

**JOINT OIREACHTAS COMMITTEE ON FINANCE
MEETING ON THE PROPOSED 10% CONCRETE LEVY
OPENING REMARKS FROM TOM PARLON, DIRECTOR GENERAL OF THE CONSTRUCTION
INDUSTRY FEDERATION (CIF)**

Chairman, Deputies and Senators, on behalf of the Construction Industry Federation (CIF), I would like to thank you for the opportunity to meet with the Committee and to address this extremely important issue which will have a major implication for the delivery of housing and general construction projects.

The CIF wishes to strongly express its grave concerns with the current lack of clarity on the application of the proposed levy and the serious downside risk to Housing for All, the National Development Plan and general commercial construction activity.

The CIF has submitted an accompanying policy document outlining the rationale for these concerns.

Before introducing the proposed levy, the CIF is calling for an urgent Regulatory and Economic Impact Assessment to be carried out as a first step. Given the exceptional inflationary environment, any proposal to increase costs must be resisted. This will allow the necessary time for the above assessment to be undertaken.

The industry is being subjected to unprecedented supply chain and material cost pressures, unseen in 40 years. The introduction of this proposed levy, the application of which remains unclear, would appear poorly timed. The most recent Wholesale Price Index for Construction Materials is available on the CSO website where the extent of recent inflation effects on construction materials can be accessed.

The general construction and housebuilding sector requires time to recover from these supply chain disruptions and materials cost. The CIF has repeatedly highlighted the damage that has been done to industry balance sheets and cashflow. Many projects that have been tendered now carry an additional cost risk as these legislative changes are not compensable under the public works contract.

Businesses who have no responsibility for the defects will be expected to fund the proposed levy from their own resources. This is simply unfair and damaging to an already financially stressed industry.

The proposed levy is a blunt instrument which is not targeting those responsible for defects. The first-time buyer, public and private client will ultimately pay the cost of this and the potential budgetary revenue from the measure is unlikely to be achieved due to its wider consequences.

This is a quality control issue for the suppliers of raw materials and manufacturers. For example, the quarries supply raw materials to the concrete product manufacturers, which are then processed and supplied into the industry. The sale of goods and services act is in place to ensure goods placed on the market are of merchantable quality i.e. they work for their intended purpose. There was no previous standard for concrete blocks other than characteristic strength. This was a significant contributing factor to the defective block problem that arose.



Contractors, Developers and Home Builders should have confidence that manufacturers and suppliers comply with the law and that the Government is enforcing the law in conjunction with its own certification and standards regime. How can a civil engineering contractor building a Bus Connects Corridor be held responsible for the supply of a defective building block?

The proposed levy is likely to further inflate the costs for first-time buyers and on projects like commercial office, FDI and transport. All cost inputs must be passed on. If all cost inputs are not passed on, finance for development will not be forthcoming and builders/contractors will suffer financial stress. All of which will have major negative consequences for the delivery of Housing for All and the National Development Plan.

The CIF is asking the Government to strongly consider the following significant downside risks of the proposed levy and their impact on its viability as a revenue generating solution to support any redress scheme.

CLARITY APPLICABLE CONCRETE PRODUCTS

The industry needs more clarity on the products that the proposed proposed levy would apply to. Without targeted measures, the likelihood is that the 10% proposed levy will be applied all along the supply chain from aggregate to finished products. This will result in a multiplier effect so that resultant increased costs could be far more than the intended 10%.

IMPACT ON HOUSING FOR ALL

It will have a negative effect on the affordability of housing and the likely pausing in further developments. Currently all input cost increases are difficult to recover in the housebuilding sector as the consumer, in particular the first-time buyer, is limited in their ability to borrow more to fund the cost increases.

The SCSi have said that the proposed levy will lead to cost increases of between €2,000 – €4,000 per house. The market is now at its limit in terms of the ability of a housebuilder to increase the price point to the consumer. This will impact significantly on viability and project assessments in 2023 and comes on the back of interest rate rises and costs associated with new building Regulations, planning and Local Authority development charges.

Even timber frame construction requires an outer leaf of blocks and concrete bases, concrete footpaths, retaining walls, boundary walls, culverts, manholes, etc. An estimated 2,000 blocks are required for timber framed homes.

IMPACT ON GENERAL CONSTRUCTION AND COMMERCIAL DEVELOPMENT

The lack of clarity on what concrete products will be subjected to the proposed levy is creating significant uncertainty for public, private clients and contractors. This putting many projects in jeopardy. This lack of clarity means contractors are unable to tender projects. It is likely that the proposed levy will lead to substantial cost increases on the following construction products:

- In-situ Concrete
- Blocks and Mortar
- Pre-cast Concrete Frames, walls and floors
- Pre-cast products (eg stairs, walls, hollow core, culverts, tunnel segments etc.)
- Foundation Piles



These products are used across projects in residential, commercial, and civil engineering construction. The proposed levy will lead to significant uplift on the costs of these projects. The majority of contractors are earning margins of between 1 and 3%. The uplifts could represent up to 25-50% of a contractor's margin thereby seriously undermining their funding capability and the viability of the development.

For those unfortunate enough to be in contract, they will be required to absorb the additional cost on top of all the other inflationary costs they have had to absorb over the last three years. It is not sustainable and could put contractors out of business or terminate projects.

IMPACT ON INDUSTRY PRODUCTIVITY

The concrete proposed levy will have a negative impact on Government policy to advance the use of Modern Methods of Construction. MMOC uses a significant amount of pre-cast concrete for all types of construction including retaining walls, culverts, pods, precast beams, precast frames, precast walls and floors etc. The fear is that this could then drive the industry away from modern methods of construction, which is critical for improving productivity a key goal of the National Development Plan.

Any move back to blocks and bricks is highly inefficient and requires significant additional labour which is expensive and in short supply.

IMPACT FOR END USERS / PURCHASERS

First time buyers of new homes, and public and private sector clients will all ultimately bear the cost of this proposed levy. Any imposition of a proposed levy must be passed on by the contractor/ builder to the end user, thus increasing cost of the final product being constructed.

COMPLIANT INDUSTRY

We all support a fully compliant construction industry where requirements of the Building Regulations are fully adhered to. It is critical that all newly constructed buildings including single one-off housing are subject to the certification requirements of the Building Control (Amendment) Regulations. The current 'Opt-Out' provisions for one-off housing should be removed so that the appropriate level of oversight applies to all newly constructed buildings going forward to support full compliance with the Building Regulations.

IMPACT ON IRISH CONCRETE MANUFACTURING SECTOR AND EXPORTS

A significant portion of precast manufacturing in Ireland relies on the export market for scale of production and this will place these companies at a competitive disadvantage to their UK and Northern Ireland competitors. Similarly, it is likely that imports of precast products will become more competitive and again undermine Irish manufacturers essential for our domestic construction and productivity objectives. A healthy domestic precast manufacturing industry will be critical to supporting capacity to deliver the NDP and Housing for All.

LACK OF A FINANCIAL BASIS FOR THE PROPOSED LEVY

The CIF understands that the Department of Finance expects to collect €70 - €80 million per year from the proposed levy. However, it is difficult to see the logic in this. House Builders, Developers and Contractors will seek ways to offset proposed levy by moving to other inefficient construction methods or sourcing international suppliers and manufacturers such as in Northern Ireland. In addition to this, many projects are now becoming unviable, thereby reducing construction output. Finally, as stated above in relation to public projects, the proposed levy will ultimately have to be paid for by transferring the costs over to the public clients or to support Housing For All policies.



CIF RECOMMENDATIONS

The CIF is making the following recommendations regarding the application of the proposed levy:

- Undertake an urgent Regulatory and Economic Impact Assessment as a first step.
- Given the exceptional inflationary environment, any introduction of a proposed levy must be resisted to allow the above assessment be undertaken.
- Those responsible for the defects in the specific manufacturing process should be held responsible using measures that are targeted and surgical. Other methods such as statutory inspection, standards, certification, and licensing should be considered as these could help protect future homeowners and clients.
- We would also recommend that the sale of goods and services act be strengthened for manufacturers and suppliers into the industry with the introduction of mandatory inspections by Local Authority or NSAI officials.
- The industry also needs a national product testing centre to ensure independent testing of construction products supplied into the sector.

