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COVID-19 ECONOMIC RECOVERY PLAN

‘BUILD BACK BETTER’

An £11 Billion investment will ‘Get Britain Building’ creating jobs and inclusive economic growth, plus deliver a £33 billon return

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CONTEXT

As we experience a global pandemic, the primary focus is on saving lives by reducing the spread of Covid-19. This has been essential to ensure that the UK's National Health Service is not overwhelmed. However, dealing with a virus that has affected every country in the world has come at a phenomenal cost to the economy.

The government has intervened to protect businesses and jobs in what is anticipated to be a short to mid-term crisis. The Furlough Scheme which has been extended until October 2020 with the opportunity for a part time return to work, where appropriate, from August 2020, is of crucial importance to protect companies and avoid redundancies where possible.

Nonetheless, unemployment has increased and many thousands of businesses are in danger of failure and others are likely to restructure with job losses inevitable.

Consumer confidence has been severely dented due to a drop in disposable income. Predictions of an annualised decline in Gross Domestic Product of over 10% and that jobs lost may take years to be replaced, suggest that recovery may take years rather than months. This is profoundly worrying for a country that was working towards a positive post-Brexit future.

As the UK emerges from the crisis caused by Covid-19, it will be critical to rebuild the economy and ensure as many people are in work as possible. Crucially, it's important to consider how sustained recovery may be possible. In particular, how will construction be an integral part of such a recovery?

A solution, as has been demonstrated after previous economic crisis, is to use investment in infrastructure and construction as the means by which to reflate the economy. Construction has been proven to achieve a multiplier effect. According to the Royal Institution of Chartered Surveyors (RICS), for every pound sterling spent on construction, a return of £2.84 is generated.

Research carried out in 2018 by Birmingham City University and The Building Alliance calculated that building 300,000 homes a year using, as much as possible, British-made building materials and local builders, would generate an economic 'uplift' of more than £90 billion for the UK.

Construction is known for resilience. It has the ability to utilise its skills and expertise through a range of measures to generate economic activity that will assist the UK economy's rapid recovery. This was achieved after the chaos and destruction caused by World War II and can be replicated in a post-Covid-19 context.

The three essential requirements to support a construction led recovery will be:

- Cashflow: the oxygen of business and the majority of businesses that emerge from this crisis will need critical cash flow support for at least the first 12 months of the recovery. This could include Government underwritten low-cost bank facilities and a voluntary 30-day payment scheme
- Demand stimulated by Government 'interventions'
- Access to a skilled workforce and a mass recruitment campaign supported by Government

KEY RECOMMENDATIONS

The following are in order of the priority that it is believed each will have a positive correlation with a return to economic activity in the UK. It is to be noted that the Royal Institute of Chartered Surveyors (RICS) believe that for every pound spent on construction there is a payback through what is known as 'the multiplier effect' of £2.84 for every £1 invested (one of the highest multiplier effects in any sector of the economy). This is due to the construction industries relatively low level of imports, reliance on an extended and varied supply chain that is predominantly domestically based resulting in high levels of skilled labour.

Phased Return to Work

Entirely consistent with scientific advice, and as per Prime Minister Boris Johnson's statement on Sunday 10 May, there is good justification for a relaxation of lockdown in construction activities. We need to move safely back to work. This will enable a flow of income from clients, particularly those with urgent need, to contractors and through their supply-chain to individuals who will have a high propensity to spend thus stimulating consumption and adding to the circular flow of income; resulting in the multiplier effect (see above). Equally importantly and depending on the rapidity with which the sector is utilised, the flow of income to the exchequer through tax and national insurance will be considerable.

The intrinsic nature of the environment in which construction takes place provides the potential for a managed phased return in a wide variety of work. There may need to be accompanying increase in production of essential components such as bricks and blocks. Additionally, some specialist components that have been sourced from outside of the UK may need to be produced using emergency intervention to ensure that the stock of buildings is maintained, especially over the summer and before the onset of winter. The following guidance would be adapted for other construction sites and home improvement projects, reviewed fortnightly consistent with recent Public Health England guidance. We are given to understand that the availability of tests is forecast to ramp up sharply to 250000 per day.

Recommended guidance for phasing returns to work on construction sites

1. Identify site and the economic benefits of restarting, whilst restriction measures are still In place and carry out a Covid-19 risk assessment
2. Fence site with security control at entrance
3. Identify site manager, sub-contractors, building control officers and suppliers delivery drivers and provide them with site safety guidance
4. Prepare a transport plan to ensure site staff can get to work safely, ideally without using public transport
5. All site personnel and visitors to be subject to temperature checks on site entrance each day and regular testing, if required, when capacity is available subject to the latest guidance
6. Plan supply chain deliveries to safe location on site, with close contact avoided between delivery drivers and site operatives
7. Issue additional PPE to protect staff against Covid-19 and wipes to clean hard surfaces
8. Brief all on site to operate social distancing and regularly monitor that safe practice is being adhered to with sanctions agreed for non-compliance
9. Close or restrict canteen areas and provide proper facilities for hand washing
10. Site operatives and visitors to sign an agreement to immediately inform the site manager and self-isolate for two weeks if they, or someone they live with, has Covid-19 symptoms

More extensive guidance covering all areas of construction and builders' merchants, is available from the Construction Leadership Council and the Government guidance to help employers, employees and the self-employed understand how to work safely during the coronavirus pandemic.

Stimulating Demand for New Build homes

Consumer confidence will have been severely damaged by Covid-19. There is a need to stimulate demand by first-time buyers and increase capacity by building new homes.

The suspension of Stamp Duty for purchases up to £300k and the extension of the Help to Buy scheme until 2025 will help this process. However, first-time purchasers need direct support in making repayments for the first year. A mortgage support package providing 50% reduction in re-payments for the first 12 months for all first-time 'new build' mortgages up to £250000 completed by December 31st 2021 would drive the market and create thousands of jobs.

Offering this to 100,000 first-time purchasers assuming 95% LTV (loan to value) for a £240,000 house at an interest rate of 3% with a 'normal' monthly repayment of £1,050 would result in a saving to each purchaser of £6,300

For 100,000 new build homes this would give a total cost for one year of **£630 million**

Social Housing

The need for social housing provided by local authorities to replace the severely depleted stock is well understood. Provision of well-constructed social (council) housing in the inter-war and post second-world-war is regarded as a major achievement in underpinning improvement in living standards and mobility.

Local authorities should be identified where need is greatest and provided with funding to commence construction of social housing with extreme urgency. It is assumed that land would be available and there would be no cost to this resource.

It is recommended that the objective should be to construct 30,000 houses per year for the next two years. Assuming that with sufficient mobilisation of resources and using standardised designs based on adherence to contemporary benchmarks for thermal efficiency and quality it is estimated that each unit would cost £75,000, the cost per year would be **2.25 billion a year for two years £4.5 billion**

Infrastructure

The range of infrastructure initiatives announced by Chancellor Rishi Sunak in the March 2020 budget should, where possible, be expedited. These projects are vital to rebalancing the economy and enabling long term sustained inclusive growth.
Total cost: estimated to be **£1 billion**

Decreasing VAT on Home Improvements

Free of EU constraints from 2021 the Government can now flex the VAT rate to provide an incentive to the 65% of owner occupiers and private landlords to invest in home improvements. This could be supported by building societies and banks offering low cost fixed rate home improvement loans. According to the National Association of Estate Agents (NAEA), each UK homeowner spends an average of £1,875 on their home; a total of £8 billion.

Assuming that materials constitute at least 35%, a reduction of 5% in value added tax on the purchase of building materials by VAT registered companies until March 2022 would create significant uplift in demand as well as improving the existing housing stock.

Total Cost:
35% of £8 billion = £2.8 billion
5% of £2.8 billion would be **£140 million**

Support for local house builders

In 1988 small builders were responsible for four in ten new build homes compared with just 12% today. In the period 2007-2009, one-third of small companies ceased building homes. The introduction of the 'plan-led planning' system in 1990, contributed to a reduction in medium-sized builders as well as a decline in national housebuilders. The average permissioned housing scheme has increased in size by 17% in less than a decade. This suggests many sites allocated in local plans are economically impossible for smaller companies to engage in.

Small companies tend to be highly efficient in delivery of new homes to local markets. This is an historical tradition that, in the period between 1945 and 1985 was very common but has now all but disappeared. This represents a loss in terms of localised provision and employment and procurement and is the solution to the building of more new homes.

In addition to offering a 'free plans' approval service to local builders with fewer than ten employees, a **£2 billion** Business Bank fund should be established to offer up to 85% loan to value loans at less than 5% interest fixed for 2 years and secured against the land asset. Supported by a dedicated team of experts to advise on viability of schemes and recovery of projects in case of bad debt, this would represent a vital underpinning of a part of the sector that once represented a key element of speculative housing provision.

Fuel Poverty and Climate Change

At least than one in ten households in the UK is living in fuel poverty. A 2016 a government report suggested that more than two-and-a-half million families were unable to heat their homes without falling below the point at which they are considered 'in poverty'. Every year this figure increases by over 70,000 and, given the current crisis, will have risen significantly ahead of the winter 2020. Fuel poverty blights lives and communities. It contributes to the viscous circle of poor health, continuing inequality and a pervading sense of hopelessness undermining confidence and aspiration.

The government should devolve **£500 million** to regions and local authorities for direct intervention. It is essential that such an initiative is managed using delivery mechanisms involving local companies. This should achieve value for money, effective and efficient policy delivery and produce benefits to the health and social care system consistent with the objectives of inclusive economic growth and 2050 Net Zero carbon use.

Boiler Scrappage Scheme

One of the most cost-effective ways to reduce energy consumption as CO2 emissions and create manufacturing and installation jobs is to provide incentive for consumers to replace inefficient old gas boilers. A simple scheme funded by Government could see 1 million owner occupiers offered a £500 scrappage offer on all boilers over 10 years old. The scheme would run up to the 5th April 2022

Cost assuming 1 million boilers replaced in 2021 and each household receiving £500) **£500 million**

Delay proposed changes to Building Regulations

The next year should be focused on achieving uninterrupted growth helped by the postponement of the proposed changes to Part L and F of the Building Regulations until 2022. To continue the pathway to net zero homes by 2050, home builders will be encouraged to build above and beyond current requirements and ensure that all new homes are built to Part L 2013 standards from April 2021. This would achieve a cost-effective and progressive solution, in the light of exceptional circumstances and avoids any additional regulatory burden at this difficult time.

Cost is **net zero to the taxpayer**

Recruitment and training of future talent, creating a new generation of construction professionals

Prior to the Covid-19 virus crisis, construction was looking forward to a period of substantial growth with investment of many billions of pounds into major infrastructure projects such as High Speed Rail 2 as well as the building of 300,000 new houses, climate change adaptions to 26 million homes and a range of initiatives intended to update and modernise the stock of what comprises the UK built environment. It's estimated that one million additional skilled employees are required in the coming years to replace those who leave and to deal with increased workloads.

Making construction more attractive to young people seeking a fulfilling and challenging career is crucial to long-term success. There should be greater connectivity between the students, educators and potential employers. Pathways to learning should be expanded and explicitly based on the needs that exist among employers.

A **£5 million fund** should be made available to fund regional campaigns to market careers in the construction sector.

Apprenticeships are the key to the long-term success of the wider construction industry. The current apprentice levy funding does not provide assistance to employment costs for SMEs who constitute 99.6% of potential employers. The Apprentice Levy should be partly used to fund 50% of the first-year employment costs for apprentices. This would give confidence to employers, opportunities for new entrants to develop their skills and offset risk in the initial period during which apprentices make limited contribution to a business trading performance.

The introduction of 'T Levels' should be delayed until 2023 to allow for the maximisation of existing courses. Additionally, Further Education has been underfunded for two decades. This part of the education sector requires **£2 billion** in urgent funding to support the additional provision of construction-related skills. It is also noted that added provision can be achieved through shorter courses, provision of 'pop up' colleges in hard-to-reach areas and introducing night school courses that were, a generation ago, standard.

The availability of higher-level degree apprenticeships should be vastly expanded, and new standards approved. A **£1 million fund** should be established to fund a dedicated construction resource in the National Apprenticeship Service to stimulate interest in and take up of apprenticeships and work with employers and universities to approve new courses.

Total cost of **£2 billion**

FINANCIAL SUMMARY

First time buyers Mortgage Discount	£630 million
Social Housing £2.25 billion for two years	£4.5 billion
Infrastructure	£1 billion
Decreasing VAT on Home Improvements	£140 million
Support for local house builders	£2 billion
Boiler Scrappage Scheme	£500 million
Fuel Poverty and Climate Change	£500 million
Postpone changes to Building Regulations	Nil
Recruit and Training of Future Talent	£2 billion
Total Cost	**£11.27 billion**

INVEST £11 BILLION FOR A £32 BILLION RETURN TO GET BRITAIN BUILDING CREATING INCLUSIVE JOBS AND ECONOMIC GROWTH