

The Right Solution To The Cladding Scandal



Ensuring Leaseholders Are Not Punished

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INTRODUCTION

I have worked in the property industry for 3 decades and have seen what works and does not work. The cladding scandal exposed by the Grenfell fire tragedy has highlighted multiple failures within the Government's system of building regulations and inspections. It has also exposed poor practice within the housebuilding industry, with a lack of responsibility and accountability.

Finally, the supposed new homes warranty protection that is much trumpeted by the housebuilding industry has been exposed as not fit for purpose, if it rejects huge numbers of claims for regulatory failure and dangerous construction.

The Government's proposed solutions are woefully inadequate. They will force thousands of homeowners into bankruptcy.

Reform UK is putting forwards a bold 3 step solution that will protect homeowners and provide a long term funding and warranty solution. Common sense ambitious reforms really can change politics for good.

Richard Tice
Leader Reform UK





PRODUCT OF DECADES OF FAILURE

The cladding scandal is the tragic product of decades of failure by:

- 1. Government - weak building regulations that were badly enforced by inspectors, some of whom were too close to big housebuilders. This is why taxpayers' money must be involved.**
- 2. Housebuilding industry - having a long track record of lamentable quality, disdain for customer service, and cleverly created a veneer of false comfort by the National House Building Council (NHBC) warranty scheme.**



NATIONAL HOUSE BUILDING COUNCIL (NHBC)

- The housebuilding industry created its own warranty scheme back in 1936. The NHBC warrant 80% of all new homes.
- They describe themselves:

“We are the UK’s leading independent provider of warranty and insurance for new homes. Our purpose is to build confidence in the construction quality of new homes by assessing, inspecting and directly insuring new homes registered with us. We use our unrivalled expertise... to improve the construction quality of new homes and provide protection for the homeowners who purchase them”

- The NHBC has always been known as marketing gloss for the housebuilders.
- Housebuilders had seats on the board and strong links.
- In return, NHBC gave discounts to larger housebuilders based on number of homes each year and their claim rate.



NHBC - NOT GOOD ENOUGH

- NHBC notoriously slow to respond to claims and a reputation as very hard to secure admission of liability.
- For the UK, this is unacceptable considering the NHBC provide warranty to 80% of all new build homes.

Trust Pilot Score

NHBC

Reviews 213 • Bad



- NHBC been almost silent in this scandal and seemingly avoided media scrutiny.
- NHBC has assets of £1.9bn, yet is denying cladding related claims on multiple occasions. Appear to have only accepted approximately 20 such claims.



GOVERNMENT PROPOSAL: INADEQUATE & DISCRIMINATORY

- Only leaseholders in buildings over 18m in height are covered, but only for cladding replacement costs
- Leaseholders in buildings between 11-18m must suffer the cost burden, often £30,000 upwards on fire safety defects, on top of forced loans of £50 per month for cladding replacement only
- Leaseholders in buildings under 11m suffer the full burden of all remediation costs
- All leaseholders suffer fire watch, extra insurance and other fire safety faults during construction
- Fails to address future long term warranty solution to deal with a future crisis
- This is not good enough; will force thousands into bankruptcy



THREE STEP SOLUTION

Our three-step solution ensures:

Long Term funding and warranty solution

**Guarantee that leaseholders don't pay for cladding
and fire safety related items**

The 'polluter pays' i.e the industry



LONG TERM FUNDING & WARRANTY SOLUTION - NEW HOMES WARRANTY SCHEME

- **Act of Parliament to set up new warranty company absorbing NHBC with its £1.9bn of reserves. Government to inject additional matching reserves to total of £4bn**
- **A new body called the New Homes Warranty Scheme (NHWS) will be created in place of the NHBC.**
- **This new body – would then have 2 responsibilities:**
 - 1) Take full operational and financial responsibility for implementing the resolution of the cladding crisis**
 - 2) Launch a new compulsory fit for purpose warranty scheme for all future new UK Housebuilding with a fee per new home of 1% of sale price**
- **Gap between NHWS £4bn and total remedial costs (expected £10bn - £15bn), met by loan from Govt to NHWS. Loan repaid over time by surplus from ongoing new homes fees**



GUARANTEE THAT LEASEHOLDERS DON'T PAY

The New Homes Warranty Scheme will meet claims and costs of all buildings, new or refurbished, impacted by the cladding and fire safety crisis regardless of height or age over the last 25 years:

- Pay all past and future fire watch claims
- Pay all extra insurances costs over and above the previous normal cost rate
- Pay any verifiable reasonable legal costs incurred so far by claimants
- Pay the full costs of all remedial works for poor installation or missing safety related items that failed to meet relevant standards at the time, or the install of material of the wrong specifications
- Pay the full remedial costs to replace materials that should either not have been used at the time of construction or subsequently been found to be dangerous
- No liability for leaseholders



'POLLUTER PAYS' i.e the industry

- No property owner or leaseholder will suffer financial loss from installation failures
- The cost will not cover wear and tear of other unrelated items even if safety related
- Independent arbitrator rules over disputes between buildings, housebuilders and the New Scheme
- Entire cost is unknown but could be £10-£15bn
- Housebuilders still in business will pay the costs for their buildings that they developed over the last 2 decades



COSTINGS

- **The New Homes Warranty Scheme is expected to generate revenues of around £500 million per annum (200,000 new home sales x 1% fee on average sale price of £250,000)**
 - **This is a net surplus of £500m after future new 'normal' warranty claims**
- **If total full cost is £10bn, would take 12 years for the NHWS ongoing surplus to repay Government loan. (£6bn/£500m = 12 years)**
 - **If full cost was £15bn - (£11bn/£500m = 22 years)**



SUMMARY

Three step solution that ensures:

- **Long Term funding and warranty solution**
- **Guarantee that leaseholders don't pay for cladding and fire safety related items**
- **The 'polluter pays' i.e the industry**
- **Provides new home buyers with confidence going forwards**



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REFORM.**

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83 Victoria Street, London, SW1H 0HW