

Barriers facing small home building firms

April 2020



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About the Committee

The Committee was established on 28 June 2016. Its remit can be found at: www.assembly.wales/SeneddEIS

Committee Chair:



Russell George AM
Welsh Conservatives

Current Committee membership:



Mohammad Asghar AM
Welsh Conservatives



Hefin David AM
Welsh Labour



Vikki Howells AM
Welsh Labour



Helen Mary Jones AM
Plaid Cymru



Joyce Watson AM
Welsh Labour

The following Member attended as a substitute during this inquiry.



Siân Gwenllïan AM
Plaid Cymru

The following Members were also members of the Committee during this inquiry.



Mark Reckless AM
Brexit Party



David Rowlands AM
Brexit Party



Jack Sargeant AM
Welsh Labour



Bethan Sayed AM
Plaid Cymru

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Chair's foreword

Unlocking the potential of small home builders in Wales is key to increasing the availability of new housing. Over the last few years, the number of new houses built by small home builders has shrunk dramatically. The reasons are many and complex, and there is no silver bullet to put this right at a stroke. But as we dug deeper, it became clearer and clearer that three key issues lie at the heart of the matter:

- Access to land;
- Access to finance;
- The planning process.

This report looks at each of these areas and attempts to make some proposals to get small local building firms building again. To generate real and lasting change we will need to see progress in all three areas.

Creating the circumstances where small homebuilders can build more homes is good for addressing housing needs, and fits well with the Welsh Government's commitment to develop the foundational economy. It creates new opportunities to develop in-demand skills in the construction sector, and to support the kind of community-based Small and Medium Enterprises (SMEs) that retain and recycle their profits in the areas where they live and work. That's not to say there isn't a role for the large Public Limited Companies (PLCs) who build the vast majority of new homes in Wales. Where large-scale building is a priority their expertise and know-how will still be needed.

We are grateful to all who submitted evidence to the Committee during our inquiry, and to the Cross-Party Group on Small and Medium Sized Enterprises whose session exploring some of these issues created the impetus for more in-depth work by the Committee.



Russell George AM
Chair, Economy, Infrastructure and Skills Committee

Recommendations

Recommendation 1. The Welsh Government should prioritise support for de-risking sites in former industrial areas to facilitate access by smaller home building firms. This should include assessing the viability of expanding the approach to free up private land for development by SMEs, whether by creating an independent body or authority or by some other means.

Recommendation 2. The Welsh Government should urgently introduce greater proportionality measures into the planning system to assist smaller home building firms. In particular it should consider the recommendation from the Home Building Federation (HBF) and others to raise the threshold for the definition of a “major development”.

Recommendation 3. The Welsh Government should engage with the Welsh Local Government Association and Local Planning Authorities (LPAs) on how the Local Development Plan process can better engage with SME home builders, and how LPAs can be better resourced to provide an appropriate and consistent level of support to smaller home builders during the planning process..

Recommendation 4. The Welsh Government should work with Local Planning Authorities, Natural Resources Wales and other expert stakeholders such as RTPI Cymru to urgently identify the specific gaps in capacity and inefficiencies within the current planning consents process, and implement timely solutions. The Committee would expect this to include consideration of shared resource and service level agreements to address concerns raised about staffing bottlenecks, duplication of roles, and lack of specialist knowledge about increasingly complex requirements.

Recommendation 5. The Welsh Government should engage with the Development Bank of Wales on assessing the impact of its two Housing Funds, and whether adjustments to the existing Funds, or introduction of different loan options, could further assist SMEs to access the market and address the cash flow barriers they face, particularly in respect of financing for the planning process.

Recommendation 6. If the Welsh Government chooses to continue with the Help to Buy scheme, it should consider how the scheme could be refocused or better targeted to increase the participation of small home builders, and set out at the earliest opportunity how it intends to do this.

Recommendation 7. The Welsh Government should undertake a timely review of the performance of the Self Build Wales scheme and assess whether it could extend the scheme to support small home builders looking to develop up to 10 units.

Recommendation 8. The Welsh Government should prioritise an assessment of the extent to which the four City and Growth Deals and the forthcoming Regional Economic Frameworks will focus on supporting small home building firms to access the market, and how learning will be shared between the Deals. This assessment should include examining how existing and new funding streams should best be directed to overcome the barriers to access identified by the Committee's inquiry.

Recommendation 9. The Welsh Government should outline how and when it will assess the extent to which local authorities are implementing the measures required by Planning Policy Wales: Edition 10 to assist small home building firms, including holding a register of suitable smaller sites below the Local Development Plan threshold, working with larger developers on sub-division of sites, and other measures. Welsh Government should also outline its planned approach to dealing with any failures to meet the requirements set out in PPW 10 to help small home building firms contribute to housing targets.

Recommendation 10. The Welsh Government should provide assurances that it is acting on the concerns about skills gaps raised by the Qualifications Wales 2018 review of construction and the built environment, and in evidence to the Committee. In particular Welsh Government should detail how it is addressing concerns about insufficient focus on: progression of skills; workforce planning for an ageing workforce; and measures to promote the construction industry as an attractive career choice, regardless of gender. The Government's response should explain how and when it will evaluate impact and outcomes.

1. Background

While planning and housing issues fall within the remit of other Assembly Committees, it is entirely appropriate for EIS Committee to look at the barriers that constrain this sector of the economy. In November 2018 the Committee agreed to undertake a short inquiry to consider the barriers facing small home building firms in Wales.

1. The Committee agreed the following terms of reference:
 - To assess the barriers facing small homebuilding firms to include consideration of:
 - The availability and effectiveness of Welsh Government (and other) support and finance for small homebuilders
 - The availability of a skilled construction sector workforce
 - Access to suitable development sites
 - The Planning system and the extent to which it actively facilitates developments by small housebuilders
 - The dominant position of a small number of big firms
 - To understand the proportion of new housing in Wales currently delivered by small housebuilders, to include consideration of:
 - The impact of Help to Buy Wales
 - The potential impact of increasing the proportion of new housing in Wales delivered by small housebuilders
 - The extent to which small housebuilders are involved in the delivery of affordable housing (including the impact of current procurement rules)
2. The Committee's consultation received eight responses: from FSB Wales, Hygrove Homes, the Federation of Master Builders Wales, National House-Building

Council, Residential Landlords Association, Chartered Institute of Housing, Home Builders Federation, and one developer who wished to remain anonymous.

Welsh Government activity

3. On 23 April 2018, the then Minister for Housing and Regeneration, Rebecca Evans AM, announced an independent review of affordable housing supply in Wales. The review reported to the Minister in April 2019 with the following recommendations:

- The Welsh Government should mandate local authorities to provide Local Housing Market Assessments (LHMAs) based on a consistent timetable, data and methodology across housing tenures. LHMAs should be refreshed every two years and rewritten every five years, and submitted to the Welsh Government. Jointly commissioned LHMAs should also be explored;
- The Welsh Government statistical service should work with local authorities to agree data sets for use in the LHMA, Local Development Plan (LDP) and other housing requirements work;
- The Welsh Government should encourage local authorities (LAs) to use the flexibilities that the lifting of the borrowing cap creates to support delivery of new affordable housing supply. Where appropriate, LAs should have the freedom and flexibility to access grant from the Welsh Government direct or through wholly owned Local Housing Company structures; and
- The Welsh Government should encourage LAs and housing associations (HAs) to work in partnership to share skills, capacity and resources, and work collectively, through local and regional procurement frameworks, to support local supply chains.

4. The Welsh Government's Innovative Housing Programme (IHP) has a target of delivering 1,000 affordable homes as part of the Welsh Government's 20,000 affordable homes target. and has been approved for 3 years with a budget of £90 million. The scheme seeks to support innovation in a broad context covering construction techniques, delivery pathways and housing types across all tenures. The aim of the programme is to help inform the Welsh Government about the type of homes it should financially support in the future to develop housing that meets current and future demand. In 2019-20 (year 3) the IHP was again open to registered social landlords (RSLs), local housing authorities (LHAs), including local

authority owned companies, and private sector applicants. RSLs applying for funding must be registered with the Welsh Government and LHAs must be based in Wales. Private sector applicants can be based anywhere as long as the scheme that requires funding is in Wales. Joint bids from public and private sector partners working together are welcomed.

5. Between July and October 2018 the Welsh Government undertook a consultation to ‘explore ways for the planning system to assist in increasing the delivery of new homes in sustainable locations’. A summary of responses, ‘Delivery of Housing through the Planning System’, was published in October 2019 and made the following observations on the role of the development industry:

- It was highlighted in responses that the house building industry is dominated by a small number of large firms and this can be challenging due to the limit on the number of outlets impacting on site delivery;
- During the LDP process, it was suggested that the house building industry is not required to work with LPAs and their focus is largely on promoting individual sites and not the strategic level of housing need and demand; and
- A re-occurring theme was the need to promote greater competition in the sector including SMEs, particularly in more rural areas.

6. After that consultation a new edition of Planning Policy Wales was published (December 2018), and a new edition of Development Plans Manual issued for consultation in June 2019. Planning Policy Wales highlights the need for the plan-making process to allocate sites for housing that are both deliverable and sustainable. This includes collating more evidence on site delivery and viability, infrastructure requirements and place-making principles early in the Local Development Plan (LDP) process. The policy also requires housing trajectories to be included in LDPs to provide timelines for delivery of specific sites during the plan period.

7. In evidence to the Committee the Deputy Minister for Housing and Local Government, Hannah Blythyn AM, recognised the barriers facing SMEs in the housing sector in Wales and the importance of overcoming these: “SMEs are more likely to build in areas that the volume house builders do not tend to operate, they offer significant employment opportunities within communities, they tend to work on smaller sites, and use local supply chains”.¹

¹ Written evidence

2. Barriers

This chapter gives an overview of the main barriers faced by small builders in seeking to build more homes in Wales. Later chapters specifically explore the barriers around finance, access to land, and the planning process.

Decline of the sector

8. A number of reports in recent years have drawn attention to the fact that SMEs used to build a much greater volume of new housing than has been the case in recent years. In January 2017 the Home Builders Federation published ‘Reversing the decline of small housebuilders’². Key points in the report include:

- Since the late 1980s a structural decline has taken place which has seen the number of smaller active companies shrink from more than 12,000 in 1988, when nearly 4 in 10 homes were completed by SMEs, to around 2,500 companies responsible for just 12% of new builds today.
- Estimates suggest that small developers were responsible for fewer new build completions in 2015/16 than during the 2008-09 recession.
- Delay and risk during the planning stage has influenced lender attitudes to housebuilding meaning that terms SMEs borrow on are restricting growth opportunities.
- In just the period 2007-2009, one-third of small companies ceased building homes.
- Measures to remove blockages in the planning system, reduce red tape and bring about fairer finance for SMEs would enable more companies to realise their ambitions, reinvigorating the entrepreneurial spirit of previous decades.

9. While the figures above are not specific to Wales, they give an indication of the likely situation in Wales.

10. The issues facing small housebuilders in the UK were also considered in a report published in 2018 by the All Party Parliamentary Group for Small and Micro

² www.hbf.co.uk/news/reversing-the-decline-of-small-housebuilders/

Businesses. ‘An Inquiry into Support for Small Housebuilders’³, supported by the FSB, looked at issues regarding access to finance, poor payment practice within the supply chain, labour and skills, and barriers to building. It called for a “Dedicated Strategy for Small Housebuilders” to address the key challenges holding housebuilders back, including:

- Improving access to finance
- Action against businesses that pay their suppliers late
- More help to increase apprenticeships in the building trade
- Remove barriers to building on small sites

11. FSB Wales also provides the secretariat to the National Assembly’s Cross Party Group on Small and Medium Sized Enterprises, which discussed barriers facing small housebuilders in September 2018. The FSB’s written evidence to the Committee sets out four main barriers for smaller developers to take part in the housing market:

- The cost of the planning process
- Land availability
- Access to finance
- Access to skills

12. Ifan Glyn of the FMB Wales pointed to the size of the gap between the number of houses needed and houses being built.

“There was research work undertaken by the Welsh Government that was published last week stating that we need to build between 6,700 and 9,700 houses over the next five years, so, on average, that’s about 8,300 homes annually, and, over the past decade, on average we’ve been building around 6,400. So, if my maths are correct, there’s a deficit between the housing needed and the supply of about 20 per cent.”⁴

13. Ifan Glyn said that around three quarters of the houses are built by five very large companies, mainly in more prosperous areas. He believed that small house

³ www.infrastructure-intelligence.com/sites/default/files/article_uploads/APPG%20Housing%20report%20final.pdf

⁴ Paragraph 165, Economy, Infrastructure and Skills Committee, 6 February 2019

builders could fill the gap by building houses in rural and less prosperous areas, and ensure homes were built outside the M4 and A55 commuter belts. Joshua Miles of FSB Wales agreed and stated that the “geographical spread” of houses being built is quite a “concentrated market”.⁵

14. Simon Gale of Rhondda Cynon Taf Council said that small house builders, particularly in the Valleys communities, seem to have “disappeared off the landscape completely”⁶ since the economic recession a decade ago. He stated that even though confidence in the housing industry has increased, businesses are still “really struggling to access finance and they’re seen as a risk by the main lenders still”⁷.

Is the sector in crisis?

15. In written evidence Hygrove Homes described the sector as being “in crisis”. Director Huw Francis told the Committee:

“...the consensus is that the process now takes far too long, it’s far too complicated, it’s very uncertain, very costly and very frustrating. And as a consequence of that, most of the small house builders have called it a day.”

16. While the word “crisis” proved contentious with many witnesses, there was a widespread acceptance that the conditions facing the sector were very challenging. Bigger homebuilders also talked of the challenges facing the sector – in particular the growing complexity of planning applications and skills shortage.

Construction skills

17. Evidence from FSB Wales⁸ referred to a survey of 450 SMEs across all sectors in Wales to ascertain their employment and skills challenges. It found that there were significant challenges in firms attracting and developing trade-based occupations, such as those in the construction sector.

18. The Residential Landlords Association (RLA) was concerned about the impact Brexit will have on skills and the construction industry given the reliance on foreign labour and skills, and wanted to see urgent clarification of the rights of

⁵ Paragraph 169, Economy, Infrastructure and Skills Committee, 6 February 2019

⁶ Paragraph 235, Economy, Infrastructure and Skills Committee, 7 March 2019

⁷ Paragraph 235, Economy, Infrastructure and Skills Committee, 7 March 2019

⁸ Written evidence

existing EU nationals living in the UK in terms of the right to both live and work in the UK.⁹ This was an issue raised by several other witnesses in oral evidence.

19. The Chartered Institute for Housing (CIH), looking at the construction industry more broadly in Wales, identified that there is “relatively low productivity, with falling output per person (at a UK level) over the last few decades. The reasons for the decline include lower skill levels, lack of investment in new techniques, methods and materials, and a reluctance to innovate”.¹⁰ The CIH went on to suggest that it is important for Welsh Government to consider developing workforce strategies to future-proof the skills available to serve delivery across the housing system.

20. The Home Builders Federation (HBF) said that there is a “shortage of skilled labour in a number of the key house building trades”¹¹ and the Federation of Master Builders (FMB) described the skills gap within the construction industry as “extensive and significant”¹². According to a recent survey of its members, 68% of companies find it difficult to hire a bricklayer, 59% find it hard to hire a carpenter, while 58% of its members expect salaries to rise over the next six months. The FMB suggests that “a lack of available skilled workers for small home building firms has the effect of causing delayed projects, and a requirement to pay higher wages in an industry already demanding highly competitive rates of pay”.¹³

21. Hygrove Homes asserted that building fewer homes in Wales has the added effect of “hindering the apprentice programme thereby guaranteeing a more acute future skills shortage in Wales than elsewhere in the UK”.¹⁴

22. Asked why profitable housebuilders hadn’t built more houses, Tim Stone of Redrow Homes South Wales said:

“There is a skills crisis. There’s not an availability of workforce. That’s one of the issues.”¹⁵

23. Daryl Jones of Persimmon said that it had addressed the skills shortage in order to build more homes by taking on groundworkers from groundwork

⁹ Written evidence

¹⁰ Written evidence

¹¹ Written evidence

¹² Written evidence

¹³ Written evidence

¹⁴ Written evidence

¹⁵ Paragraph 46, Economy, Infrastructure and Skills Committee, 7 March 2019

companies that “went bust” and creating its own trade companies, for groundwork, bricklaying and carpentry, to “be in control of our own destiny”.¹⁶

24. Joshua Miles of FSB Wales was very positive about apprenticeship schemes such as Cyfle Cymru, but felt that more investment was needed:

“It’s a major, major issue, the lack of skills, and the replacement of those skills is going to take a lot of time and a lot of investment, and it’s something we really need to consider, I think.”¹⁷

25. Ifan Glyn of FMB Wales also said that qualifications in construction need to consider “future skills need” and “modern methods construction”¹⁸ as larger and smaller firms have different requirements, and that the Qualifications Wales review of skills needs was a positive.

26. Gareth Davies of Coastal Housing (representing Community Housing Cymru) also told the Committee that the construction industry is “challenged around not only trades but surveyors, planners, and all those sorts of professions that help deliver housing schemes”¹⁹.

27. The Deputy Minister for Housing and Local Government, Hannah Blythyn AM, acknowledged the “significant skills gap”²⁰ in the construction sector, and outlined shared apprenticeship schemes and the work of the Regional Skills Partnerships to upskill the workforce.

Large home builders dominate the market

28. The Home Builders Federation said that the dominance of a small number of large firms does not have a direct impact on the ability of SMEs to build houses, however, “indirectly it could be seen that both planning and finance are aligned to larger developers as these are currently the main providers who can deliver the much needed housing, both private and affordable, in Wales”.²¹

29. The FMB agreed, stating that “although the sector is dominated by a small number of large firms, we don’t believe that this is at the expense of smaller

¹⁶ Paragraph 48, Economy, Infrastructure and Skills Committee, 7 March 2019

¹⁷ Paragraph 292, Economy, Infrastructure and Skills Committee, 6 February 2019

¹⁸ Paragraph 295, Economy, Infrastructure and Skills Committee, 6 February 2019

¹⁹ Paragraph 237, Economy, Infrastructure and Skills Committee, 6 February 2019

²⁰ Paragraph 318, Economy, Infrastructure and Skills Committee, 27 March 2019

²¹ Written evidence

firms”.²² The FMB went on to conclude that “curbing the dominance of larger firms down [a] peg or two will not resolve the fact that smaller firms find the current sector unappealing”.²³

30. When the larger homebuilders gave evidence to the Committee they responded to robust challenge about the extent to which they were meeting demand for truly affordable housing, particularly in parts of the South Wales valleys where they are currently active, and whether SME homebuilders were in a better position to provide the homes at the “bottom-end” in terms of affordability. Daryl Jones of Persimmon said that most housing was being built on brownfield sites in quantities of 100 units plus, with around 30-40% at the lower end of affordability:

“For an SME to make those sites viable for, say, 10 or 15 units, might be very difficult, because of the cost of development. We’re on old mine-working areas, where you’ve got to do some remediation to the ground, decontamination, et cetera. So, the costs of the development are the barriers there, particularly in these Valleys areas, where maybe the revenues achieved aren’t as high as what you would have in your cities—in Cardiff, et cetera.”²⁴

31. The scale of profit being made by the larger homebuilders was raised with them. They stated that this was not a barrier to SMEs, and they were needed to build in volume and provide the associated infrastructure. Tim Stone of Redrow Homes South Wales said:

“The reality is that there’s no objection from us in supporting and helping SMEs, but the reality is you also need PLCs to build houses in the volumes that are required for the market, and, if you didn’t, the affordable housing wouldn’t be built and the housing numbers wouldn’t be built.”

32. Daryl Jones of Persimmon went on to point to the infrastructure provision of the larger homebuilding firms, such as schools and playing fields.

33. The larger firms were also challenged on FMB’s point that “three quarters of the houses are built by five very large companies these days, but, essentially, only in more prosperous areas. They have an interest in places like south-east Wales, but, if you go to rural areas and less prosperous areas, they have less interest in

²² Written evidence

²³ Written evidence

²⁴ Paragraph 26, Economy, Infrastructure and Skills Committee, 7 March 2019

building in those areas”²⁵. Persimmon said it did have developments in some more rural areas and would “look wherever there is a market”.²⁶

34. Mark Harris of HBF told the Committee that both large firms and SMEs have a role to play in the building industry and that there is room for everyone, drawing a picture of the current situation in South Wales:

“...the more you go away from the M4 corridor, you tend to find that sites, certainly in the northern Valleys, are more difficult to build on and tend to be smaller sites, and because—and there are a couple of factors—we’ve got a shortage of skills, we’ve got some very large sites coming online in Newport, in Monmouth and in Cardiff, so it’s quite understandable, given that we’ve been asked to build more houses in those areas, that we can only stretch so far. It becomes less cost-effective the smaller the site you build, because a lot of the more rural areas are sites of 10 or 20 houses and it just doesn’t make sense for plcs and that’s where there is the market for the SMEs, without doubt. But the SMEs aren’t taking them up either because there aren’t the SMEs. So, that’s why we’re saying that there’s room in the market for all of us. We can do what we do—we can build houses around transport infrastructure, we can build houses around where people work, which is where the biggest demand for houses are, but, yes, there are smaller demands in those rural areas, which is where the SMEs should be filling the gap, really.”²⁷

35. The Committee explored the economic impact of market domination by ‘the big five’ volume house builders with the Deputy Minister and officials. The Deputy Minister said that no assessment had been made of the level of economic benefit being retained within the local economy and through local supply chains. Welsh Government’s Chief Planner, Neil Hemington, said:

“So, as a matter of principle I would expect an SME builder to return more to the local economy than a volume house builder, but we do not have that level of detail.”²⁸

36. The Deputy Minister stressed that SMEs were an important part of the building sector in Wales:

²⁵ Paragraph 165, Economy, Infrastructure and Skills Committee, 6 February 2019

²⁶ Paragraph 119, Economy, Infrastructure and Skills Committee, 7 March 2019

²⁷ Paragraph 120, Economy, Infrastructure and Skills Committee, 7 March 2019

²⁸ Paragraph 258, Economy, Infrastructure and Skills Committee, 27 March 2019

“There’s no binary big always equals bad and SME always equals perfect. But we would say that, actually, our emphasis as a Welsh Government—we recognise we want more SMEs to be part of that and to be able to access the market because we want to support those house builders who are about place making, responsible building, and actually, sustainable communities as well, and to be part of those communities and recognise the value that they bring, and, like I said, the wider employment opportunities and access to the supply chain as well.”²⁹

Role of Utilities Companies

37. The Committee heard some strong criticism of utility companies and the requirements they place on homebuilders. In written evidence, Hygrove Homes said that the cost associated with any dealings with utility companies is a “major concern for all SHBs”.³⁰ This was attributed to the cost always being “front loaded, is non-negotiable and does not in any way reflect the quality or quantity of service provided”. Hygrove Homes also stated that consultation with all utility companies is required on any development, which results in these companies holding a monopoly in their respective areas and a cost that is “totally at their discretion”. They specifically referred to Dŵr Cymru in this context.

38. Dwr Cymru stated in written evidence that their costs for undertaking services for developers is based on a “cost-reflective approach”³¹ and that they are prohibited from “making any profit for providing any of these statutory services” by the Water Industry Act 1991. They added that the industry regulator Ofwat have “never concluded that our costs have been unreasonable”.³² The Committee explored concerns about charging arrangements with Dwr Cymru, where certain costs are charged ‘up front’, and challenged whether there was sufficient understanding of the cash flow issue this presented for smaller homebuilders. In oral evidence Ian Wyatt from Dwr Cymru said “when you look at the cost differential between what’s involved in assessing and the work involved in undertaking small-scale sewer adoption applications compared to the larger scale, there is a very big difference in those charging arrangements”³³. The Committee was told that there was a legal framework to consider, but that Ofwat

²⁹ Paragraph 242, Economy, Infrastructure and Skills Committee, 27 March 2019

³⁰ Written evidence

³¹ Written evidence

³² Written evidence

³³ Paragraph 397, Economy, Infrastructure and Skills Committee, 7 March 2019

was consulting on proposed changes to the developer services charging arrangements.³⁴

39. Ian Wyatt highlighted the challenge of how charging arrangements affect “smaller, rural type development” compared to more urban developments on a larger scale. He said that they had “good foresight” of larger developments outlined in the local development plan and could invest accordingly, whereas there is less “visibility” of small sites, particularly in rural communities.³⁵ He said that better visibility for those sites would make it easier for the utility provider to plan for and support that development.

40. As stated earlier, three other issues stood out from the evidence as major barriers for small homebuilders: availability of land; access to finance; and the planning process. These are explored in more detail in the following chapters.

³⁴ Paragraph 384, Economy, Infrastructure and Skills Committee, 7 March 2019

³⁵ Paragraph 404, Economy, Infrastructure and Skills Committee, 7 March 2019

3. Finance

41. The Home Builders Federation said that the “availability and terms of financing for residential development has become extremely difficult for small housebuilding companies over the past decade or so”.³⁶

42. FSB Wales notes that there are issues particular to smaller developers that make the lack of finance critical. It points to the fact that for a housing development cash flow is largely negative until any development is at the point of sale, and profits are usually loaded towards the end of the development and sale process. This means any additional costs front-loaded through the planning system, including unnecessary costs through delays in the process, can have a significant bearing on the fortunes of the developer and the viability of a site. Furthermore, banks as a general rule do not provide funding for planning purposes, making the process difficult for SMEs to finance.

43. Hygrove Homes told the Committee that “traditional high street banks have all but ceased lending to most SHBs in Wales (as compared to England), despite claims to the contrary by most banks”.³⁷ It said that this has led to the emergence of a secondary tier of lenders charging far higher rates and fees, and these lenders “will not provide funding for the continuously increasing cost of planning applications”. Hygrove Homes also highlighted that lending decisions are “no longer taken on a local/regional basis and are instead made centrally by lending committees that have limited knowledge of the Welsh market”.³⁸

Development Bank of Wales

44. The Development Bank of Wales manages two funds to support housing in Wales. The Wales Property Fund provides loans for residential and mixed-use developments up to 65% of Gross Development Value (GDV) (including up to 100% of build costs). Loan sizes are from £150,000 to £4 million, with a term of up to 2 years.

45. The Stalled Sites Fund provides loans for residential developments in Wales that are “unable to be progressed with traditional development funding”, providing loans of up to 90% of Gross Development Value (GDV) (including up to

³⁶ Written evidence

³⁷ Written evidence.

³⁸ Written evidence

100% of build costs). Loan sizes are the same scale, but with a longer term of up to 4 years.

46. FSB Wales say that these Funds are “a welcome addition to the funding landscape”³⁹ and urges the Development Bank to “continue to intervene in this area of the market where there are gaps in finance and market failure”.⁴⁰ Both the HBF and the FMB echoed this view, the FMB stating that “feedback from members has been very positive overall and the Government should be congratulated for identifying this area as one needing support”.⁴¹

47. However, the FMB also pointed to the fact that “a gap still remains as it is nearly impossible to borrow money before planning permission is granted.”⁴² HBF likewise noted that “our understanding is that the current funds also don’t cover any of the upfront costs such as planning which are becoming a much larger proportion of the overall development costs”.⁴³

48. Ifan Glyn of the FMB was positive about the support provided by the Development Bank of Wales for companies that are already growing, but suggested that more financial support should be given to upfront costs for those entering the industry. The HBF also suggested that the support from the Development Bank is “less likely to assist with new entrance to the house building market and is currently more geared to assisting the growth of established companies”.

49. The Residential Landlords Association is supportive of the idea behind the Stalled Sites Fund but adds a note of caution that “while this might unlock additional housing and support SMEs, these sites are often contentious and subject to delays”.⁴⁴ The RLA believes that to unlock their potential the Development Bank of Wales has a role in supporting SMEs by using a methodology from Germany which has “adopted a state funded lending scheme to protect lenders from liability while maintaining low rates to firms”. The RLA suggests that “this could act as an extension to current schemes such as the £30m Wales Property Development Fund”.⁴⁵

³⁹ Written evidence

⁴⁰ Written evidence

⁴¹ Written evidence

⁴² Written evidence

⁴³ Written evidence

⁴⁴ Written evidence

⁴⁵ Written evidence

50. Hygrove Homes states that Finance Wales and latterly the Development Bank of Wales has “assisted the industry greatly” through lending to the development sector, but this “is not a problem that can nor should be solved by DBW alone. More therefore needs to be done in order to increase mainstream bank lending in housebuilding in Wales”⁴⁶. It concludes that “funding is the life blood of all business and failure to access it has resulted in a significant decline in SHB numbers particularly in Wales”.⁴⁷

Help to Buy - Wales

51. The Help to Buy - Wales (HtBW) scheme, managed by the Development Bank of Wales, makes new build homes available to all home buyers (not just first-time buyers) who wish to buy a new home but may be constrained in doing so. Support of up to a maximum of 20% of the purchase price is available to buyers through a shared equity loan funded by HtBW, while buyers are required to provide a deposit of a minimum of 5% of the purchase price. The scheme supports the purchase of homes up to £300,000 bought through a registered HtBW builder.

52. Since 2014, 10,215 properties have been purchased under the scheme, 75% of which were sold to first time buyers. In total more than £327 million has been lent, supporting property sales of £1.65 billion. According to the Development Bank’s Annual Report, in 2017-18 169 builders were registered to the scheme and 1,939 houses were sold under the scheme. Figures in the 2018-19 Annual Report show that the number of registered builders increased from 169 to 213, but the amount invested was the same (£73.6m), and the amount of houses sold had actually decreased (to 1,850).

53. No information is provided in the Annual Report about the proportion of registered builders that are small home building firms, or the proportion of houses sold that were built by small home building firms. However, the Development Bank told the Committee on 6 February 2019 that only 3% of funding for Help-to-Buy had been used to support the purchase of homes built by what they defined as small home builders:

“..it’s about 3 per cent of the total funds invested, which are about £300 million at the moment, that has only gone to the small builder, so up to 10; 7 per cent has gone to builders up to 50—between 10 and 50; and then the remaining 90 per cent has gone to builders who build

⁴⁶ Written evidence

⁴⁷ Written evidence

between 50 houses and above in total...But you can see that it's the same in England—it's highly weighted towards the builders who are building on scale."⁴⁸

54. In oral evidence, Daryl Jones of Persimmon Homes East Wales told the Committee that about 45 per cent of their houses in Wales are sold through HtBW and that the figure will be over 50 per cent in relation to its developments in the upper Valleys. Tim Stone of Redrow Homes South Wales could not confirm exactly what the percentage was, but suggested it was a lot less than 35 per cent.⁴⁹

55. The Home Builders Federation noted that “Help to Buy Wales has been a major driver in the delivery of new homes since its introduction in 2014 and has been responsible for around 32% of the new private homes delivered”.⁵⁰ It added that it was not aware of any reason why SME builders could not use the scheme. The Federation of Master Builders points out that “although large firms make greater use of the scheme than smaller firms, plenty of smaller businesses have also benefitted from the support”.⁵¹ Written evidence from the Deputy Minister for Housing and Local Government indicated that SMEs make up 35% of the homes sold through the HtBW scheme.

56. HtBW is clearly having an influence on the new-build housing market in Wales, and Welsh Government noted that this significant investment in the market could be used to influence developers’ behaviour. The Deputy Minister said:

“The current Help to Buy runs until 2021, so at the moment the Minister has been in discussions and has tasked officials to look at, should we wish to continue that, how we would want to continue that and what other factors we would want to take into account. One of the things we have found with Help to Buy is that, while we have limited market leverage sometimes, it has given us leverage in other ways and to influence behaviour, perhaps, and to eradicate what some people would actually perceive as poor practice.”⁵²

⁴⁸ Paragraph 91, Economy, Infrastructure and Skills Committee, 6 February 2019

⁴⁹ Paragraphs 151-152, Economy, Infrastructure and Skills Committee, 6 February 2019

⁵⁰ Written evidence

⁵¹ Written evidence

⁵² Paragraph 277, Economy, Infrastructure and Skills Committee, 27 March 2019

57. Officials said they were mindful of the need for a decision to be made “sooner rather than later” to give certainty to the sector. Ian Williams of Welsh Government said:

“It may be that you may think that we could incentivise Help to Buy to operate in those areas in which it’s not operating at the moment, in rural areas, by giving a differential percentage, for example. There are a lot of creative ideas that could come out, and we want to hear them and we want to engage with the sector, if they are to convince the Ministers that we should continue with Help to Buy post 2021.”⁵³

Cardiff Capital Region City Deal - Housing Investment Fund

58. The Cardiff Capital Region’s Strategic Business Plan, published in February 2018, includes a proposal to establish a Housing Investment Fund to support the need for more homes to be built across the region. The Fund would support house building, ranging from larger builders and developers on stalled housing sites on former industrial sites, through to small builders, community builders, custom builders and regeneration specialists, on small sites across the region. The fund will also help stimulate the SME building sector across the region by providing loan development finance. The Plan also includes proposals for a ‘Plot Shop’ or Custom Build Scheme.

59. Since the Committee completed its inquiry the Cardiff Capital Region Cabinet has considered its draft Annual Business Plan for 2020-21, in December 2019, which references the delivery of the Fund. However, no further information about the amount of funding, the progress of Fund activities or its impact was received during the Committee’s recent inquiry into progress of the CCR City Deal - the Deal’s Director said it was “working up a position on its housing fund”.⁵⁴ The Committee did not receive direct evidence from local authorities about similar plans in other parts of Wales either, and so is not in a position to make detailed recommendations in this area. However it would like assurances from Welsh Government that it is confident maximum use is being made of all the available funding streams to address barriers facing smaller homebuilders across all the regions of Wales.

⁵³ Paragraph 279, Economy, Infrastructure and Skills Committee, 27 March 2019

⁵⁴ Paragraph 47, Economy, Infrastructure and Skills Committee, 23 January 2019

4. Planning

60. FSB Wales says that the planning process currently “acts as a significant disincentive to small house builders from entering the market due to the time and costs involved”.⁵⁵ This is a widely-held view emerging from evidence from a range of stakeholders across the sector. FSB Wales says the key issues are the “speed at which decisions are made, the level of submission material required to satisfy planning conditions, associated fees such as the Community Infrastructure Levy and the sheer uncertainty of the process”.⁵⁶

61. The Home Builders Federation written evidence noted that the same planning requirements applied to a development of 10 units as to one of 100 or 1000 units, and that most national housebuilders have the resources (often in house) to deal with the “ever growing and more complex planning requirements”.

62. Jane Carpenter, Planning Director for Redrow Homes South Wales, highlighted planning as the biggest barrier for smaller home building firms:

“The cost of entering planning, due to the complications in the system of planning, is going to be the biggest barrier to your SME growth.”⁵⁷

Local authorities

63. Much of the evidence received highlights the lack of resources in local authorities’ planning departments. FSB Wales voiced their concerns about the role of local authorities in responding to housing needs and their lack of capacity:

“A key concern in this regard is the degree of variability between local planning authorities in Wales with a significant number of authorities being poorly resourced and not giving sufficient priority to increasing housing supply. Anecdotally, this has led to a number of poor examples of customer service between local authorities and developers which often lead to unnecessary delays and costs in the process.”⁵⁸

64. Ifan Glyn of the FMB expressed disappointment that local authorities showed a lack of “support and proactiveness”⁵⁹ to engage with SMEs in addressing their

⁵⁵ Written evidence

⁵⁶ Written evidence

⁵⁷ Paragraph 15, Economy, Infrastructure and Skills Committee, 7 March 2019

⁵⁸ Written evidence

⁵⁹ Para 237, Economy, Infrastructure and Skills Committee, 6 February 2019

needs and releasing smaller plots of land, appearing to be more interested in working with PLCs - who tend to be more interested in development in affluent areas - rather than working with SMEs. He said working with SMEs should be “something they do anyway”.⁶⁰

65. Jane Carpenter of Redrow Homes South Wales described how delegation of planning detail down to the local planning authorities led to “22 different ways of doing things” at a local authority level, and that some authorities were easier to work with than others. She said greater centralisation, of guidance for example, would be welcomed:

“We would welcome a lot more centralisation of guidance where things are factual—a road width, a junction geometry, these sorts of things. Quite often, they’re not published by local authority either, so we go in with what we think is right. The Vale will do things differently to Cardiff, which will do differently to Caerphilly, which will do differently to Merthyr—

it’s a bit of a postcode lottery and we do find some authorities much easier to work with than others in the planning area. But I think on the finance as well, with some of the authorities—it’s much more viable to work in Cardiff or the Vale or Monmouth than it is to work in your Valleys areas. And when you’re talking about one of six contributions, where there’s more land value, there’s more ability to actually give over money to the communities. If the money isn’t there in the land value or the sales income, it isn’t there to give back in profit to the landowner or to the local authority. So, there’s a big discrepancy at the moment.”⁶¹

66. Daryl Jones of Persimmon Homes East Wales said that planning departments in local authorities are not sufficiently resourced, and therefore it takes “longer and longer to get a planning consent through”.⁶²

67. Written evidence from the Royal Town Planning Institute Wales called for Local Planning Authorities to achieve “full cost recovery from development management services to enhance planning service delivery”.⁶³ Income from planning fees could then support resourcing of planning services.

⁶⁰ Para 237, Economy, Infrastructure and Skills Committee, 6 February 2019

⁶¹ Paragraph 105, Economy, Infrastructure and Skills Committee, 7 March 2019

⁶² Paragraph 108, Economy, Infrastructure and Skills Committee, 6 February 2019

⁶³ Written evidence

68. Simon Gale of Rhondda Cynon Taf Council felt that local authorities could do more to support small businesses and “take this fear away from them”⁶⁴, even though planning departments have taken the “biggest cuts in the period of austerity”⁶⁵ amongst all council services.

69. Ian Stevens of the RTPI Wales’ Policy and Research Forum stated that there have been “limitations” on planning departments since 2009-10, quoting a 53% reduction in local authority resources allocated to planning departments alongside an increase in expectations, which has resulted in departments aiming to “balance many, many competing needs”.⁶⁶

70. The Committee asked the Deputy Minister and officials about concerns regarding capacity within local authority planning departments and the complexity of the system itself.

71. Neil Hemington, Head of Planning in Welsh Government, did feel that more could be done by local authorities to support SMEs:

“To be honest, I think, at the moment, it’s probably not there. I think we’re still in the situation where local authorities feel that they have finished their job—certainly when it comes to plan making—by identifying a site in a plan. Some are doing a little bit more around promoting those sites and seeing those developments take place. There are very few who are, if you like, sharing in the risk and the reward around that at the moment. That’s a particular issue, I think, for the SME sector, where they haven’t got deep pockets like some of the volume housebuilders or, what we do see on the planning side as well, some of the strategic land companies that are becoming involved now that are looking to promote large-scale sites. They’re quite significant—. Well, they’re becoming more significant players in Wales than they have been in the past. So, there’s a cultural change thing here that planners need to think about. They need to be perhaps a little bit more creative, perhaps a little bit more visionary, around actually creating places and how their plan-making process fits with that.”⁶⁷

⁶⁴ Para 272, Economy, Infrastructure and Skills Committee, 6 February 2019

⁶⁵ Paragraph 275, Economy, Infrastructure and Skills Committee, 7 March 2019

⁶⁶ Paragraph 280, Economy, Infrastructure and Skills Committee, 6 February 2019

⁶⁷ Paragraph 195, Economy, Infrastructure and Skills Committee, 27 March 2019

72. He added that local development orders have a key role in the planning process and recommended a different, less risk-averse approach for local authorities:

“We also think that we need to get a little bit away from the risk aversion that we see, where local authorities, perhaps, ask for too many different reports to cover every possible eventuality, actually, rather than perhaps thinking intelligently about, ‘These are the sorts of issues which are going to come up on this site.’ We still do see a little bit of that, and we see a little bit of that from some of the statutory consultees as well. It’s about having that confidence to make that decision rather than being totally risk averse. So, there are issues there that we need to work on the softer side of skills that planning authorities have.”⁶⁸

Regional arrangements

73. Written evidence from the Deputy Minister for Housing and Local Government acknowledged the complexity of the planning system, and suggested that the Welsh Government would look again at “whether regional arrangements for planning services can provide greater resilience and support the employment of specialists such as urban designers, minerals officers and ecologists”.⁶⁹

74. The Deputy Minister told the Committee she believed that regional arrangements for planning services will “provide greater resilience” and access to “expertise for development plan preparation and development management services”⁷⁰, working on a more strategic level rather than being limited to co-operation with local development plans.

75. Neil Hemington of Welsh Government noted a particular pattern to how planning capacity had been lost within local authorities, which was actively working against the Government’s place-making policy objectives, and, along with support for things like compulsory purchase, he saw regional arrangements as a cost-effective way to help address that:

“[...] 50 per cent of the resource has been taken out of planning departments. That tends to follow a sequence. It tends to be the specialists who go first, then followed by the policy team, and you’re

⁶⁸ Paragraph 328, Economy, Infrastructure and Skills Committee, 27 March 2019

⁶⁹ Written evidence

⁷⁰ Paragraph 339, Economy, Infrastructure and Skills Committee, 27 March 2019

left, purely, with people administering the development management process, because they're bringing an income into the authority. They are earning planning application fees. In doing that, you've lost the richness that helps with the place making, helps with all the sorts of things we're trying to achieve through planning policy. We're getting to a situation where we're seeing a regulatory process rather than a place-making, creative/visionary process. And we need to find a way of getting those people back into the system. One of the ways we can do that, probably, and the most cost-effective way we can do that, is by grouping them together into some sort of regional arrangement. Things like compulsory purchase falls within that as well."⁷¹

Time and cost involved in navigating the planning system

76. The Federation of Master Builders (FMB) highlighted how “over the years, the requirements of the planning process put on house building firms have increased significantly”⁷² and that steering your way through the current planning system is “more complex, burdensome and expensive than ever before”. The FMB asserts that “there is a clear connection between this increasing burden and the number and size of firms building houses today”.⁷³

77. According to the Home Builders Federation (HBF), although Wales has had a separate planning system to England since 2015, it has received no evidence from members that this has made it any easier for SME builders in Wales. And the HBF notes that the definition of major development being set at 10 dwellings means that a developer looking at a 10-unit site is required to meet the same planning requirements and “submit the same raft of planning documents as a development of 100 or 1,000 units”.⁷⁴ The HBF suggests that “raising this threshold (even just in urban areas) to 20-30 units could immediately make the planning process simpler for SMEs”.⁷⁵ Pre-Application Community Consultation is also needed for sites of more than 10 units, and HBF noted that “many of the services such as pre-application discussions are now being charged for”.⁷⁶ The HBF also suggested that additional planning charges for applications below its suggested new threshold of 20-30 units should also be removed. Ifan Glyn of the FMB also

⁷¹ Paragraph 340, Economy, Infrastructure and Skills Committee, 27 March 2019

⁷² Written evidence

⁷³ Written evidence

⁷⁴ Written evidence

⁷⁵ Paragraph 194, Economy, Infrastructure and Skills Committee, 7 March 2019

⁷⁶ Written evidence

supported increasing the threshold to remove the burden of planning requirements:

“once you hit that 10, they get a lot more burdensome. So, as an example, you’ve got the pre-application community consultation, which takes a long time and can be very costly. So, one of the things we’d call for would be to increase that threshold of 10, because the Plcs are not particularly interested in building anything less than sites for 50 homes or more, really. So, that threshold of 10, in our view as the Federation of Master Builders, is a bit low.”⁷⁷

78. The Committee raised this issue with the Deputy Minister for Housing and Local Government and officials, but it was noted that the requirements for community engagement were an important consideration, and the Deputy Minister indicated that this was “not open for review at the moment”.⁷⁸

79. The Residential Landlords Association (RLA) calls for a simplified planning system where smaller, often less contentious plots of land are given priority and are considered using delegated planning powers rather than via the formal development committee route.

80. The RLA also highlights that an additional function offered by local authorities other than planning is economic development. However, economic development is not a statutory function and in the context of current public-sector finances, the RLA suggests that “it is difficult to see local authorities investing in economic development teams with the aim of supporting SMEs and small builders”.⁷⁹ According to the RLA “this has resulted in a postcode lottery where some builders have greater support depending on which local authority area they operate in, whereas some have no support”.⁸⁰

81. Hygrove Homes stated that despite the introduction of the Planning (Wales) Act 2015, the “complexity, delay, uncertainty, and frustration associated with the planning process remains today”⁸¹. It added that the cost of obtaining planning consent has “risen sharply”, and that all SMEs must meet this cost from their own resources as lenders will not fund these applications, which is “beyond” most small home builders. Hygrove’s evidence said that the demand of the planning process

⁷⁷ Paragraph 196, Economy, Infrastructure and Skills Committee, 6 February 2019

⁷⁸ Paragraphs 330-335, Economy, Infrastructure and Skills Committee, 27 March 2019

⁷⁹ Written evidence

⁸⁰ Written evidence

⁸¹ Written evidence

has spurred the growth of a range of “satellite businesses such as architectural, engineering, ecological, geotechnical, archaeology and hydrology to name but a few”⁸², and that reports from these professions required by planning officers have caused a “spiral in planning cost which is now impossible to reverse”⁸³. Huw Francis of Hygrove Homes told the Committee that the cost of the planning process “needs to come down”⁸⁴ in order for smaller home builders to come back into the market.

82. Mark Harris of the HBF also pointed to the complexities of dealing with all the different specialist officers as part of the consent process, and the shortages amongst those specialists. Daryl Jones of Persimmon Homes East Wales also backed up concerns from Hygrove Homes about the role of Natural Resources Wales. He told the Committee that Natural Resources Wales is “becoming increasingly difficult to deal with on a number of issues”:

“They have resource issues, but also what requirements they need as part of an outline application and what requirements they want the developer do upfront are becoming quite an issue for us.”⁸⁵

⁸² Written evidence

⁸³ Written evidence

⁸⁴ Paragraph 180, Economy, Infrastructure and Skills Committee, 6 February 2019

⁸⁵ Paragraph 111, Economy, Infrastructure and Skills Committee, 6 February 2019

5. Availability of viable land

83. According to the FSB Wales the availability of land that is viable and able to be developed is currently a significant barrier to SMEs.⁸⁶ Similar views were expressed by the NHBC, FMB and Hygrove Homes.

84. NHBC refers to its own research which shows that the cost of land and the availability of land are of equal concern to small businesses, with more than three-quarters of small house builders and developers reporting these as challenges or serious impediments. In total around half of the firms who built no homes in 2017 said that land availability and cost were serious impediments.⁸⁷

85. Simon Gale from Rhondda Cynon Taf Council said that having studied the reason why sites were stalling, a major reason, particularly in the valleys, was due to the upfront costs::

“there’s a point in there when you reach what is termed ‘peak cash flow’. That’s the maximum amount of money you need to spend before you start making money. And across the forty sites we studied, I think the average peak cash flow was £1 million.”⁸⁸

86. FSB Wales say that the Local Development Plan process should be set up to ensure smaller developers can access land to build houses: “at present many local authorities (particularly in south East Wales) do not provide a sufficient amount of small allocation through their LDP process”.⁸⁹ Hygrove Homes’ evidence points to the fact that “in each Local Plan there is a preponderance of larger sites driven by the need by LPAs to allocate the volume of land necessary to meet local housing requirements over a five-year period”⁹⁰, which are “beyond the reach” of small home-builders. Hygrove Homes said “more needs to be done to encourage Local Authorities to release land they own much of which consists of smaller infill sites which would be attractive to smaller developers”.⁹¹

87. The FMB also suggested that “small development sites are rarely considered as part of the LDP”. Rather, “the vast number of smaller development sites are

⁸⁶ Written evidence

⁸⁷ Written evidence

⁸⁸ Paragraph 251, Economy, Infrastructure and Skills Committee, 6 February 2019

⁸⁹ Written evidence

⁹⁰ Written evidence

⁹¹ Written evidence

‘Windfall sites’; that is, sites that were not included in the original LDP”.⁹² The FMB states that “it is far easier and less risky to invest in development sites that have been identified within the LDP rather than other sites” and, as such, the LDP “needs to give far more consideration to smaller sites and small home building firms need more support in order to engage with the process of formulating local development plans”.⁹³ These points were also made by the Home Builders Federation.

88. FSB Wales suggested that the ‘plot shop’ approach piloted in Rhondda Cynon Taf, whereby smaller plots are identified and marketed to SME developers, should be “normalised across Wales with smaller sites routinely being identified for development through the LDP process”.⁹⁴ Simon Gale of Rhondda Cynon Taf Council explained the potential of the ‘plot shop’ approach:

“So, the initial launch will be specifically targeted at individuals building their own homes, and they will then be required to live in that house for, say, three years after, as one of the conditions of the finance. But that’s not to say—. If you look on the continent, just south of Amsterdam, there’s a plot shop site there that is 2,000 houses. I think it was a massive piece of derelict land that was in the public sector, and it’s been put out there. When you’ve got sites of scale, there’s no reason why some can’t be for individuals, but then five plots are released for a small house builder and five plots released for an RSL. I think the potential of this approach, and ratcheting it up and widening it, is exponential.”⁹⁵

89. Written evidence from the Deputy Minister for Housing and Local Government acknowledged that availability of viable land can be a “significant barrier” for SMEs, and therefore suitable sites should be identified in Local Development Plans (LDPs) that are regularly reviewed and replaced.

90. Ian Stevens of RTPI Wales believed that the deliverability of sites is a more a challenge compared to years ago, attributed to “several competing interests and needing to demonstrate the environmental, social and economic sustainability of these sites”.⁹⁶

⁹² Written evidence

⁹³ Written evidence

⁹⁴ Written evidence

⁹⁵ Paragraph 340, Economy, Infrastructure and Skills Committee, 7 March 2019

⁹⁶ Paragraph 310, Economy, Infrastructure and Skills Committee, 7 March 2019

Self-Build Wales

91. Welsh Government launched Self Build Wales in 2019, to help people build their own homes on plots with planning permission. The scheme loan provides 75% of the cost of a building plot (25% deposit required), and 100% of the cost to build the home. The scheme helps Welsh builders by providing access to jobs with pre-agreed designs and planning permission in place, and Government funding secured upfront with direct payments made to the builder.

92. Mark Harris of HBF noted that “we’ve seen a very good model self-build’, and raised the question of “whether or not a similar model could be expanded to SMEs who develop maybe five or 10 units, where a lot of the funding for these upfront costs is borne by someone else”.⁹⁷ The Deputy Minister was questioned on this and said that although it was a new scheme. Welsh Government wanted to learn from it and that there was “absolutely a possibility for that to be expanded in the future”.⁹⁸

93. From the evidence received during its inquiry the Committee concluded that Welsh Government should provide support for driving the rollout of the ‘plot shop’ approach, piloted in Rhondda Cynon Taf, to other parts of Wales. Following completion of its inquiry Members therefore welcome Welsh Government’s announcement in March of £210m support for the Self Build Wales scheme.

De-risking sites

94. Huw Francis of Hygrove Homes said that the land available to small home builders tends to be “small infill sites, which are brownfield sites” where development costs are “considerably more”.⁹⁹ He added that remediating brownfield sites needs to be reconsidered by local authorities:

“So, there needs to be recognition within the planning system that the cost of the remediation ought to offset part of the 106 obligations, and if that were to happen, and if there was transparency from the start, then I think you’d see a lot of these brownfield sites getting snapped up, provided the authority—. The local authority in the one I just spoke about earlier on could have granted itself planning permission and that would have taken off the table a huge cost and a huge uncertainty, and we would know what the obligations were. Now, I’ve pulled out of that

⁹⁷ Paragraph 196, Economy, Infrastructure and Skills Committee, 7 March 2019

⁹⁸ Paragraph 209, Economy, Infrastructure and Skills Committee, 27 March 2019

⁹⁹ Paragraph 188, Economy, Infrastructure and Skills Committee, 6 February 2019

process because I'm fed up with it. It's taken such a long time. So, other people that I've spoken to, they're pulling out as well, so the council's going to be left with that brownfield site because it approached it in the wrong way."¹⁰⁰

95. Ifan Glyn of FMB Wales said that the “burden of proving or disproving the impact of housing” in social and environmental terms always fell on the private sector, and the increased cost of that burden now meant that only very large firms can shoulder the cost. He questioned whether the public sector needed to assist more in relation to smaller home building firms:

“We'd like to see more of that burden being taken in-house by the public sector—you know, surveys, consultation fees, et cetera. Are there more ways that the public sector could possibly assist with this for developments of 20 or less or something?”¹⁰¹

96. Simon Gale of Rhondda Cynon Taf Council also noted that it is more difficult for SMEs to decontaminate a site, especially those with a “coalfield legacy or the industrial legacy”, whilst larger firms have more resources to overcome these barriers. He believed that increased funding could be a solution, describing the Development Bank of Wales stalled sites fund as a “step in the right direction”¹⁰² but not the whole answer to close the viability gap:

“...the stalled sites fund has got an element of grant in it as well to deal with those viability issues that are caused by difficult sites—so, definitely a step in the right direction. But, clearly, there are some significant sites across all our communities that are still in need of some form of viability gap funding, which is caused by contamination and shallow mine workings and all those things that we experience.”¹⁰³

97. Neil Hemington of Welsh Government told the Committee there was scope for local authorities to play more of a role in de-risking sites:

“There is a place, I think, for local authorities to look at things like local development orders to start to de-risk some of these sites, but that comes at a cost to the local authority. Obviously, if you get consent, you see a large value uplift on that site, so how can you share that process to actually make it work for everybody? So, if a local authority or some

¹⁰⁰ Paragraph 322, Economy, Infrastructure and Skills Committee, 6 February 2019

¹⁰¹ Paragraph 286, Economy, Infrastructure and Skills Committee, 7 March 2019

¹⁰² Paragraph 306, Economy, Infrastructure and Skills Committee, 7 March 2019

¹⁰³ Paragraph 306, Economy, Infrastructure and Skills Committee, 7 March 2019

sort of public body were to do that work, that would be a way of freeing up some of these sites, potentially [...] We should not see situations where a local authority overturns what they've just put through their own plan-making process. So, that's another thing we need to do as well: actually get the plan-making process to work properly, see how local authorities can start to be a bit more active and start de-risking those sites, which will attract back in some of the SME house builders that are perhaps happy to make their profits on building the homes, rather than the land value uplift, or the speculation that takes place when you grant planning consent."¹⁰⁴

98. Written evidence from the Deputy Minister for Housing and Local Government suggested that a larger proportion of public sector land could be “better used for housing”, and that the First Minister is considering creating an authority responsible for unlocking public sector land that could benefit SMEs. The Deputy Minister also told the Committee she would like plot shops to be “upscaled and explored elsewhere in local authorities across the country”.¹⁰⁵ She also said that enforcement should be used to make sites of “in-fill gaps of land”¹⁰⁶ more viable and available.

99. The Committee explored with officials the suggestion that “some kind of public body”¹⁰⁷ or “some kind of agency or some kind of unit”¹⁰⁸ might be able to further progress the provision of remediated sites for smaller home building firms to access. Ian Williams of Welsh Government noted that the plot shop idea applied to public land, whereas what would be “more radical” would be to free up private land, where the issue of how to share the uplift value of remediated land fairly between the developer and the public sector would need to be resolved.¹⁰⁹

Possible role of a Vacant Land Tax

100. The Committee’s inquiry also touched on the issue of ‘land banking’, and whether Welsh Government’s proposal to introduce a Vacant Land Tax would benefit SMEs. Mark Harris of the Home Builders Federation was a member of the Welsh Government’s working group on the tax proposals, and his view was “from

¹⁰⁴ Paragraph 186, Economy, Infrastructure and Skills Committee, 27 March 2019

¹⁰⁵ Paragraph 286, Economy, Infrastructure and Skills Committee, 27 March 2019

¹⁰⁶ Paragraph 287, Economy, Infrastructure and Skills Committee, 27 March 2019

¹⁰⁷ Paragraph 186, Economy, Infrastructure and Skills Committee, 27 March 2019

¹⁰⁸ Paragraph 187, Economy, Infrastructure and Skills Committee, 27 March 2019

¹⁰⁹ Paragraph 187, Economy, Infrastructure and Skills Committee, 27 March 2019

what we know at the moment, the simple answer is ‘no’, unfortunately.”¹¹⁰ He said more research was needed to understand which sites were stalled and why, in order to decide whether or not vacant land tax was the right way to go. Jane Carpenter of Redrow Homes South Wales added that “there could be a lot of unintended consequences”¹¹¹ with the proposed tax. Neil Hemington of Welsh Government said discussions with Treasury officials were ongoing, because in order to address the housing crisis, finding a way to incentivise getting land into productive use was seen as “part of the answer, potentially”.¹¹²

¹¹⁰ Paragraph 190, Economy, Infrastructure and Skills Committee, 7 March 2019

¹¹¹ Paragraph 191, Economy, Infrastructure and Skills Committee, 7 March 2019

¹¹² Paragraph 293, Economy, Infrastructure and Skills Committee, 27 March 2019

Annex A: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the Committee's website.

Date	Name and Organisation
6 February 2019	Joshua Miles, Federation Small Businesses Wales Ifan Glyn, Federation Master Builders Wales Huw Francis, Hygrove Homes Group
7 March 2019	Tim Stone, Redrow Homes South Wales Jane Carpenter, Redrow Homes South Wales Daryl Jones, Persimmon Homes East Wales Mark Harris, Home Builders Federation Ian Stevens, Royal Town Planning Institute Gareth Davies, Coastal Housing Simon Gale, Rhondda Cynon Taf Council Ian Wyatt, Dwr Cymru
27 March 2019	Hannah Blythyn AM, Deputy Minister for Housing and Local Government Ian Williams, Welsh Government Neil Hemington, Welsh Government

Annex B: List of written evidence

The following people and organisations provided written evidence to the Committee. All Consultation responses and additional written information can be viewed on the Committee's website.

Reference	Organisation
01	Anonymous
02	FSB Wales
03	National House Building Council
04	Residential Landlords Association
05	Chartered Institute of Housing
06	Home Builders Federation
07	Federation of Master Builders
08	Hygrove Homes
09	Welsh Water
10	UK Finance
11	Royal Town Planning Institute Wales
12	Rhondda Cynon Taf Council