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The Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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15th April 2009

Dear Mr Darling

RE: Budget submission 2009 - the benefits of boosting home building and renovation

House building and the construction industry will fall to record low levels in 2009 with little chance of a recovery before 2012. The industry has suffered large-scale loss of capacity, which has had a major knock-on effect with lack of demand for building materials, leading to factory closures and lost jobs affecting manufacturing, supply chain and site operatives.

With homeowners unable to move due to lack of liquidity, the Government has a major opportunity to stimulate the home improvement market by cutting VAT to five per cent on home improvements. This will cause homeowners to improve the circa 24m housing stock that is 75 per cent owner occupied and protect our skills and manufacturing base which are both vital to the meeting of the long term requirements of our nation.

Finally with repossessions occurring every seven minutes and an estimated 4m on the housing waiting list and 260,000 household formations each year, we must take action now to build 75,000 social homes this year.

This activity must be fully funded and a task force will need to be established to oversee the delivery of these homes overcoming all the obstacles including planning. Such fiscal investment would have great environmental, social and economic benefits and could be tied to conditions such as the wide use of apprentices on all projects, which will further protect the long term prospects of this critical industry for UK PLC.

Fiscal measures to help home builders in the public and private sectors will have many benefits: it will have an almost immediate impact on house building activity, and so bring early economic benefits; they boost skills and jobs and help maintain industry capacity, so that the industry will be better able to respond in the upturn; they boost the delivery of affordable housing as well as open market housing; they deliver community infrastructure and other local benefits through S106 contributions; and they assist the industry and supply chain to meet environmental targets.

There is no evidence that the private house building sector will recover in the short term, but there is plenty of evidence that repossessions will continue to grow as unemployment rises with all the social consequences, such as rising crime and urban degeneration.

Rapid domestic economic benefits
House building and home improvement is more labour-intensive than many other industries, so any increase in production would immediately begin to increase employment. The industry would be able to respond relatively quickly. House builders already have many ‘ready-to-go’ sites with planning permission that have been mothballed, but which could be put into production very quickly with the right demand and supply stimulus. Any increase in housing production would quickly boost product demand and jobs down the supply chain because the industry

holds very high product and material stocks. House building has relatively low import content, so that any stimulus would not suffer from a massive leakage out of the domestic economy.

Evidence for other European countries confirms that a cut in VAT to five per cent on home improvement would be cash positive, reduce the black economy, protect jobs and improve the housing stock.

Increasing affordable housing delivery
Because affordable housing delivery is now inextricably linked to private housing delivery through S106 planning obligations (approaching two thirds of new affordable homes are provided through such agreements), the downturn in private housing is having a big impact on affordable housing delivery. Therefore to lift affordable housing production we need both direct financial measures to help fund it, as well as measures to boost private housing production, which will in turn bring increased S106 affordable housing delivery.

In the short term the fall in private housing starts is resulting in very few 106 developments. The need therefore is to invest in a fully funded social housing model to bridge the gap.

Boosting jobs and skills
The 2020 group led by Kate Barker recently predicted a massive 450,000 jobs will go in the construction industry and related supply chain by the end of 2010. This dwarfs the motor industry that has already received massive offers of support from the Government and most recently Europe. We must not allow this drain of skills and manufacturing capacity to continue. If we lose our building materials manufacturing capacity it will not return and we will be forced to import all of our building materials in future with a massive cost to the balance of payments.

Based on the steep fall in housing completions already recorded by Communities and Local Government (CLG) and the National House-Building Council (NHBC), along with individual company announcements, it seems likely that somewhere between 100,000 and 150,000 house building jobs have been lost out of total house building employment in 2007 of around 320,000. Research carried out by the Home Builders Federation (HBF) found that, on average, there are approximately 1.5 direct house building jobs per new dwelling, with further employment benefits down the supply chain and on into the wider economy. So for every 10,000 additional homes completed, we might expect 15,000 additional direct house building jobs, plus a multiplied increase down the supply chain.

The repair and maintenance industry (RMI) accounts for many thousands more jobs, mainly in the small business sector, which is vital for our economy. In addition to direct employment jobs that the industry will lose, Government also needs to consider the wider impact across a wide spectrum of the economy as lorry drivers, solicitors, lenders and carpet manufacturers lose their jobs as a direct effect of the downturn in the building industry.

Industry capacity
The whole industry has already lost considerable capacity, hampering its ability to lift housing output in the recovery. The sooner companies can begin to boost output, the sooner they can begin to rebuild skills and capacity ready for the upturn.

Bringing local infrastructure delivery
Because most housing developments have planning obligations (S106) agreements attached to the planning permission, if house building activity is started on mothballed sites, this brings additional benefits to the local community, such as infrastructure, open space, contributions to education, and so on. By contrast, the loss of these benefits when sites are mothballed or not started can leave communities with gaps in their planned infrastructure or in funding for activities such as education.

The current model is ineffective due to the lack of match funding from private banks and the private finance initiative (PFI). The promised building of schools, hospitals and homes is not materialising and this is directly impacting on employment and the social infrastructure.

Reducing the medium term house price inflation risk
We are concerned about the potential medium term inflationary implications of the steep fall in housing output. The long term imbalance between supply and demand/need, identified by the Barker Review, will worsen substantially with current historically low levels of housing completions. The longer supply remains at such low levels, the greater the level of pent-up demand that will build up. Once the recovery begins, there is a risk that demand will quickly run ahead of supply, leading to a sharp rise in house prices.

More people will rely on rented homes in the future and there is an urgent need to build more social homes now.

Helping to achieve low carbon homes
The Government's aspiration for all new homes to be zero carbon requires substantial research and development, new investment, innovation, new skills and building the required supply chain, all of which require time. The deep recession has delayed progress in all these areas. Existing skills have been lost and new skills are not being acquired, research and development, investment and innovation have been delayed, companies in the supply

chain have not been able to develop new products and some companies have gone out of business. The longer it takes for the home building and supply industries to recovery, the more difficult it will be to achieve a low carbon homes stock.

Lower VAT for home improvements will act as a stimulus for homeowners to invest and improve the performance of our 24m ageing housing stock. Lenders must also be encouraged to return to support this relatively low risk sector of the market. Failure to address the housing stock will mean the Government has no chance of hitting its commitment to an 80 per cent reduction in carbon emissions by 2050.

Timescales
House building will eventually begin to recover as the housing market recovers. However without Government intervention this will be a long, slow process, and in the meantime the industry risks losing further capacity. Therefore we need measures to help open up mothballed sites **NOW**, so that the industry is better placed to lift output when the market recovery gets under way.

Making the housing targets more achievable
Only by investing now in fully funded social houses can the Government move towards its 2016 and 2020 housing targets.

Opening up mothballed sites
Now that stock levels have been reduced to generally more manageable levels, the focus needs to shift to increasing housing starts and completions. The home building industry has many mothballed sites that could, given the right demand and supply stimulus, be quickly brought into production. We believe measures to pump-prime such sites should be a primary focus of the Homes and Communities Agency's (HCA) funding. Such funding could help kick-start production, thereby increasing private and affordable housing output, increasing employment, and boosting supply chain activity. We urge the Treasury to increase the HCA's budget for such measures, as well as give the HCA maximum flexibility with its existing budget.

Without such pump-priming, the number of new or mothballed site starts will remain low, and housing output will remain at very low levels.

Affordable housing delivery
We also support the HCA's flexibility over grant rates for affordable housing. This will help with delivery of affordable housing through S106 agreements. In addition, because increased residential social landlord (RSL) funding increases demand for house builders' products, this will help them open up new or mothballed sites, and so also increase the supply of open market housing.

HomeBuy Direct and first time buyers
The £480m allocated for HomeBuy Direct (HBD) could lead to some £3b of additional new home sales, giving a significant boost to housing production. Initial buyer interest is very encouraging.

There have been some teething problems with setting up this scheme, but most are being resolved. The one major concern though is still the level of support from lenders. Four have 'signed up' to the scheme, but because lenders will wish to limit their exposure to any one site, we need more lenders to support the scheme. In particular, all the Government-supported lenders should be required to give strong support to HBD.

While it is too early to judge the success of HBD, initial levels of interest have been very high. To help companies plan their production programmes for 2010, we urge the Treasury and HCA to keep open the possibility of allocating more funds beyond the current allocation.

Supporting the private rented sector
We strongly support the HCA's efforts to provide a catalyst to establishment of a professional, institutionally funded private rented sector and would urge the Treasury to allow the HCA maximum flexibility to achieve this objective. Although there are many organisations interested in the sector, it clearly needs an organisation like the HCA to make the first step, acting as a catalyst to get an initiative up and running. If the HCA's efforts are successful, others will follow, with potentially very large benefits for the housing market and home builders.

Mortgage funding: the key to the private housing market recovery
The absolutely critical ingredient for recovery in the wider housing market is a restoration of mortgage funding and some easing of mortgage terms. The Government's guarantee of mortgage backed securities, to be launched this month (April 09), is critically important and must be adequately funded and designed to meet the needs of lenders and investors so that it achieves maximum support. House building can only achieve a sustained recovery if the whole housing market recovers, and mortgage lending is the key to housing market recovery.

Any cut in VAT on home improvements must be accompanied by a clear message to lenders to support this sector with loans linked to the currently level of interest rates. Lenders setting very high rates, as is the current practice, needs to be outlawed immediately.

Stamp Duty Land Tax
The temporary increase in the stamp duty threshold should be extended for another year and the limit increased to £250,000. This would exempt most new homes from stamp duty, providing a benefit to new home production.

For many years there have been calls for the current unfair slab system of Stamp Duty Land Tax (SDLT) to be reformed to a slice system in which buyers crossing one of the price thresholds pay stamp duty at the higher rate only on the price above the threshold. We would strongly urge the Treasury to consider this long overdue reform in the 2009 budget. The cost would be relatively modest, given the low levels of transactions, and it would provide a further boost to housing demand.

We would also urge the Treasury to change the rules regarding the stamp duty treatment of multiple purchases by residential landlords. It is one of the deterrents to the establishment of a large scale, professional, institutionally funded private rented sector that multiple purchases are liable for four per cent stamp duty as they are treated as a single transaction, whereas a private buy-to-let landlord will usually pay the lowest rate or avoid stamp duty altogether when buying one or two properties independently. This change should not mean any significant reduction in revenue for the Treasury because such transactions are currently not very common.

Residential investment in SIPS
We would urge the Treasury to reconsider its previous decision not to allow housing investment within structural insulated panels (SIPs). At the time there was a risk this might add fuel to an already booming market. Clearly that is not the case today; now it would provide a new source of demand for housing and benefit private home building at no additional cost to the Treasury. We believe this would be a particularly attractive proposition at present with savings rates so low and house prices at much more affordable levels. It would be a more stable, long term source of investment in housing than the buy-to-let market which is unlikely to return on the scale that was seen up until late 2007.

Private rented sector
Treasury should continue to explore with the private sector, including the HBF and home builders, what tax and other measures (in addition to the above SDLT proposal) are needed to help the establishment of a long term, viable, institutionally funded, professional private rented sector. This would offer an important new source of demand for new homes, and help house builders boost housing output and make the housing targets more achievable. It is clear that, in future, there is going to be a large group of intermediate buyers with incomes too high to qualify for social rented housing, but too low to buy in the open market given likely ongoing restrictions to mortgage funding volumes and lending terms. These people will still require housing. The needs of this potentially large group would benefit from an expansion of the private rented sector.

Council Tax on empty business properties
The current council tax exemption for unsold completed new home stock is for a maximum of six months. It would be very beneficial for the manufacturing and supply chain industry, given the current very difficult market conditions, if this could be extended to 24 months.

Yours sincerely

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