

# Agenda – Economy, Infrastructure and Skills Committee

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Meeting Venue:

Committee Room 2 – Senedd

Meeting date: 6 February 2019

Meeting time: 09.15

For further information contact:

**Gareth Price**

Committee Clerk

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**Private pre-meeting (9.15–9.30)**

## **1 Introductions, apologies, substitutions and declarations of interest**

## **2 Paper(s) to note**

(Pages 1 – 8)

### **Attached Documents:**

EIS(5)–04–19(P1) Letter from the Minister for Economy and Transport to Chair

EIS(5)–04–19(P2) Forward Work Programme



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Wales

### **3 Annual report scrutiny with the Development Bank of Wales**

(09.30–10.30)

(Pages 9 – 16)

Giles Thorley, Chief Executive

Gareth Bullock, Chair of Development Bank of Wales Board

David Staziker, Chief Financial Officer

Rhian Elston, Investment Director

#### **Attached Documents:**

EIS(5)–04–19(P3) Research Briefing

**Break** (10.30–10.45)

### **4 Barriers facing small home building firms: Introductory evidence session**

(10.45–11.45)

(Pages 17 – 44)

Huw Francis, Chief Executive, Hygrove Homes Group

Joshua Miles, Policy Manager, Federation of Small Businesses Wales

Ifan Glyn, Director, Federation of Master Builders Wales

#### **Attached Documents:**

EIS(5)–04–19(P4) Research Briefing

EIS(5)–04–19(P5) Evidence from Hygrove Homes

EIS(5)–04–19(P6) Evidence from FSB Wales

EIS(5)–04–19(P7) Evidence from Federation of Master Builders (Restricted version)

**Private de-brief** (11.45–12.00)

**Ken Skates AC/AM**  
**Gweinidog yr Economi a Thrafnidiaeth**  
**Minister for Economy and Transport**

**Llywodraeth Cymru**  
**Welsh Government**

Russell George AM,  
Chair, Economy, Infrastructure &  
Skills Committee

[SeneddEIS@assembly.wales](mailto:SeneddEIS@assembly.wales)

25 January 2019

Dear Russell,

You wrote to the former Minister for Welsh and Lifelong Learning on 28 November asking for more information following the Economy, Infrastructure and Skills Committee's scrutiny session on 7 November. I am responding on the Minister's behalf as my revised portfolio includes responsibility for this area.

### **Operation of Apprenticeships**

The initial 2018/19<sup>1</sup> apprenticeship allocation was £117m. Of this, £5m was set aside to respond to the sectoral priorities that were evidenced by each of the relevant Regional Skills Partnerships (RSPs). The remaining £112m was not broken down into specific financial values according to level and/or occupational sector as to do so would limit the flexibility of the network to respond to market demand. However, the allocation process is overlaid by contractual controls which both restrict and stretch providers to deliver within priority sectors and higher level skills.

For example, providers are set a limit on the proportion of level 2 apprenticeships they can support within the non-priority sectors of: Business Administration, Retail and Customer Service and Hair and Beauty for learners aged 20+. For 2018/19, we have applied a restriction of 10% for starts aged 20-24 and increased the restriction to 2% for starts aged 25+. In order to encourage higher level delivery, we do not apply a limit where it is the learner's intention (at the outset) to progress to a higher level apprenticeship. The latest 2017/18 data indicates that all providers have operated within this contractual limit, thereby reducing the proportion of learners in these sectors who stop learning at level 2. The determiner for the percentage restriction was the need to provide adequate budget to support priorities set by Welsh Ministers.

Furthermore, to ensure transparency, providers are given targets for the proportion of new apprenticeships (for learners aged 20+) delivered at level 3 and above. Future allocations will reflect a provider's ability to operate within these contractual controls, thereby incentivising increased delivery at higher levels.

The 2018/19 contract offer required providers to prioritise their apprenticeship delivery in the following order:

- Learners who are continuing their learning into the 2018/19 contract year;
- New apprenticeships for Young People (those under 20), in particular:
  - creating viable apprenticeship opportunities for 16-19 year old school leavers; and
  - progressing people from Jobs Growth Wales and other Welsh Government employability programmes;

<sup>1</sup> WBL contract years run from 1 August to 31 July

- New starts aged 20+ at level 3 or level 2 (in priority sectors only) for those progressing from Jobs Growth Wales and other Welsh Government employability programmes;
- New apprenticeships within Regional Skills Partnerships (RSP) identified priorities;
- New Higher Apprenticeship starts for learners of all ages;
- New starts aged 20+ at level 3; and
- New starts aged 20+ at level 2 in priority sectors (Business Administration, Retail and Customer Service and Hair & Beauty are deemed to be non-priority sectors).

Providers are asked to keep Welsh Government officials informed of any apprenticeship demand that cannot be met from existing contract values (the so-called 'pressure point' returns). Should additional budget become available in-year e.g. where providers appear to be under-delivering, my officials will take a decision on whether to support some of this demand. During 2017/18, approximately £4.4m was allocated to providers to support pressure points within priority areas. The process for applying for this additional contract value has been shared with the Apprenticeship provider network.

## **EU Transition Fund**

The EU Transition Fund is part of Welsh Government's Brexit plans and has been designed to help private, public and third sector organisations prepare for Brexit and the significant changes associated with leaving the European Union. The Fund is helping both businesses and sectors respond to Brexit and future proof their operations and the Welsh economy.

The Fund is primarily intended to support external partners improve their resilience and sustainability during the uncertainty that Brexit presents, for the benefit of the economy and communities of Wales. A range of bids have been submitted and additional bids are under consideration including further skills focussed bids.

Requesting and receiving support via the EU Transition Fund for these economically important companies does not divert budget from other areas of skills provision or programmes, it is not an either or situation. This budget will significantly benefit the employees of these companies in terms of their upskilling and adaptability in the face of significant challenges.

As part of the Fund's conditions, the companies will help deliver on wider Government priorities including:

- Enhancing their engagement with local training providers to increase the pool of STEM related apprenticeships;
- Committing to achieving level 3 accreditation against the Disability Confident Employer scheme;
- Providing job/ placement opportunities for those individuals on the Working Wales programme to be launched in 2019; and
- Working with and developing further opportunities for their Welsh-based supply chain

The Welsh Government works with a wide range of companies across Wales to support their skills development needs to help build business resilience and future proof the Welsh economy.

Companies like Airbus and Ford operate in highly competitive environments and are part of global corporations that have options across Europe when it comes to making investment decisions. Support for these companies will:

- improve the chances of developing the Welsh-based sites as the preferred locations for any future and post Brexit European investment projects;
- ensure the high value and site critical business development plans are not constrained or jeopardised by skills shortages;
- provide skills development that is urgently required to support the transformation of production line techniques;
- underpin the further development and expansion of apprenticeship provision within the companies and across the advanced manufacturing sector more widely; and

- ensure the companies, who are significant “levy” players, are placed on a “level playing field” with sister plants in England and prevent transfer of delivery from Wales to England together with the associated career opportunities for young people in Wales.

With the significant uncertainties surrounding Brexit it has never been more important that Wales generates a persuasive image of a country that is open for business and is supportive of companies that have a high regard for the health, wellbeing and prosperity of their employees. If Wales is to continue to attract inward Investment projects, it is essential that the Government provides a business friendly environment and is responsive to and supportive of significant business development and investment plans.

## **Regional Skills Partnerships**

Regional Skills Partnerships (RSPs) have made significant progress since their establishment in 2014 in identifying regional priorities based on employer-led intelligence. The Welsh Government is committed to their role which is set out in the Economic Action Plan and Employability Plan. This is having direct impact, particularly in influencing the deployment of funding for Further Education and Apprenticeships in the regions.

The Graystone Review of Regional Skills Partnerships (RSPs), which reported in March 2018, made a series of recommendations for both Welsh Government and RSPs which are now being implemented, including greater transparency around membership and role of the RSPs, and continuing to strengthen their employer and stakeholder engagement in each region.

## **Careers Wales**

Careers Wales support young people and adults to become more effective at planning and managing their careers over time, recognising that career management no longer consists of a one-off occupational choice, but more a series of lifelong career transitions.

Careers Wales delivers a blend of digital and face to face careers information and guidance. They now have in place a digital team of Careers Advisers to drive forward innovative and creative ways of delivering services and engaging with clients through digital channels

A new service, delivered by Careers Wales, is due to commence April 2019. Welsh Government has committed circa £9m pa to the service, which will increase the capacity of Careers Wales to work with those aged 16+ and will offer individuals greater access to advice and guidance including bespoke support, particularly recognising future changes in the labour market. The services will be available face to face through Careers Wales centres, over the telephone and through online webchat and self-help web services.

Careers advisor capacity will increase and systematic assessment of individuals’ needs will improve the consistency of professional careers advice and guidance and improve the journey for the individual. Individuals will be referred to the right place at the right time to meet their needs. Improvements have also been made to ensure improved compliant information sharing with other government departments, partners and organisations.

I trust that these responses address the Committee’s specific areas of interest and I look forward to working with you in the future.

Yours sincerely,



**Ken Skates AC/AM**

Gweinidog yr Economi a Thrafnidiaeth

Minister for Economy and Transport

Eluned Morgan AM,  
Minister for Welsh Language and Lifelong Learning

28 November 2018

Dear Minister,

Following the Economy, Infrastructure and Skills Committee's scrutiny session, which you attended on 7 November, the Committee would like to draw the following points to your attention.

### **Operation of Apprenticeships**

The Committee is disappointed with the lack of transparency surrounding the funding and operation of the £115 million apprenticeship programme and is concerned that this poses a challenge to the effective scrutiny of a flagship Welsh Government initiative.

The Committee therefore requests the Minister provides further details on the administration of the apprenticeship programme and to outline the funding allocations made within it. This general information should be supplemented by information that addresses the following specific matters:

- The criteria used by Welsh Government to make decisions regarding how the funding within the programme is allocated between levels, frameworks / sectors and providers.
- The amount of funding intended to be available in 2018/19 for each level of non-degree apprenticeship (L1-5) and for high-priority and non-priority sectors and any reserve.
- Details on each of the 'pressure points' reported by providers and the amount of additional funding made available to meet them.



- Further details on the 10% fund seemingly reserved for lower level apprenticeships (L2) including the rationale for this sum and an evaluation of its sufficiency.

## **EU Transition Fund**

The Committee also seeks further clarification regarding the rationale for the allocation of EU Transition Fund monies to Airbus, Ford and other companies rather than to the providers of work-based learning. While this funding represents only a very small percentage of income for these companies, £3 million is a significant sum in the context of the Welsh Government's skills agenda and funding for work-based learning and further education. The Committee remains unconvinced, based on the explanation provided on 07 November, that this investment represents the best value for tax-payers money and is therefore keen to establish further facts.

The Committee requests that it is provided with a more detailed case for investing this funding in these big companies, rather than other methods of supporting individuals to upskill.

## **Regional Skills Partnerships**

Finally, the Committee notes that the Independent "Greystone" Report on the Governance of Regional Skills Partnerships (RSPs), provided to CYPE Committee on 12 November 2018 called RSP resources 'very tight' and stated that 'if increased responsibilities are delegated to RSPs, careful consideration needs to be given to the resources available to [them]'. The report goes on to make a recommendation on this matter.

Noting the already increasing influence of RSPs, for example the impact their work is having on the distribution of the £10 million Skill Development Fund, their resourcing was a matter raised with you on 07 November.

Your proposal to keep funding at a static level is at odds with the recommendation made in the Greystone report. Whilst the Committee notes and acknowledges the enthusiasm and hard-work of the RSPs, it is not reassured that they are resourced to a level commensurate with the demands placed on them and the influence their work has on the post-16 education and skills system in Wales.

The Committee has agreed to look in depth at the role of RSPs during 2019 and we will take a more detailed look at this – including their levels of financial support – in the Spring term.

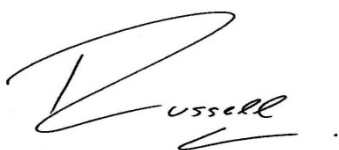


## Careers Wales

The Committee was concerned that while the current level of funding should be sufficient to provide a service for all young people and some adults, bespoke support will not be available to all. In the Committee's work on automation, it was clear that in some sectors many of the jobs done by workers in Wales could be eradicated in the coming years. Workers will need support to identify and pursue alternative careers. It is not currently clear that Careers Wales is sufficiently well funded to support this vital preparation for the fourth industrial revolution. Is this something that is likely to be addressed following publication of the review of Digital innovation, AI and automation in Wales?

I look forward to hearing from you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Russell George', with a stylized flourish at the end.

Russell George  
Chair





**Forward Work Programme – Spring term 2019**

	Please note: this is a draft timetable. For more information on the work of the Committee please phone 0300 200 6330
<b>9.01.19</b> Wednesday	Research and Innovation evidence session with the Minister for Education  Autumn Rail disruption inquiry  Debate on the Committee report: The State of Roads
<b>17.01.19</b> Thursday	External Committee visit
<b>23.01.19</b> Wednesday	City and Growth Deals 1 year on: Cardiff and Swansea evidence session  Annual Scrutiny with the Traffic Commissioner for Wales
<b>31.01.19</b> Thursday	City and Growth Deals 1 year on: North and Mid Wales evidence session
<b>6.02.19</b> Wednesday	Annual report scrutiny with the Development Bank for Wales  Barriers facing small home building firms evidence session
<b>14.02.19</b> Thursday	The Future Development of Transport for Wales evidence session
<b>20.02.19</b> Wednesday	The Future Development of Transport for Wales evidence session
	<b>Recess 25 February – 3 March</b>
<b>7.03.19</b> Thursday	Barriers facing small home building firms evidence session
<b>13.03.19</b> Wednesday	The Future development of Transport for Wales evidence session with the Minister for Economy and Transport
<b>21.03.19</b> Thursday	The role of Regional Skills Partnerships evidence session

4.04.19 Wednesday	To be confirmed
	Easter Recess 8 April – 28 April

# Agenda Item 3

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# Agenda Item 4

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## Evidence from Hygrove Homes Group

### Introduction

My name is Huw Francis; I am a Director and Chief Executive Officer of Hygrove Homes Group (hereinafter referred to as Hygrove).

Hygrove's operational base is largely the Swansea area with smaller developments at Pontardulais and Penclawdd.

Hygrove has developable land holdings consisting of circa 400 plots, which are in various stages of the development process. It is planned that Hygrove will construct 100 new homes in 2019.

Hygrove's financial model for this year is focused on the provision of Affordable Homes for first time purchasers.

### Background

Hygrove welcomes the National Assembly for Wales' recognition that small House Builders (SHBs) face significant barriers to their trade in this sector, forcing many to abandon the sector entirely and preventing new firms from entering.

Detailed research has been carried out on the demise of SHBs and the findings are alarming.

According to the Home Builders Federation (HBF)<sup>1</sup>:

- In 1988 SHBs were responsible for 4 in 10 new build homes in the UK compared with just 12 per cent today.
- In the period 2007 – 2009 one third of small companies ceased building homes.

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<sup>1</sup> HBF report: "Reversing the Decline of Small Housebuilders" 24.1.2017. Available at <https://www.hbf.co.uk/news/reversing-the-decline-of-small-housebuilders/>

The HBF's research echoed the findings of the Federation of Master Builders' survey of 2017<sup>2</sup> and the problem was further acknowledged in the UK Government's White paper also of 2017<sup>3</sup>.

The consequence of this trend is that:

- Fewer houses are built each year adding to the existing house shortage crisis;
- Those houses which are built are constructed largely by 4 national house builders who now dominate the market;
- House prices are kept high as the 4 principal builders can reduce supply in face of increasing demand thereby ensuring continuous growth in house prices;
- Local Planning Authorities are unable to impose acceptable s.106 planning obligations in Wales as the dominant national companies have the leverage of being able to threaten to refuse to build any homes in Wales unless their planning obligation terms are met;
- Less 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;
- Any profit derived from the provision of Welsh homes disappears from Wales to shareholders in London and is not retained and spent in local communities which would be the case if more indigenous small house builders were active in local markets.

## The importance of Small House Builders to Wales

SHBs play an integral role in development in Wales; specifically:

- As will be explored further below, SHB's traditionally acquire sites that are considered too small or problematic to be developed by larger housebuilders, who prefer greenfield "oven ready" sites. This results in a number of smaller brownfield "infill" sites being brought forward for

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<sup>2</sup> FMB Housebuilders' Survey 2017. September 2017. Available at <https://www.fmb.org.uk/media/35090/fmb-housebuilders-survey-2017.pdf>

<sup>3</sup> Ministry of Housing, Communities and Local Government White Paper: "Fixing our broken housing market" 7.2.2017. Available at <https://www.gov.uk/government/collections/housing-white-paper>

development by SHBs and adds to the diversity of Wales' housing landscape as a consequence;

- These sites are invariably contaminated due to historical industrial use and therefore require significant remediation as part of the development process;
- SHBs are usually local to the communities in which they build, resulting in profits made remaining within the locality;
- SHBs attract local sub-contractors and consultants thus increasing local supply chain activity;
- In order to compensate for a lack of awareness in its brand name in comparison with national housebuilders, SHB's usually:
  - i) Sell homes with freehold as opposed to leasehold title (resulting in the homeowner not being obligated to pay a ground rent as part of the running cost of the home);
  - ii) Build the internal site roads to adoptable standards (resulting in the homeowner not being obligated to pay maintenance fees to a management company as part of the running cost of the home);
  - iii) Place greater emphasis on quality during the build process.

The statistics quoted at the beginning of this paper demonstrates the significant fall in SHB activity. In order to attract SHBs back into the sector it is essential that one understands what drove them out (or prevents them from entering) the sector in the first instance.

I set out below those factors which have most affected Hygrove and which I believe are leading to the demise of the SHBs.

## 1. Access to Finance

The economic downturn of 2008 has resulted in access to finance in the housebuilding sector becoming severely restricted; specifically:

- i) 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;

- ii) As a result of i) above, this has led to the emergence of a secondary tier of lenders that charge far higher rates and fees; these lenders will not provide funding for the continuously increasing cost of planning applications.
- iii) Further to i) above, 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.

Wales suffers disproportionately from this problem as house prices are far lower in Wales and the lender's risk therefore is perceived as being far greater. This coupled with the fact that the highest percentage of cost in house building is front loaded (thereby adding to the lender's risk) persuades mainstream lenders that Wales is not an attractive geographical area for them to operate in.

While the Assembly has assisted the industry greatly through Finance Wales/Development Bank of Wales' ("DBW") lending to the development sector, 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.

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.

## 2. The Planning process

Despite the introduction of the Planning (Wales) Act 2015, in practice the complexity, delay, uncertainty, and frustration associated with the planning process remains today. This can largely be attributed to:

- i) the disconnect between the Local Planning Authority (LPA) and its consultees including responses from within the LPA itself;
- ii) delays in responses by external consultees, including Natural Resources Wales;
- iii) under resourced local authority departments (particularly highways departments).

Further to ii) above, we consider it important that our experiences with Natural Resources Wales are highlighted as part of this process. We consider the following anecdotal examples to be relevant:



- a) Officers fail to respond to consultation requests from the LPA in a timely fashion, often objecting on the last day of consultation time limits;
- b) An Officer on one critical time sensitive application was a part timer whose line manager was also a part timer; the application was delayed for over a month, a problem further exacerbated by officer illness on working days. This is a frequent issue with NRW officers;
- c) Increasing demands for investigative reporting in face of professional advice that such additional information is unnecessary. The impression given is that Officers are creating additional work simply to safeguard NRW jobs;
- d) Duplication of roles (and consequently effort by the applicant) between NRW officers and LPA Ecologists (who are also part timers thereby increasing delays);
- e) A blindness to proportionality when weighing up potential ecological issues with the need to progress applications thereby safeguarding jobs and avoiding delays;
- f) A lack of internal performance indicators procedures to ensure that the service provided is timely, reasonable and professional.

The cost of obtaining Planning consent has risen sharply; lenders will not fund these applications and consequently all SHBs must meet this cost from their own resources, which is beyond most SHBs.

The demands of the Planning process has resulted in the growth of satellite businesses such as architectural, engineering, ecological, geotechnical, archaeology and hydrology to name but a few. The cost associated with the reports from these professions demanded by planning officers has resulted in a spiral in planning cost which is now impossible to reverse thereby creating a financial barrier that SHBs simply cannot cross.

We would stress that the risk, cost and time incurred by SHBs in bringing forward brownfield contaminated sites for development are not taken into account when site density figures and s.106 planning obligations are being assessed. These points should be considered in dealing with future applications brought by SHBs.

### 3. Utility Companies

The cost associated with any dealings with utility companies is a major concern for all SHBs. This cost is always front loaded, is non-negotiable and does not in any way reflect the quality or quantity of service provided.

Consultation with all utility companies is required on any development and all house builders are confronted with utility companies which hold a monopoly in the areas in which they operate with the inevitable consequence that cost is totally at their discretion. Dwr Cymru/Welsh Water ("DCWW") is a specific example of this.

Each utility company denies they enjoy a monopoly and support this assertion by stating that SHBs can employ the services of out of area utility companies knowing full well that work scheduling is next to impossible if local house builders should attempt to go down that particular route.

Further to the above, we consider it important that our experiences with DCWW are highlighted as part of this process. We consider the following anecdotal examples to be relevant:

- i) The cost of service provided exceed industry norm;
- ii) All costs are payable "up front";
- iii) No timely appeal mechanism is available to challenge cost;
- iv) No practical alternative pricing can be sought; DCWW in essence enjoys a monopoly on all aspect of its industry sector;
- v) DCWW insists on carrying out work through its own contractors (and charging excessively for it) which could easily be carried out more economically by the SHB;
- vi) DCWW's refusal to accept cash Bonds to safeguard payment for smaller tasks;
- vii) The delays in providing all services in particular those involved with the connection of new homes to services.

We feel that the power of the industry regulator to control costs associated with DCWW are extremely limited and must be reviewed.

#### 4. Land availability

SHBs find it increasingly difficult to target development sites which they can afford.

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.

These sites are beyond the reach of SHBs. More therefore needs to be done to encourage Local Authorities to release land they own much of which consists of smaller in fill sites which would be attractive to the SHB.

#### 5. Access to skills

With the decline in number of SHBs there will be an inevitable corresponding decline in the number of Apprentice placements thereby guaranteeing that the existing shortage of construction skills in Wales will accelerate in future years.

Currently all sites struggle to find experienced ground workers, who are fundamental to the development process. When added to this the fact that the numbers of trade apprentices are in free fall, it does not bode well for the future of the industry.

There is also a concern that this problem will be further exacerbated by Brexit given the number of EU migrant workers that have worked in key trades within the industry in recent years.

#### 6. Introduction of new legislation

While we commend the Assembly on its numerous forward-thinking pieces of legislation, we think it is important that the impact on SHBs of certain recent legislation is highlighted and considered as part of this process.

The compulsory introduction of Automatic Fire Suppression Systems ("Sprinklers") adds a cost of circa £4,000.00 per home. Furthermore, additional costs are incurred in instances where insufficient water pressure exists at sites to enable the sprinkler systems to work.

The introduction of sprinklers has added to the cost of affordable homes without a corresponding increase in value, which has made it even more difficult for SHBs in Wales where margins are particularly difficult.

The revised regulations for Sustainable Drainage Systems (“SuDs”) for new property developments in Wales (which came into effect on 7 January 2019 and will now see surface water stored above ground in ponds on new development sites) has seen a chaotic introduction leaving LPAs, Engineers and SHB’s unclear as to how to deal with them. We consider that the following points should be highlighted:

- The new regulations will result in density on housing estates reducing by circa twenty per cent;
- The reduction in house numbers (particularly on Affordable and First time Buyers sites) will cause challenging problems with all LPAs having to increase the areas of their Adopted Plans;
- It is unclear at this stage as to how commuted sums for the future maintenance of the SuDS are to be calculated. As a consequence, SHB’s are unable to assess the viability of potential future developments at the outset;
- Already under resourced local authority departments are struggling to staff new departments to deal with the new regulations;
- Questions remain unanswered as to the potential health and safety problems that could be caused to residents by having surface water stored above ground on new home developments.

Finally, developers are frequently accused of “landbanking”, however the points set out in this paper highlight the difficulties experienced by SHBs in preparing a site for development. We would therefore urge that these points be considered given the proposed future introduction of Vacant Land Tax.

## Conclusion

The house building Industry is facing a crisis the likes of which has not previously been experienced.

The factors contributing to the decline in SHB numbers set out above are a brief summary only; each heading could result in a full paper providing detailed examples supporting the assertion made in the heading.

Government needs to engage with all stakeholders in this sector to try and find a way to arrest the decline in SHBs as the decline in numbers has a consequence far beyond the industry itself which will not only be felt today but also in future years.

With the loss of each SHB the industry loses experience that it will find almost impossible to replace and it is already clear that restricting home building to a few national companies is not the answer.

## 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.<sup>1</sup> 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.<sup>2</sup> 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.

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

<sup>2</sup> 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](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*.<sup>3</sup> 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.<sup>4</sup>

The CSN identifies at risk occupations in construction as including wood trades, bricklayers, electricians, civil engineers and surveyors.<sup>5</sup> 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.

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<sup>3</sup> 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 19<sup>th</sup> December 2018)

<sup>4</sup> 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](https://www.citb.co.uk/documents/research/csn_reports_2018-2022/2018csn_wal_summary_050218.pdf) (accessed 19<sup>th</sup> December)

<sup>5</sup> 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](https://www.citb.co.uk/documents/research/csn_reports_2018-2022/2018csn_wal_summary_050218.pdf) (accessed 6<sup>th</sup> December) P.17

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