

## **Evidence Paper on Barriers facing small home building firms: Economy, Infrastructure and Skills Committee**

### **1. Introduction**

Housing, and in particular social housing, remains a key priority for Welsh Government as a whole. There are challenges in delivering the number of homes required in both the market and affordable housing sectors.

Small and Medium Enterprises (SMEs) are crucial to house building and the foundational economy in Wales. They support all parts of the house building market – building homes for sale themselves, creating the supply chain, working as sub-contractors with larger developers and as key partners working with RSLs to deliver much needed affordable housing.

However, we do recognise that there are barriers to SME house builders, particularly in terms of speculative development for profit. We know that the percentage of homes built by SMEs has fallen significantly since the 1980's, and that this fall accelerated following the financial crash in 2007/2008. There are a number of reasons for this, but it has led to barriers which either prevent SMEs entering the house building market or put them off doing so. Through the Inter-Departmental Business Register we know that the number of active SMEs in Wales fell by almost half from 1,036 in 2008 to 588 enterprises in 2017.

The Welsh Government has responded to these challenges, but we acknowledge these are complex problems. We do not have all of the levers to respond to macro-economic issues, but there is action we are taking which is making a difference.

The reason we have significantly increased our investment in the SME house building sector in this term of government is a recognition of the sector's importance. We do want to increase the number of homes being built, as there is a need for homes across Wales and across tenures.

The volume house builders, housing associations and increasingly local authorities all have an important role to play in delivering the homes we need (and all work with SMEs to do so). However, speculative development in particular by small house builders is important and as a government we want to see this increase.

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.

### **2. Barriers facing small home building firms**

We know there are barriers facing small home building firms. We have sought to highlight the key areas here, and some of the action we are taking to help address these barriers:

#### **➤ Access to financial support**

Since the financial crash the appetite of traditional lenders to support SME housing development has diminished significantly according to representatives from the SME

housing sector and the Development Bank of Wales. Access to affordable lending is critical to the ability of small builders to have the capability to undertake speculative development. Sites often require a significant amount of initial investment for remediation, infrastructure, the planning process, and of course the building of the homes themselves. With no financial return possible until homes are sold, initial finance can be difficult for SMEs to secure as lenders' risk appetite has reduced.

We also know appropriate profit levels are required within a scheme to provide extra contingency to cover unforeseen additional costs, and to allow investment in future schemes. Sites without an appropriate profit level are therefore deemed unviable by both funders and builders.

In response to these challenges we have, in partnership with the Development Bank of Wales, invested in scheme which aim to fill the lending gap left for small builders.

#### Wales Property Development Fund

This provides financing to SMEs for sites which have already passed the planning stages and where the developers need capital for the construction phase. Due to the high demand for the fund, an additional £30 million of funding was announced in September 2017. To date we have helped 62 SMEs access over £82million.

Over 17 years the latest £30 million investment is due to be recycled nine times, resulting in a total investment of £270 million in the SME sector.

#### Wales Stalled Sites Fund

This innovative £40m scheme was launched in May 2018. It is designed to assist in creating and promoting development opportunities to SME construction companies, and unlocking the sites which provide wider benefits to the local communities in which they are located. To date, the scheme has supported 6 SMEs to access just over £7 million in loans (the scheme is still in the early stages, in terms of investment).

Over 15 years the investment is due to be recycled four times, resulting in a total investment of £160 million in the SME sector.

#### ➤ **Access to Land**

We know that the availability of viable land can be a significant barrier for SMEs. The most appropriate way to provide adequate land for new social and market housing is by ensuring suitable sites are identified in LDPs, which are kept under review and regularly replaced. Where this does not happen, speculative and uncoordinated development can take place which damages community confidence in the planning system, may not be in the best location and leads to unsustainable demands on infrastructure. We also know that many larger sites are included within the LDP, however there are very few smaller sites.

#### Planning Policy Wales (PPW)

PPW promotes the broadening of housing delivery options by requiring planning authorities to consider the contribution all sectors of the housing market can make to providing the required homes, including SMEs and the custom and self-build sector. In order to facilitate this, PPW states that planning authorities should set a locally determined target for the delivery of housing on small sites and maintain a register of

suitable sites to enable the provision of housing by SMEs, Registered Social Landlords and the custom and self-build sector.

In addition PPW requires planning authorities to work with developers to encourage the sub-division of large sites where this could help to speed up the delivery of homes. This is intended to help SME house-builders get access to sites.

### Self-Build Wales

Our recently announced Self-Build Wales scheme takes the first steps in opening up more land for SMEs. We are making a £40 million investment, through loan funding, to enable access to 'oven ready' plots of land. It relies on local authorities and housing associations providing land for sale. The applicant will then appoint an SME to build their home from a pre-determined range of designs. The scheme will involve the construction of individual homes, and is therefore well suited to help micro-businesses or those with the right skills to build houses.

The scheme was developed in collaboration with partners across the sector and is the first of its kind in the UK.

#### ➤ ***Complexity of the planning system***

The review of housing delivery through the planning system has highlighted the perceived complexity of this system for home builders. The Welsh Government would acknowledge that the system is complex. Whilst there are certainly ways in which the system can be simplified, if the planning system is to play its part maintaining a high quality environment across Wales, it has to ensure robust assessment of development proposals.

We recognise the planning system has become more complex as environmental issues have become more widely understood. This creates challenges for builders and Local Planning Authorities who need access to expert advice.

### Additional support

We will be looking 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.

### Local Development Orders (LDOs)

LDOs can be prepared by Local Planning Authorities to remove development risks, as environmental surveys would be needed in advance of granting an Order. This is something that is being used as part of the Self Build Wales scheme, and we do see that there are opportunities to also adopt this approach on larger sites.

#### ➤ ***Access to Skills***

Similar to other industries in Wales, the construction sector has an ageing workforce. We also know that younger people are less inclined to choose the construction industry as a potential career.

The Federation of Master Builders have consistently pointed out that there are people with the right skills who could be building homes, but that they are working in housing maintenance and other related areas, rather than using their skills for

speculative development. So there is some untapped skills in Wales that the house building industry could benefit from.

However, through the call for evidence for the Affordable Housing Supply Review the issue of a skills shortage came through consistently across the housing sector, and is faced by all home builders. Anecdotally, these problems are more acute in rural areas where there even fewer people with the range of skills needed to construct homes.

#### Shared Apprenticeships Project

We have been working with employers to share responsibility for on-site training. The success of this programme is enhancing the stock of skills required to ensure availability of skills linked to major investment or developments. In relation to construction shared apprenticeships, CYFLE are delivering in West Wales and Y Prentis are delivering in the Valleys Taskforce Areas.

#### Apprenticeship Small Business Employer Incentive Programme

Recognising the need to encourage recruitment into the sector, we offer an incentive of up to £3,500 for SMEs (who are new to apprenticeships) to recruit a young apprentice. Work is being undertaken with the Federation for Small Businesses to understand how we can cluster delivery around certain sectors, so that SMEs can better understand and access the programme. Apprenticeship delivery and funding is prioritised based on the needs of the economy and employers and we have established Regional Skills Partnerships to engage with employers and provide us with intelligence on skills needs and gaps.

### **3. Conclusion**

The Welsh Government acknowledges that, in general, there is a need for more homes to be delivered across tenures. SME house builders are absolutely fundamental to the success of our ambition to deliver 20,000 affordable homes in this Assembly term, and to our wider desire for an acceleration in house building. SME builders can be pivotal in delivering homes in parts of the country large developers consider unviable.

We are taking significant action. In the last two years alone (including Self Build Wales) we have invested £110 million, all of which can be recycled, and all of which will help SMEs to build more and remove some of the barriers they face. However, we do not have all of the levers that can have an impact, and there are market forces beyond our control which inevitably do have an impact.

Equally, we would accept that there is more that we can do. We will consider action in the following areas moving forwards:

- Through Help to Buy – Wales 65% of homes sold are delivered by larger builders, with SMEs making up only 35%. We will consider how we can communicate and incentivise more SMEs to make use of this scheme.
- A larger proportion of Public Sector land could be better used for housing. This is reflected in the First Minister's commitment to consider the creation of an authority who will be responsible for unlocking public sector land, which is currently being explored. Rather than unlock land in large parcels that only big

house builders could hope to develop, we are looking at how this land could best benefit SMEs and housing associations.

- Cardiff Capital Region City Deal have included a focus on housing in their work, and we are very pleased that they have looked to do so in a collaborative way with the Welsh Government and the Development Bank of Wales.
- The Welsh Government can and will do more to align the emerging work on the foundational economy with other priorities, such as our targeted efforts through the Valleys taskforce. The taskforce aims to provide support for the creation of additional jobs in the Valleys and the foundational economy sectors, construction is one area of focus due to the large proportion of people working in this sector. As part of this SME house builders are perfectly placed to reflect the objectives of the foundational economy – creating local jobs, for local people, to deliver much-needed local priorities.

Alongside our wider ambitions for SME house building, our top priority is to build homes for social rent. We recognise that SMEs are very unlikely to build houses for social rent because it is not viable to do so. I have challenged my officials to explore how we can actively support and encourage wider variety of organisations in the housing sector to build social houses, using the resources we have available. We recognise that this is not straightforward or easy, and welcome views from the Committee, fellow politicians, and the sector themselves as to how we can seek to address this.