

National Assembly for Wales
Finance Committee

Report on the Financial Implications
of the Proposed Domestic Fire Safety
(Wales) Measure

November 2010



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Finance Committee

The Finance Committee's remit is to ensure that proper scrutiny is given to the budget and expenditure of the Welsh Government, the Assembly Commission, the Ombudsman, the Children's Commissioner, the Older People's Commissioner and various Welsh Government Sponsored Bodies and NHS Bodies.

The Committee has, in broad terms, three main functions:

- to consider and report on Assembly budget proposals;
- to consider and, where it sees fit, report on the financial information presented in support of Assembly Measures;
- to consider any other matter relating to, or affecting, expenditure by the Government or out of the Welsh Consolidated Fund.

Powers

The Committee was established on 26 June 2007. Its powers are set out in the National Assembly for Wales's Standing Order 14. These are available at www.assemblywales.org

Committee Membership



Angela Burns (Chair)
Carmarthen West and South
Pembrokeshire
Welsh Conservative Party



Lorraine Barrett
Cardiff and South Penarth
Labour



Peter Black
South Wales West
Welsh Liberal Democrats



Andrew Davies
Swansea West
Labour



Chris Franks
South Wales Central
Plaid Cymru



Brian Gibbons
Aberavon
Labour



Ann Jones
Vale of Clwyd
Labour



Nick Ramsay
Monmouth
Welsh Conservative
Party



Janet Ryder
North Wales
Plaid Cymru

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Extracts from Standing Orders:

14.2 The [Finance] Committee may also consider and, where it sees fit, report on:

- i. financial information in explanatory memoranda accompanying proposed Assembly Measures;*

.....

23.18 At the same time as [the Member in charge] introduces a proposed Measure, he or she must also lay an Explanatory Memorandum which must:

(vi) set out the best estimates of:

- (a) any administrative, compliance and other costs to which the provisions of the proposed Measure would give rise;*
- (b) the timescales over which such costs would be expected to arise; and*
- (c) where the costs would fall;*

Introduction

1. The Finance Committee considered the Proposed Domestic Fire Safety (Wales) Measure at its meeting on 14 October 2010.

2. Ann Jones AM, the Member in charge of the proposed Measure, presented it to the Committee and answered Members' questions. Ann Jones was accompanied by Chris Enness of the Chief Fire Officers Association and Martin Jennings of the Members Research Service. Following the meeting Ann Jones provided further information to the Finance Committee in her letter dated 1 November. Members also had regard to the responses received by Legislation Committee 1 in its consultation on the proposed Measure.

Background

3. The proposed Measure would confer on Welsh Ministers the power to make subordinate legislation in respect of building work in Wales which involves the

- Construction of new residences;
- Conversion of an existing building to create one or more residences;
- Subdivision or amalgamation of existing residences.

4. Such legislation would require that each new residence created must be provided with an automatic fire suppression system that operates effectively and complies with regulations to be made by the Welsh Ministers.

5. A failure to meet this new duty would be treated as equivalent to a breach of the building regulations and subject to the same enforcement action as would apply to such a breach under the Building Act 1984.

6. The proposed Measure applies only to the construction of new residences, the conversion of an existing building to create one or more new residences, or the subdivision or amalgamation of existing residences. It does not require the retro-fitting of automatic fire suppression systems in existing properties.

7. The definition of a residence includes dwelling-houses, flats, residential care homes, boarding schools, residential colleges and student halls of residence. The proposed Measure also applies to the creation of new houses in multiple occupation and common areas such as stairways in buildings containing more than one new residence.

Costs associated with the proposed measure

Main costs

8. The Explanatory Memorandum says¹ that the main costs will be the capital cost of the installation of automatic fire suppression systems in the properties to which the Measure applies. Another possible associated cost could be the augmentation of the water supplies. However most of the installations will be in new housing developments, where the provision of a mains water supply for domestic use will be provided in any case, so the additional cost for the fire suppression system should be relatively small. In their evidence to Legislation Committee 1, Welsh Water said that there would be significant extra costs to provide a sprinkler connection to new houses and quoted additional costs of between £695 and £976 per house depending on the level of excavation and reinstatement needed.

¹ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.7

9. The Explanatory Memorandum also says² that it is difficult to provide exact estimates for the cost of installing automatic fire suppression systems in domestic dwellings because it will depend on a number of factors including the size and design of the property. It will also depend on the number of properties in a development having such systems installed. Estimates of these costs vary from under £1,000 to over £2,500 per property, although design trade-offs and other savings may reduce some or all of these costs. While maintenance is not covered by this proposed Measure the annual maintenance costs could be from £20 to £100 per annum.

10. Costs for installing systems in new properties are likely to be lower than for property conversions because the systems can be designed and built in from the beginning. There may also be trade-offs and savings from avoiding the need for other fire-prevention systems.

11. In their evidence to the Legislation Committee a number of witnesses questioned the reliability of the estimates of £1,000 to £2,500. For example, Bovis homes³ suggested it could be 'over £3,000' per dwelling which they describe as 'almost three times the figures suggested by the RIA' – although, in fact, the high end of the range in the Explanatory Memorandum is £2,500. Community Housing Cymru referred to a pilot scheme to research the technical difficulties and cost of domestic sprinkler installation. For nine new bungalows for people aged over 55, one of which included adaptations for a disabled user, the total cost of the sprinklers was approximately £46,000. This is over £5,000 per bungalow and included costs for the sprinkler system, electrical and building work, and work on the incoming water main.

12. Alongside this, the Explanatory Memorandum indicates⁴ that the costs of installation could fall as the market develops.

Overall costs

13. The Explanatory Memorandum⁵ says that on the basis of various assumptions it has made on costs and volumes etc, the average costs of installation per dwelling would be £1,223, with a low estimate of

² Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.12-14

³ Legislation Committee No.1, Consultation response from Bovis Homes Group Plc, DFS 15

⁴ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.23

⁵ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.21

£978 and the high estimate £1,719. It goes on to say⁶ that these cost estimates are in line with those from a number of other different sources to which it refers

14. Using these estimates the total cost of installing automatic suppression systems in 10,000 residences a year could be in the region of £10 million to £17 million per annum. If one accepts the higher estimates suggested by one or two witnesses the total would be proportionately higher.

Who pays

15. The Explanatory Memorandum says⁷ that the majority of costs associated with the provisions of the proposed Measure will initially fall on those building new properties or converting existing properties to residential use.

16. This cost could in turn fall on the purchaser of the property in terms of a higher property value or on the owner of land, in terms of reduced value of land if the installation costs are not matched by an increase in the value of houses in which sprinklers are fitted.

17. However⁸ the Explanatory Memorandum also expects that much of these costs could be recouped over the lifetime of the system through increased property values, increased rent or reflected in lower land values. In her letter of 1 November⁹ Ann Jones refers to more recent work which shows that competition should drive down the costs of installation as will the integration of systems into building design.

18. The Finance Committee asked about the effects that these additional costs might have on house sales and the demand for housing. Mr Enness said¹⁰ that there was no evidence that sprinkler units would slow down the housing market and, in fact the evidence from America was the opposite. He also had anecdotal evidence that home owners had a clear preference for houses fitted with sprinklers. Conversely, the Homebuilders Federation stated in evidence¹¹ to Legislation Committee 1 that neither they, nor the Council of Mortgage Lenders, were aware of any evidence that valuers would recognise any premium attached to houses with sprinklers. Mr Enness also told the

⁶ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.17

⁷ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.6

⁸ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.7

⁹ Finance Committee FIN(3)-19-10(p3), *Financial Implications of the Proposed Domestic Fire Safety (Wales) Measure – Additional Information from Ann Jones AM, Member in Charge*, 18 November 2010

¹⁰ RoP p29, 14 October 2010, Finance Committee

¹¹ Legislation Committee No.1, Consultation response from the Homebuilders Federation, DFS 23

Finance Committee that the housing market fluctuated by 1 or 2 per cent every month – more than the cost of a sprinkler unit. Ann Jones told the Committee¹² that fire sprinklers were part of a gradual cultural change to increased safety generally in society, in response to customer demand, and that people were prepared to pay the extra price and, indeed, expected the additional safety provided.

19. The situation was slightly different in relation to organisations such as housing associations who worked to fixed cash budgets and for whom, on the face of it, an increase in property costs would lead to a reduction in the number of houses they could build. In its written evidence to LC1, Community Housing Cymru said that the extra cost of fitting automatic fire suppression systems into affordable housing would have to be met somewhere, either through increased rents, further funding from the Welsh Government, or more flexibility in space and specification standards. Responding to this, Ann Jones said¹³ that there are likely to be some savings due to design freedoms that arise from the inclusion of automatic fire suppression systems in new social housing. However she agreed with the point made by the Minister in her evidence to the Legislation Committee that this was not a showstopper in any way.

Maintenance costs

20. While maintenance of sprinkler systems is not part of the proposed Measure itself, there are inevitably going to be on-going maintenance costs, which are likely to fall on the occupier or landlord of the property. These would be zero for the first year, in the region of £250,000 for the second year, £500,000 for the third and so on. In her letter¹⁴ to the Committee Ann Jones said that the assumptions made in the Explanatory Memorandum were based on annual maintenance costing £75 and that a third of occupiers would take it up. She went on to say that it is very difficult to accurately estimate how often people will maintain these systems.

Other costs

21. The Explanatory Memorandum says¹⁵ that there will be additional costs for the Welsh Government and local authorities in terms of administering and enforcing the proposed Measure. These

¹² RoP p45 & 56, 14 October 2010, Finance Committee

¹³ Finance Committee FIN(3)-19-10(p3), *Financial Implications of the Proposed Domestic Fire Safety (Wales) Measure – Additional Information from Ann Jones AM, Member in Charge*, 18 November 2010

¹⁴ Finance Committee FIN(3)-19-10(p3), *Financial Implications of the Proposed Domestic Fire Safety (Wales) Measure – Additional Information from Ann Jones AM, Member in Charge*, 18 November 2010

¹⁵ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.8

would be dependent on standards and regulations, although it is expected that these costs will be minimal.

Costs and Benefits

22. The Explanatory Memorandum says¹⁶ that the benefits coming as a result of these costs is the lives saved, injuries avoided, property protected, increase in property resale value, rehousing costs averted, reduced fire brigade costs, environmental benefits and other savings. In her oral evidence¹⁷ Ann Jones said that in 2009-10 there were 23 deaths due to fires and that these cost £23m to the economy – without taking account of serious injuries, the cost of rehousing survivors, the personal loss suffered by the family of the person who dies, or NHS costs.

23. In her subsequent letter¹⁸ Ann also says that there is no direct comparison in the Explanatory Memorandum of costs against benefits and that they were looking at broad estimates of costs and benefits. She said also that no effort has been made to quantify what she describes as the considerable environmental benefits offered by sprinklers.

Discussion and conclusions

24. The Finance Committee notes and welcomes the wide range of financial information that has been provided in support of this proposed measure. Clearly a considerable amount of effort has gone into assessing its financial implications – but the Committee has to note that there are still a great many uncertainties surrounding the costs involved.

25. The main impact of the proposed measure will be in relation to new properties where installing a fire sprinkler system will inevitably lead to an increase in construction costs. The Explanatory Memorandum suggests these will be in the range of £1,000 - £2,500 although some witnesses suggest the figure might exceed £3,000 and costs in one pilot scheme were just over £5,000 per unit. Witnesses had differing opinions as to the costs of sprinkler systems, and the potential impact of such costs on the housing market. Clearly more work is needed on these but there is no evidence that they will be seen as a significant burden on house buyers or have a significant impact on the housing market. Indeed, there are suggestions that properties

¹⁶ Proposed Domestic Fire Safety (Wales) Measure, Explanatory Memorandum para 8.9

¹⁷ RoP p10, 14 October 2010, Finance Committee

¹⁸ Finance Committee FIN(3)-19-10(p3), *Financial Implications of the Proposed Domestic Fire Safety (Wales) Measure – Additional Information from Ann Jones AM, Member in Charge*, 18 November 2010

which have such systems might become more desirable than those that do not.

26. The Finance Committee noted also that in some ways the installation of sprinkler systems could be seen simply as one element in the continual drive to improve housing standards such as through improved building regulations. It noted also that costs can be expected to fall with developments in design and increased competition.

27. The costs of installing fire systems as part of property conversions are likely to be higher and more varied as they will depend on the design of and situation of the property in question. However there is even less information on these.

28. The Finance Committee notes that if the installation of a sprinkler system increases property construction costs this will could have an impact on organisations such as housing associations who are working to fixed cash budgets – or in turn on the Government if it needs to fund the additional costs. Maintenance costs will also impact more significantly on such organisations.

29. If the installation of sprinkler systems does becomes a mandatory requirement there will inevitably be a cost for in terms of administering and enforcing the proposed Measure. The Finance Committee does not disagree with the view expressed in the Explanatory Memorandum that these should be minimal although. It notes also that these would be dependent on standards and regulations.

30. Finally, the Committee notes that orders under this purposed Measure will require the preparation of a Regulatory Impact Assessment at which time a more detailed, and more specific, financial assessment will need to be prepared.

31. Subject to these observations the Finance Committee supports the proposed Measure.

Angela Burns
Chair, Finance Committee