

Cynulliad Cenedlaethol Cymru
Pwyllgor yr Economi, Seilwaith a
Sgiliau
Rhwystrau sy'n wynebu cwmnïau bach
sy'n adeiladu cartefi
EIS(5) BFSHBFIO
Ymateb gan UK Finance

National Assembly for Wales
Economy, Infrastructure and Skills
Committee
Barriers facing small home building
firms
Evidence from UK Finance

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

We welcome the opportunity to provide this submission to the Committee's Inquiry on barriers facing small home building firms.

We recognise that successfully addressing housing supply challenges in Wales requires a full and effective contribution from all parts of the housebuilding sector, including volume builders for market sale, housing associations and local councils, and SME building firms.

To ensure SME developers can play their part effectively, the Inquiry considers areas in which barriers are typically encountered. We have the following comments on these, and related issues.

Access to finance

SME housebuilders have a vital role to play in delivering the homes Wales needs. The banking industry is determined to help SME builders grow their businesses. The range of finance options available to builders is now greater than ever, from traditional high street lenders and building societies, to smaller banks, crowd funding, finance brokers and government-supported schemes. UK Finance members provide commercial funding for SME builders, and we encourage them to shop around for the best deal available, which will depend on their proposals and circumstances.

We have acted to help SMEs understand the process and how to access the funding they need. In 2018, UK Finance co-produced, with the Federation of Master Builders, a [guide to development finance for small and medium size housebuilders](#). It offers practical advice on how developers should present their project to lenders to improve their chances of success and explains the alternative

options available if an application for finance is declined. Our guide also offers smaller housebuilders advice on how to make the most of the finance options available to them.

Performance bonds

Although access to finance is clearly identified for consideration by the Inquiry, a related issue is access to bonding. If a build is assigned to a contractor, then in many situations the developer and/ or funder might seek a performance bond. The cost of such bonds is increasing, and their availability is more restricted, particularly following the failure of Carillion and similar businesses.

Planning and infrastructure

In our view, the planning system continues to be one of the biggest barriers to delivery by SME developers. In many areas, planning authorities operate with increasingly limited resources. This means delays in processing and decision-making, which can be costly.

On infrastructure, particularly for larger projects, there is an element of delay and uncertainty about delivery of key infrastructure elements which can have a knock-on impact on development timing and viability. Looking at Cardiff, as an example, there has been a significant increase in development where the required transport infrastructure is not yet in place, such as South Wales Metro. Although infrastructure issues like this are likely to impact larger developers more, they will also affect smaller developers, who are less likely to be able to influence the outcome.

Land; access to development sites

The availability and cost of land, and competition for it, is increasingly a challenge for smaller developers. With volume builders of market homes and larger housing associations already taking much of the land supply pipeline, it is a challenge for SME builders to compete.

Impact of volume developers in market and affordable housing

There is a risk that volume developers in market and affordable housing could increasingly lock-out the participation of smaller builders. Volume builders also have an advantage of government support, including through Help to Buy, and the Affordable Housing Grant regime. The overlaying of other government

requirements on access to support can also disadvantage smaller developers. Procurement requirements, building quality and performance standards, including on energy efficiency and environmental impact can be much more challenging for SME builders to meet.

Help to Buy

The Help to Buy (Wales) equity loan scheme has been a benefit to homebuilders and buyers since it was launched in 2014. The scheme is due to end in March 2021, and options for its future are being considered. We are keen to see early clarity on future arrangements, including plans for managed transition that avoid market disruption. Currently, a broad range of larger and smaller builders are participating in the scheme. For the future, we expect government would wish to ensure SMEs have broad and fair access to HTB support.

Utilities

Although planning tends to be one of the biggest challenges, there are also related challenges around utilities/ statutory services such as water or electricity services connections. We are aware of developers citing delays and costs associated with bringing the required services on-site, and the need for works to be undertaken by panel firms which might be costly.

Resources, labour/ skills

Resourcing and the availability of skilled labour is a recurring theme. While the industry in Wales has not evidenced material reliance on EU workforces, there is a risk that if other areas such as London and the South East were to see a significant outward flow of skills, then there could be a drain from Wales to compensate.

Fiscal policy

With aspects of fiscal policy now devolved to Wales, the landscape of devolved taxes should also be considered in terms of the impacts it might have on development by both larger and smaller developers. The current proposals for a new Vacant Land Tax might be a potential deterrent to developer participation, although it is more likely to impact in the domain of larger developers.

Wider government policy aims and initiatives

The Welsh Government has an agenda around energy efficiency and the decarbonisation of homes and is also pushing forward on areas such as fire safety, including sprinklers.

We recognise that it is right for government to prioritise issues such as these. It is also important that government takes account of the related cost implications, particularly for smaller developers, of such initiatives and requirements. They can present real barriers to SME participation, as the resulting reduction in yields/returns can render projects more expensive and resource intensive.

Government is keen to see an expansion of development using Modern Methods of Construction, MMC. Delivery at scale and volume will be among the key requirements for success in this area. It is possible that some SME developers might be disadvantaged if they are not able to quickly transition to new approaches.