

Evidence from FSB Wales

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

FSB Wales welcomes the National Assembly for Wales' Economy, Infrastructure and Skills Committee's examination of the barriers facing SMEs to housebuilding. The provision of housing is of great importance to our society and economy. It is estimated that the current rate of new build housing at around 6,000 per year provides £481m of economic impact, 13,400 jobs and around £119m of associated spending by households every year.¹ Welsh Government has long held increasing housing supply in both the affordable housing and market sectors as a priority, indeed this is largely an ambition shared across the political spectrum.

As an organisation representing a broad range of businesses, FSB Wales has been involved with housing as an issue, including being an active participant in the UK Parliament's recent APPG on Housing and more recently in the National Assembly's own Cross-Party Group on SMEs consideration of increasing the role of small house builders in the supply of housing.

Unfortunately, recent evidence suggests that the housing market has become one dominated by a small number of very large firms with estimates of around three quarters of new houses being built by 5 large firms. Indeed, research by the NHBC suggest the market share of small house builders has declined from 28 per cent in 2008 to 12 per cent today.² Despite this, our current rate of housebuilding at around 6,000 per annum falls short of the Welsh Government's own assessment of need at around 12,000 per annum.

¹ Figures taken from a presentation at FMB Cymru Conference by Simon Coop of Lichfields.

² NHBC Foundation.2017. *Small house builders and developers Current challenges to growth* [Online]. Available at: https://www.nhbcfoundation.org/wp-content/uploads/2017/04/NF76_WEB.pdf (accessed 9th January 2019).

Welsh Government has various scheme supporting firms in the construction sector that we broadly welcome, such as Construction Excellence Wales, Construction Futures Wales and financial assistance through the Development Bank of Wales.

The evidence suggests that there are three main barriers to participation in this market for smaller developers. They are:

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

The Cost of the Planning Process

Currently, the planning process acts as a significant disincentive to small house builders from entering the market due to the time and costs involved. The key issues in this regard 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.

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.

We would suggest the following issues be given consideration in reforming the process:

- **Making proportionality a key element of the process** so that smaller firms are required to produce information and submission materials to planning authorities that is commensurate with the scale of the development. It is crucial that LPAs have a better understand of the cost and time pressures facing smaller developers and how this differs to larger developers.
- **Ensure customer service standards are met throughout the process.** LPAs should be properly resourced in order to provide the level of support and to respond to correspondence in response to applications for planning consent from smaller developers. As a complex process, delays in planning can be very costly to smaller developers and make many sites unviable.
- **Reinstate TAN 1** in order to place an onus on increasing supply where there is gaps in the LDP resulting from local authorities not providing an

adequate supply of land.

Land Availability

The availability of land that is able to be developed and that is viable is currently a significant barrier to SMEs. The LDP process should be set up to ensure smaller developers are able to access land that they can develop 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.

We are aware that some LPAs are currently looking to address this issue. For instance, Rhondda Cynon Taf County Borough Council are exploring a 'plot shop' whereby smaller plots are identified and marketed to SME developers. This sort of approach should be normalised across Wales with smaller sites routinely being identified for development through the LDP process.

Access to Finance

As is the case across the general business population, access to finance for SMEs can be a significant barrier to success. However, there are issues particular to smaller developers that make the lack of finance critical. For instance, 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 frontloaded 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.

We are aware of the contributions currently being made through the Development Bank of Wales' Wales Property Fund and Wales Stalled Sites Fund. Both of these funds are a welcome addition to the funding landscape and we would urge the Development Bank to continue to intervene in this area of the market where there are gaps in finance and market failure. In this respect, Welsh Government support delivered through the Development Bank has been helpful to the sector.

Access to Skills

FSB Wales recently undertook a survey of 450 SMEs in Wales to ascertain their employment and skills challenges, culminating in our report *A Skilful Wales*.³ Whilst the work was across all sectors, a key finding to emerge was that there were significant challenges in firms attracting and developing trade based occupations, such as those common in the construction sector.

This is reflected in work carried out by the Construction Industry Training Board (CITB) that identifies significant skills shortages in areas of construction. For instance, CITB Cymru Wales' Construction Skills Network Wales report for 2018 suggests housing is a key driver of employment growth in construction with an estimated 12,250 new jobs forecast to be created in construction by 2022.⁴

The CSN identifies at risk occupations in construction as including wood trades, bricklayers, electricians, civil engineers and surveyors.⁵ This chimes with our own findings. In our report *A Skilful Wales* we suggested that Welsh Government's focus on higher level skills has potential impacted on lower and mid-level skills occupations. We would suggest instead a focus on progression within the skills system, taking in to account entry points particularly through programmes such as apprenticeships.

Conclusion

Smaller developers are willing to enter the market to help deliver the homes that Wales needs. However, the availability of land and finance and the cost in both money and time of the planning process is a significant barrier to entry.

We hope to see Welsh Government, LPAs and smaller developers work together to address the issues outlined above to achieve the outcome that is shared by all parties.

³ FSB Wales. *A Skilful Wales*. [Online]. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsbw-employskills-eng.pdf?sfvrsn=0> (accessed 19th December 2018)

⁴ CITB Cymru Wales. *Construction Skills Network Wales Summary* [Online]. Available at: https://www.citb.co.uk/documents/research/csn_reports_2018-2022/2018csn_wal_summary_050218.pdf (accessed 19th December)

⁵ CITB Cymru Wales. *Construction Skills Network Wales* [Online]. Available at: https://www.citb.co.uk/documents/research/csn_reports_2018-2022/2018csn_wal_summary_050218.pdf (accessed 6th December) P.17