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Speech to Home Builders Federation Spring Policy Conference

'The business environment'

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-----CHECK AGAINST DELIVERY-----

Good morning.

When people talk about the fabric of British society, they're usually referring to things like our traditions, our institutions and, yes, our failure to win major sporting events.

But nothing's more important to people than the homes they live in. That's helped shape our recent social history.

The Secretary of State might be an admirer of Noel Skelton, the Unionist MP whose thinking on property ownership did much to influence the policies of successive post-war Conservative prime ministers.

The Skeltonian principles reached their height under Margaret Thatcher, and even as today's language has shifted from talk of a 'property-owning democracy' to 'affordable housing', Skelton's influence is still profound.

The question is how widespread home-owning ambitions can be maintained in an era of constrained credit, and with a localism agenda which business is supportive of, but that we also have legitimate concerns about.

As an industry, naturally you want more homes being built. But please don't ever underestimate the importance of the wider role you play in providing the infrastructure for our society.

As well as homes, you provide jobs, security and a sense of community. That's why your success is so important to business.

So, how are your prospects?

I know you've got a whole session on economics, the market and mortgages later on, and with Professor Miles on next, I'll keep my thoughts on these brief.

Household incomes are facing a combination of inflation, weak growth in wages, higher VAT and next week's National Insurance rise.

Although the latest figures show the private sector is adding jobs, headcount in the public sector is falling, meaning overall levels of unemployment are still rising.

There are bright spots. Manufacturing continues to perform strongly, business investment is on the way back up and our latest surveys suggest improvements in parts of the services sector.

In short, the recovery is happening, but it's tough going.

We saw this with the Q4 GDP figures, which showed an unexpected dip of 0.5 per cent. But much of the economic activity displaced by the snow has already caught up.

Assuming no unexpected Easter blizzards, I'm expecting UK GDP to grow this year at around 1.8 per cent and to improve slightly to 2.3 per cent in 2012, which is still low for the third year of a recovery.

Inflation on the RPI measure is at a 20-year high, driven by the VAT rise and by global commodity prices, and while I'm not predicting rapid interest rate rises

from the Bank of England, we can expect upwards moves from the 300-year low from the second quarter, perhaps starting in May.

So there was pressure on the Chancellor last week to help the economy, and I think it exceeded expectations. And as Stewart [Basely] said, the Budget gave “a shot in the arm” for housing.

It was a Budget that should help businesses grow and create jobs, and the Chancellor announced a number of measures to help boost the UK’s construction pipeline and speed up the planning process.

In the short-term, the Firstbuy Direct initiative should give confidence to the market and help first-time buyers, which will create a beneficial ripple effect. It should also help create new house-building jobs.

It reflects the considerable success of the Home Builders Federation in getting the industry message across to the government, so Stewart, notwithstanding your commendable modesty, congratulations on some very effective lobbying.

But as Stewart also said, it’s just a start.

The funding for the initiative only runs until the end of next year, and in the longer term we’ll need a more sustainable approach which meets our growing housing needs.

These are considerable. As Eric [Pickles] indicated, improved life expectancy rates and a growing number of one-person households will mean the total

number of households will grow to 27.5m in 2033. This means an increase of 232,000 households a year.

There are also some 1.8m households on English local authority waiting lists, while in the private and social housing stock there's significant overcrowding.

As you well know, this demand isn't being met, with the number of houses built in England falling to a record low of just over 100,000 in 2010, down 13 per cent on the year and the lowest overall number in any peacetime year since 1923.

In the UK as a whole, private housing starts last year were 45 per cent below the 10-year average, and your latest Housing Pipeline report shows local authorities are granting planning approvals for fewer and fewer homes.

What can we do about this?

Strong industry voices like yours help. And at the CBI, home builders have a major voice on our Construction Council. Its housing group has representatives from: Miller Houses; Barratt Homes; Morgan Sindall; Mott MacDonald; Taylor Wimpey; Galliford Try; Kier; and Leadbitter.

The group's priorities fit into three broad categories: planning and land availability; mortgages; and sustainability and its practical implementation. I'll give a few thoughts on each.

First, planning and land availability.

The CBI supports the emphasis on local people making local decisions, and in recent years industry has been involved in increasing levels of community consultation. But there's an essential requirement for policies that set out a clear path, and that ensure the backdrop to discussions must be that of the need for economic growth.

Every time I hear Eric Pickles' narrative of the advantages of a bottom-up, locally-led housing strategy, I can see his argument.

The Localism Bill could ultimately have the effect of increasing housing supply. The right balance needs to be struck between localism and economic growth, and if it is, they should be mutually reinforcing.

But business is sceptical. The New Homes Bonus may work in Doncaster, but will it work in Dorking? Neighbourhood plans may lead to more development in Camden, but are they likely to in Canterbury? The jury's still out on this.

But whichever is right, there's a significant risk that while the industry and councils and their communities get to grips with the new planning regime that a hiatus could occur. This'll serve to draw out the whole process, lengthening negotiations and adding costs.

There must be, as the Budget said, a strong presumption in favour of sustainable development and other pro-growth policies within the government's proposed National Planning Policy Framework.

But the current lack of expertise in the planning system gives cause for concern. Councils are under considerable financial pressure, and have no option but to

reduce costs. The problem is that at the same time, the new planning process has the potential to increase demands on council officers. This could lead to even fewer decisions being made, growth being frustrated and housing supply squeezed even further.

The announcements last week on land auctioning and the ‘Build Now, Pay Later’ scheme are positive moves, although we need to understand more about how they might work.

We’d expect land auctioning to act as a significant incentive for local authorities to accept development, but the detail of this scheme should be carefully explored before it’s pursued so it can work as a genuine incentive without undermining a competitive market for developers.

And we would hope that the Build Now, Pay Later scheme will encourage the building of homes on public sector land, with the developer only paying when the development is complete.

Second, the mortgage market.

As you’ll know, the market became depressed after the financial crisis, and as lenders became – understandably – more risk averse, loans-to-value moved to 75 per cent.

Looking at the impact of this, I was struck by some of the figures I was seeing.

That reduced supply of higher loan-to-value mortgages has had the effect of excluding many first-time buyers, of whom there were only 194,600 in 2010, less than half the total that we saw in 2006.

As Eric said, the average age of an unassisted first-time buyer in the UK is now 37, up from 33 in 2007.

What's to be done? The FSA's Mortgage Market Review has been underway for 18 months, bringing regulatory reform to address what the FSA describes as "issues and causal drivers" that it believes have resulted in problems for consumers.

At the heart of this is the aim of making lenders more accountable for irresponsible borrowing.

We need a clear diagnosis of the problems that need to be tackled, a forensic analysis of policy solutions and then regulatory reforms that are designed for now, and not for five years ago when the bubble was at its biggest.

I want to see responsible lending, and I certainly wouldn't advocate a return to the sort of behaviour we saw in the run-up to the financial crisis.

But I would urge a pause in the implementation timetable for the review, recognising the current state of the housing market.

And I'd encourage a more detailed impact assessment to make sure any reforms don't undermine broader government objectives around housing projections, and serve to dampen private sector growth.

The third major priority we're looking at is sustainability and its practical application.

The current uncertainty around the implementation of the Code for Sustainable Homes, and the costs associated with it, have led to further concerns over site viability.

Many local authorities have competed with each other to require ever-increasing levels of sustainability through the provision of micro renewables and increased code levels. This sounds worthy, and we do want to see this agenda work and low-carbon ambitions become a reality.

But the danger is that all this is done without any real understanding of the actual implications and costs. So we'd like to see local authorities prevent any additional measures being demanded above existing code levels or building regulations.

And there are issues associated with consumer behaviour. The CBI just published a report making the consumer case for low carbon. Research for it showed that only 15 per cent of people care about the environmental impact of a product compared to 39 per cent who care about running costs.

There isn't yet significant buy-in to new products. And some of the more modern approaches to sustainability, like heat pumps, are not always wanted by customers as they're perceived to be too much of a break from the norm.

So phasing in the sustainability agenda with small wins, for example by increased use of solar panels, will improve customer confidence and help with overall implementation.

The CBI supports the ambitions of the Green Deal.

This is likely to support 100,000 jobs by 2015 and up to 250,000 at its peak, including creating 1,000 Green Deal apprentices. This could offer the construction industry up to £5bn a year in new business for the next 40 years.

However, we're concerned that the government risks failing to attract businesses to deliver the Green Deal unless it provides greater clarity on how it will be financed and promoted.

I want to see the government deliver policies to encourage public take-up of the scheme, and establish a strong, recognisable Green Deal kitemark and system of accreditation to generate confidence and trust, both among potential consumers and providers.

Those are the issues as we see them, and, as you can tell, there are some major stumbling blocks to progress.

We're going to maintain pressure on the government to do what it can to help. And we'll be vigilant of the FSA over the Mortgage Market Review to make sure there's not an over-reaction to the lending problems of recent years.

This'll be part of a renewed push from us for improvement to infrastructure as a whole – of which housing is such an important part.

We're setting up a new CBI Infrastructure Board later in the spring. It'll include representatives from: energy; waste; construction; water; digital; rail; road; shipping; aviation; logistics; investors; and, last but not least, home building.

To sum up, I do think there's cause for some optimism.

The Budget showed that the government has recognised some of the problems facing home builders, and wants to help ease them. But the work mustn't stop there.

We all know that a successful home building sector is good news for all of us. The better it does, the more jobs, economic growth and consumer confidence there'll be.

Reduced regulation, an increase in land supply and a more effective planning system will give you the chance to show what you can do.

The CBI will be working hard to make sure you get that chance.

Thank you very much.

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