

**SUBMISSION TO
THE MINISTER FOR FINANCE
IN ADVANCE OF BUDGET 2010**

BY

The Society of
Chartered 
Surveyors
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EXECUTIVE SUMMARY

The scope of this pre-budget submission will address issues of concern in both the **construction** and **property** industries and make a series of recommendations for consideration.

In summary, this submission recommends:

- The implementation of the CIC proposals as set out in their submission of April 2009, *'Jobs & Infrastructure – A Plan for National Recovery'*;
- Ensuring that Government Departments capital spending allocations are implemented in order to take advantage of the excellent value for money as evidenced by the 17.3% reduction in tender prices over the past 12 months;
- The consideration of a reduction in the VAT rates for construction to stimulate activity in this sector;
- Expansion of the Home Energy Savings scheme and increase the quantum of grants available;
- Implementation of an Annual Property Tax in a fair manner and enable the provision of an up-to-date database for all residential property;
- A reduction in stamp duty;
- A review of Capital Gains Tax;
- Streamlining of Local Authority structure, management and revenue collection;
- Increasing resources to complete revaluation;
- Enabling the offsetting of rates against capital upgrade works;
- 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;
- Ensuring the payment of residential property service charges via the annual Form 12 Tax Return.

Representatives of the Society of Chartered Surveyors would be happy to make themselves available for further clarification as may be required in relation to any aspect of this submission.

INTRODUCTION

The Society of Chartered Surveyors recognises that this Government faces into a very difficult budget and needs to lead the country through an increasingly complex economic period, both from a national and international point of view.

The scope of this pre-budget submission will address issues of concern in both the **construction** and **property** industries and make a series of recommendations for consideration.

By way of brief background, the Society of Chartered Surveyors represents over 2,000 qualified chartered surveyors and a further 1,000 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.

Their broad areas of expertise include:

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

CONSTRUCTION

Importance of the construction industry to the economy...

The construction industry is a key component of any developed economy. It plays a vital role in each of the following areas:

- An important contributor to economic growth;
- An important source of employment in the economy and stimulus of economic activity;
- An important industry for the achievement of Government policy including improved public infrastructure (schools, hospitals, transport, utilities) that leads to an improvement in competitiveness.

Deepening recession...

Since the Construction Industry Council (CIC) made its submission in April 2009 '*Jobs & Infrastructure – A Plan for National Recovery*', the 2009 Annual Construction Industry Review and Outlook (CIRO) report was published by the Department of the Environment, Heritage and Local Government in September 2009 and it concluded that "*the construction recession is deepening and the recovery is a long way off*".

The decline in the construction industry which is now below its optimum size, is resulting in unnecessary job losses, an erosion of essential long-term productive capacity and will further undermine our national competitiveness.

Action is required immediately to manage this unprecedented decline of an industry in the economy whose contribution and skills are an important factor in economic recovery.

Society of Chartered Surveyors supports the CIC solution...

The options available to Government are either to 'do nothing' or to 'do something' by providing investment in infrastructure equivalent to €5bn per annum for three years and save 70,000 jobs while improving overall economic performance and competitiveness. The source of part of the funding suggested is a combination of private pension funds and other 'off balance sheet' structures. Details of this innovative solution are set out in detail in the CIC submission, April 2009. The benefits of the CIC proposal can be summarized in the following table:

Do Nothing		Do Something	
Stimulus Package	€0	Stimulus Package	€5 bn
Job losses in construction	50,000	Jobs saved in construction	50,000
Induced employment effects	20,000	Induced employment effects	20,000
Total job losses in Ireland	70,000	Total jobs saved in Ireland	70,000
Social welfare costs (€18,254 per person)	€1.3 bn	Social welfare savings (€18,254 per person)	€1.3 bn
Total tax lost (€18,458 per person)	€1.3 bn	Total tax take (€18,458 per person)	€1.3 bn
Total cost of doing nothing	€2.6 bn	Total avoided cost	€2.6 bn
		Net cost of €5 bn stimulus	€2.4 bn

The following points are worth noting in relation to the proposed CIC solution:

- That the stimulus generally takes place over a 24 to 36 month period (12 months design/planning and 24 months construction);
- That the social welfare costs saved and the tax take on construction occurs during this 36 month period, with most of it during construction;
- If such infrastructure is funded by PPP and/or the Infrastructure Bond, the cost to the Exchequer only begins after construction is completed and takes place over the following 20/25 years;
- The effect of this is that the payments only begin to occur when the benefit/growth effect of having such infrastructure in place are coming through;
- It is also likely that the payments will only occur when the economic cycle has turned and greater growth/government revenues are available.

One key advantage of encouraging infrastructure investment is that it creates assets to offset against borrowing, while at the same time contributing to aggregate demand. It also addresses the productivity and competitiveness of the economy and its immediate impact on unemployment is obvious.

While it has been confirmed to the CIC that the Government is very keen to access and encourage investment by pension funds and others in public infrastructure, the construction industry has yet to see examples of such commitments coming to fruition.

There is now a window of opportunity to roll out badly needed public infrastructure projects given the excellent value for money which is available combined with high productivity and an abundance of skilled resources. This would secure construction jobs and retain skills across the country as the industry moves towards its optimum level.

The current economic crisis has brought into sharp focus the choices available and the consequences of inaction. The CIC solution will:

- Manage the continuing rise in unemployment in the construction industry;
- Maintain highly skilled productive resources in Ireland;
- Provide badly needed public infrastructure at excellent value for money;
- Improve national competitiveness;
- and guide the construction industry towards its optimum level.

Ensuring Government Department capital spending allocations are met...

While there has been some concern expressed in recent weeks with regard to the perceived underspend in some Government Departments capital spending allocations, it is essential that capital allocations in all Departments are implemented efficiently. Given the value for money that is available within the industry as evidenced by the SCS Tender Price Index which confirms a decrease in tender prices over the past 12 months of 17.3%, it is imperative that Government departments take advantage of this excellent value for money.

Reducing VAT rates on construction...

Finance Ministers of the 27 EU Member States reached a unanimous agreement on a proposal for a directive on reduced-rate VAT on 10 March last. This long awaited decision concerns the amendment of the VAT Directive to provide Member States with the flexibility to apply reduced VAT rates for some specific services on a permanent basis. We understand that the sectors concerned are mainly the so called labour-intensive and locally supplied services, including housing.

The SCS believes that applying reduced rates will act as effective financial incentives for property owners to carry out energy efficient measures on their existing building stock. Among other benefits, we consider that reduced VAT rates will act as a means to boost the depressed labour and construction market as well as to contribute to the sustainability agenda by promoting energy efficient measures.

The SCS recommends that the Minister gives consideration to a reduction in the VAT rates for construction to stimulate activity in this sector.

Expansion of the Home Energy Saving Scheme...

The Home Energy Saving Scheme administered by Sustainable Energy Ireland (SEI) provides grants to homeowners who are interested in improving the energy efficiency of their home in order to reduce energy use and costs as well as greenhouse gas emissions. The scheme is available to owners of existing houses built before 2006. Given that two thirds of Irish Housing Stock predates the advent of the 1991 Building Regulations¹ and the requirement for the provision of thermal insulation, it remains the case that a sizable majority of Irish homes are deficient in terms of energy conservation and performance.

Presently, assistance through the existing scheme is provided by way of fixed grants towards the costs of implementing individual upgrade measures and to date, the scheme has excluded the upgrading of window glazing.

The SCS recommends the provision of the following amendments to the scope and extent of the Scheme:

1) The expansion of the scheme to include the upgrading of window glazing

The exclusion of the upgrading of window glazing from the scheme is not in the best interest of home energy saving. The reasoning for the exclusion given by SEI is that alternative elements of the scheme are of a higher benefit to the occupant. It is accepted that in isolation this may well be the case however the argument is selective in that the scheme encourages an umbrella of measures being undertaken by an occupant in all instances. In other words, the argument for the exclusion of the upgrading of window glazing is considered no less strong than an argument for the exclusion of any of the other presently included measures when similarly viewed in isolation. Therefore it is suggested that the upgrading of windows, for example from single to double or indeed triple glazed, as a grant available within the suite of other measures having been undertaken, be considered for inclusion in the scheme, thereby encouraging a more complete application of this widely considered laudable scheme.

2) Increase in the quantum of grants

The Society of Chartered Surveyors would advocate a significant increase in the quantum of the grants available to homeowners undertaking the scheme. It is anticipated that such an expansion of the scheme shall serve to actively encourage the continued upgrading of the housing stock by providing homeowners with the opportunity to significantly improve home energy saving while providing a much needed stimulus to the construction industry at local level throughout the country.

¹ DKM Economic Consultants, "Transforming Ireland's Existing Building Stock to meet CO₂ Energy Security and Employment Goals." September 2009, with reference to an examination of the 2006 CSO Census Report.

Conditionally, an annual property tax is supported...

The SCS believes that there is a need to widen the tax base following a lengthy period of over-reliance on stamp duty.

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 the more recent purchasers will be paying this proposed tax 'on the double'. The SCS is of the strong belief that this tax should be used to properly fund the local authorities. Any proposal on stamp duty needs early clarification otherwise a state of complete paralysis will envelope the already slow residential market.

The SCS would welcome the provision of an up-to-date database for all residential property (a house price register) and suggest that such a database is transaction based, i.e. based on actual transaction prices rather than valuation opinions.

The rental market needs encouragement to keep rents affordable...

The SCS favours a lower rate of stamp duty for residential investment property than currently exists, otherwise there is a serious chance of a withdrawal of investors from the residential property market which, in turn may have the effect of driving rents up.

An additional stimulus to commercial property activity will yield results...

While we acknowledge that the rate of Stamp Duty on commercial property was reduced in budget 2009, the attractiveness of Ireland as a market to attract overseas property investment and funding needs to be addressed again, particularly as funding of large projects from overseas would have additional benefits to the economy and employment. Our rates continue to compare unfavourably with the UK, where there is a maximum rate of 4% on transactions of more than £400,000.

Modest increase in Capital Gains Tax...

The SCS supports a modest increase in the rate of CGT on the windfall gain on lands, which materialize due to improved rezoning from a particular date. However, we consider a recurrent tax on zoned development land where such land is not being developed will lead to enormous difficulties, particularly for farmers, and in situations where there may be no market at the time for the land, zoned or otherwise. It would clearly be counter productive to force certain landowners into a sale situation, but without the necessary affect of ensuring development and discouraging hoarding.

Streamlining Local Authority structure, management and revenue collection...

The SCS supports the recent call from An Bord Pleanála to streamline the number of local authorities within the greater Dublin area thereby reducing overheads and creating efficiencies in management structure. By combining the various local authorities into a larger entity this will lead to improvements in coordination and implementation of planning and development policy.

The traditional approach of Local Authorities increasing rates 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. As part of this exercise the rates 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 rates bill is based on calculations carried out in 2007 while costs in the wider economy are now back in some cases to 1999 levels.

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

Planning use	Current contribution levy	Proposed contribution levy	Percentage change/increase
<i>Commercial</i>	€83 per m ²	€111 per m ²	33.7%
<i>Residential</i>	€11,067 per apartment unit	€12,000 per apartment unit	8.43%

This uplift in contributions is unsustainable in the current economic climate and particularly so in areas where local authorities intend to propose additional levies for large infrastructural projects such as Metro.

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.

Increased resources to complete revaluation...

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 two local authorities will have completed the revaluation by this year-end – South Dublin and Fingal. The SCS calls for considerably more resources to be applied to this

exercise and possibly sub contracted to the private sector, which has the resources and skills available at this time with excellent efficiencies.

Off-setting rates against capital upgrade works...

It is also recommended 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. This could include specific listed items such as upgrades to building envelope (i.e. insulation/glazing), upgrades to mechanical/electrical components (i.e. heating, lighting, etc) to comply with the latest Building Energy Rating certification. This proposal would encourage investment in obsolete property thereby reducing CO² omissions while also stimulating employment within trades and material suppliers involved with the upgrade works.

Optimum collection & use of property data within the public sector...

The Irish 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’*.² 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’*.³

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 McCluskey, W., Deddis, W., Mannis, A., McBurney, D., Borst, R. (1997) Interactive Application of Computer Assisted Mass Appraisal and Geographic Information Systems, *Journal of Property Valuation & Investment*, Vol. 15, No. 5, 1997, pp 448-465.

³ Tretton, D. (2007) Where is the world of property valuation for taxation purposes going? *Journal of Property Investment & Finance*, Vol. 25, No. 5, 2007, pp 482-514.

Ensuring the payment of service charges ...

There is an increasing problem with the payment of residential service charges in respect of apartments in mixed-use developments. This is creating situations in many developments where services such as cleaning and security are being suspended as there are insufficient funds available. This has resulted in an increase of non-payment of service charges being recorded at approx 90% by property managers at the coal face of this issue. A survey was undertaken in October 2009 by the IPFMA in conjunction with the SCS which is referred to within this submission⁴. These results highlight the growing problem in this area. In the years prior to 2009, 62% of respondents confirmed that between 80-100% of service charges were paid, yet this has decreased to approx 25% in 2009 within this percentile. Many developments (approx 56%) are suffering from a situation where services have been decreased or withdrawn. A downward spiral is developing whereby the shortfall in service charges being collected results in less services being provided to apartment dwellers, with the result that more residents refuse to pay charges - a vicious circle! Worryingly, a number of respondents to the survey have confirmed that sinking funds are now being utilised to fund ongoing maintenance and running costs, resulting in a precarious future for the property assets.

The SCS proposes that as part of the annual Form 12 Tax Return, a residential investor claiming Section 23 or similar relief should have to include proof of payment of the service charge before the relief is provided. As investors are the largest proportion of owners (approx. 53%) who do not pay service charges, this would ensure that charges are paid before year end.

In terms of other owners in the development, proof of service charge payment could be mandatory each year in order to qualify for mortgage interest tax relief. For the relief to continue to be deducted at source, each owner would submit a receipt proving payment of the applicable service charge.

These measures would substantially increase the number of service charge payments and improve the quality of life for residents. It also has the advantage that the payments are made prior to receiving tax relief, in the form of Section 23/50, or mortgage interest relief.

In addition, the Society believes the recently published Multi-Unit Development Bill should be amended to allow for the establishment of a special division of the Small Claims Court to deal specifically with the recovery of Service Charge arrears. Such a court would simplify arrears recovery, speed up the process and save Management Companies the considerable costs associated with pursuing arrears.

⁴ The SCS would like to extend our appreciation to the Irish Property & Facility Managers Association (IPFMA) for their assistance in organising the survey on service charges referred to within this submission.