

# Executive summary and recommendations

## Summary

This report is the result of an open Inquiry into the quality and workmanship of new housing for sale in England. As such, all appropriate organisations dealing with these issues were invited to submit evidence, and supplementary oral evidence was requested from a number of them. The weight of evidence we received suggested that as the number of new homes being built has increased, so house quality has declined.

This Inquiry by the All Party Parliamentary Group for Excellence in the Built Environment set out to investigate the issue. It was sparked by cases MPs have encountered among constituents frustrated by problems in their new homes and lack of adequate recourse to builders and warranty providers, to address these problems in a straightforward manner.

As the Government looks to drive up levels of housebuilding and offers more incentives to encourage greater levels of homeownership, we need to ensure that consumers are buying new homes that are fit for purpose, are of enduring quality, perform to the requisite levels of maintenance cost and energy efficiency and give peace of mind, pride and enjoyment to those who occupy them.

### Our report says:

From the evidence we heard, consumers want to see an improved quality of build, homes that are fit for purpose and an easy to understand warranty. When something is wrong, consumers want an affordable and accessible means of putting it right.

- It is an area where we have elected to shine a spotlight because it was clear to us that there is a quality gap between customer demands and industry delivery. Closing this gap will only come about, we believe, if housebuilders make a concerted effort to create a more consumer-focused culture.
- The Government is intent on seeing the construction of one million new homes

within the course of this parliament and is investing large sums of money to stoke demand and raise affordability levels for first-time buyers in a drive for greater home ownership. However, our view is that it is imperative that increasing the quantity of new homes must not be achieved at the expense of their quality.

- Lack of market competition, skills shortages and an imbalance in bargaining power is short-changing buyers of new homes. Just 10 companies build half of all new private homes. As we were told in this Inquiry, while the number of new homes being built has risen, satisfaction levels have fallen. And when consumers do have problems they find their means of redress are inadequate. The last resort of pursuing claims through the courts is costly and inaccessible.
- It is often said, buying a new home is the biggest purchase anyone makes in their life. Yet, according to the 2015 National New Home Customer Satisfaction Survey carried out by the Home Builders Federation (HBF) and the main warranty provider, the National House Building Council (NHBC), 93% of buyers report problems to their builders – and of these, 35% report 11 or more problems. Buyers do actually have realistic expectations, and they do not necessarily expect their homes to be perfect, but they do expect to have effective mechanisms for redress, in order to get deficiencies rectified quickly.
- The same survey shows a decline in customer satisfaction with their new home from 90% to 86% in 2015. That equates to around 15,500 homebuyers (extrapolated from the number of private home completions in 2015) that were not satisfied. We think this is unacceptable.
- There is a perceived flaw in the system of checking quality and workmanship. Building controls and warranty inspections are concerned with compliance and Building Regulations but consumers think (or are even led to

believe) that a warranty is a hallmark of absolute quality. Often, the warranties cover far less than consumers assume; and neither warranties nor building control functions provide any sort of comfort that items such as finishes and fittings will be defect-free when the house is handed over. Nor do many consumers appreciate that for the first two years after completion, it is down to the builder to sort out defects; let alone that for the remaining eight years the warranties cover purely structural matters.

- A Local Authority Building Control (LABC) survey reveals a growing number of consumers taking complaints about new homes to their local authority building control departments, in the hope that they will be able to put pressure on the housebuilder to sort out the problems. But the local authorities have no such jurisdiction. The LABC said that 67% of complaints were about non-warranty issues with nearly 7 out of 10 related to aesthetic finish and décor. It also noted unwillingness of the warranty companies to act/pay out under the warranty scheme, which was prompting dissatisfied new homeowners to demand their local authority intervene and even repair the defect.
- Another key issue around quality is the so-called performance gap. As many witnesses told us, a gap exists between the designed and the as-built energy performance of new homes. This shortfall has yet to register on consumers' radar but we expect that it soon will and we are disappointed that the Zero Carbon Hub initiative, which was tackling the performance gap, has been wound up.
- Some of those giving evidence pointed to the need for more on-site inspections by independent organisations, in order to drive up quality. Inspections have a vital role to play and we recommend there should be a defined minimum number of

inspections by both building control and warranty providers. Financial pressures on local authorities should not be allowed to weaken their building control service. However, we do not agree with some of our witnesses who called for a 'beefed-up' inspection regime to combat poor quality. It is our belief that the responsibility for construction of defect-free homes should rest with the housebuilder, not with regulatory inspectors.

- Consumers need greater leverage to drive a change in culture. A chronic undersupply of homes means that, as things stand, normal market forces do not come into play and the balance between buyer and seller is strongly weighted in favour of the seller. This leads to problems such as exclusion clauses in the small print of sales contracts which consumers only discover when something goes wrong. And when they realise this, they are weakly placed to act as the legal position has become increasingly stacked against the consumer.

We need to see housebuilders putting consumers at the heart of what they do. This will involve new mechanisms and a fresh culture at every step of the process. It requires more onus on housebuilders to aspire to deliver the following: zero-defect construction; greater transparency to make consumers more aware of the inspection and warranty process; and easier and quicker forms of redress to solve disputes.

## Recommendations

We believe that housebuilders should be upping their game and putting consumers at the heart of the business model. Alongside this, Government should use its influence to promote quality at every opportunity. To this end we have set out a series of measures to redress the imbalance between buyers and sellers.

### *Giving consumers a fairer deal and improving transparency in home buying*

#### **Recommendation 1: DCLG should initiate steps to set up a New Homes Ombudsman**

The role would include mediating disputes between consumers and their builders or warranty providers to offer a quick resolution procedure paid for by a housebuilders' levy.

We see this is as the key recommendation to provide more effective consumer redress if things go wrong, and a good way of applying pressure on housebuilders and warranty providers to deliver a better quality service.

Our view is that the new service should be funded by a levy on the sector, but it would need to be completely independent and replace the dispute resolution service offered as part of the Consumer Code for Home Builders. Our recommendation picks up on one made by the Office of Fair Trading, in its 2008 market study into the house building industry, which suggested that, if the industry failed to make satisfactory progress, it would recommend further intervention in the form of a statutory redress mechanism for new homebuyers funded by a levy on the industry.

#### **Recommendation 2: Housebuilding sales contracts should be standardised**

This would remove much of the uncertainty that presently arises from the bespoke nature of each builder's sales contract, which can deter so many from pursuing claims. The Law Society's Standard Conditions of Sale work well for normal conveyancing transactions and there is no reason why a similar approach

should not work for new homes.

We would expect the contract to set out how defects are handled, including provision for dealing with disputes before referral to an ombudsman.

#### **Recommendation 3: Buyers should have the right to inspect properties before completion**

There should be a mandatory right (which could be introduced by the inclusion of suitable provisions in the standard form contract) for buyers to inspect and, should they wish, carry out a full survey of their property prior to financial completion. We suggest that they be given 10 days' notice by the builder of when their property can be inspected. If after the inspection the buyer/surveyor deems that the property is not capable of occupation, the final financial completion can be delayed.

Such a provision would also discourage builders from serving notices to complete prematurely, or concealing major defects until after they have received the full purchase price, and would also encourage better quality control and site management pre-completion. In our view, the above suggestion would be relatively easy to implement, and would encourage improvements to construction quality without deterring capital investment or adversely affecting land values for developments already in the pipeline.

#### **Recommendation 4: Builders should be required to provide buyers with a comprehensive information pack**

The purpose would be to improve transparency of the design, building and inspection process. We would like to see housebuilders be required to provide prescribed and comprehensive written information to buyers during the conveyancing process as part of a standard contract (and in an electronic format) to make it easier for buyers to take issue if what they get is materially different to what they

contracted for. The pack should contain:

- Designs and plans, specifications etc.
- Details about both warranty and building control inspections, when carried out and by whom.
- What the warranty covers in plain English.
- Which version of the Building Regulations the house was built to and complies with.
- How to contact the builder to rectify defects.

**Recommendation 5: There should be a review of laws governing consumer rights when purchasing new homes**

There is a strongly held view that in disputes, the balance has been tipped too far in favour of housebuilders. This includes the Ruxley v Forsyth law case, which set precedent whereby housebuilders do not have to pay the costs for putting wrong work right if the costs are disproportionate to the impact of getting it wrong.

**Recommendation 6: DCLG should commission a thorough review of warranties**

At present warranty providers offer varying levels of cover and consumer protection. Our evidence suggested that warranties on new homes did not match the expectations of the consumer and our suggestion is that they need to be reviewed. In the context of buying a new home, consumers may well be prepared to pay more if it meant getting a better degree of service and would pay for additional cover on what they already get as part of the warranty.

We would expect the review to:

- Establish whether the warranties currently provided are adequate, what the minimum requirements should be, how they would need to change to achieve the needed level of cover and what the cost implications might be.
- Establish easier form of redress with

warranty providers as part of a New Homes Ombudsman role. At the moment, as financial bodies, warranty providers are covered by the Financial Services Ombudsman, which we were told was not always effective in dealing with the types of disputes we are looking at.

- Look into ways that warranty providers and housebuilders can set out more clearly at the time of conveyancing what the warranty actually covers.

*Quality, workmanship, skills and inspection*

**Recommendation 7: Housebuilders should instigate a new quality culture by adopting quality systems to ISO standards**

If defects are to be reduced and satisfaction levels improved, there needs to be an industry aspiration to achieve a zero defects culture, with greater emphasis on quality assurance and compliance measures adopted as standard by housebuilders. We would like to see the Home Builders Federation taking a more active part in driving this.

**Recommendation 8: The industry should significantly increase skills training programmes**

We would like to see greater emphasis on training and investment for both new and existing workers to embed a quality culture, whilst also bringing new people into the sector. We believe local authorities and Government should leverage more training by making it a condition on sale of their land.

*Increasing trust*

**Recommendation 9: A minimum standard should be set for compliance inspections**

The responsibility for construction of defect-free homes should rest with the housebuilder who should not rely on third party inspections to drive up quality. But we recognise that inspections from third parties do have a vital role to play and we need to

make sure that the corners are not cut. We are concerned that competition in building control might be fuelling a race to the bottom and we are therefore recommending there should be a defined minimum number of inspections that local authority building control and approved inspectors in the private sector and warranty providers should not fall below. We suggest that the minimum level should be considered by DCLG in consultation with the industry. We are also recommending inspection reports are made available to the public and form part of the information pack provided to purchasers when they buy a new home.  
(See Recommendation 4)

**Recommendation 10: Housebuilders should make the annual customer satisfaction survey more independent to boost customer confidence**

We believe it would boost consumer confidence if the Customer Satisfaction Survey is seen to be more independent of the NHBC and the HBF – bringing in a high profile third party to conduct and take ownership of the research in their name. Furthermore, we would like to see more in depth research on consumer trends based on the follow up survey carried out by the NHBC in their nine-month survey. We feel this could provide a real insight into how builders are tackling initial defects and complaints.

# Section 1: The Inquiry

## 1.1 About the Inquiry

Housebuilding output has been increasing as the sector has bounced back from the lowest rates of building on record. But as housebuilding has recovered from recession, has quality declined?

This Inquiry of the All Party Parliamentary Group for Excellence in the Built Environment sets out to investigate the quality issue. It was sparked by a growing number of cases MPs have encountered among constituents frustrated by problems in their new homes and with inadequate recourse to housebuilders and warranty providers to get them addressed in an affordable and straightforward manner.

This report is the result of an open Inquiry into housing quality and customer satisfaction. All appropriate organisations dealing with housing development, design and construction along with warranty providers, technical experts and consumer groups were invited to submit evidence, and supplementary oral evidence was requested from a number of them. The findings of the Inquiry are based on written evidence that was submitted, what we heard during our oral sessions and on extra evidence we invited.

Our Inquiry was confined to England as different standards and regimes apply in Wales, Scotland and Northern Ireland. It was also restricted to private sale. This is the biggest tenure type, representing around four out of five completions. Inevitably, problems occur across all tenures, but our report focuses on individual homes for sale rather than those bought by social and commercial landlords. Because these latter groups are professional landlords, they have a different direct commercial relationship with their builders and contractors and have more recourse for redress and greater bargaining power than individual homebuyers.

In its call for evidence, the Inquiry was keen to establish an overall picture of the state of housing quality and customer satisfaction as well as investigate practical examples and solutions that could lead

to improvements in these areas. Our call for evidence drew a wide range of evidence relating to aspects of the design, construction and performance of new homes as well as to customer care and legal redress when defects arise.

One of the central issues we had to confront is that there is no overall measure of quality in housebuilding. Instead, it is viewed through a number of different prisms from design and space standards through to planning considerations and energy and environmental performance.

Whilst we appreciate that properly used space and design are extremely important ingredients of good quality, we considered that this area has been well debated and that much has been said and recommended on these issues, and indeed has been addressed by introducing new housing standards.

The Technical Housing Standards<sup>1</sup> have been in place since 2015 and our view is that these should be given the chance to make an impact. However, we do note the concern expressed by the Royal Institute of British Architects (RIBA) that to date there has been little heed of them. It could well be a subject we return to in the future.

What became apparent to us is the often poor quality of workmanship and the problems this is causing consumers. It is an area where we have elected to shine a spotlight, because it was clear to us that there is a quality performance gap between customer demands and industry delivery. Closing this gap will only come about, we believe, if housebuilders make a concerted effort to create a more consumer-focused culture. As one member of our Inquiry noted, “We hear housebuilder chief executives talk about margins and land prices and the state of the market, but very rarely of the quality of their products.”

Written evidence was submitted in the autumn of 2015, and four open sessions, where oral evidence was presented, took place during November and December.

The All Party Parliamentary Group

<sup>1</sup><https://www.gov.uk/government/publications/technical-housing-standards-nationally-described-space-standard>