

Communities and Local Government Committee

Oral evidence: Capacity in the home building industry, HC 46

Monday 6 February 2017

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[Watch the meeting](#)

Members present: Mr Clive Betts (Chair); Rushanara Ali; Bob Blackman; Helen Hayes; Kevin Hollinrake; David Mackintosh; Melanie Onn; Mary Robinson.

Questions 256-350

Witnesses

[I:](#) Sir Edward Lister, Chairman, Homes and Communities Agency; Gordon More, Chief Investment Officer, Homes and Communities Agency; and Ian Piper, Head of Land, Homes and Communities Agency.

[II:](#) Paul Smee, Director General, Council of Mortgage Lenders; Lewis Sidnick, Director of Corporate Affairs, NHBC; and Samantha Fernley, Business Development Executive BLP Consult representing BOPAS.

Examination of witnesses

Witnesses: Sir Edward Lister, Gordon More and Ian Piper.

Chair: Thank you very much indeed for coming to give evidence to the Committee this afternoon. This is our sixth session of our inquiry into the capacity in the home-building industry. I will just ask Committee members to put on record initially any interests they may have that are pertinent to this inquiry. I am a vice-president of the Local Government Association.

David Mackintosh: I am a Northamptonshire county councillor.

Kevin Hollinrake: I employ a councillor in my office.

Helen Hayes: I employ a councillor in my office.

Bob Blackman: I am vice-president of the LGA as well.

Q256 **Chair:** That is our interests on the record. For our record as well, if you could just introduce yourselves, say who you are and your position in the organisation.

Gordon More: I am Gordon More. I am Chief Investment Officer of the Homes and Communities Agency.

Sir Edward Lister: Edward Lister; I am the Chairman of the Homes and Communities Agency.

Ian Piper: Hi, I am Ian Piper. I am the Head of Land and Accelerated Construction.

Q257 **Chair:** Thank you very much for coming this afternoon. I know Sir Edward is no stranger to the Committee; you have been here on several occasions. I think the last time was your confirmation hearing. It is slightly different now you are in post, and, certainly, welcome to the Committee and your new position, and to your two colleagues as well.

Let us ask, first, obviously increasing housing supply is a major challenge. What do you see as the HCA's role in achieving that increase?

Sir Edward Lister: The HCA can fulfil a number of functions on it. The first one is that we now have housing net additionality, up to 190,000, and so the trick going forward is to sustain that year in, year out, in good times and bad times. Where the agency comes in on this is that we can bring more players into the market. At the moment, we are too dependent on a small number of large house-builders and a relatively small number of RSLs who are producing the houses. What we need to do is to sweat all the existing ones, both RSLs and house-builders, but above all we need to bring on board new SMEs, new players, new ways of doing things, modern methods of construction, accelerated commissioning, and other things that will give us greater numbers. That will give us a much more sustainable position going forward.

Q258 **Chair:** That is generally working with house-builders of various kinds to get the supply up. Do you see yourself having a role at the very beginning in just trying to get land ready for development?

Sir Edward Lister: Very much so. We take land that various Government Departments pass to us at book value and we also acquire land, so we have two routes to the land market. In both cases, when we get that land we prepare it, we get planning permission, if that is the right thing to do, and then we bring it forward. We can provide a very useful function in that respect. The second bit we can do is through the Home Building Fund. We can make land that would otherwise be uneconomical, perhaps because of timing, more available. That could be a matter of helping to clean it up because of contamination or it could be the building of infrastructure, and, indeed, we have done a number of schemes recently where we have been the funder of roads. This has enabled large sites to bring forward developers, and then we will recoup our money off the sale of properties over the course of the next few years.

So, yes, we have a big role to play in that and we are doing very well with Government land, but of course it is not only Government land that we need. We need to access local authority land and other agencies that are around.

Q259 **Chair:** We are going to come on to a bit more detail on that in just a second. How far do you see your role as trying to encourage innovation within the house-building industry? I am thinking particularly about modern methods of construction. Is it your job to go out and encourage that or simply to assist when organisations, developers or RSLs come forward with plans of their own that they need support with?

Sir Edward Lister: We obviously have the secondary role, yes, but the first one is the one where we want to do far more and be more of a market maker in that respect. We need to help companies, and a lot of them are out there at the moment looking at modern methods. It is fair to say there is no one standard for any company. It shows my age when I say this, but I always compare it a bit to the VHS and Betamax debate, for those of you who remember all that. It is a bit like that in housing at the moment. Nobody is quite sure which product is going to be the big game-changer, because there are so many of them out there. Our job is to encourage all of them until we can start seeing a pattern, and that encouragement can come in several different ways.

We are talking to some house-builders at the moment about assisting them with land to build factories, because they are very land-hungry, these things. We are talking about equity shares into businesses, if that is the right thing to do. Where we have land and are putting it into the market, we are talking about making modern methods of construction part of the bidding process and part of the scoring process. We are trying to encourage people to come forward with modern methods, so we are doing all of those things. We are also very keen to try to make modern methods acceptable to everybody. It is quite clear when you talk to the house-builders that some of them are very dubious about the future with modern methods; others are really embracing it and are on the journey. We have to get more of them on the journey by one means or another.

Q260 **Kevin Hollinrake:** Why are you doing that? Why would you be picking winners in terms of the method of construction? Is not all that matters that the properties get built at the right speed, the right scale and with the right outcome?

Sir Edward Lister: We are not trying to pick winners, let me stress that, because it is for the market to decide who the winners are. It is for us to try to encourage modern methods. We believe—and I know you have had the Chairman of the Farmer review before you, and that review picks this up—there just is not going to be the labour force out there to deliver the homes we need unless we start taking on board some of these modern methods. Secondly, this is the one way we can speed up production quite dramatically, and that is also for us to encourage, but I

do stress we are not trying to pick the winners, because we do not know who the winner is in this.

Q261 **Kevin Hollinrake:** We heard evidence when we went to Germany and we thought we would hear lots of things about modern methods of construction, but they seem to be in a similar place as we are. It has not proved to be certainly the entire solution, if any of the solution, at this point in time.

Sir Edward Lister: The jury is still out and I accept that. It is just that we all instinctively know that we cannot go on as we are. We have been basically building homes the same way for last 50 years and although there have been some technical advances, there are not that many. There are a lot of new materials being developed at the moment, there are different ways of doing things and we have to encourage that. With an ageing labour force within the building industry, one of the ways we can keep that labour force working longer is in a factory environment, but it is the speed. I fully accept that working with modern methods is not the same as traditional methods. There is the whole problem of follow-on trades, because if you do not get the follow-on trades in the right order and get all the other issues that you have had evidence about sorted out, you lose the benefits of those new technologies. We have to move that forward, so that is what we are trying to do.

Q262 **Rushanara Ali:** Sir Eddie, you will be aware that there are quite a lot of concerns around the management of properties in relation to RSLs that are now being given the green light to do developments. In this Committee as well as in the House, I have raised concerns about what is now called Clarion, used to be Circle and a few other things in between, and the HCA does not have the same sort of powers that we feel are required to deal with these problems early on. To what extent do you think that the push towards more responsibility around development will put at risk the existing housing stock and duty of responsibility of housing associations to make sure that they provide a high-quality service to tenants as well as owner-occupiers who are under their control? These organisations are heavily publicly subsidised. What do you think the HCA should be doing to make sure that the public has reassurance that that is going to happen? There have been a number of high-profile cases where that has not been the case and people's lives have been put at risk in certain circumstances.

Sir Edward Lister: I am fully aware of the situation you are referring to, because of course I worked in City Hall in London for many years, so I was aware of the issues that you are talking about. It is quite important to recognise where we are at the moment in terms of the regulator and our role as the regulator. That of course will be spun off from us into an entirely new body in the relatively near future, and their role is very much about compliance and managing the financial and governance risks of those organisations. The ombudsman is really responsible and is the route for complaints. Of course, before any of it ever reaches that stage it should arise with the local authority and with other people, and people should be aware of it and pressure can be applied. Some of this does

take too long to work through, so I acknowledge there is a problem there, but I do not think changing the regulator is the way of doing it. The regulator at the moment is there and will be called in at the right time.

- Q263 **Rushanara Ali:** It has not been, though. You will be aware that that has not been the case. Do you think that the ombudsman is toothless? Should the ombudsman have more power to deal with the quality of services to existing tenants? It is not just in my constituency; there are issues up and down the country. I am a supporter of more house-building, and particularly for RSLs to have a stronger role, but surely it would be undermining of the case if they could not manage the existing stock and the needs of existing residents.

Sir Edward Lister: I hope you will forgive me saying this, but the regulator's role is very much on finance and governance of those bodies.

- Q264 **Rushanara Ali:** I know, but I am asking the question whether it should be beyond that, because finance and governance are not enough in terms of giving the public confidence that that finance and governance are being used effectively to address public need and it is taxpayers' money that is being used to provide that service.

Sir Edward Lister: The position at the moment is that the ombudsman has been the route for complaints, and I think that is probably right: they should be the route for complaints. If anything needs strengthening, it is in that area, not within the HCA. We should stick firmly into the financial and the governance area.

- Q265 **Rushanara Ali:** You would support the need to strengthen the ombudsman's role, given the failures, would you not, otherwise it falls between two stools and it undermines the wider discussion area that we are focused on?

Sir Edward Lister: The ombudsman must be the route, because it is not just a matter of RSLs; it is also, to some extent, a matter of local authorities as well or, indeed, any other provider of housing. If they are providing substandard service, then pressure has to be applied and that should be the route. Once something has been identified, then that is where we can come in and look at other ways of strengthening the arrangements.

Rushanara Ali: Yes, and I am grateful to your agency and your staff for the help that they have given me.

Sir Edward Lister: Yes, I was going to say: I think we have met with you, have we not, to try to sort this out?

Rushanara Ali: Yes.

- Q266 **Mary Robinson:** Sir Edward, you mentioned earlier the difficulties of getting the big builders to take on modern methods of construction. Very often, modern methods of construction are equated to off-site build, but there are other methods. In my constituency, Wienerberger produces

Porotherm bricks, which are very quick and easy to build with and can slash the construction time. Are there any avenues through which you could be pushing for these modern methods and other methods of construction simply on the fact that they are good and they lead to quick build-outs?

Sir Edward Lister: Can I just clarify one thing? I was not saying that all developers are holding back on it, because that is not the case. Some are really racing forward very quickly, but it is a mixture. What we can do to try to encourage that is become a centre of expertise as well. Ian's job—I hope he does not mind me saying this—is about to split in two, because we are bringing in a director of accelerated commissioning. As part of that role, we also want to staff up and become much stronger on modern methods, because we feel we are probably the right people. We are handling land; we are handling money; we can encourage this. You are absolutely right. There are so many different ways. What we are trying not to do is specify what we think is the answer; we just recognise there are lots of different things, but we can be the source of information and of encouragement.

Q267 **Mary Robinson:** Is there a job to be done also in affecting the way people's mindsets are around alternative methods of construction?

Sir Edward Lister: Yes, there is. We have to sell this. We do not only have to sell this into the construction industry; we have to sell it to planners, to mortgage providers and to everybody. We have to get everybody's support, but it must be the way forward. We did 190,000 last year, which was great, but we have to do that every year and this is one of the ways we can do it. Many of the modern methods that have been used are producing homes that are, in many ways, more sustainable and better built. There are all sorts of advantages and we have to sell those advantages.

Q268 **Mary Robinson:** Can you do anything to really affect the demand then, so that people are wanting houses made in a particular way? Is that outwith your remit?

Sir Edward Lister: No, I think we can, because it is also about speed and, ultimately, speed is about price. I would never claim that we could ever bring prices down—that would be too ambitious—but we can claim that this is one of the ways we can at least keep prices stable, because it does reduce the cost base. The trouble is we are still in the early days of this whole system and because we are in the early days, we do not have a clear picture yet, but we are confident.

Q269 **Chair:** You mentioned a few minutes ago the VHS/Betamax choice that was made. I will not ask you which one you bought, but clearly one went on to succeed and one did not. Is one of the concerns over modern methods of construction not that you can think back to the timber frame problems of the 1980s, or there are several hundred homes in my constituency that have just been demolished that were built in the 1970s—Vic Hallam; 5M houses; you can go back to Shepherd Construction, where they lasted 20 years, a block in Sheffield and a block

in Leeds, before they were demolished because they failed. Are people right to be a bit wary, and is the HCA going to stand behind these and say, "Yes, we think that system is good. We are prepared to put our resources behind it?" Are you picking winners to the degree that you are going to put your stamp of approval on them?

Sir Edward Lister: We have to be sure about quality. That is the key to this.

Ian Piper: We would probably more rely on the industry accreditation systems that have been developed, like BOPAS, which are specific for off-site manufacturing and modern methods and techniques. I do not think we would develop our own accreditation system, but we would expect the techniques that are used on the sites that we dispose of to have that sort of accreditation, and of course there is the mortgageability aspect as well, which Sir Eddie mentioned earlier, which is important.

Q270 **Chair:** Do you have any liability if things go wrong? If a developer builds using modern methods of development, they are an RSL, so you are effectively having oversight of their financial stability, you have given the green light to a development and it all goes wrong, where do you stand on that?

Sir Edward Lister: Only in the same way that traditional building methods sometimes go wrong as well. These things do happen. What we are relying on is we have the certification, which is out there for all new buildings and is expected by the mortgage companies, so that would still be in place.

Q271 **Chair:** Just coming on to local authorities and housing associations, do you see them being able to play a role in increasing output? Should they be doing it by themselves or should they be looking to do joint ventures with private companies as well?

Sir Edward Lister: We did a count up and—I am looking at my colleague, Gordon, just to double check this—we have identified 160 local authority-based companies that have come into being, and we cannot fund directly a local authority but we can fund a local authority company. I do not mean to be splitting hairs but there is a difference between the two. We do get involved with those. We are in active discussion with a number at the moment, to fund schemes with them. It is still early days and everybody is still finding their feet, but that is a route and we are quite keen to encourage it, because local authority companies working alongside the RSLs and normal developers just increases the numbers that can be produced.

We are also quite keen on joint ventures of varying kinds. We particularly like joint ventures because they ensure that we can bring equity from other sources plus our own equity or land or whatever it is that we are bringing to the table, plus the local authority's land. That is quite an exciting way forward and there are a number of joint venture companies that are coming into being as well and, again, we are involved with those.

Q272 **Chair:** Some of the evidence we had from developers was that that is all all right in theory, but in practice local authorities do not have the skills to make these work.

Gordon More: When you see some of them bringing together, particularly with some of the private sector, you are seeing they are bringing some of that expertise in. Certainly in the conversations we are having, we look at the skills they have as well as the land and other capacity, so I think that is changing as we go forward.

Sir Edward Lister: One of the great advantages when you do get a local authority combining with a developer is that is quite a powerful entity that comes into being. You have the market discipline from the one side, and knowledge of the market, plus you have the local authority with land resources and it becomes quite a strong entity.

Q273 **Bob Blackman:** Moving on to land use, there is lots of conjecture still going on over the amount of greenfield development that will be required versus brownfield development. In your view and from the agency's perspective, is there sufficient brownfield land to build the amount and quantity of housing that is required in this country?

Sir Edward Lister: The trouble is this is rather a sweeping statement. If you look across the country, there are some parts where we have absolutely enormous quantities of brownfield land, and others where there is less of it. Generally speaking, we think we can do most of what we need to do without going on to greenfield land. A lot of the land that we are involved with is ex-military sites, which by definition are brownfield land, even though they might look quite green.

Bob Blackman: Yes, but it is protecting the green belt.

Sir Edward Lister: We do not feel that it is for us to make the arguments to build on green belt or not. We think that is for a local authority and it is very much their decision what they do on that. For us, the land that we are working on is land that can be brought forward relatively quickly and that, by definition, has to be brownfield land, because that is a much quicker route to market.

Q274 **Bob Blackman:** Given your targets and given the emphasis that the Government are obviously placing on you, is there sufficient brownfield land for you to achieve those targets?

Sir Edward Lister: In general, yes, there is, but it will vary in different parts of the country. I am sure someone will point out exceptions and there have been a couple of quite big green-belt reviews recently—Birmingham is probably the largest one I can think of—where these big reviews have taken place and there they have been necessary. In other parts, we have quite a lot of brownfield that we are involved with.

Q275 **Bob Blackman:** Okay. In terms of your decision-making over infrastructure, how do you make decisions over what infrastructure is required and what the priority is in bringing forward that infrastructure? Clearly, often that can be the difference between a developer saying,

"This site is viable," or not, but who is making those decisions and why?

Sir Edward Lister: It starts off that we like to see sites around transport nodes and locations that are already well served. That is the starting point, and there are a lot of those around. It would be wrong to assume that we have necessarily exhausted all of that; there is a lot of opportunity there. As we move away from that, yes, it is often our money that is needed to make a site viable. We do not really have a lot of grant; most of our money is capital. We need to recover that, but we can recover it over relatively long timescales. We can recover it as a site is built out and that is why we do get involved, as I said earlier, with a lot of road building or funding roads. There is nothing we cannot get involved with. We can get involved, if it is the right thing, with flood defences and with cleaning up land. It is whatever is needed to do it, provided it makes financial sense and there is a route of recovery of those costs.

Q276 **Bob Blackman:** Is there a viability test for each site, or how do you go about that?

Ian Piper: I can speak for how we deal with it on our existing land. Gordon deals with the investment side, where we are supporting third parties. In terms of our land, we definitely do look at it on a return-on-investment basis. The return that we can get can either be a financial one, so we will get a higher land receipt as a result of the infrastructure we put in, or it might be that we are getting a return in terms of acceleration of housing delivery. If we take the view that, by us putting that infrastructure in, the homes will get delivered much more quickly, then we take that into account in terms of our assessment.

Gordon More: On the funding side, we will work with the developer on the project appraisal. In the end, this is going to get back from selling houses and/or selling plots for houses, and we go through the appraisal and we will sensitise it. Importantly, we are looking for acceleration, generally, as well, so if we are adding additional infrastructure, turning out a lot more houses more quickly, we will operate on that. That is very powerful and we are finding that a number of borrowers are coming to us saying we can unlock the land much quicker. We cannot access long-term funding, and I have some examples that, say, instead of going at 200 or 300 units per annum, you can extend it to 400 or 500 if you can operate from a number of different openings on the site.

Sir Edward Lister: As an example—and I am happy to give the Chair the name of the site, but there is a degree of commercial confidentiality—there is a particular site with one developer where they had three developers at one end of it. In order to open up the other end of the site, we needed to put a road through, which was about £20 million of construction cost. That immediately opened up the other end, which means they can then bring in another three developers, which of course doubles production. For us, it makes absolute sense to put that infrastructure in. The developer would have built it eventually, but not necessarily at this stage. They would have built it later on, as their

absorption rates made it justifiable financially, but we can fund it and then we are basically taking the money back in the form of, crudely, a roof tax. Every house built we are taking a certain amount of money back against our loan and, therefore, over the next 20-odd years we will recover the cost of that road. We have done several of these now.

Q277 Bob Blackman: Okay. Moving on to the development of housing on sites, the National Audit Office reported, last year, 8,580 homes disposed of against the target of 160,000 by 2020. What are you doing to increase the supply of Government-owned land and bring it forward for disposal? It appears as though the ideas are good, but the practicality is that it is progressing slower than everyone would like.

Ian Piper: That particular issue that was highlighted by the NAO is one of the main drivers for the Accelerated Construction initiative, which at its heart is seeking to get more houses built more quickly on public land. That is land that we own, the land that will transfer to us from other Government Departments and, we hope, land from local authorities. The Government launched the Accelerated Construction initiative in the autumn, with the aim of getting 15,000 homes started on that land by the end of the Parliament.

Q278 Bob Blackman: Are there any, shall we say, reluctant Departments that are not bringing forward the land that they should be doing?

Ian Piper: No, I would not say that at all.

Bob Blackman: This Committee has found a number of reluctant Departments on many other aspects.

Ian Piper: We are now receiving land from all the big Departments. We are getting a number from the MOD, from DfT, from DH as well, so we are seeing that flow of sites being transferred to us increasing.

Q279 Bob Blackman: Therefore, we can expect, in the next year, to see quite an increase in the disposal of that land for development. Is that fair?

Ian Piper: That is fair. Obviously, once we get the land, we are spending money investing in it, perhaps putting infrastructure in, getting the planning sorted out and so on, with the aim of achieving the Government's target.

Sir Edward Lister: Of course, originally, we were just disposing of that land for housing and that was the end of it. Now, with accelerated commissioning, we are having to look again at that land and see if it is suitable for us to use the accelerated commissioning model on it. In some cases, we will be commissioning the building work rather than just disposing of it to a developer to build out. It is about where we are and whether the market is right for us to do that, and that must depend on each individual site.

Q280 Bob Blackman: Obviously, the Government announced five direct commissioning sites last year. What is the progress on those sites? I am very familiar with one of them, but the other four I am not so familiar

with. I just wonder what the progress has been and what is going to happen.

Sir Edward Lister: We have gone a little slower than we would have liked. One of the challenges to us is we have to speed up. On the first one, we have been through the whole tendering process. We learnt a lot from that tendering process and have now completed that, and the order, if it is not already placed, will be placed within the next few days with the successful company. We have a second one that is well on the way to completion and the others are all further behind that. We need to go well north of the five sites to achieve our numbers, but the model is basically us asking for three prices from a potential bidder: we ask them for the land price, an overage price, and then we ask for an underwrite price. The underwrite price is if you cannot sell these properties and you must build them out within this timeline—and we set the timeline—we will buy them off you. That is the figure and that is probably the most controversial part of this bidding process at the moment. It is that underwrite price that we think, potentially, is going to drive quite large numbers.

Q281 **Bob Blackman:** Clearly, as you are driving forward with these, a lot of local authorities, particularly in London, which you will be well aware of, have a number of small sites, which could be brought into operation, but there is often an infrastructure problem in terms of access. Are you getting involved in discussions with those types of projects?

Sir Edward Lister: We are outside London, but not inside London. Inside London that is all with the Mayor, but outside London, yes, we are. We are getting involved in two ways. First, we are getting involved with SMEs, because we are encouraging SMEs to buy some of the smaller sites and that is very much done with local authorities. Secondly, we are working with local authorities on the bigger ones as well and, in some cases, we are actively discussing possible joint ventures between us and that local authority.

Q282 **Kevin Hollinrake:** Just to clarify your point earlier, I think you said that you felt there was enough brownfield land in the country on which to build all the houses we need to hit our housing targets. I just want to understand the distinction between greenfield and green belt, which is what I think Mr Blackman asked you. Most sites in the country, outside London, are built on greenfield as opposed to green belt. I just want to clarify that.

Sir Edward Lister: What I was saying is there are large amounts of brownfield land, but not necessarily in the right places. The definition of brownfield as well one has to be careful with, because some of the sites that we are involved with are fairly green, to be blunt, but they are technically brownfield sites. There is quite a lot, but not always in the right places. That is one of our issues and that is where the local authority has to bring forward land by whatever other means it has to bring forward.

Q283 **Kevin Hollinrake:** Putting green belt to one side, do you accept that a

lot of the development to hit our housing numbers of a couple of hundred thousand houses a year will have to go on greenfield sites?

Sir Edward Lister: Yes.

- Q284 **Kevin Hollinrake:** In terms of delivery and releasing public sector land, one of the SME developers we heard evidence from talked about a site that he was buying from the fire authority in my constituency. It had taken two years to buy this site and it was incredibly frustrating. If we look at the HCA as being a delivery arm for a large corporation and you were responsible for getting that land out and developed, you would not have wanted that land to take two years to be sold to that SME builder. How can we expedite that?

Sir Edward Lister: This is one of the strengths that we can bring. Yes, we have some land, which we have been sitting on for a long time, but the land we are sitting on, if you will excuse me saying so, has problems on it and, therefore, there are reasons why. We took over a number of collieries and other sites, which are not easy to bring to market, but on most sites we do have the expertise to move that site quickly into the marketplace by one means or another. Ian's team deals with the major sites and our area offices deal with the smaller sites, but we do have that expertise and, in many ways, it would be quite useful if people used us to do that. We can then either pay them their book value plus overage or whatever negotiation is appropriate.

- Q285 **Kevin Hollinrake:** How do we clear the blockage, though, like that small site from the fire authority? It should not take two years to divest themselves of that land. It should have been six months and on to get it developed, should it not? How do we make that quicker?

Ian Piper: We conducted quite a thorough review of our land disposal practices last year. We spoke to industry bodies from the larger builders and the smaller builders, and it was quite clear that the smaller builders like to receive land and access land in a different way from the bigger builders. We then developed a policy and put it in place where sites of fewer than 50 units or thereabouts, which the smaller builders would be attracted to, we sell freehold. We will get outline planning permission, because they often find it difficult to finance the gaining of the outline planning permission so we do that, but we dispose of it in a very fast-track way with less of the complexity that we might use with a larger site. We responded directly to what those small house-builders were telling us.

- Q286 **Kevin Hollinrake:** I can tell my developer, then, that what he sees going forward might be totally different from what he has experienced in the past?

Ian Piper: Certainly from the HCA. Obviously, I cannot speak for the fire authority's processes, but certainly in terms of our processes, we changed them so that those smaller sites go into the market very rapidly.

- Q287 **Kevin Hollinrake:** I guess we are looking to you to make sure the fire authority does not take two years in future. Is there a lack of joint

thinking between the two Departments? It is what the Chair asked earlier, really.

Ian Piper: We can take that site from the fire authority. They can transfer it to us and we will then do the disposal, using the processes that we have developed, or we can certainly assist them with our documentation and our processes and our expertise within our local teams, to help them get that site to the market more quickly.

Q288 **Kevin Hollinrake:** If they do not ask you in, though, and you do not know anything about it, you cannot help?

Ian Piper: Yes.

Sir Edward Lister: Could I add that we have been through the *OJEU* process? We have long lists of developers that have been through that, so you can short-circuit a lot of the bidding processes by taking companies off our lists to go out there and get bids.

Ian Piper: Our frameworks are available to the fire authorities and other local authorities to use.

Q289 **Kevin Hollinrake:** Just moving on to the finance aspects, it might be Mr More who would help us with this. Looking at the Build to Rent Fund, we have heard some evidence that it has created not necessarily extra properties being built, but a migration from properties that would have been built for sale to properties that have been built to rent. Is that your understanding or do you feel there has been a net increase?

Gordon More: My own belief is it is a net increase, in that there are properties for sale in the locations that we have been funding, and for rent. I believe that that programme has been successful in a number of ways. By the Government stepping up with a couple of investment products, it has encouraged other commercial lenders into it and has increased and proven the funding of the PRS and build-to-rent sector.

Q290 **Kevin Hollinrake:** Do you think we should increase funds in that direction?

Gordon More: I could move on a little as to why we have set up something called the Home Building Fund. Our development communities and the SMEs, in particular, were finding it confusing, as Government produced a number of different products that had different entry points, bidding rounds and so on. We sat back and looked with the various industry bodies—the HBF, FMB, clients, people who would have become clients but did not find we were that easy to access—and came up with what we thought was a programme together that was more accessible to them, more flexible and, we hope, simplified in its application and usage. Some of the evidence I have read from previous Committees was that it had not been and we hope to learn from that.

Q291 **Kevin Hollinrake:** I was going to come on to the Home Building Fund. One of our witnesses talked about the Builders Finance Fund, which predates this, and they said they almost got to the stage of being able to

drawdown, but because the process to get to that stage took so long they had finished the development. They said it was too complicated and required their equity going first, and I think your moneys come out first too.

Gordon More: Yes. First, the fact that he was able to fund it through his existing resources is good, so the houses were built. I do agree with him, because I have joined and I have looked at some of the processes we had. They were not as straightforward as they could have been, so we have increased our capacity. We have brought in some people with more development expertise and funding expertise, so that we can accelerate through and drive the provision of lending to these companies that need it quicker. We have to remember we are funding clients and, generally, SMEs that cannot access bank funding. It is higher-risk and we are managing public money, so we need to ensure that we are doing the appropriate level of diligence, as best we can, to ensure recovery of the money for the Treasury.

Sir Edward Lister: I will just add one bit to that; perhaps I should have said this at the beginning. One of the things that we have done that is so different is that, following our reorganisation and when we have recruited them all, we will have, within Gordon's HCA, which is the investment side of the HCA, close on 100 people within that sector. This is a mixture of banking expertise—we employ quite a lot of bankers—and also people from the development industry. We have really changed our expertise so that we are in a much better place and we have learnt from those programmes. One of the most interesting things about the Government's Help to Buy scheme—one of the reasons it is so successful—is that everybody understands it. When you look at other programmes, they are so complicated nobody can quite get their head around them. We have tried to learn the lessons of that and the Home Building Fund is similar. The starting point to the Home Building Fund is a telephone call and you cannot really make things much simpler to start the process off.

Q292 **Kevin Hollinrake:** On that subject about demand, I speak to a lot of SME developers who say they do not want to even touch borrowing, because they think the answer is going to be no. When you look at what might be considered borrowing from the public sector, if they were going to borrow they would rather borrow from a high street bank. I know you have high street banking experience. Do you think there is sufficient demand for the funds you have available in the Home Building Fund?

Gordon More: We have been bowled over with the demand. We launched this in early October; we have had over 1,000 enquiries, 90% from SMEs, and we are working very hard to go through all their proposals and applications. There is clearly demand there. High street banks tend to fund at 60% to 65% of cost; we are doing more than that. One of the questions we ask them is, "Can you obtain commercial funding?" and if the answer is yes, Government should not necessarily be funding them. There is big demand from people who cannot get what they consider commercial funding out of the commercial organisations. One of the things we are trying to do is to give people a track record so

that they can, in future, access funding from more normal commercial channels.

- Q293 **Kevin Hollinrake:** Just back to the land point about the fire authority having it here and you having access to certain funds now, is the London Land Commission different? Are they not trying to join all this together and have a much more holistic view of public land? Should we not replicate that in other parts of the country?

Ian Piper: The One Public Estate initiative does a lot of that work, where public body landowners come together and look at the efficiency of public land use, whether it is operational or non-operational, and we certainly take part in a lot of those. Property boards have been set up and One Public Estate boards. How public land is used in a place is very important and to get that co-ordinated is the aim of that initiative and we certainly play our full role in those.

Chair: You do not look completely convinced.

- Q294 **Kevin Hollinrake:** It is just that it does not seem to be coming out of the public sector that easily and unless you have one body that is responsible for all this, and I do not know too much about the London Land Commission, but it sounds to me as if you have somebody who is trying to identify and make sure it does go down the development pipeline as quickly as possible. From my experience with my little fire station in Easingwold, it does not seem to be that has been the case and I wonder how we do that more effectively.

Sir Edward Lister: We have been talking with some of the other cities about duplication of the London Land Commission—in Manchester in particular, where they have been looking at something similar. That is a route we can go down, but we are operating all over the country and, to some extent, we have access to Government land; the other part of the question is the local authority land or land held by other people. It is how to look at that in a way that we can add value to each other, if we have a site next door to a local authority site and so on. That is the advantage of the London Land Commission, and that is the sort of thing we try to do on a local level, but we do not have the formal structures that they have in London.

- Q295 **Kevin Hollinrake:** Okay, so that might be something you would recommend might be rolled out to other parts of the country?

Sir Edward Lister: Yes, but it has to be done on a fairly local basis. It cannot be done nationally.

- Q296 **Mary Robinson:** You work with the volume house-builders and the SMEs. Increasingly, there are a lot of people who are inspired to go out there and build their own home or work with a custom builder. Is there anything more you can do to support them—the self-builders, the custom builders?

Sir Edward Lister: The custom-build programme is doing relatively well. From the last set of numbers I looked at, it is running at about 12,000 a

year and there are about 20,000 people on the waiting list for schemes, so there is quite a bit of demand. We, ourselves, have used some of our own resources to encourage some custom-build work. I think we can provide some additionality in this area. Where we can do most is, where we have a large site and we already have one or two of the traditional house-builders working there—or RSLs, it does not really matter who—we can parcel off a little bit of that site for a custom house-builder. It becomes real additionality at that point, and we can do that by encouraging people to do it. In fact, we did one up in Doncaster, where we have one developer doing, if you like, traditional market sale homes, another one doing slightly more upmarket ones and then we have a custom house-builder as well. All three of them are on the site and that creates the right kind of diversity and market choice. That is the sort of thing we can do more of, just to encourage it.

Q297 **Mary Robinson:** Is self-build something that is easy for you to encourage, or is it a demand-led enterprise?

Sir Edward Lister: It is all part almost of the same thing. It is similar; it is just difficult to manage it. We need to have an organisation to work with. If we have an organisation to work with, these things are all possible, but that is very much more small groups of people and it is much harder for us.

Q298 **Mary Robinson:** Some £150 million was put into the catchily titled Custom Build Serviced Plots Loan Fund. How successful has that been?

Sir Edward Lister: I am going to ask my colleague who manages that fund to answer.

Gordon More: Not as successful as it might have been. We have funded two schemes, but, as I said earlier, we have taken all of our programmes and put them together into this overarching fund. We have had quite a lot of enquiries. I mentioned that we had 1,000 enquiries in general, but we have had almost 40 enquiries specifically for custom-build. A lot of these we are looking to take forward—350 units, another £23 million—so there is demand out there. Of the ones we have funded, one that I would point out, French Fields in St Helens, has been very successful, but they tend to be quite small. This is 18 serviced plots, seven are built, and all of them are sold. It takes time and, culturally, it is not something this country has done as much of as some other parts of the world. It will take some time to develop and we need to support it. I have identified one of the team within HCA who is going to focus primarily on custom-build and self-build, because we see it as important to increase the diversification of capacity and supply in the sector.

Q299 **Mary Robinson:** Are there any other obstacles that are in place?

Gordon More: There is an awareness point. Mortgage funding is an issue. You might hear a little more about that later, but for mainstream banks at the moment it is not a big enough sector for them to provide a product into. There are a number of challenges until we get scale and we

just have to keep encouraging and bringing it to the forefront until it becomes a little bit more mainstream.

Q300 **Mary Robinson:** Funding really can drive things forward. To what extent has the Help to Buy equity fund done that and driven forward demand?

Gordon More: I do not have any stats on the Help to Buy equity fund going into custom and self-build. The Help to Buy equity fund, as we know, is a simple product and is very successful. I do not have any stats on how much of it has gone into custom or self-build. I would be surprised if it is very much.

Q301 **Mary Robinson:** Generally speaking, excluding self-build, has it been successful in the round?

Gordon More: Yes, very much so. I have read some of the previous evidence transcripts and a lot of the big builders find it very useful, but 1,200 developers, SMEs and builders have signed up to this on their sites and it is proving very popular for home ownership.

Sir Edward Lister: One statistic that might be helpful is, between April 2013 and September 2016, 100,000 households have been able to purchase their own homes through Help to Buy, so that is clearly saying it is having a real effect in the market.

Q302 **Mary Robinson:** In terms of the people who are taking advantage of this, is it helping people who would not otherwise be able to afford it to get on to the ladder, or is it helping people who could afford it by other means and are using it anyway?

Sir Edward Lister: Our experience has been that it is people for whom probably this is the difference between them being able to purchase it or not: 20% of a property, in some parts of the country £250,000, is the difference between you being able to get it or not get it. We believe very strongly that without it we would not have had the successes we have had. There is no doubt about it: in some parts of the country it is very much an essential part of the housing delivery on a lot of sites, particularly at the bottom end of the price range. It is there where it is having a real effect.

Q303 **Mary Robinson:** It is having an effect on the bottom rung of the price range, but are there people who are skipping that bottom rung and just buying a more expensive home, one that they would not normally be able to afford, perhaps?

Sir Edward Lister: I do not know if we would ever know the answer to that. I am sure there is some of that—there must be—but we just do not know. Is it creating activity and did it do what it was supposed to do on the tin after 2008, when it was brought in? “Yes” is the answer. It has certainly been a major boost to the house building industry, and we are seeing that now with our take-up rates; they are higher than they have ever been.

Q304 **Chair:** Just one thing about the custom-build, or self-contracting is another way of describing it: it is almost as though everybody is waiting for somebody else to do something and something to happen. In the last Parliament, Bob Blackman and I were part of the Committee visit to Almere in the Netherlands. There it is a public body—the local council—that gets a site, services the whole site, divides it into plots, sells the plots off to an individual who buys them and contracts to put their own property on it. Why does the HCA not do something like that, rather than waiting for somebody else to step up to the plate?

Sir Edward Lister: That is a good question. We have tended to deal with companies rather than individuals. I suppose the biggest problem for us in this area is you are dealing with very small numbers of units, while we are geared up for fairly large sites.

Q305 **Chair:** At Almere, there are hundreds of homes on the site.

Sir Edward Lister: I cannot comment on that one, but generally they have been small sites, and 20 units has been the most we have seen.

Chair: No, these are big sites in the Netherlands.

Sir Edward Lister: Certainly that is something we could look at. As Gordon said, we have somebody within his team now designated for this, to try to drive this forward, because we have to give it more focus. We have not given it enough focus and I freely admit that, and we can certainly look at schemes like that, but we are going to have to think very differently. Sorry, I am now saying we are going to have to do what we are trying to persuade all sorts of developers to do: think in a very different way about bringing these sites forward. We will take that one away.

Q306 **Helen Hayes:** We are all waiting on tenterhooks for the publication of the Housing White Paper tomorrow, or at least the parts of it that were not briefed to the press over the weekend, to find out what is going to be in it. What would you like to see in the Housing White Paper?

Sir Edward Lister: Anything that encourages land to be brought forward would be welcome, and anything that speeds up the whole planning process. One of the problems we have is about pace and that is the key issue. Anything that speeds things up we would welcome and we have to speed up as well. I am not saying that we are perfect, but all of us have to speed up otherwise we are not going to get the numbers that we need.

Q307 **Helen Hayes:** Were you consulted on the content of the Housing White Paper?

Sir Edward Lister: We have had some consultation, yes, and members of the HCA have fed ideas in to DCLG.

Q308 **Chair:** What about flexibility of tenure on different sites?

Sir Edward Lister: Chair, you and I have had several conversations about this. The thing we have to do, and I come back to the pace thing, is we need to bring forward as many homes as we can as quickly as we

can. The most important thing, certainly as I see it and the HCA sees it, is we want a mix of tenures on sites and being keen on a mix of tenures on sites, and that is what we have been encouraging.

Chair: Thank you very much, Sir Edward, for coming with your colleagues to give evidence to us this afternoon.

Examination of witnesses

Witnesses: Paul Smee, Lewis Sidnick, and Samantha Fernley.

Q309 **Chair:** Thank you for joining us this afternoon as our second panel. Could you just go around the table and say who you are and the organisation you represent, please?

Lewis Sidnick: I am Lewis Sidnick from the National House Building Council. I am here on behalf of Mark Jones, who was due to attend but, unfortunately, due to a family illness, could not come today.

Samantha Fernley: I am Samantha Fernley from BLP, representing BOPAS, which is the Buildoffsite Property Assurance Scheme.

Paul Smee: Paul Smee, Director General of the Council of Mortgage Lenders.

Q310 **David Mackintosh:** I would like to ask what you think are the different roles of providers such as the NHBC and also the Buildoffsite Property Assurance Scheme and why they are important to lenders.

Lewis Sidnick: From NHBC, our role is to work within the UK housing industry to support house-builders to build high-quality new homes. We provide our Buildmark 10-year policy to about 1.6 million homeowners across the UK.

On offsite construction, we support MMC in innovative technologies and we have worked for decades to try to support the industry to develop these technologies, and we remain supportive today.

Samantha Fernley: I represent BOPAS, which has been established since 2013 and is a joint venture between Buildoffsite, Lloyd's Register and BLP Insurance, who are also in the warranty market. We all have a long pedigree. Lloyd's goes back 300 years and BLP goes back to the 1990s, with the old HAPM scheme, on offsite construction and understanding the technology behind it. We have a well-matured maintenance and durability assessment that joins with the Lloyd's process accreditation. That comes together to form BOPAS and gives lenders assurance that systems will have durability for a minimum of 60 years.

Paul Smee: Typically, lenders are concerned about durability over this 60-year time horizon. They also want to have some assurance that the

property will be saleable, which leads to questions about its adaptability and the ability to repair it. Clearly, lenders have to draw on the experience of others such as BOPAS and NHBC who have experience in this area. They will also be talking to the valuers, conveyancers and other parts of the housing chain.

Q311 David Mackintosh: Does the quality of a warranty vary according to provider?

Lewis Sidnick: From NHBC's perspective, we provide a world-leading warranty. We have been operating since 1936 and we are proud that our warranty system and our quality management system are studied and replicated around the world. We are an independent organisations and non-profit distributing, which means that we would reinvest money to support the industry to build high-quality new homes and protect consumers. We have got a strong record.

Q312 David Mackintosh: Mr Smees, do mortgage lenders view all warranties as equal?

Paul Smees: There are clearly warranty providers who have specialities in particular areas. NHBC covers much of the ground. In some of the more innovative forms of construction there will be others who have a particular specialism. Lenders become aware of where specialisms lie and, more to the point, become aware of any warranty provider who is falling short. That would certainly be very quickly understood by the industry.

Q313 David Mackintosh: Should warranty insurance on new homes be standardised?

Paul Smees: There is a really interesting opportunity to come up with some form of accreditation scheme, particularly around modern methods of construction. I am not saying it will come from a single provider, but it would help grow the market and help lenders lend into the market with confidence if there was a form of accreditation. The lending industry has a part to play in trying to draw together that type of approach, building on very successful foundations, which bodies such as BOPAS have already put in place.

Samantha Fernley: At the moment it is very fragmented across the industry. We are quite forward-thinking. We saw the offsite revolution coming. It is coming quite fast now and we stepped up to the plate to put something together with the history we had, looking at offsite and going back to pre-fabricated methods in the 1970s and 1980s, and we pulled this together. At the moment, it is fragmented. The warranty providers do not talk to each other; we would like to but do not do it enough. Every mortgage lender has their own view. We are all doing individual work to push this forward but something needs to bring it together. We almost need a Kitemark or something that encompasses it, to give more faith to the lenders.

Lewis Sidnick: In terms of bringing it together, just this week something happened that is relevant to this point. We are launching our online MMC hub, which aims to very much do that and provide a portal across the industry to support modern methods of construction.

- Q314 **Mary Robinson:** The relationship that you have identified between mortgage lenders and the assurance that the warranties are going to be robust enough is interesting. In other words, is the build right? What is the view that is taken on that? To what extent are you working together within the industry to get the Kitemark assurance or some method by which you would be able to agree a standardised view? Otherwise it would simply be going to one mortgage lender who will take a risk and another one who thinks that this construction method is sound.

Samantha Fernley: Doing it this way, we have so many different systems and so many different approval mechanisms and various different warranty providers. There are more and more coming in to the market. It is very hard to know where to begin to bring it together and to get the key players round a table to work out a strategy.

Paul Smees: What has happened to date with the offsite construction is that it has been a bit of a—I was going to say “cottage industry”; that is probably the wrong analogy. It has been very fragmented. We are now seeing, first, a lot more will for it to happen. Secondly, if the leaks about the White Paper are correct, there is official endorsement that this is going to contribute towards the house-building targets in the United Kingdom. That should provide a catalyst for further discussion between the various participants, including the lending community, about how we can get confidence in the new methods that come forward and particularly about exchange of data. One of the areas that we will be exploring at CML is how lenders can share data among themselves about their offsite experience because that will give more confidence and will encourage growth in the market. There are other obstacles as well, but that will be a very important one to get over.

- Q315 **Chair:** On the issue of warranties again, and having confidence in the providers of those, is there a danger that anyone can provide a warranty, and therefore some companies may be offering one that is at slightly less cost to the developers? Are you concerned when you see the warranty of certain providers that you may be unsure about?

Paul Smees: It is not an issue that lenders have highlighted to me as a problem at the moment. If you see a raft of warranty providers emerging, you would want to test their bona fides, clearly. However, there are some clear market leaders and some clear standards that are available within the market, which is what lenders will evaluate.

Lewis Sidnick: What we would say to home-buyers, buying a newly built home, is that we hope they take some reassurance that NHBC have been in the market for 80 years, since 1936. We are established, we are proven and we have got a very strong reputation. We work with other organisations around the world to help them set up their own warranty

programmes that are perhaps not at the level of the UK. I hope that our length of service and the fact that we have stood the test of time are of some reassurance to homeowners buying a new home through the NHBC scheme.

Q316 Rushanara Ali: Is there a difference in the quality of build between SMEs and volume builders, in your view? Who would like to kick off?

Samantha Fernley: Perhaps the NHBC are better to speak for the volume house-builders. With some of the smaller branch providers and the SME market, there is some volume but a different type of volume. Some of them might be more high-rise. NHBC may be more to do with Taylor Wimpey or Barratt on greenfield sites. I have worked in the warranty industry for 15 years, and I do not think you can do a blanket answer to that because the volume house-builders are very well run. They know what they are doing at 4 o'clock on a Friday afternoon. It is all a very well-oiled machine. However, for some of the small and medium it is their bread and butter, their family business and cottage industries. They really care, so from a claims perspective and whatever else perspective, it is very hard to quantify.

Q317 Rushanara Ali: Can I just draw your attention to some examples that I have come across? Redrow, for instance, had a rather high-profile development in my constituency in One Commercial Street, just above Aldgate East station. The level of quality is very different. They had "poor doors" for social housing tenants and shared ownership buyers, and separate entries for the wealthy purchasers. There were demonstrations outside. The marketing was despicable. It was well documented in *The Guardian*.

How concerned are you about that sort of trend in development and different quality of provision? This includes the quality of the lifts, for instance, and what some developers are producing. There is real concern that some of these are cowboy developers, who are waltzing into communities without really thinking through quality versus their own profit motive and the way they treat the different kinds of purchaser and occupiers. Do you have some reflection on those kinds of developer and what should be done to contain their behaviour and negative practices?

Lewis Sidnick: I cannot talk about the specific case.

Q318 Rushanara Ali: That is just one example. I have many others in my constituency, and up and down the country there are others that are out of control. There are others trying to get permission and we are blocking planning permission where we see that that is the trend. In the local authority and elsewhere—colleagues will have concerns—we are very concerned that there is a tide of that kind of behaviour that is not being properly addressed by Government and regulators.

Lewis Sidnick: I cannot refer to the specific cases, but I can say that from NHBC's perspective, quality is at the heart of everything we do. We would want to see high quality construction across the industry. The house-builder building a specific unit is responsible for the quality; we

work with them to try to support them to build a high-quality unit. If there was something that went wrong, we are there to provide the warranty and help the homeowner. We would share your passion to support high quality and ensure that every unit for every person can meet the standards required.

- Q319 **Rushanara Ali:** That is not what is happening, and I am not satisfied with your answer, Mr Sidnick, because it is within a matter of years that those warranties are not being addressed and implemented. In relation to social housing landlords, when the property is transferred on to them for maintenance, they are having to pick up the pieces left behind by developers once they have made their profits and walked. It is housing associations that are having to deal with the fallout and deal with structural problems that have been established and left behind. Local people who have bought properties in good faith, such as professionals under shared ownership programmes and others, are having to run around, chasing their MPs and local mayors to pick up the pieces. It should not be like that. That is not good-quality provision. I would like you to come back to us with more detail about what steps will be taken to deal with those sorts of case, because it is not rare.

Lewis Sidnick: I do not know if this is covered by NHBC or not; it could be someone else. If I can get the details of the developments, we would look into it and get back to you straightaway. If any homeowner raises any issues with us, we will respond effectively and efficiently if it is an NHBC property. If it is, we will help.

Samantha Fernley: Is this not a failure of our housing industry? Some 50% of everything we build comes from the top 15 housebuilders. They have to build a certain amount of social housing within their private developments. They are commercial. They are going to prioritise the private units because they are selling them. I guess they are cost-cutting where they can on the social units. It is not right but if they are using materials that hit building regulations and standards, I am not sure it is necessarily one for the warranty industry. It just highlights the failure in our housing industry.

- Q320 **Rushanara Ali:** This is not assigning blame on any specific organisations but there are these sorts of problem where things are falling between stools. It is the buyer or the person who is renting that is suffering. Do you have any recommendations and suggestions that you could contribute to this Committee, either in writing or if you have any ideas on how we can correct these failures?

Samantha Fernley: My personal view is that it needs to come back to Government. It needs to be centralised. Our housing industry is in crisis; there are no two ways about it. We are not building enough homes. There is a quality issue. We are leaving it to commercial developers to build all of the homes. It is a big question and I am not sure the warranty industry is in the position to answer it.

- Q321 **Rushanara Ali:** Do you think there are some issues where you can look at—

Samantha Fernley: Yes, absolutely. Quality should be at the forefront of what we do.

Q322 **Melanie Onn:** I just had a supplementary point. First, with regard to issues around challenges that the housing industry is facing, you have not mentioned the skills shortage that is shortly going to have an impact or is already having an impact. Do you think that the quality of new-builds using traditional methods has deteriorated over time with the pressure on housebuilders with very tight margins to bring properties to market relatively quickly? I have been contacted by a number of people who have been purchasing executive quality homes; these are their dream homes that they have been saving up for for a long time, and they are moving into properties, being given assurances and being tempted into properties with sweeteners, only to arrive to find that within weeks the quality that they were expecting of those properties has not lived up to standards. In some cases, streets of properties are all experiencing significant problems with the builds. I will not name the company; I will save them from further embarrassment.

Lewis Sidnick: On the skills issue, it is a massive challenge facing the industry, to have the right number of skills and to help sort the industry to deliver the homes that are needed. We invested in something called the NHBC Foundation and it carried out some work to try to find some long-term solution to skills. It went into schools and it spoke to young girls in school and said, "Are you interested in the construction industry?" The feedback was quite negative. However, when we explained the type of careers that were available in the construction industry, the type of progress and some of the salaries, the interest really increased significantly. A lot of what we are trying to focus on is educating people from a young age about the opportunities so they can develop their skills and move into the construction industry.

Q323 **Melanie Onn:** With regard to quality, has quality become worse over time with new-builds using traditional methods?

Samantha Fernley: Margins are squeezed. There is a shortage of trades, especially in London. Margins are constantly being squeezed and people are looking for cost-saving measures all the time. Therefore, yes, quality possibly has become worse. Warranty companies need to legislate or manage the standard and materials themselves—as long as they meet a standard, I suppose. They are not necessarily measuring that they are going to be best quality or better quality. I do not know.

Lewis Sidnick: Quality of new homes in the UK is good but there is absolutely no room for complacency and things still do go wrong. That is our message: there is no room for complacency. In the last 12 months we have initiated a whole range of schemes to try to support the industry more with quality. People buy their dream home and most of the time it is their dream home and they love it. Things can go wrong and there is no room for complacency.

Melanie Onn: It just seems odd that there are thousands of people;

there is a Facebook site dedicated to this issue. Hundreds and hundreds of people are constantly getting in touch. It could be anything from a minor snag to really significant structural problems. It seems remarkable that, if there are good quality assurances within the industry, those are not being met by companies that should be reputable and that people should be able to trust.

Q324 Rushanara Ali: Could you shed more light on the kind of thing you are doing and what sort of improvements you are making?

Lewis Sidnick: In addition to our current processes and system, which is a rigorous inspection process going through several key stages, more recently we have set up what is called a major products division in London, because there is a lot of complex housing development going on in London so we want to make sure that is high quality. It is being built in different ways. Early last year we established a major products team in London. We have set up a new register of site managers, which is a way to try to support high-quality site managers. We have schemes in place, which is called our "pride in the job" competition. Tens of thousands of site managers enter the competition and there are awards given out for the best sites across the country. It really gets site managers enthusiastic and encourages them to meet higher standards. We have got a range of initiatives and are always trying to think outside of the box and do more.

Q325 Rushanara Ali: How do you interact with the kind of complaints that my colleague has just mentioned, where there are thousands of people submitting complaints? Obviously, we get quite a lot of them. Is there a way in which you can capture the learning from those cases and enable that learning to inform your responses? At the moment we face complaints and some of them are life threatening. I have certainly come across quite a few cases like that, where the nature of what has been given to someone, either in social housing built recently or private, has been really badly done, and we have had to take up cases. It would be really helpful to know what you are doing, systemically, to deal with some of those complaints as they come up.

Lewis Sidnick: We have a very comprehensive complaints process in place. We have a customer service division. You make a really good point about feeding in when issues come up, so we can learn. If there is one type of build or type of technology or issue that is arising, which could be fixed, then we will try to adjust that. The way we do that is by changing our technical standards. We have NHBC technical standards, which builders on our register comply with. When there are better ways of doing things, we will adjust our technical standards. It is a virtuous circle of feeding through the system and learning and making sure improvements carry on.

Rushanara Ali: Perhaps we can send you the links and send in anything that comes to us.

Lewis Sidnick: Yes, please do.

Q326 **Rushanara Ali:** Mr Smee, can I just ask you a question about mortgage lenders? Obviously it has been a tough two years with the credit crunch and access to lending. Do you think mortgage lenders are becoming less risk averse now than in the past in terms of lending for property?

Paul Smee: At the moment we have quite a competitive market with a lot of participants in it, and some new participants as well, who are providing a challenge for the established lenders. What you are seeing there is particular lenders who are keen to develop expertise in particular areas. If we return to the non-traditional construction issue, the building societies are getting involved and becoming experts in the assessment of this, because it is a part of the market where they can demonstrate a competitive advantage. There are funds available for lending. We have quite a vibrant mortgage sector at the moment within a very seriously regulated one. That should not lead to the conclusion that exuberant lending is returning.

Q327 **Rushanara Ali:** It is still the case that those who have a turnover of less than £5 million per year struggle to get lending, according to Sarah McMonagle from the Federation of Master Builders. Would you be able to comment on that?

Paul Smee: This is about builders getting loans from the bank, which is not really my area; I deal with the mortgage end of financing. I probably should not comment.

Q328 **Rushanara Ali:** Maybe you can get a relevant person to come back to us. Do you have any reflections on that point?

Paul Smee: Clearly, after the credit crunch the market went through a period of retrenchment. I do believe it is easing but I am much more concerned with the loans to the person purchasing the house.

Q329 **Mary Robinson:** Looking at homes built using modular technologies, do they have fewer defects than homes built using traditional building methods?

Samantha Fernley: They are more precision-engineered, and it is too early to say. We cannot look back to the pre-fabricated history because it was quite poor. With regards to the technology that exists now, there is such a wide range coming through. From a warranty and BOPAS perspective, we do not know. We are on the edge of this curve. With building things in a factory, there are much tougher regulations; things are much more quality controlled and much more consistent. I would like to think that it will improve matters going forward. If you look to Japan or Europe, they are already using some of this technology and it seems to be working very well for them, and it is lifestyle housing. We need to change the attitude in the UK or work to change it to look at alternative methods.

Q330 **Mary Robinson:** Mark Vlessing from Pocket Living at an earlier Committee meeting said that snagging on his product is zero. That is pretty impressive. Would that be your experience? Is it really low? We just had a discussion about snagging in traditional home-building.

Samantha Fernley: It depends on the method. Some are modular homes that are built offsite completely and airlifted in. Some are frames that are still clad and roofed, and the foundations are still done on site and the finishes are still put in. Those problems will still arise. I do not know. We have got to do something else. We are not building the homes we need and the quality is lacking in certain areas of our house-building. We need to look to the future to take an alternative road. That is the conclusion that all of the housebuilders and the whole industry is coming to.

Q331 **Mary Robinson:** If it is the case that snagging is zero on modular homes, and BOPAS are giving 60-year warranties—

Samantha Fernley: It is not a warranty; it is an assurance.

Mary Robinson: An assurance towards its robustness, if you like. Is this likely to put pressure on traditional builders, as has been mentioned, to change the way that they do things?

Samantha Fernley: That pressure is coming. The key ones are starting to look to the future. The ones that are not are going to have to. "Yes" is the short answer to that one.

Q332 **Mary Robinson:** Would an accreditation for a modern construction normally be 60 years?

Samantha Fernley: It is at least 60 years. 60 years is the minimum, because it is two mortgage terms. With the system that we put them through, it is quite possible that they will last for a lot longer.

Q333 **Mary Robinson:** How does this differ from normal, traditional methods of construction?

Samantha Fernley: There is less disproportionate maintenance in that period.

Q334 **Mary Robinson:** The accreditation would be the same for a traditional build, or would it be different?

Samantha Fernley: It is not going through an accreditation process; it is only regulated by the warranty industry with offsite construction. It is still going to need a warranty. BOPAS does not negate the need for that because that is the route in. BOPAS is an extra accreditation to give comfort, because it is offsite, to go into the mortgage lenders, because there it could hit a blockage.

Paul Smee: It is a source of data for the mortgage lenders. It is an assurance that somebody has looked at what is happening and has concluded that it will work. That is very important as a reassurance when people come to consider this and divert their own expertise. One of the keys to growing this market is the exchange of data freely among the various participants, including the lending community.

Q335 **Mary Robinson:** Will the data that is going to be acquired, and hopefully more data and more sharing of it, lead to perhaps a more

standardised outlook towards these building methods? Therefore, traditional and modern will sit in the same platform in terms of the way that they will be viewed by mortgage lenders.

Samantha Fernley: That is what we hope, given time.

Paul Smees: In time, with the data, yes.

Q336 **Melanie Onn:** Do you think that it is banks who do not want to invest in companies that are using modern methods of construction or modular housing?

Paul Smees: Again, I deal with the mortgage, not with the commercial lending to the commercial companies. I believe that what we have seen within the construction market is an increasing number of generally smaller providers, who are getting quite involved in lending on these buildings once they are built. We may well see an increase in interest from the larger lenders, if we can get round some of the issues concerning the stage payments. At the moment, that is quite a difficulty for the larger lender, and we are actively looking at ways in which we can address that concern. I cannot comment on the commercial answer on the banks and to whom they lend money.

Q337 **Melanie Onn:** Do either of you have a view on this?

Samantha Fernley: There is a concern. I speak to a lot of MMC and offsite manufacturers. There is a concern that they are investing their life savings into this. I think that they worry they are not going to be able to sell them or there are going to be blockages in certain areas. I hope things will change quickly, but at the moment we are in a big unknown.

Q338 **Melanie Onn:** Do you think that they are too high-risk to invest in?

Paul Smees: Regarding the properties themselves, the key issue is the assurance that that lender feels that that property will still be around in 30, 40 or 50 years if the lender should have to realise the security on it. It is the jump in the dark. They do not have the track record that bricks and mortar does.

Q339 **Melanie Onn:** They have different standards, do they not? I was reading that the modular buildings have guarantees for at least 35 years of construction. We have heard my colleague mention no snagging and perfect completion. However, guarantees for traditional new builds are two years of warranty, less than a modular construction. It is interesting that there they are not viewed similarly.

Paul Smees: What you are seeing is an increasing number of lenders who are taking the interest in these properties and are prepared to lend on them. There is something around encouraging the larger lenders in, which is affected by the structure of the way in which stage payments are drawn down on in the self-build market. We have got a market there, and it is not a question of people not being able to get mortgages on these properties. There are lenders available and competing to offer them business.

Samantha Fernley: I was part of the BOPAS steering group back in 2012 and 2013 with Lloyds, RBS, Santander, the Building Societies Association and Nationwide. They all sat around the table along with the Council of Mortgage Lenders, RICS and everyone. We needed to find a solution and they all sat round and they all support it. They want to see BOPAS where there is an offsite construction.

Q340 **Melanie Onn:** BOPAS and NHBC are challenging the attitude that more could be done.

Lewis Sidnick: From NHBC's perspective, whether it is MMC or traditional construction, it would go through the same rigorous quality assessment process. We hope that would provide some reassurance, whether you are a lender or a homebuyer, that it would have gone through that process.

Q341 **Melanie Onn:** It still remains the case that with self-build and custom-build, it is very difficult for owners to get funding during the planning and building process and still, in lots of cases, for purchasers to get a mortgage. What do you think the barriers are to that?

Samantha Fernley: Is that specifically with offsite, or traditional as well?

Melanie Onn: Either, really, but particularly around the modern methods of construction rather than traditional.

Samantha Fernley: When we speak to the top end of these companies, like Santander and RBS, they know we are there. Whether it is cascading down to the high street when Mr and Mrs Smith walk into Hertford high street branch and want a self-build, there is still work to be done. Until there is enough volume and they are seeing enough of it, they will not change the questions on their computer. At the moment, it is that simple. We are not seeing enough of it for it to become an issue yet.

Q342 **Melanie Onn:** We are still quite old fashioned in our outlook in terms of supporting these new methods, particularly on a big scale?

Paul Smees: The big scale is the big issue at the moment. That is a fair challenge to us. The lending industry has to find a way round. We have not cracked the stage payments mortgage model, because if you are buying a self-build you will draw down the mortgage in stages, if you are involved in the construction. We have not cracked how we can make that viable for lenders who are operating a highly automated system. That is why the market is dominated by smaller players who have gone into an individual underwriting model. The market is not unmortgageable. What we are trying to do is scale it up, and that is the big challenge with scalability, in my view.

Q343 **Melanie Onn:** When we think about these properties, we tend to think of "Grand Designs" and that somebody is building something fantastic. It is a new eco-building and something quite remarkable but we have heard evidence of very realistic buildings and properties, such as flats, that are being built using these methods, which obviously take up a small amount

of space but manage to accommodate many families. Do you think we can catch up with the idea that it is not just these "Grand Designs"-type buildings?

Paul Smees: A lot of people have caught up with that; there is more catching up to do. *Grand Designs* has made the whole debate a lot more difficult. A preliminary education was needed: that it is not about that and it is actually about something that is non-traditional and different.

Q344 **Melanie Onn:** I have just one question on the accuracy of valuation for some of the properties. Do you think that that might be an issue? How do you value these sorts of property?

Paul Smees: There is a lot of discussion going on between lenders and the valuing community, RICS and other players in the market. Valuation is absolutely crucial to this working, and I do feel we return again, first, to the data and, secondly, to the accreditation and the feeling that there is a corpus of knowledge from which lenders can draw.

Q345 **Chair:** With regard to the lenders, some of the big lenders operate not just in the United Kingdom but in other European countries as well, where self-build is much more common. Presumably they have cracked the issue there of staged payments. Why do we not simply replicate what is going on there in this country?

Paul Smees: I am not sure. I always worry about saying people have cracked it in other markets.

Chair: They have built a lot more houses. People seem to have no problem building them.

Paul Smees: It is a fair challenge. I am not sure how many of our lenders are actually offering mortgages on those forms of construction. I will prepare to try and find out.

Q346 **Chair:** There are other lenders that are still in business that have been lending and doing quite well out of it.

Paul Smees: It is a different housing market.

Q347 **Helen Hayes:** We have been told that NHBC is not generous in its provision of insurance for modular homes and that alternative insurers are even more expensive. Is that a fair assessment of the status of insurance arrangements for modular homes at the moment, and is there a need for further changes to that provision?

Lewis Sidnick: From the point of NHBC, no, it is not fair. We support innovative construction. We have been working for decades to support the industry in this area. Since 2008, 30% of all of our warranties have been given to non-conventional construction, so that shows it is really a sizeable amount.

Q348 **Helen Hayes:** Is there a difference between those warranties and the warranties that you provide for homes constructed by traditional methods?

Lewis Sidnick: No, there is not.

Helen Hayes: There is no difference at all?

Lewis Sidnick: It is the same process we would go through in terms of quality, and the warranty is the same.

Q349 **Helen Hayes:** Is there a difference between the methods and the providers of modular homes that you will and will not cover?

Lewis Sidnick: It is difficult because for all different types of construction, whether it is a big development of flats, houses, detached or modular, there will be varying degrees of types of inspection. Whether it is MMC or not, the process is the same, the quality is the same, the rigour is the same, and the end product of what we try to get to working with the builder is the same high-quality new home.

Q350 **Helen Hayes:** Finally, I have the same question that I put to the other panel. We are expecting the publication of the Housing White Paper tomorrow. Are there particular policies or initiatives that you are hoping to see contained within it?

Lewis Sidnick: From NHBC's perspective, the objective of the White Paper will probably be to increase the quantity of homes, which is understandable. We would like to see more communication done by Government to promote the homes that are being built. If we want more of them being built, it would help all of us to say that these are good-quality, new products. Things can go wrong and there is no room for complacency but the vast majority are high quality. The customer satisfaction on these is very high; 91% would recommend their builder to a friend. They are environmentally friendly and therefore cheaper to run. They come with a world-leading warranty. What I would like to see in the White Paper is, while we push more homes, they tell people that these are good homes. That is what I would like to see.

Samantha Fernley: I obviously would like to see offsite pushed and a more definitive approach to it, and more support from the Government for modern and new methods of construction to bring about change in the housing industry. We need it.

Paul Smees: I would like to see a strategy that lasts the lifetime of this Parliament and does not get supplemented by individual schemes around the times of the Autumn Statement and the Budget. They are getting balkanised and they are getting confusing, because there is such a number of them.

Chair: So "long term" is the lifetime of this Parliament, is it?

Paul Smees: It is as long as I will go.

Chair: Thank you all very much for coming to give evidence to us this afternoon. That was our sixth evidence session on this inquiry into the capacity of the home-building industry. The next session will be on 27 February when the Housing Minister will be joining us.