

House of Lords EU Internal Market Sub-Committee: Inquiry on UK-EU trade in non-financial services post-Brexit

The Royal Institute of British Architects champions better buildings, stronger communities and higher environmental standards through the practice of architecture and our 40,000 members. We provide the standards, training, support and recognition that put our members – in the UK and overseas – at the peak of their profession. With government and our partners, we work to improve the design quality of public buildings, new homes and new communities.

Sectoral Overview

Please provide us with an overview of trade in your sector. Please include a summary of the significance of the sector to UK trade in services, including employment statistics (linked to trade if possible), the volume and balance of trade, value added and Foreign Direct Investment (FDI), and UK strengths and specialisations in the sector.

The United Kingdom is the global hub for architectural excellence. UK architects are renowned for their expertise in many different types of building work – from innovative concept design through to digital techniques for modelling and managing building information throughout the life of a building, such as Building Information Modelling (BIM). Many countries have been prompted to adopt mandating the use of BIM on public projects following the example of the UK Government, including Germany¹ and Russia¹. The UK is also at the forefront of digital construction techniques such as 3D printed components, and of leading-edge, low-carbon and sustainable architectural design, both social and environmental.

Our industry is well-known for its talent and training. The UK is home to 3 out of the top 10 universities for architecture in the world.¹ The services of UK architects are in high demand, and the UK is a net exporter of architectural services.

In 2013, 16% of practice revenues came from outside the UK growing to 22% in 2015¹. The RIBA Business Benchmarking survey² shows architects generated £514 million of revenue from projects based outside the UK in 2015, significantly outweighing the £93 million worth of architectural services that were imported into the UK in 2014. This represents 22% of total architecture services revenue, which stood at £2.4 billion at the end of 2015.

Over half of revenue from outside the UK in 2015 came from work in Europe, and in particular the European Union; 43% of revenue from outside the UK came from the rest of the European Union; another 12% came from Europe outside European Union.

In the UK the architecture sector has remained resilient in the face of the last global economic slowdown. By 2014, it had recovered all the lost ground caused by the recession and had added 7% more value to the UK economy than at its previous peak year in 2008³. This equates to £4.33 billion of Gross Value Added (GVA) in 2014, a rise of 16.4% from 2013⁴. At the same time, the profession is growing. There were 36,678 registered architects in 2015, an increase of 16% since 2006. As of 27th September 2016, the number of registered architects was 38,332 – a 4.5% increase already beating the record number of employed architects in the UK.

A quarter of registered architects in the UK are of a non-UK EU nationality, and the proportion of these professionals on the UK register is increasing. In 2015, 47% of new applicants were from the EU (a 4% increase on the previous year).

The European Union and market access

How and to what extent does the EU facilitate enhanced market access for your business in your sector? Is there a harmonised Single Market framework that allows you full access to other member states' markets? If not, how (and how well) does the Single Market function in your sector?

Do other aspects of EU membership help or impede the ability of your business to operate (e.g. Access to justice, horizontal legal regimes, free movement of persons, mutual recognition of professional qualifications)

For the architecture sector, two main EU Directives affect market access and the ability of businesses to operate.

The first is the EU Services Directive which aims to enhance the free movement of services across the EU, to promote the high quality of services – including architecture - within the EU and to improve information and transparency relating to service providers and their services.

The second is the EU Professional Qualifications Directive which enables architects to register and practice within the EU via a mutual recognition of architectural qualifications.

It is imperative the transferability of UK architectural services within the EU, and the recognition of EU

¹ Ibidem

² RIBA Business Benchmarking 2015, report prepared for the RIBA by The Fees Bureau

³ [Department for Culture Media & Sport Creative Industries Economic Estimates January 2016](#)

⁴ Ibidem

architectural qualifications within the UK, are maintained (see point 3 in the next section).

Additionally, two further aspects of EU membership facilitate the ability of architectural businesses to operate.

Firstly, the EU freedom of movement of labour (Article 45 of the Treaty on the Functioning of the European Union) enables UK practices to gain access to a wide pool of EU architectural talent and to retain it - particularly important given well-documented skills shortages in the construction sector (see point 2 in the next section).

The second aspect is less significant and relates to the EU Public Procurement Directives which enable EU architects to bid for and deliver public sector projects within EU countries.

Exiting the European Union

What specific issues does the UK exiting the EU raise for your business/sector? Please be as specific as possible.

1. Maintaining the strength of the UK's world-class architectural sector

Economic instability is a particularly significant challenge to the construction sector as a whole. As much of the work of architects is carried out in the early stage of projects and is highly dependent on consumer and business investment sentiment, our members will be amongst the first to be hit by any downturn. There is an exceptionally challenging environment ahead for all parts of the housing and development industry, a risk to the Government's ambitious housing growth targets. The Prime Minister has provided some clarity for investors around immediate national investment plans relating to infrastructure and housing, and regional growth in the absence of EU funding. However, medium and long term plans remain uncertain. Access to finance for SMEs and long-term policy plans to attract investors will therefore also be critical.

2. Maintaining a skilled and innovative profession

The UK's status as a global centre of architectural excellence stems in part from UK architectural practices' ability to draw upon the best talent from around the world. That diversity fosters innovation, helps facilitate introductions to a globally-based clientele and contributes useful cultural perspectives and linguistic expertise. Nearly half of all new applicants that register with the UK Architects Registration Board (ARB) are non-UK EU architects. Through recent changes to our Chartered membership criteria, the RIBA will continue to embrace and support architects from the EU and around the world.

Following the referendum outcome, many members and RIBA Chartered Practices have raised concerns about workforce issues, and how this will impact on their ability to recruit and retain the best staff⁵. The same issue is relevant to the RIBA itself, as 11% of our staff are non-UK EU nationals.

More than 1 in 5 workers in the construction sector come from overseas⁶. The increase in EU migration has played a vital role in filling the skills gap within the sector. The Chartered Institute of Building (CIOB) estimates the industry will need to find an additional 224,000 new recruits by 2019 to meet the overall

⁵ [NBS EU Referendum Survey findings July 2016](#)

⁶ [University of Oxford Migration Observatory 2014](#)

pipeline of work⁷. Any reform to the migration system will have to ensure the UK is able to secure the supply of the skills and talent that its economy needs.

3. Retaining mutual recognition of professional qualifications

It is important to understand how EU qualified architects will be assessed and how the EU Professional Qualifications Directive 2005/36/EC might apply to those wanting to work in the UK or UK architects wanting to work in the EU once the UK leaves the EU.

The EU Professional Qualifications Directive allows EU-qualified architects to register and practice in the UK without requiring specific recognition of qualifications – and vice versa for UK architects in Europe. Any professional licensing restrictions following the departure of the UK from the EU would represent a key non-tariff barrier for architecture professionals. This is a separate issue to the movement of labour, and could not be managed via any work visa regime e.g. visas granted to professionals on a skill demand basis.

Although equivalence could be sought through the Architects Registration Board's (ARB) examination, this would bring new bureaucratic processes, adding costs and time; it would deter UK practices from employing talented overseas individuals; and ultimately limit the development and competitiveness of Britain's architectural industries.

Given over 40% of architects' revenues from overseas come from trade within the EU⁸, and many UK architectural practices rely on access to the best talent pool to maintain their competitive advantage, it is imperative the transferability of UK services within the EU, and the recognition of EU architectural qualifications within the UK, are maintained.

4. Maintaining affordable EU product supply and ability to specify product standards

The construction industry imports 64% of its materials from the EU⁹. Potential rises in material costs, following a fall in the value of the pound and/or potential tariffs imposed on UK goods imported from the EU are a key concern for RIBA members. A rise could in the costs of construction materials from the EU stall UK architectural projects could have a negative impact on the sectors economic contribution to the UK. The architecture sector produced 5.1% of the UK's creative sector's GVA in 2014, and between 2013 and 2014 had the second largest increase in GVA of the creative industries (16.4% compared to 8.9% of the overall creative sector)¹⁰. The same issue may arise if import tariffs on good entering the UK are increased.

In order to promote business within the UK and to export, the RIBA believes it is necessary to ensure that common product standards prevail. Our members will rely on UK product standards being broadly on a par with the European Standard or Technical Approval following Brexit to gain access to the Single Market and to meet commercial requirements (such as supply chain obligations and consumer pressure). If the UK Government opts for different product standards, this would not only impact our member's businesses directly, but also indirectly- affecting how overseas technology companies view the UK market. Different standards may mean higher compliance costs which may push them elsewhere in the EU. While smaller potential markets will discourage investment, global standards create larger markets, which can reduce cost. The Government's recent announcement on the Great Repeal

⁷ [CIOB Analysis on migration in the construction sector 2016](#)

⁸ RIBA Business Benchmarking 2015, report prepared for the RIBA by The Fees Bureau

⁹ [Department for Business, Innovation and Skills 2010](#)

¹⁰ [Department for Culture Media & Sport Creative Industries Economic Estimates January 2016](#)

Act brings these issues to the fore.

5. Maintaining access to research funding

The European Union has provided funding and support for many of the UK's most innovative projects for a number of years. This includes the Resilient Infrastructures and Building Security project which RIBA members are involved in, aimed at innovating building design to protect against terrorist attacks¹¹.

The UK is one of the largest contributors to the EU research budget – contributing €5.4 billion over the period 2007 – 2013. The best estimate that exists is that during the same period, the UK received €8.8 billion in direct EU funding for research, development and innovation activities.

It is crucial that the Government negotiates a deal with the EU which will enable UK universities and academics to continue to form partnerships with their EU counterparts, and gain access to funding to maintain Great Britain's global status on architectural academic research and innovation.

As of 2014-2015, 12% of new full-time entrants to RIBA validated UK Part 1 courses were EU students and 14.1% for Part 2¹². Any diminution in the transferability of qualifications is likely to affect recruitment to UK schools of architecture from the EU.

Now more than ever, ensuring affordable access to high quality professional education will be crucial to the UK economy's success in light of a widening of the skills gaps in the construction and design industry.

Future UK-EU trade relationships

What would the impact be for your sector of leaving the EU and operating on WTO (GATS) terms? To what extent would businesses be able to continue trade in services as at present? Would leaving the EU but remaining a member of the European Economic Area (EEA) retain present levels of market access for your sector or not? Is this an attractive option? Is a negotiated UK-EU Free Trade Agreement (FTA) an attractive option? How confident are you that the needs of your sector, including but not limited to market access, would be accommodated in such an agreement? What would the Government's key objectives be for your sector in its negotiations with the EU?

The key objectives for maintaining the UK's world-class architectural sector would be to ensure that UK architects can continue to secure work in European markets and for their mutual qualifications to be recognised in EU countries.

Opportunities

Does leaving the EU raise significant benefits or growth opportunities for your sector? What are these and how can they best be exploited? To what extent do the offset/outweigh concerns about reduced access to EU markets?

1. Forging new commercial and research partnerships through new trade agreements

¹¹ http://cordis.europa.eu/project/rcn/96576_en.html

¹² [2014-2015 RIBA Education Statistics](#)

Leaving the EU could provide the UK with an opportunity to maximise returns from free trade by forging new trade agreements with non-EU trading partners. The UK currently has trade deals with just two of its top 10 non-EU trading partners, yet about 60% of UK trade is with non-EU countries¹³. Trade deals with the USA or China alone would give the UK a trade area almost twice the size of the EU. For architecture, fourteen % of revenue from outside the UK was generated in the Middle East, and almost as much, 13 %, from Asia. North America is the source of 7 % of revenue from outside the UK.

The RIBA already has a developed network of country ambassadors and overseas Chapters around the world spanning North America, Far and Middle East, as well as commonwealth countries whose work would be strengthened through new trade agreements. UK architects would particularly benefit from new UK trade agreements with areas experiencing rapidly growing construction markets outside the EU, such as in the Middle East and Asia.

For the architecture sector, the new trade deals would need to be complemented by the UK negotiating mutual recognition of professional architectural qualifications with those countries, something that had been almost impossible to do for the UK whilst within the EU, as all negotiation has to be at the EU level which is both timely and costly. Yet before the UK joined the EU, it had mutual recognition of qualifications with a much broader range of countries across the globe. The mutual recognition of professional architectural qualifications is a separate issue to any work visa regime, and would not be able to be managed via e.g. a skill demand basis.

In the spirit of establishing the strongest possible links with partners outside the EU, there is also an opportunity to strengthen existing partnerships and building new ones with emerging research and science nations. There is further opportunity in supporting cutting edge research that addresses the challenges faced by developing countries through engaging in bilateral and multilateral initiatives. Examples of this include innovative and environmentally-friendly architectural design that can help integrate large scale infrastructure development in Asia.

2. Gaining a competitive advantage in EU and overseas markets

The UK has a track record of exceeding and pioneering EU product standards (e.g. energy efficient design). With the ability to continue to exceed the EU standard, the UK has the potential to gain a competitive advantage on EU and overseas markets.

UK universities may be able to develop linkages with major English-speaking blocs throughout the world (USA, Canada, Australia, New Zealand, India etc.) as well as more widely beyond the Anglosphere. If transferability of educational qualifications were achieved through mutual recognition agreements, professional equivalence may also be negotiated. This could lead to student and staff exchanges between study programmes on a larger scale than the existing Erasmus, Erasmus+, and Socrates schemes in the EU, and lead to greater freedom for UK-qualified practitioners to work outside both the UK and EU.

3. Improving SMEs access to public sector projects by reforming UK procurement policy

Procurement regulations are commonly misinterpreted and misapplied to projects above and below EU

¹³ [HM Revenue & Customs UK Overseas Trade Statistics July 2015](#)

thresholds. In some instances, decisions are made to manage cost and risk in the short-term without considering the project context or requirements in the long-term. The RIBA believes the referendum outcome provides an opportunity for public procurement reform to ensure it can play an important role in an effective construction industry, improving economic, social and environmental well-being, and supporting local growth and employment through fair and transparent processes and improved access to work opportunities for small and medium sized enterprises (SMEs). The RIBA's Ten Principles for Procuring Better Outcomes¹⁴ sets this opportunity out in more detail.

4. Using VAT flexibility to boost construction and bring down costs of meeting standards

Leaving the EU provides the possibility for greater freedom for the UK to control its VAT regime. The UK could also gain by lifting EU specified taxes on products that may help bring down costs of meeting standards e.g. non-EU solar panels to hit UK renewable energy targets.

5. Strengthening the UK economy

The UK Government plays a major role in the construction sector as both a regulator and as a client. Investment in infrastructure is one of the most effective ways to drive economic growth, and housing is an important component of the infrastructure investment of the European Investment Bank.

The EU referendum outcome provides an opportunity to coordinate housing and other infrastructure spending in the UK context. We believe that housing policy should be added to the remit of the National Infrastructure Commission and that future infrastructure schemes should include details of their positive impact on housing supply.

The ability to use public sector assets to promote alternative models for financing office and residential development should also be explored in more detail. In many parts of the UK, the lack of housing and suitable office accommodation is causing significant damage to the economy. One example of a good alternative model for housing delivery is custom build which is less sensitive to falling building stock prices and can lead to higher design quality. Custom build could be kick-started by Government by introducing a 'soft' use of 'lose it or use it' powers. Housebuilders that are not building on land that they have banked and/or have planning permission for could be mandated to release a certain proportion of their land for custom build development. We know that there is a demand for custom build. 53% of people want to design their own home¹⁵. On the continent, custom build can be the predominant form of housing delivery. The model just needs the opportunity flourish.

A regional rebalancing of the UK economy, including a drive for greater devolution and capital expenditure in public infrastructure (schools, transport, universities), would do much to strengthen the UK economy and long term prosperity, representing a fairer settlement for all parts of the United Kingdom and more sustainable public finances. This approach would also support the 64% of RIBA Chartered Practices working outside of London. We are pleased Government reaffirmed its commitment to continue with the devolution agenda at the Conservative Party conference in Birmingham.

We would also urge the Government to examine what additional freedoms to support research and innovation exist through grants and tax incentives when EU state aid rules no longer apply.

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<https://www.architecture.com/RIBA/Professionalsupport/Professionalcommunities/ProcurementGuidance/ProcurementGuidancehomepagemain.aspx>

¹⁵ [Building Societies Association \(BSA\) 2012](#)

Appendix 1

Architecture business models at a glance¹⁶

The architectural profession largely consists of SMEs. Fourteen % of practices have just one staff member- the practice owner; nearly as many have two. Nearly half (45 %) of all practices have fewer than five staff; 70 % have fewer than ten staff. At the other end of the size scale, just five % of practices employ 50 or more staff. Practices are generally headed by the people who own them; most are limited liability companies.

A majority of small practices plan up to 12 months ahead, a majority of larger practices plan for the next two, three or more years. Similarly, with cashflow: the larger the practice, the longer the time period over which the cashflow forecast is made. It's vital to plan ahead and these benchmarks will reveal how far ahead other, similarly sized, practices are looking.

The type of services offered by large and small architectural practices are broadly similar with little evidence of specialisation or diversifying beyond core design services.

However, large practices are focused more on new build work; smaller ones on refurbishment. Larger practices have more clients and jobs, but a smaller number of clients and jobs per head of staff than the small practices – reflecting the fact that jobs undertaken by large practices are bigger. Small practices are very much focused on private housing, and in particular housing work for private individuals; large practices have a much wider spread of activity.

Most practices have very little revenue from outside the UK; no more than 7 % for any practice size up to 50 staff. However, for the largest practices, the proportion of revenue from outside the UK leaps to represent 32 % of total practice revenue for practices with 50 or more staff. Revenue from outside the UK is very heavily concentrated in the hands of these practices; firms with 50 or more staff generate 90 % of all revenue from outside the UK.

The large majority of the work undertaken outside the UK relates to new buildings; 70 %, plus another 5 % that are both new build and refurbishment. Just 10 % is refurbishment alone; the rest, 15 %, is 'other'.

Amongst the large practices, the principal sectors which generate revenue from outside the UK are offices (16 % of the total), retail (15 %), mixed (14 %), sport and leisure (13 %) and transport (12 %).

Of the £2.4 billion total revenue generated by architects in 2015 55 % was from housing. The majority of this was from one-off housing and extensions. Although average revenue per practice varies hugely by practice size, revenue per head is a relatively more even figure, averaging £56,000 across all practice sizes.

¹⁶ Stats from RIBA Business Benchmarking 2015 report prepared for the RIBA by The Fees Bureau