Construction Leadership Council

The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

26.01.21 Dear Chancellor,

As you make your preparations for the Spring Budget, the Construction Leadership Council would like to update you on the progress we have made towards recovery since we last wrote to you in September.

In spite of the ongoing challenges of Covid-19 and global economic uncertainty, we remain of the view that the UK remains positioned for recovery.

As you know, the Construction Leadership Council represents an industry which contributes 8 per cent of the UK's GDP, employs over 10 per cent of its workforce and is made up largely of SMEs, with every £1 spent creating nearly £3 of value to the whole economy.

We continue to see the significant impact that Covid-19 has had on employees and companies in our sector. But we have responded by managing these challenges and working safely together to deliver the homes, buildings and infrastructure our country so desperately needs.

This remains possible thanks to clear support and guidance from the UK Government helping us keep our sites open, and its ongoing assistance to our businesses and workers.

We welcome Government's long-term recognition of the vital role construction plays in our economy and we have considered below how the construction sector can most effectively support the UK's recovery in line with the Government's key policy priorities to achieve Net Zero, Building Safety, Levelling Up, and to stimulate economic activity and protect jobs.

We note especially, Government's support in delivering future public sector construction projects far more innovatively and efficiently, via the methodology outlined in the Construction Playbook, and the forthcoming changes in UK procurement rules.

Despite this support, our industry remains in extremely challenging times as we continue to adapt to ongoing Covid-19 rules, mitigate the impact of Brexit and prepare for the forthcoming implementation of rule changes on IR35 and the Construction Industry Scheme.

It is also important to note that by continuing to operate the industry has suffered a serious financial impact as a result of project delays and costs incurred in adapting working practices. This has resulted in many contractual disputes which our monitoring suggests are currently growing and which will accelerate further still. We are currently quantifying the impact; however, it is reasonable to assume that without further financial support many companies will become insolvent.

We recognise that difficult decisions will need to be made over the coming year, so have focussed below on a small number of key interventions that we believe will drive immediate economic growth and market confidence.

1. Meeting Net Zero ambitions
    - Committing to a National Retrofit Strategy
    - Offering Incentives for the commercial property sector
2. Expansion of the Building Safety Fund
3. Levelling up
    - Making the Infrastructure Bank an effective vehicle for regeneration
    - Securing Local authority funding
4. Stimulating economic activity and protecting jobs
    - Extension of the Stamp Duty Holiday and Duty review
    - Withdraw Reverse Charge VAT
    - Extension of employer apprenticeship incentives and Apprenticeship Levy flexibility
    - Other tax measures

We trust that you find the submission below of interest and would be delighted to discuss our proposals with you or your officials as you make your preparations for the Budget.

Yours sincerely,

Andy Mitchell

Andy Mitchell
Co-Chair, CLC

Meeting Net Zero ambitions

(i) Committing to a National Retrofit Strategy

Retrofitting the UK's existing homes, buildings and assets will be essential to secure the UK Government's carbon commitments while also creating new jobs and safeguarding existing ones. The CLC has developed a delivery model to achieve this, and seeks Government support for the National Retrofit Strategy, alongside the upcoming Heat and Buildings Strategy.

The CLC calls on Government to build on its £9.2bn national retrofit programme to create a long-term plan for carbon reduction for homes.

For properties not covered by the programme, we would welcome a 'Help to Fix' interest-free loan scheme, predicated on energy efficiency, to improve our existing housing stock. Training should be at the centre of any future national retrofit interventions, to equip the construction workforce with the skills needed to meet Net Zero ambitions. It will be essential that Government work with industry to ensure this, including through clear commitments in the next Spending Review.

(ii) Offering Incentives for the commercial property sector

Businesses and industry account for over 50 per cent of our electricity usage. The Government's Clean Growth Strategy estimates that cost effective energy efficiency measures in the commercial property sector could save up to £6 billion by 2030.

Now would seem an ideal time to incentivise such works, as businesses adapt to new ways of working, the need to repurpose business space and play their part in stimulating the economy.

There are several ways in which the capital allowances regime could be used to do this:

- A new 'Green Pool', which expedites relief for works which enhance the sustainability credentials of a building.
- The Annual Investment Allowance (AIA) threshold could be held at £1m, rather than plans to reduce it to £200k – or alternatively, a higher threshold could be targeted to facilitate tax relief on typical retrofitting works – e.g. through a 'Green AIA'.

Expansion of the Building Safety Fund

It is essential that residents in multi-occupational buildings are safe, and feel safe, in their homes. The government-funded programmes for the remediation of ACM and other unsafe cladding systems have been a welcome means of achieving safer buildings. However, with almost 3,000 applications for the MHCLG's Building Safety Fund remediation programme it is clear that there is insufficient funding to ensure that all eligible buildings are remediated. In order to prevent the grant-awarding process from becoming a lottery for residents, we strongly urge an increase in the funding for the BSF programme to cover the remediation of all eligible buildings and other matters.

Levelling Up

(i) Making the Infrastructure Bank an effective vehicle for regeneration

We welcome the proposed establishment of the Infrastructure Bank and believe that its effectiveness can be maximised if the Government allows the bank to be flexible enough to enable it to support locally-led regeneration schemes, and its financial structure facilitates its ability to leverage large amounts of private capital. It must also judge projects on metrics which are not just financial.

These proposals are fully outlined in the CLC Greener Regeneration Investment Fund and the Construction Innovation Hub Value Toolkit

(ii) Securing Local authority funding

Covid-19 has also placed substantial pressure on local authorities, who play an important role in planning and delivering transport infrastructure. From our discussions with local bodies, they would welcome the ability to develop better longer-term planning of transport.

We believe that there is a strong case to consider how capital funding for local transport infrastructure could be moved onto similar 5-year funding cycles as seen for strategic transport. This builds upon commitments made in the recent Spending Review to develop five-year intra-city transport settlements for eight Mayoral Combined Authorities and would secure better value for money for the taxpayer, by reducing the substantial abortive costs of projects that are developed only to prove unaffordable under current short-term funding settlements.

Stimulating economic activity and protecting jobs

(i) Extension of the Stamp Duty Holiday and Duty review

The current Stamp Duty exemption for transactions up to £500,000 has been extremely successful in supporting both the recovery of the housing market and house building output following the Spring 2020 lockdown. Given the economic headwinds arising from the current lockdown, and the understandable delays across the industry due to Covid-19, there is a strong case for extending the holiday for a further period of 9 or 12 months to sustain housing market activity, underpin confidence to build and enable all who wish to take advantage of the holiday to benefit.

Research by Knight Frank has shown that for each housing market transaction the economy benefits by some £9,500, with 100,000 transactions benefitting the economy by close to £1 billion. The wider positive impact of an extended Stamp Duty holiday would therefore be significant in assisting a more general economic recovery.

Longer term, there is a good argument for reviewing the future of Stamp Duty as part of a wider reconsideration of taxation affecting the property market.

(ii) Withdraw Reverse Charge VAT

The implementation of Reverse charge VAT in April will restrict cashflow in our industry, especially to the smallest firms, at an extremely critical financial period for many businesses. This policy risks reversing any recovery industry has made from Covid-19 and will limit the scope for protecting and creating jobs across the UK.

As such, we call for the legislation to be withdrawn to help secure economic recovery for the long term.

(iii) Extension of employer apprenticeship incentives and Apprenticeship Levy flexibility

The Government should further extend the employer apprenticeship incentive scheme for hiring an apprentice beyond 31st of March. Given the prolonged nature of the pandemic, this support will continue to be critical for apprenticeship starts in the industry.

Industry would also welcome a commitment from Government to the amount of funding planned to be allocated through the 'matched' and 'pledged' Apprenticeship Levy transfer mechanisms in support of construction apprenticeships.

(iv) Other tax measures

In addition to the measures above there is also a case for also using the capital allowance system to boost construction sector activity more widely. For example:

- To support the roll out of expenditure to enable buildings to be Covid-Safe, we call on Government to allow full tax relief in the year the expense is incurred.
- Reduce the Structures and Buildings Allowance relief period from 33 to 15 years – or alternatively, remove its link to the Capital Gains Tax rules.
- Enhance the reliefs on brownfield remediation through a pre-tax credit for qualifying remediation costs, to operate in a similar way to the Research & Development Expenditure Credit (RDEC); a change to the date used to determine Derelict Land Relief from 1998 to 2008 and; an increase in the value of the Land Remediation Tax Relief from 150% to 175%. (Or 200% for small sites provided the development is completed within 24 months of planning permission being granted).