

## **Written Response by the Welsh Government to the report of the Economy, Infrastructure and Skills Committee entitled Report on the Barriers facing small home building firms.**

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**Detailed Responses to the report's recommendations are set out below:**

**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.

### **Response: Accept**

A Business Case for a programme to address strategic stalled sites in Wales is in development. This work is being designed to dovetail with the existing Welsh Stalled Sites Fund and Land Release Fund, and recent work by Cardiff Capital Region to develop a Housing Investment Fund. The focus of this developing programme is to address the problem of large and complex strategic stalled sites in town centre locations that are currently stalled due to contamination; access and infrastructure issues. It is also linked to the recommendations of the Affordable Housing Review published in 2019. The development work to date has identified and prioritised sites in the South East area and discussions with Local Authority partners to take proposals forward. Whilst still at an early stage in its development, should these proposals move forward into delivery, opportunities may exist for the SME sector.

The Welsh Government is also very keen to add value to existing public land/assets and established a Land Division in the summer of 2019. The role of the Land Division is to work across the Welsh Government and the wider public sector to unlock the potential of public assets to stimulate a more active approach to using and developing land in the public interest. If appropriate, Land Division may also acquire private land to assist further development for public good but a compelling case for market failure would need to be demonstrated.

The Land Division will support the delivery of increased social housing in Wales by supporting the wider public sector to reduce constraints to redeveloping vacant and derelict public land, improve land supply, facilitate land assembly and support the SME building sector. The Land Division will closely monitor public sector activity and will consult with colleagues in the Welsh Government housing department to ensure that activity is relevant. In addition, through Ystadau Cymru's established structure, the Division is promoting joint working between public sector bodies to unlock the potential of all public land for development, which again has the potential to support home grown SME's.

**Financial Implications** – None. Costs will be drawn from existing programme budgets.

**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".

**Response: Accept in Principle**

The Welsh Government recognises the need to increase the involvement of SMEs in the delivery of new homes and is addressing this in a number of ways. Planning Policy Wales promotes the use of SMEs as a means of broadening the housing delivery options. This includes requiring planning authorities to maintain a register of small sites to assist SMEs to access land, as identified in the Committee's report. The move towards regional arrangements will also facilitate a more cost-effective way of managing local authority planning departments, enabling a more focused and responsive service to be provided. This would be of particular benefit to SMEs both in terms of assisting them through the process and in assessing the issues related to a particular site and the resultant report requirements.

Planning authorities already have the option of utilising Local Development Orders in combination with local design codes as a means of simplifying the planning process in specific locations. The adoption of Place Plans can also assist SMEs by clarifying the requirements for developing sites in the relevant area.

The threshold for pre-application consultation is set at 10 or more homes. Developments of 10 or more homes are significant in many locations, especially in rural areas and it is therefore important that local communities have the opportunity to be consulted under the pre-application consultation requirements.. This approach is also linked to achieving place-making and good planning outcomes for communities, as well as supporting the Well-being of Future Generations (Wales) Act requirement for community involvement.

**Financial Implications** – None.

**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.

**Response: Accept**

A revised Development Plans Manual was published on 26 March 2020. It is a reference document for practitioners who are responsible for, or contribute to, the preparation and implementation of a development plan. It focuses on the practicalities of preparing a plan and is based on best practice and lessons learnt from the 22 plans adopted to date. This updated Manual ensures that the ability and the unique characteristics of SMEs are factored into the development plan preparation process.

The revised Manual complements the latest version of Planning Policy Wales (Edition 10). This includes guidance on how to provide for and support SMEs through the plan making process. It advocates a collaborative approach to plan making and the SME sector and the Federation of Masters Builders (FMB) are specifically listed as key stakeholders in the plan making process.

Advice is given in the Manual on thresholds that development plans should set for candidate sites, as well as a proportionate approach to the evidence sought to support such sites (paragraph 3.58), with specific reference to SMEs. The intention is not to overburden SMEs, but ensure there is sufficient evidence to support the inclusion of a windfall allowance and/or allocations (paragraph 3.48).

When considering the overall scale and distribution of housing growth, specific reference is made (Table 13) to SMEs as a component of the housing supply. This not only relates to the scale of the sector, but also to delivery considerations appropriate to them.

An urban capacity study is a key element of plan preparation (paragraph 5.63). This enables a register of small sites, below a specific threshold, to be identified and maintained throughout the plan preparation process. It provides a valuable resource for SMEs to identify opportunities when moving forward and delivers on the Planning Policy Wales policy requirement for planning authorities to maintain a small sites register.

With regards to providing adequate financial information to support a viability assessment of all sites, the Manual makes reference to this being proportionate to the development. Hence small sites will require less detail, thus not overburdening the promoter, usually an SME. The FMB is suggested (Diagram 18) as able to represent SMEs as a member of a Viability Steering Group to agree all financial components of development viability to reflect those costs associated specifically with SMEs.

The Welsh Government acknowledges that local planning authority budgets have experienced very significant reductions due to public sector austerity. Steps to improve this in the short-term were taken in August this year through raising planning application fees by 20%. Research has also been commissioned to better understand the true cost of development management services in Wales and to produce a sustainable fee model in the long-term which better enables full cost recovery and places Local Planning Authorities in a better position to resource and deliver place-making and well-being objectives.

**Financial Implications** – None. Costs will be drawn from existing budgets.

**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.

**Response: Accept in Principle**

While we acknowledge the recent increase in planning application fees will have a direct cost for SMEs, the capacity it could fund in local planning authorities would reduce the costs of delays which are particularly damaging for SMEs. To move closer to cost recovery for development management services a 20% increase in planning application fees came into effect on 24<sup>th</sup> August. Research has also been commissioned to identify a new model for planning fees to better reflect the cost of providing the service. The research will report during autumn 2020. We look forward to working with stakeholders such as local planning authorities, Natural Resources Wales and RTPI Cymru to implement solutions to any problems identified by the research.

The Local Government and Elections Bill currently before the Senedd includes an enabling power which would allow the creation, by regulations, of Corporate Joint Committees (CJCs). CJCs provide a consistent approach under which principal

councils can work together to deliver specified functions. CJsCs would be a body corporate comprising of elected members of its constituent principal councils and be capable of employing staff and holding assets and funding. Principal councils would be able to request the Welsh Ministers establish, through regulations, a CJC where they wish to work together because of shared interests and mutual benefit. The Welsh Ministers will also be able to require principal council functions to be delivered by a CJC. Such functions include strategic land-use planning and transport.

Through requiring strategic planning to be delivered by CJsCs the implementation of Strategic Development Plans on a consistent basis across Wales will be facilitated. A governance framework will also be created which will allow for greater collaboration between local planning authorities to improve resilience and capacity. This is particularly applicable to areas of specialist planning expertise such as minerals and waste, development viability and historic environment where it is not feasible for each LPA to replicate services.

**Financial Implications** – None. Costs will be drawn from existing budgets.

**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.

**Response: Accept**

We are pleased that the Property Development Fund (PDF) and Stalled Sited Funds (SSF) are continuing to be so successful in supporting SMEs and the skilled jobs that they support and create. This has been reinforced in the evidence the Committee has received. The Development Bank Wales is currently undertaking a review of the PDF and SSF due to the unprecedented demand on the schemes. We are actively supporting them in that review and provide ongoing support of the schemes.

The Land Division has established a Land Release Fund that complements those available via the Development Bank. The fund is designed to unlock stalled public land thus enabling development. Principally the fund is designed to stimulate the development of small parcels of land that inherently will be attractive to the SME developers

We recognise that there are potential improvements to the property development schemes and officials are considering potential amendments to the schemes, or the creation of a new complimentary scheme, to support SMEs overcome any barriers to potential developments. Solutions implemented from the research commissioned to identify a new model for planning fees will be considered in any potential changes to the schemes. Consideration must be given to the implications of supporting the financing of planning to ensure that any development aligns with local and national strategic policy objectives.

**Financial Implications** – No costs associated to accepting in principle.

Future financial implications will be considered as part of the development of any new scheme or amendment to an existing scheme.

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

**Response: Reject**

The current phase of the Help to Buy Wales scheme is due to close to applicants at the end of March 2021. On the 18 September the Welsh Government announced it will guarantee a phase three of Help to Buy, until the end of March 2022. It also advised that should funding become available from the UK Government then we will deliver a two year scheme, closing in March 2023.

Work has been undertaken to consider how a phase three of the scheme could be improved to meet the need of potential home owners while continuing to provide support to homebuilders, large and small, and supply chains. As a result of this work, phase three of the scheme will see the £300k price cap reduced to £250k, homes will need to be of good quality and be broadband ready, and the scheme will not be restricted to first time buyers, as in England.

Participation in the scheme is open to all developers and this will remain the case for phase three. Funding is secured to meet anticipated demand from home owners across the remainder of phase two and for one year of phase three of the scheme.

The scheme currently has 229 developers actively engaged in the delivery of homes. Of these, 172 are identified as being small builders (Help to Buy Wales definition – completing 1-10 homes through the scheme) and 34 medium sized developers (Help to Buy Wales definition – completing 11 – 50 homes through the scheme). Since December 2019 10, 215 homes have been delivered through the scheme, with 481 being delivered by small developers and 675 by medium sized developers. The Home Builders Federation have said under clause 28 in the report that the dominance of a small number of large firms does not have a direct impact on the ability of SMEs to build houses.

During the next few months my officials will be engaging with all parties involved in ensuring we have everything in place for phase three. This will include liaison with home builders large and small and their representative bodies.

**Financial Implications – None.**

**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.

**Response: Accept in Principle**

The Self Build Wales scheme is the first of its kind in the world to address the key barriers of finding plots, regulation and financing and is under constant review by the Development Bank, my officials and its Project Board. In the very short time the scheme has been live it has already progressed from just utilising local authority land to the inclusion of sites owned by social landlords and the private sector. As a result SBW officials are engaged with SME construction companies who can market the plots they own through SBW and then construct the homes for the successful applicants.

This strategy is building on the 'plot shop' model proposed by RCT, who have been actively involved in the development of SBW and sit on the Project Board representing the WLGA. The scheme is also available to LAs and RSLs to appoint SME construction companies for their smaller sites and market the plots through SBW. This creates opportunities for SME home builders, greater cost certainty for the applicant and economies of scale. SBW is also designed to create opportunities for SME construction companies who operate in the repairs, maintenance and improvement sector (RMI) to expand into building homes without needing to address the barriers of finding land, planning and finance.

Self Build Wales is specifically designed to assist households in the building of their own home and for local authorities to access the 'untapped' market and target housing and social needs. Once the scheme is more established its structure could provide the basis for an all Wales 'plot shop' which gives SME development companies opportunities to purchase small sites with planning and financing in place to build market housing.

**Financial Implications** – None. Costs will be drawn from existing programme budgets.

**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.

**Response: Accept in Principle**

It is for local partners to determine their priorities to be included in City & Growth Deals, the Welsh Government has no power to direct how they spend the funding although opportunities to influence will be taken. There are some programmes in the Cardiff City Deal – for stalled sites, bringing empty houses back into occupation – which are very well placed to support small local builders and are intended to do exactly that. For the North Wales Growth Deal, the North Wales Economic Ambition Board are developing a Land and Property Programme which includes the provision of housing, whilst the Swansea Bay City Deal includes a low carbon housing project.

Regional Economic Frameworks (REFs) are a vehicle to help facilitate a more co-ordinated approach to regional economic development. They seek to develop a common set of shared priorities for economic development within the region which are shared by partners across the public, private and voluntary and community sectors. In defining these priorities consideration will be given to the important role of the foundation economy.

**Financial Implications** – None.

**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.

**Response: Accept in Principle**

The planning system includes well-established mechanisms for ensuring compliance with national planning policies. This is achieved through Welsh Government scrutiny during the development plan preparation process. Compliance with national policy is also one of the tests of 'soundness' which are assessed by Planning Inspectors as part of the public examination of a development plan, which culminates in a binding report. Following adoption planning authorities are responsible for monitoring the implementation of their plan through the preparation of Annual Monitoring Reports.

**Financial Implications** – None. Costs will be drawn from existing budgets.

**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.

**Response: Accept**

The Welsh Government welcomes Qualifications Wales' review of Construction and the Built Environment, and continues to work with Qualifications Wales to implement its outcomes. The development of new qualifications in these sectors will better support progression into courses and apprenticeships at higher levels, providing employers with skilled employees and apprentices with qualifications that will aid career progression. Higher level apprenticeships will in turn increase the attractiveness of a career in construction.

Aligned to this, the Welsh Government has commissioned Regional Skills Partnerships (RSPs) to identify skills gaps and shortages based upon employer led intelligence, captured in regional employment and skills plans. During the formulation of these plans, RSPs consider protected characteristics such as gender and age. Tackling gender equality is at the forefront of our apprenticeship skills policy and we remain committed to improving access to apprenticeships and ensuring equality and equity of opportunity for all apprentices. Measures and activity to help address gender disparity include instructing apprenticeship providers to provide extra support/mentoring to tackle gender-stereotyping, for example, women undertaking a construction apprenticeship. We are encouraging learning providers to tackle gender imbalances through our 'Have a Go' initiative which enables young people in schools and colleges to try out STEM related activities. We also fund a dedicated Equality and Diversity Champion in the National Training Federation for Wales, whose role includes working to promote equality for women in the workplace and assisting providers in challenging gender stereotyping.

**Financial Implications** – None. Costs will be drawn from existing budgets.