

## **PAPER FOR THE COUNCIL FOR ECONOMIC RENEWAL**

### **HOME PROVISION TASK AND FINISH GROUP**

#### **INTRODUCTION**

##### **Background**

At the meeting of the Council for Economic Renewal on the 1<sup>st</sup> December, the First Minister asked for a task and finish group to be set up to explore the issues raised in the Home Builders Federation (HBF) and Federation of Master Builders (FMB) paper and to report back to the March 9<sup>th</sup> meeting of the Council for Economic Renewal. He tasked Tracey Burke from DE&T to take the lead on this working with officials from other Departments.

##### **Meetings of Task and Finish Group**

The Task and Finish Group met twice between the Council meetings; once in January and once in February. In addition, work was undertaken between meetings by members of the Group.

##### **Membership**

The membership was John Harper (RICS), David Morgan (RICS), Richard Price (HBF), Richard Jenkins (FMB), Mick McGuire (Principality), Nick Blundell (UCATT), Jane Carpenter (Redrow), Simon Grey (Llanmoor Homes); Ian Price (CBI) Mark Judd (WSPU), Judith Askew / Ceri Breeze (Assembly Government - DESH), Neil Hemmington (Assembly Government - DESH), Francois Samuel (Assembly Government - DESH), Jacqui Bradbury (Assembly Government – DE&T), Tracey Burke (Chair), (Assembly Government – DE&T).

##### **Terms of reference**

The terms of reference for the Group were to review each of the issues raised in the original HBF/ FMB paper to ensure a shared understanding, clarify current policy and action, establish what value the Task and Finish Group could add and produce for a paper for the Council for Economic Renewal on 9<sup>th</sup> March 2011.

##### **This paper**

This paper outlines the work undertaken by the Group on each of the issues..

#### **Recommendations**

***The Council for Economic Renewal is asked to:***

- 1. note the work undertaken by the Task and Finish Group***
- 2. note the recommendations to be taken forward***
- 3. note that the Task and Finish Group has completed its task and that routes have been proposed to take these issues forward, including the report from the Task and Finish Group to go to the Housing Programme Board.***

## THE ISSUES

The following issues highlighted in bold below were raised by the Home Builders Federation and Federation of Master Builders. The discussions of the Task and Finish Group are outlined below and recommendations highlighted in italics.

### **1. Recognising the contribution of home provision (new build and refurbishment) to the Welsh economy**

The Group agreed it would be important to quantify the economics around new build and refurbishment to quantify the contribution to the economy. Assembly Government economists were asked to prepare some analysis for the Group. Data availability on home building and refurbishment in isolation was a constraint, so much of the analysis was presented for the construction industry as a whole.

The main points were:

- Employment in the construction sector represents around seven per cent of total employment in Wales. This is similar to the UK average.
- Output in the construction section was badly hit during the recession. There are, however, signs of recovery.
- In particular, there has been a marked rise in new housing construction orders from the private sector in Wales.
- The construction sector in Wales supports a wide range of activity elsewhere in the economy with output multipliers at the top end of the range for Wales as a whole.
- While the construction sector will support a range of jobs elsewhere in the economy, this is true for many other sectors. The employment multipliers from construction activity are in the middle of the range for Wales.
- Research shows that the main value of housing regeneration activities is in the form of “consumption benefit” – that is, investment in housing activity leads to a rise in asset values benefitting land and home owners.

*Recommendation: that when considering policies for home provision and refurbishment, the economic value of this sector should be taken into account.*

The Group also discussed the value of the construction pound and the local economic multiplier effect and the difference in the value in Wales relative to the UK. It was agreed that the summary of research undertaken by Value Wales would be circulated to the Group. It was important to understand why a difference existed and if different practices in Wales in regard to

procurement were the underlying issue. If this was not clear from the Value Wales report then some further research should be undertaken. This could be undertaken collaboratively between the Assembly Government and the Federation of Master Builders and the Royal Institution of Chartered Surveyors.

*Recommendation: that any differential value between the construction pound between Wales and the UK be established and if further research be undertaken if required.*

## **2. Housing Shortage**

The Group discussed the excess of housing demand over supply and the results of the 2010 study that was commissioned by the Assembly Government to provide more up-to-date evidence. The national housing strategy was also discussed in terms of its references to the supply of housing by house builders.

Some members of the Group felt that the Assembly Government's focus was predominantly on affordable housing and therefore there was insufficient focus on market housing. In their view, the national housing strategy did not give sufficient prominence to market housing.

The definition of "affordable housing" was not explored by the Group but whilst the term is often used as shorthand for social housing provision, it is increasingly relevant to broader housing provision and the efforts of both the public and private sectors to provide a variety of housing to meet needs including shared equity arrangements.

The report 'Housing Need and Demand in Wales 2006 – 2026' estimated the need for 14,200 dwellings a year, of which 9,200 are in the market sector and 5,100 in the non-market sector. The "non-market" element is considered as marker for social housing provision. In addition, in 2006 there was an estimated unmet housing need of 9,500 households; in other words, a "backlog" of need.

The achievement of the One Wales commitment of an additional 6,500 affordable homes after only three of the four year target had made an important contribution to meeting people's needs for non-market housing. However, for predominantly economic reasons, house completions in the period 2006 -2010 have been significantly below the 14,200 dwellings a year level.

Industry representatives suggested that this results in a cumulative under supply of around 25,500, which rises to 35,000 if the 9,500 backlog of housing need estimated in 2006 is factored in. Some members of the Group felt that the figure of c40,000 houses was about right, although others considered that this could be an underestimate. Assembly Government officials felt that the figure should be treated with caution as it is not clear that it takes fully into

account the additional 6,700 affordable homes as a result of the One Wales or additional homes developed since April 2010.

Given the extent of the housing shortage and the economic impact of this, members of the Group reiterated their strong feeling that there was insufficient focus on market housing in the national strategy and that it focused on affordable housing alone. They wanted to see a stronger statement on market housing by the Assembly Government.

The development of the national strategy was highlighted, with particular reference to its extension from covering affordable housing alone at the consultation stage to both affordable housing and private sector development before it was published. References were made to elements of the strategy that demonstrate this. By way of illustration, the following points are relevant

- (i) Many references are generic e.g. “new homes” as opposed to “new affordable homes”.
- (ii) It explains that the responsibility for providing homes is shared between many organisations, and house builders are cited as part of this.
- (iii) There is explicit reference to the fact that most housing is provided by the private sector and the critical role of developers for the continuing supply of quality homes.
- (iv) The strategy emphasises the industry’s role in supporting thousands of jobs in construction and related industries.

Whilst the importance of private sector housebuilding is in the strategy and has been highlighted in public statements by Ministers, the industry members of the Group feel that there had not been a strong and definitive statement from the Assembly Government on the need to increase the supply of all forms of homes in Wales and for Local Authorities to place this high on the agenda for their Local Development Plan strategies. Their strongly held view was that the Assembly Government should make a clear statement (ideally through national policy), on the need to increase housing supply in all forms, in order to ensure the issues of lack of housing supply and affordability can be properly addressed.

*Recommendation: these views would be raised with the Deputy Minister for Housing and the Assembly Government should consider establishing a work stream under the Housing Programme Board where market housing needs and opportunities, policies and practices could be discussed.*

*Recommendation: A joint paper from the Task and Finish Group, prepared by HBF and DESH officials, should go to the Housing Programme Board.*

### **3. Cumulative Impact of regulation**

Concerns were raised in regard to the cumulative impact of regulation, particularly in regard to land values and viability. Both the Home Builders Federation and Redrow had given consideration to specific examples to illustrate the point based on their own experience and assumptions. The worked example by Redrow started with the “clean value” of the land and worked through to the residual value when all the requirements had been met. The worked example showed negative land values per acre, per plot and per site.

The Home Builders Federation also prepared short report outlining the potential impact of development requirements, planning and other regulation on residual land values in Wales.

The Group are agreed that worked examples of this type bring the issues of the cumulative cost of regulation into sharp focus and are an important addition to the evidence base. It was however recognised that there needed to be an open book approach and agreement on assumptions and values

The Group felt that the issue of cumulative impact would benefit from a piece of work that builds on the HBF and Redrow’s examples, which considers the impact of current and future regulations on land values in various areas across Wales. With Local Authorities in Wales undertaking Affordable Housing Viability Assessments, the Group felt there was the potential to gather data on residual land values in these areas, which could be used in conjunction with the costs of remediation requirements and future public policy proposals, in order to give examples of the effect on land values in those areas and hence the potential impact on housing delivery.

*Recommendation: that the Assembly Government uses the worked examples on land values as a case study for its project to examine the cumulative impact of regulation generally and specifically in relation to the work underway aimed at developing changes to devolved Building Regulations. Other relevant work will include the outcomes of the Registered Social Landlords (RSL) pilot programme aimed at achieving code levels 4 and 5 of the Sustainable Homes.*

### **4. Planning obligations through Section 106**

In discussing planning obligations through Section 106, the Group discussed affordable housing, wider planning obligations, the costs of the Code for Sustainable Homes and other costs.

The Group felt that a stronger national policy direction could be given by the Assembly Government, as in the view of the industry members, too much was at Local Authority discretion and this could lead to non-alignment of Local Authorities with each other and with the Assembly Government on affordable housing policy and associated targets. The preference of the industry

members would be for more strategic infrastructure planning that could eradicate some of the inconsistency in policy and practice that they encounter between Local Authorities. It would also mean that needs were seen as a whole and not on an individual local authority basis. It was also recognised that in the future the Community Infrastructure Levy would lead to a change in the existing arrangements and provide clarity on what is acceptable.

The industry members of the Group stressed that in their view, Local Authorities and the Assembly Government could not simply prioritise affordable housing for delivery through section 106, as there would inevitably be essential development requirements that will need to be given priority by default. For example, the cost of remediating the site and abnormals, the need for essential section 106 requirements (roads and other infrastructure), and also the need to abide by building regulations which cannot be renegotiated. Therefore, whilst there was a need for a joined up approach to delivering section 106 requirements, the industry representatives stressed that there was also a need for a pragmatic approach, which recognises the limitations of what can be delivered through land values and the impact this can have on the priorities of local and national government.

*Recommendation: a meeting to take place between the relevant task and finish Group members and Welsh Local Government Association to discuss the impact of different approaches by Local Authorities, particularly in regard to Section 106 and affordable housing requirements. In addition, Ministers have asked officials to prepare a new version of the Housing toolkit (first prepared in 2006) which deals with mechanisms to increase housing supply. This would be supported by training sessions / seminars across Wales.*

## **5. Encouraging innovation and capacity building**

The main issue raised was the need for a stronger policy signal from the Assembly Government to encourage innovation, skills and capacity building. The discussion focussed on the accreditation of contractors, and touched on Construction Skills, Trustmark and the Competent Builders Scheme as a means of assuring quality.

## **6. Financial incentives**

The Group discussed the subject of reduced VAT on refurbishment. It was explained that the Deputy Minister for Housing had supported the calls by the Federation of Master Builders to reduce VAT on home improvements and maintenance work and had committed to write to the UK Government to ask it to consider this. This was welcomed by the Group, in particular the Federation of Master Builders.

*Recommendation: The Assembly Government to write to the UK Government asking for consideration to be given to reduce VAT on home improvements and maintenance work. This would assist work to bring empty homes back into re-use which is a priority for the Deputy Minister for Housing.*

On the issue of rate relief on refurbished homes, there was at present no such scheme in England and Wales. Although there had been some consideration given to a Welsh business rate relief scheme previously, a go-it-alone approach without England would be difficult on affordability grounds.

With regard to grants and loans for energy efficiency, it was agreed that it would be useful to have a summary of the various schemes available

*Recommendation: Assembly Government to provide a summary of energy efficiency schemes for Group members.*

On the subject of the Green Deal, it was explained that the Bill was still being worked through at UK Government level. However, there needed to be greater understanding of the detail which would become clearer as the Bill progressed.

## **7. Skills**

The Group discussed how new requirements and technological advances meant that there was increasing pressure for new skills to meet new standards.

The Group received a briefing on the work being undertaken by four of the Sector Skills Councils (SSCs) – Asset Skills, Construction Skills, Energy and Utility Skills and Summit Skills – who are working in partnership to pilot training, capacity building and skills development, which will support the stimulation and growth of a low carbon built environment workforce in Wales.

The project is being delivered through the Welsh Assembly Government's Sector Priorities Fund Pilot programme and will draw down additional support through the European Social Fund (ESF). Outcomes from the pilot will then be used to target those qualifications and courses deemed as being of most value to employers in developing the skills of their workforce.

In regard to low carbon skills, the project will support the training providers to respond to the future skills challenges associated with movement towards a low carbon economy for Wales, through the development and piloting of appropriate training, qualifications and frameworks, and deliver a targeted programme of up-skilling for lecturers, assessors and Work Based Learning providers. It will also support employers in Wales by delivering critical low carbon and renewables skills and knowledge to industry and to many employed individuals in Wales.

## **CONCLUSION**

Members agreed that the Task and Finish Group had been a useful means of sharing information and views on added value and issues that impact on the provision of more homes. There was general agreement that everyone had this in mind as a mutual objective.

The Group was keen to ensure that mechanisms exist to continue to take things forward. In considering the best routes, the Group highlighted the existence of other fora and mechanisms for engagement with the Assembly Government; this included a briefing on the Built Environment Forum.

Everyone had found it helpful to see the various points of contact and some clarity was provided as to the various function, remit and membership of the different groups. The need to avoid duplication of effort was agreed. It was clear that there were both standing fora for housing and planning matters but also issue specific mechanisms for discussing particular policies or practices on a case by case basis – for planning, housing, construction and building regulations.

The Group felt that it was important that there was a clear conduit for the construction sector to engage with the Assembly Government as the built environment offered a significant 'underpinning' role to other sectors and therefore needed to have a means to collate the views of the sector and present them both to the Assembly Government and other bodies. The Group were pleased therefore to have an update on the review of the Built Environment Forum and industry members of the Group were supportive of its potential role going forward, which could provide a means for the built environment sector to engage with the agenda set out in Economic Renewal.

After some discussion, it was proposed that members would feed into the review of the Built Environment Forum through Chris Hughes. It was also proposed that a work stream under the Housing Programme Board would be an appropriate mechanism for taking many the specific issues forward in the first instance. Where appropriate, other fora would be tasked with specific and detailed work, particularly those relating to technical issues.