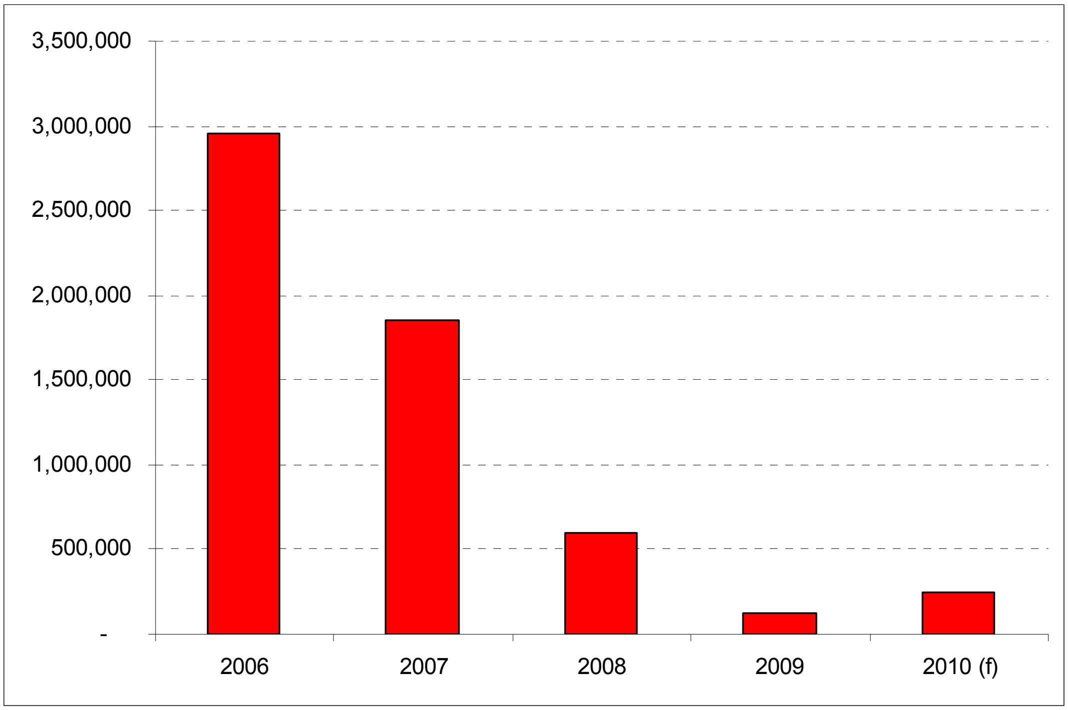
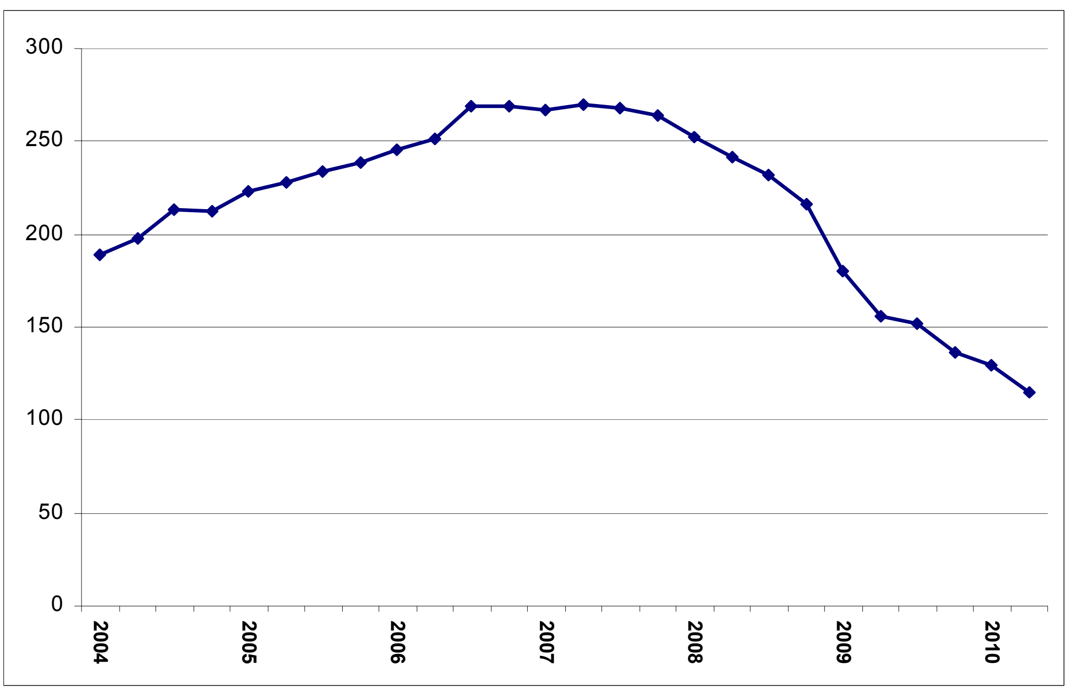
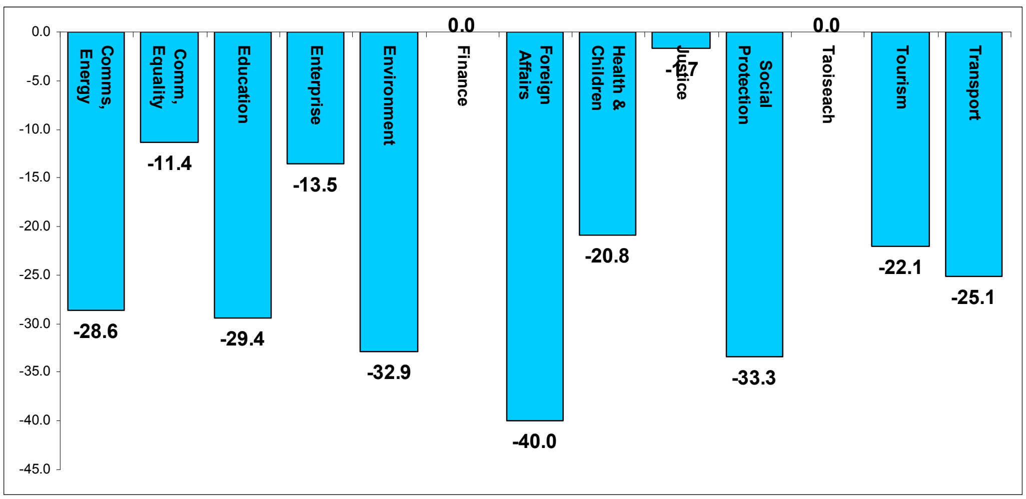


Chart 4: Direct Employment in Construction 2004 – 2010[4] (thousands)



There are two main reasons for the speed of the decline in output of Ireland's construction and property sectors. Firstly, private sector sentiment remains weak with very few commercial or industrial property transactions and little new development taking place. Secondly, under-spending each month amongst the main spending departments and agencies have accumulated over 2010 so that by end-July 2010, capital expenditure was running some 25% behind Budget day profile.

Chart 5: Cumulative Capital Underspend (% Behind Profile at end-July)[5]



In August, the Government announced a revised public capital programme for 2011 to 2016. While the industry welcomes the stability that this revised envelope of funding provides, it represents a significant reduction from the envisaged spending programme announced in last year's Budget. The construction industry needs reassurance that the spending programmes announced in August 2010 will be implemented in full and that Budget 2011 will contain no further downward revision of estimates for the public capital envelope.

The current taxation regime on property means that the cost of investing in Irish commercial property remains high compared to Ireland's competitor economies. In a period of low international investor confidence, it is more important than ever that entry barriers to foreign and domestic investors are low, so that international investment is encouraged, and domestic investors continue to invest in property at home. The SCS makes recommendations on the zero-rating of all Irish property later in this submission.

2. Exchequer Revenues from Construction and Property

2.1 Creating A functioning property tax regime

Economic performance and the taxation regime of a country are intrinsically linked. The speed and depth of the recession in Ireland has shown how dysfunctional – and pro-cyclical – the current taxation regime in Ireland has become. A number of reports commissioned over the last year have pointed to the need to overhaul the Irish taxation regime on the basis that a functioning taxation regime should be simple, stable and fair.

The taxation regime in Ireland regarding the tax of property – as an asset or during the transference of ownership – has become distorted in favour of heavily taxing property when it changes ownership rather than on a regular basis. During a period of falling house prices and lower levels of transactions, a reliance on the transaction of property has interrupted and diminished the flow of property, as well as artificially changing the price of property so that it clusters just under the taxation threshold. International research by the RICS and others has demonstrated how stamp duty leads to deadweight losses and inefficiency in the property market.[6]

In formulating a new property tax regime, regard should be given to the two following principles:

Simplicity

1. Straight forward and unambiguous – it is clear when a tax is applicable and when it is not. Ambiguity or excessive complexity in the tax system creates opportunities for avoidance
2. Transparent and clear – the function of the tax is easy to understand and it can easily be assessed in advance whether a tax will apply in particular circumstances
3. Collection is low cost and at a convenient time – therefore reducing the burden of collection on both those collecting and those paying
4. Capable of being easily understood as a whole – the interrelationships between different taxes are easily understood

Stability

1. Taxes should be as stable as reasonably possible to allow for adequate planning for future investment in factors of production – the stability of the amount being taxed is important both for those paying and those collecting taxes. Government needs to be able to plan ahead based on what they will be receiving in taxation, and tax payers need to be able to plan ahead based on how much tax they will be paying.

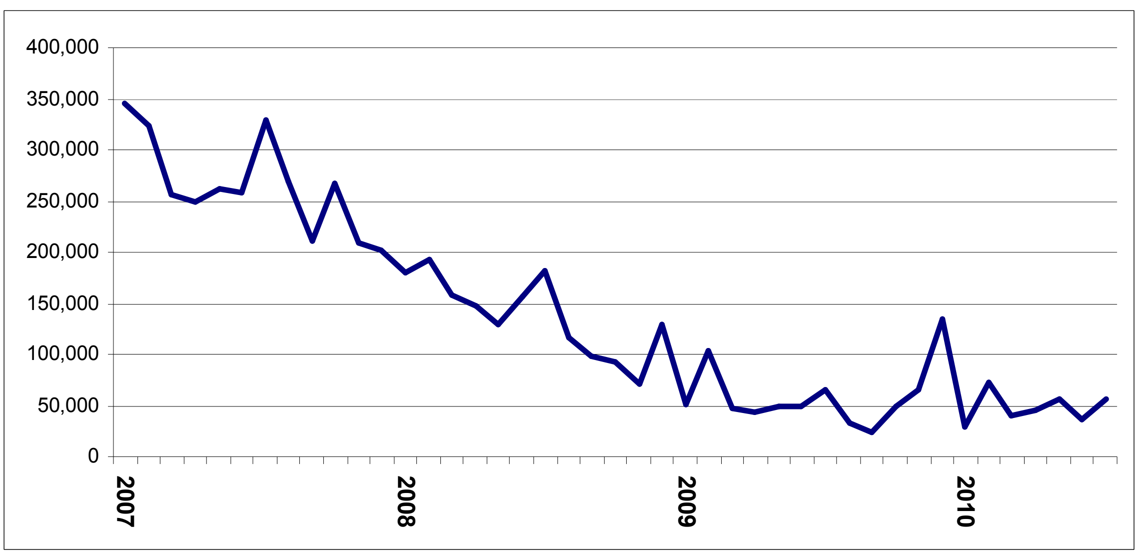
2. Any revision to the tax system needs to retain existing, rather than maximum, levels of revenue, allowing Government to ensure stable tax revenue from property.

2.2 Why do we need a Property Tax?

The SCS believes that there is a compelling need to widen the tax base following a lengthy period of overreliance on stamp duty. During the boom, there was a shift away from stable and reliable sources of tax revenue towards an unsustainable regime of taxes including stamp duty that could only generate sufficient income while the 'bubble years' lasted. By 2006, stamp duty income had risen nearly 1300% from its 1993 level while the overall tax income had risen by less than 400%.[7] Since the collapse of the property market, Stamp Duty now accounts for less than 2% of exchequer tax receipts. **The SCS recommends** that as part of an overhaul of the property taxation regime and the introduction of an annualised form of taxation on property, Stamp Duty should be zero-rated for a period of two years.

The SCS fully understands the difficulties that a property tax would bring to the tax payer in the short term however, ultimately, a form of property tax would give a sustainable and reliable source of income and should be based at a level which not create an undue burden on the tax payer by a proper and fair implementation.

Chart 6: Monthly Stamp Duty Receipts 2007 – 2010 (€thou)



In the residential sector, the SCS is supportive of the concept of an annual property tax in lieu of stamp duty for purchasers of principal private residences. Any methodology adopted should avoid any anomalies or unfairness, as may exist between urban and rural property, age and means of the occupier/owner, which will impact on affordability. A ten-year moratorium would be required as the transition period starting from the date that the stamp duty was originally paid, otherwise, more recent purchasers would be treated inequitably by being liable for a form of double taxation.

Any proposal on stamp duty would require early clarification otherwise a state of paralysis will envelope the almost stagnant residential market. The SCS welcomes the provision of an up-to-date database for all residential property which was announced by the Minister for Justice in July 2010 and looks forward to contributing to the rollout and management of this important new dataset for all sectors of the property market, including commercial property.

2.3 Possible Methods for Collecting a Property Tax

There are four possible methods that have been identified:

1. **Self Certification:** This method would be based on self-assessment and so would have issues regarding accuracy. The SCS recognises that the upfront costs of administration could be considerable, and would recommend that best practice in other systems such as the NPPR are followed to ensure that the system is not open to abuse, and that the self-certification process is as simple and straightforward as possible.

2. **Qualified Valuer Certification:** This method would create an additional cost to owners in the short term, although tax relief could be given to assist in defraying the up front cost. The administration of same would not be as extensive as the self certification system. The State would have the benefit of a database that is professionally originated,

and during the process of creating such a dataset, there would be significant employment opportunities for construction professionals and others.

3. Number of Rooms/Size: The proposed tax could be based on the number of bedrooms or total house size (gross area in m^2.). This would make it unnecessary for ongoing valuations to update market values, and remove any differentials in terms of value created by location.

4. Flat payment. The NPPR scheme involves a flat fee of €200 for each non principal private residence. This policy could simply be extended to so that the owners of all residential properties in the country pay a flat annual fee. This flat fee would capture all properties including principal and non principal private residences

<u>The SCS recommends</u> that out of the options outlined above, the method of taxation should be based on 'Qualified Valuer Certification' as it is the only mechanism which would facilitate the creation of a meaningful database of property details, which would inform the development of the property taxation process, and complement the property transaction database.

Given that this would take time to compile, a self-assessment method could be utilised as an interim measure whereby owners would enter a brief synopsis of their property on-line including such aspects as estimated gross area, location, number of bedrooms and estimated market value. This would ensure a timely collection of information, which could be professionally verified subsequently. The owner could also submit details of the last time the house was sold, including its sale price and the date on which it was sold. This information could significantly add to transparency in the property market, knowledge about house price trends in Ireland, as well as the age of the Irish housing stock.

It has been estimated that an annualised property tax could raise approximately €4billion per annum, although the exact figure would depend on which of the methodologies is applied.[8]

The SCS recommends that the revenue created by the property taxes should be:

- utilised by the relevant local authority to assist in funding infrastructural and improvement works in that area;
- not used as a target for central funds and;
- introduced in line with a broadening of tax bands.

2.4 Use of Geographic Information to inform Property Taxation policy

The SCS recommends that the government should consider streamlining the process for the collection, retrieval and use of property data such as property valuations and rates, register of legal title and land deeds etc. through the application of computer assisted mass appraisal (CAMA) within a geographic information system (GIS). These systems are used worldwide (including Northern Ireland) – particularly for property taxation – and they have been proven to "increase efficiency, enhance currency and transparency, and ultimately facilitate a more frequent revision of the tax base."[9]

The implementation of a GIS means that "valuers need to spend less time collating information and inspecting properties on site and can, therefore, carry out more efficient, cost effective valuations."[10]

Government decision makers can also derive the following benefits from the application of this technology:

- Optimisation of resource allocation both efficiently and cost effectively.
- Facilitating the sharing of key data sets across Government Departments to support policy creation and implementation.
- Offering transparency to the citizen in how investment and taxation decisions are based strictly on objective criteria - which can be represented in an easily accessible digital and visual format.
- Monitoring of projects to prevent fraud, misappropriation and overspend.
- Ensuring that services and infrastructure are delivered to areas of greatest need and also ensuring that these services are interoperable.

The Society's Geomatic Surveyors Division has expert knowledge in this area and would welcome the opportunity to develop more detailed proposals.

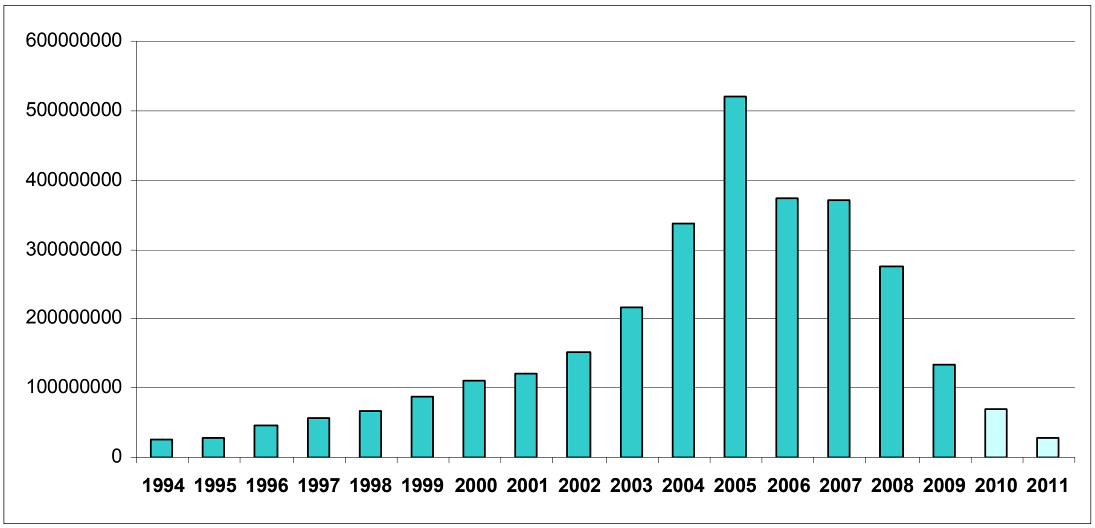
2.5 Local authority Development Levies needs an urgent overhaul

The issue of local authority funding requires immediate attention. Until the collapse in the property market, approximately 20% of the income received by county and city councils each year has recently been derived from development levies. Given the economic climate and increasing barriers to the property development market, this is an unreliable form of income and other funding mechanisms need to be put in place such as water charges and property tax as outlined elsewhere in this Submission.

The traditional approach of local authorities increasing development levies on an annual basis on all properties within their area is no longer acceptable. It is apparent that within the real economy at present all costs of business are being examined including salary levels, office overheads (i.e. telecoms, electricity) and rental payments to landlords.

Income to local authorities through the development levies schemes is recorded by the Department of Environment, Heritage and Local Government. The publically available information ends in 2005, however work by Chambers Ireland in 2009 has compiled receipts for 2006 – 2009. Income for local authorities through the development contribution schemes reached its peak in 2005 at €519m. Since then, the severe downturn in new development has massively eroded that income base. Latest estimates for income in 2010 suggest a return to pre-1998 levels of income.

Chart 7: Receipts to Local Authorities from Development Contribution Schemes[11]



As part of this exercise, **the SCS recommends** that the levies that are being charged by the local authorities should also be reviewed and where possible reduced in line with the significant reduction in all costs being achieved throughout the economy. It should be noted that in many local authorities the levies are based on calculations annual increases while costs in the wider economy are now back in some cases to 1999 levels.

Typical examples of where local authority revenue calculations are out of kilter with other costs in the economy is in the Dublin City Council and South Dublin County Council's draft development plan proposals for planning contributions:

Example: Dublin Contribution Levy Increases[12]

South Dublin **Planning use**	**Current contribution Levy**	**Proposed contribution Levy**	**Percentage change/increase**
Commercial	€83 per m^2	€111 per m^2	33.7%
Residential	€11,067 per apartment unit	€12,000 per apartment unit	8.43%

Dublin City **Planning use**	**Pre-2010 Contribution levy**	**Contribution Levy as from 2010**	**Percentage change/increase**
Commercial	€110 per m^2	€127 per m^2	15.5%
Residential	€11,500 per apartment unit	€156.62 per m^2	16% (based on average 85 m^2 apartment)

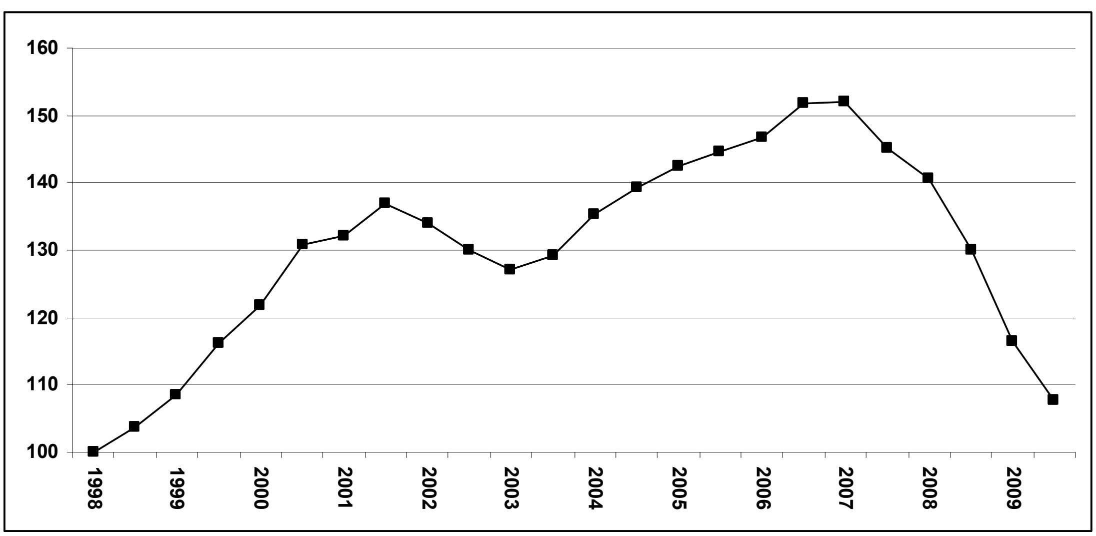
These uplifts in contributions are unsustainable in the current economic climate and particularly so in areas where local authorities have introduced additional levies for large infrastructural projects such as Metro. The SCS understands that the costs have not been increased to represent the 'true cost' of provision of these services in some local authorities, however the changes to the rate of the levies should reflect the Tender Price Index movements and the actual market movements in cost.

Anomalies in the current regime as tender prices fall

The latest Tender Price Index published by the Society of Chartered Surveyors shows that by the end of 2009 tender prices had fallen 29% from their peak in the first half of 2007. The index for the second half of 2009 shows a decrease of 7.5% in the latter half of last year and a decrease of 17.2% for the year as a whole (back to approximately 1994 levels). This would, in fact, reduce the levies payable to significantly below the rates being proposed by Councils. The reduced levies are appropriate given the prevailing economic and market conditions.

The graph overleaf shows how on average tender prices have reduced further in 2009 and are now at similar levels to the end of 1999. The Councils proposals to use these levy rates for the revised schemes in 2010 ignore the downward economic and market trends.

Chart 8: SCS Tender Price Index (1998 = 100%)[13]



The collapse in tender prices reflects the dramatic fall off in all sectors of the construction industry including residential, commercial, public sector and civil engineering works and the fact that the output of the industry is already falling to around one third of its peak of €38bn in 2007. It is likely that there will be a further reduction in tender prices during 2010 but perhaps at a slower rate, as below cost tendering is a short term and inherently unsustainable phenomenon.

Increasing the rates of development levies will exacerbate an already deflationary and unstable market. The SCS recognises that the Councils require income from levies to service their areas, but increasing the development levies will be counter-productive as it will dampen further the feasibility of property developments and prevent recovery even further.

The SCS recommends that levies should be ring-fenced for the purposes in which they are collected. Levies towards public infrastructure, public spaces, etc should be incurred on delivering these works and not incurred on unrelated expenditure as is often the case.

At the moment, development levies are usually financed by borrowings by developers and are retained by local authorities until the relevant scheme commences – such as the Metro. Given that the development levies are passed onto the first purchaser of the development, **the SCS recommends** that a new, more rational and fair use of the monies be developed by either the local authority or the developer investing the money to maximise its usefulness until the actual project commences.

2.6 Commercial Property Rates

Rates represent an annual tax liability on commercial premises, which produce a revenue stream of approximately €1.25 billion to local authorities. This has represented approximately 26% of local authority funding but as other forms of funding decrease in the current climate rates have effectively taken on a more central role.

At present a commercial premises must be entirely vacant in order to qualify for vacancy relief. Furthermore, it must be vacant as at a single specific date and if not then no refund can be claimed. If a landlord loses a tenant during the year then he is liable for the full rates amount for the remainder of the year. This impacts on the options available to owners and occupiers in considering rationalisation of commercial accommodation or temporary lettings of portions of a vacant premises as the vacancy relief on the remainder of the premises will be lost. If a landlord were to agree a short-term letting of space at the beginning of the year, notwithstanding that it may be vacated two months later, the landlord remains liable for rates for the entire year for that portion of the property.

Dublin City Council collected approx €310m from rates in 2009, a decrease of €20m on the forecast of €330m. There will undoubtedly be a further decrease in the rates collected for 2010 as rising vacancy rates continue throughout the city centre.

Rates now representing an increased burden

For commercial property owners and occupiers rates previously comprised approximately 10-15% of occupation costs as a percentage of rental value. However, the significant changes in the general economy and the market over the past 24 months have effectively increased this figure to approximately 40-50% whilst trading conditions have declined. The impact can be greater in local authority areas where a general revaluation has been undertaken.

Furthermore, the overall increases in the rate multipliers vis-à-vis inflation indicate that in the periods 1997 to 2002, and 1997 to 2007 the rates multipliers increased by approximately 29% and 66% respectively whereas the CPI increases were 18% and 40%. Minimal decreases have been implemented or proposed by some local authorities such as Fingal and Dublin City Council but these are not considered sufficient to address the or rectify the existing problem in the system.

Base valuations date to be revisited

A revaluation of commercial property was commenced four years ago and its purpose was to bring more equity and fairness to the local authority rating system and a much closer and uniform relationship between the rental values of properties and their commercial rates liability. This process is taking too long to achieve, particularly when businesses are in a difficult financial environment together with widespread valuation anomalies between certain local authority areas. Only three local authorities will have completed the revaluation by this year-end – South Dublin, Fingal and Dun Laoghaire Rathdown. The SCS calls for considerably more resources to be applied to this exercise and possibly sub contracted to the private sector, which has the skills available at this time with excellent efficiencies.

The current position whereby the revaluation is referenced to a base date of September 2005 i.e. approaching the height of the market is also predominantly skewing the increased liability towards retailing. **The SCS recommends** that the base valuation date should be revisited and updated to a more current level.

Consideration should also be given to implementing a phased introduction of new rates assessments whereby the increases/decreases resulting from the revaluation process can be phased in over, say, a 3 or 5 year period to even out the impact on commercial businesses.

The SCS recommends that the single date provision should be removed and changed to allow vacancy at any point during the year, and a pro rata payment made if there are tenancy changes during the year. Where a property has a single rateable valuation the entire property must remain vacant to get rates refund relief. This hampers a landlord's ability to consider, say, letting the building in sections as occupancy of part is deemed occupancy of the entire. Again the law should be changed to allow flexibility. Consideration should be given to specific legislative changes to enable both partial occupation and partial vacancy relief. There is currently an anomaly between Dublin City Council and other local authorities, as DCC only allows a 50% rebate on vacancies, while other local authorities allow a 100% rebate. In order to prevent an additional cost applying to businesses operating in Dublin, **the SCS recommends** that consistency between local authorities be introduced.

An additional area of concern is the existing provision in the Valuation Act 2001 whereby an owner or occupier of a commercial property is limited to seeking a revaluation of that property unless there have been specific material physical changes to the structure. However, rating practitioners are aware of cases where local urban, planning or economic factors can affect the value of the property without the owner or occupier having any right to seek a revaluation. For example where a petrol filling station in a town has a high turnover and throughput but this trade is adversely affected when the town is by-passed. The owner remains liable for rates based on the original trading position but is prevented from seeking a reduced liability because there have been no physical changes to the property albeit that the economic circumstances may have changed dramatically.

The SCS recommends that the existing legislation should be amended to enable owners and occupiers of property to seek a revaluation of their property where there is a material change of circumstances and that this material change should not be limited solely to material physical changes to the property.

2.7 Introducing Domestic Water Charges

The McCarthy Report suggests that local authorities should aim to be self-financing in the long term and exchequer support should be replaced with increased revenue generation from local sources and increased cost recovery levels for appropriate services. Charging for domestic water services would be consistent with this approach, and should be within the remit of a single national water authority.

Particularly given the difficulties arising from the usage of water by residential occupiers over the January period, this is considered an appropriate response. It was reported during this period that usage soared in Clare County by around 20% as people left taps open in attempt to stop their pipes freezing over. The effect on supply was acknowledged across the country resulting in water shortages.

Among its other provisions, the EU Water Framework Directive (Article 9) requires member states to ensure that water-pricing policies provide adequate incentives to use water resources efficiently by 2010 and that the price charged to water customers reflects the true costs. The Directive allows member states to take into account social and economic considerations when establishing the level of cost recovery for different users. While the Directive requires an adequate recovery of the costs of water and sewerage services for each economic sector (households, industry and agriculture), it allows flexibility as to how the recovery of those costs are distributed within the economic sector. The ESRI has recently estimated that almost €1.2 billion must be raised annually from other taxes to cover the costs of domestic water.

UK Policy Position

The 2009 UK based "Independent Review of Charging for Household Water and Sewerage Services"[1] gives an interesting case study into the economic rationale of domestic water charging. The report notes the increased difference in water usage when a household is metered and when it is unmetered. On average a house with metered water used 15 litres less water per person per day and saved £100 per annum on their bills, compared to unmetered households where there was no incentive to use less water.

In forming a policy on charging for household water in the UK, the Independent Review noted that charging for water should reflect the amount of water actually used by the household, giving an incentive for households to make efficiencies. It should not reflect waste or inefficiencies by the water companies themselves. In the UK, water leakage accounts for 25% of all water supplied, and this has reduced since water charging mechanisms were changed to incentivise local authority investment in water infrastructure. In Ireland, the 2008 annual report on service indicators found that in some counties, over 50% of treated water was unaccounted for.[1]

The UK Independent Review made a number of recommendations to the UK and Welsh Government on achieving fairness for water charging, while promoting infrastructural investment and levying the heaviest burden on households which use the greatest volumes of water.

Water pricing should be affordable for all and not discriminate against sole occupancy households.

The overall conclusion is that smart metering and a sliding upwards scale in the price a household pays for its water above a standard, reasonable per capita measure would, over time, promote investment by householders and water companies in water efficiency.

In Ireland, where domestic water is supplied free of charge by local authorities, **the SCS recommends** the cost of supplying water to households should be borne by those householders along similar principles as the UK recommendations, with local authorities incentivised to invest to reduce leakages. If, for example, it is found that 25% of treated water is lost through leakages in local authority pipes, then 25% of the commercial cost of water should be incurred by that local authority.

The SCS also recommends that income from domestic water charging be ring-fenced for at least the first ten years to fund the urgent repairs and upgrades needed by the Irish water-main infrastructure, some of which is over 100 years old, and that local authorities be given the resources necessary to undertake the upgrades necessary.

3. Employment Creation through Targeted Investment

3.1 Delivering the Public Capital Programme

Multi-annual capital envelopes have provided certainty and stability for the construction industry in predicting work plans. In recent years, however, Government has constantly undermined the annual funding envelope and there has been consistent under spending amongst the main capital investment departments.

In its submission to the government in 2009, the Construction Industry Council highlighted the importance of public capital investment to protect jobs in the construction sector. It highlighted the wide societal and economic impact of job losses in construction, and the positive immediate exchequer benefits of protecting as many jobs as possible. Similar submissions were made to other governments around the world, and a number of stimulus packages have been put in place. In August 2010, President Barack Obama outlined a stimulus package, to improve the quality of US infrastructure, both as an employment creation method and as a means of promoting competitiveness and economic activity.

The recently revised Infrastructure Investment Priorities (2010 - 2016) provides the basis for investment in Ireland, on top of which further investment is now needed. Ireland needs to position itself to recover from the recession ahead of its competitor economies, with a superior stock of infrastructure, and a better quality and more efficient built environment. Measures must be put in place so that those projects which are ready to proceed to the construction stage of development are allowed to proceed through Government approval as soon as possible to maintain the pipeline of works available to the construction sector. This would give the construction sector an immediate boost at a time when private works have slowed dramatically.

In order to protecting the future viability of construction and property firms, **the SCS recommends** the introduction of a suite of support measures including tax reliefs to encourage employers in the construction sector to take on new graduates and apprentices for training purposes. Protecting existing jobs and promoting employment creation should be at the fore of Budget policy in 2011.

One of the consequences of the Irish banking crisis is that cash-flow through the supply chain has been negatively impacted by difficulties in securing credit. In this period of difficult trading, it is even more important that government departments and semi-state organisations do not delay payment to suppliers and contractors beyond normal payment terms, therefore causing problems further down the supply chain.

3.2 Improving the Built Environment and Creating Jobs

Maintaining and improving the existing built environment is extremely important as around 60% of the buildings that will be standing in 2050 have already been built[14]. In order to increase the life-cycle of these buildings, whether homes, offices or industrial property, policies should be put in place to maximise the carbon-saving opportunities of retrofit and refurbishment projects.

Action 3 of the *Government Policy on Architecture* states:
"In order to strengthen the evidence base for policy, the Department of the Environment, Heritage and Local Government and the Office of Public Works will co-ordinate post occupancy evaluation studies of buildings procured through direct State funding and publish the outcomes. The Department of the Environment, Heritage and Local Government and Office of Public Works will establish within their procurement provisions mechanisms for data gathering and analysis on schemes procured through public funding and Public Private Partnership."[15]

With effort from all stakeholders, the existing built environment has a strong role in supporting government policy of a smart, low-carbon economy. The following data demonstrates the potential contribution of the built environment to achieving this aim:

- Total CO_2 emissions in 1990 were approximately 55 million tonnes of CO_2 Equivalent.
- The EPA state that current projections indicate that Ireland will still exceed its KYOTO Protocol limit by an average of 1.3 to 1.8 million tonnes of CO_2equivalent annually in the period 2008 - 2012. (i.e. total of 7.2million tonnes CO_2 equivalent)
- SEI Report entitled "Ireland's Low Carbon Opportunity - An Analysis of the Costs and Benefits of Reducing Greenhouse Gas Emissions" (July 2009) states that Buildings contributed 9.7 million tonnes of CO_2 Equivalent to the overall total of 68.2 million tonnes in 2007.
- SEI report that of the 9.7 million tonnes contributed by buildings, Residential accounted for 7 million tonnes (72% of total building contribution) and commercial accounted for 2.7 million tonnes (28% of total building contribution).

The repair and improvement of existing buildings is one of the most labour-intensive forms of construction work and requires the engagement of a wide range of design and construction skills and professions, including those in the fields of environmental and heritage building. Individual building regeneration projects will generate much needed employment opportunities for small and medium-sized enterprises in all parts of the country.

3.3 Improving the Energy Efficiency of Existing Buildings

The Retrofit programme (€40m) aims to upgrade the energy efficiency of the 1.2 million least efficient Irish homes, bringing the Irish building stock to C1 rating within 12-15 years, saving each householder €1,100 per annum on energy bills. This would save 30,000 construction jobs, and mitigate 4.8m tonnes of CO^2 annually.

The SCS recommends that occupiers or owners should be enabled to off-set up to 50% of their rates bill on selected designated capital upgrade works to their properties to comply with the highest Building Energy Rating certification levels. This proposal would encourage investment in existing property thereby reducing $C0^2$ omissions while also stimulating employment within trades and material suppliers involved with the upgrade works.

To improve energy efficiency, hence reduce CO^2 emissions, in existing and obsolescent buildings, the proposed technical improvement works would include:

- Retrofit of the building envelope
- High efficiency lighting and controls
- Energy efficient electronics and appliances
- Retro-fit water heating
- Retro-fit HVAC (heating, ventilation and air-conditioning systems)

The SCS recommends that grants should be given to owners of properties to incentivise the completion of these works. More energy efficient building will attract interest on the open market as occupiers are seeking to reduce their running costs, which includes heating and electricity bills.

The Institute of International and European Affairs report "A Greenprint for a National Energy Efficiency Programme" suggests an investment of around €1bn per annum to increase the national building stock to C1 rating in 12-15 years. One half of this investment relates to work and the IIEA suggests that 23,000 direct jobs can be created through an investment of €1bn.

The SCS recommends the adoption of a version based on the "Pay as you save" scheme in the U.S., which applies to the retrofitting of energy efficient equipment, insulation etc to upgrade existing buildings. Owners pay for the cost of the upgrade works over an extended period of time so that the repayments are lower than their predicted energy bill savings resulting in financial and carbon savings being made from day one. Another option could be that a system of capital allowances is made available over a specified period, such as ten years, so that owners can claw back savings on an annual basis.

The SCS recommends the introduction of a reduced or zero-rated VAT rate for upgrading works to protected structures and obsolescent buildings. This would encourage the redevelopment of existing stock, stimulate the construction sector, and create jobs while creating a net positive impact on the Exchequer. The renovation of existing properties is also a more sustainable method of development with less carbon emissions and a lesser impact on the environment.

Work by the Construction Industry Council has shown that an additional 9,200 jobs would be created indirectly, and another 9,000 jobs supported in the wider Irish economy. Roughly 50% of the capital costs of these projects would be saved through tax paid by the 32,000 people who could be employed, directly and indirectly, and savings from the social welfare which would otherwise be paid to these workers.

3.4 Retrofitting Public Housing

According to the ESRI, electricity and gas allowances under the household benefits package cost the exchequer €220m in 2009 and fuel allowance is expected to cost in the region of €180m. In total, the ESRI suggests that the State's fuel poverty migration bill is approximately €400m per annum, and as fuel prices increase, so the State's bill increases.[16]

Over €400m was spent by the Exchequer in 2008 on fuel support with €220m on the Fuel Allowance Scheme.[17] There are approximately 43,000 social housing units in Dublin area. Only €5m allocated in 2009 to the SEI Warmer homes Scheme. The CSO "Survey of Income & Living Conditions 2007" (published in August 2009) indicates that 8% of people in Ireland are not comfortably warm in winter in units rented at market rent and 14% for those renting at below market rent - primarily social units.

The SCS recommends that an evaluation of building stock is undertaken of all local authority housing and BER certificates produced for each property. The fuel subsidy would then be linked to the energy rating of the relevant housing. People in older, less-efficient homes should receive the most financial support, while those in homes which have been built to a higher building and energy efficiency standard will require less support as their actual heating costs are less. The more energy efficient the home, the less subsidy provided and vice versa. While we are not proposing a decrease in the overall subsidy paid, the method in which it is allocated should be improved to link payment to actual energy and fuel costs to fairly distribute the subsidy.

In his Budget 2010 speech, the Minister announced a new dedicated funding stream with a provision of €40m for the carrying out of key energy efficiency and retrofitting works to existing local authority housing stock, delivering important environmental and fuel poverty dividends. The IIEA has estimated that if the exchequer were to fund 30% of the cost of upgrading the social housing sector it could cost €300-500m per annum, but this could be largely offset through savings on energy associated welfare costs, reduced fuel poverty and lower carbon costs. The full cost-benefit analysis has not yet been completed.

The SCS recommends that this post occupancy review, as per the Government Policy on Architecture, should include a BER assessment or similar energy usage assessment to investigate the energy efficiency of social housing. A post occupancy assessment of all social housing should be carried out to review energy usage and efficiency of each unit and the carbon emissions calculated. Housing can then be upgraded as necessary to reduce energy usage and carbon emissions, and reducing the heating and fuel requirements of the building(s). This would enable local authorities to plan and put in place a strategy for upgrading the relevant units based on actual quantifiable data.

3.5 Promoting the Smart Economy

Given that an estimated 20% of commercial space is obsolescent in the city centre, **the SCS recommends** that options should be examined to allow for the redevelopment and regeneration of floor space to allow for temporary use of these buildings without incurring a ‘double levy’ once the building is redeveloped in full in the future. For example, a commercial office block that could provide short term retail space or other uses should not incur development contributions if it is to be used temporarily for these uses. If such a temporary change of use incurred levies, it would in effect be double charged once the full redevelopment of the office space occurred in the future once economic conditions have stabilised. This measure would incentivise the use of currently vacant buildings in the city centre for short term use as incubator units or similar and encourage diversity and activity in these vital areas.

The development of the “smart economy” will be a significant aspect of government activity in the next few years. **The SCS recommends** that in order to incentivise start-up businesses, artists and cultural activities, a rent subsidy should be given to develop currently obsolescent spaces in Irish urban areas as hubs of the smart economy.

Conclusion

In 2009, the Construction Industry Council presented government with a forecast for the Irish construction industry. Many of the negative forecasts presented in the CIC report have come to fruition with loss of jobs, skills and construction professionals. Budget 2011 must contain policies to restore activity to the construction and property markets, overhaul the property taxation regime, and deliver on investment promises, to prevent any further declines.

The Society of Chartered Surveyors welcomes the opportunity to discuss these recommendations further, and to assist government with the implementation of them following the Budget 2011 speech in December.

About The Society of Chartered Surveyors

The Society of Chartered Surveyors (SCS) represents 3,000 surveyors working in different areas of the building and development industry, including 750 probationers who are undergoing their assessment of professional competence in order to achieve the gold standard of chartered status. Members of the Society are typically professionals employed in the land, property and construction markets through private practice, in central, regional and local government, in public agencies, in academic institutions, in business organisations and in non-governmental organisations. The Society also has strong links with the RICS which represents over 140,000 members across 120 countries worldwide and is one of the most respected and high profile global standards and membership organisations for professionals involved in land, valuation, property, construction and environmental issues.

As the members of the SCS are fully professionally qualified personnel from a range of backgrounds, the Society has the necessary skills to advise on deliverable aims and market expectations.

Their broad areas of expertise include:

- Quantity Surveying
- Building Surveying
- Valuations surveying
- Planning & Development
- Geomatics & Land surveying

Irish Auctioneers and Valuers Institute

Founded in 1922, the Irish Auctioneers & Valuers Institute (IAVI) represents c. 1,800 fully qualified property professionals in all 32 counties of Ireland and promotes the highest professional, ethical and educational standards in the property industry.

Members of the IAVI operate in every sector of the property market including agricultural, residential, commercial, industrial, development, licensed premises and hotels, professional services, planning and taxation, marketing and valuation.

The Society of Chartered Surveyors and the Irish Auctioneers and Valuers Institute will merge on 1st January 2011 to form the Society of Chartered Surveyors Ireland (SCSI).

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