All Party Parliamentary Group for Small and Micro Business

An inquiry into support for small housebuilders

Federation of Small Businesses
@fsb_policy
federationofsmallbusinesses
www.fsb.org.uk

Contents

Acknowledgements

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Foreword

30 years ago, four in ten new homes were built by small housebuilders. Now, they barely build a tenth. As they struggle, so do more and more people who simply cannot find decent homes in which to live.

If we want to get Britain building in sufficient numbers in a style and at a price that suits our local communities, the simple truth is we must back smaller builders so they can build the homes we need.

That's why the APPG for Small and Micro Business has chosen to focus our latest inquiry on small housebuilders. Our ask to Government is simple – commit to publishing a dedicated strategy for small housebuilders. They have capacity, they have local interests at heart and they drive local economies.

A dedicated strategy for small housebuilders will be able to focus on the real barriers faced by smaller housebuilders, which are quite distinct from the issues with the larger players. This report makes recommendations to address the four key areas where small housebuilders struggle most.

First, there is simply a mismatch between when the money for building comes in and when it needs to be spent. While the big players sit on large reserves of capital, small businesses live hand-to-mouth, struggling with cash flow month to month. Access to, and improving terms of, finance for small housebuilders must be urgently addressed if we are to make progress.

Second, terrible payment practices. You can't build a home if you're still waiting to be paid for your last job. A systematic problem for almost all small businesses, late payment is particularly destructive in construction. The Government should take the actions suggested to support small housebuilders in supply chains.

Third, more action on jobs. Construction can be a good career option: we must encourage more people to pursue it. Government skills programmes, like T-levels and Apprenticeships must be made accessible for, and benefit, smaller businesses who in practice employ most construction workers.

Finally, more must be done to make small sites available. Making more small sites available and breaking up bigger sites will get homes built more quickly. Understaffing in local planning departments means decisions take far too long for those small builders. Income from increased planning fees should be ring-fenced to speed up this process, and small site developer contributions standardised so decisions are predictable and quick. There should be a focus on small sites that can be built on more quickly than larger ones.

Any sector of our economy would grind to a halt without the involvement of small businesses. What has happened in housebuilding is a case in point. Our APPG is formed on a cross-party basis. We have many legitimate disagreements with each other on many aspects of housing policy, but on this we are agreed: we cannot solve the housing shortage without smaller builders. Taken together as part of a dedicated strategy for small housebuilders, the steps detailed in this report will help Britain build the homes our people need.

Robert Courts MP
Chair of the All Party Parliamentary Group for Small and Micro Business and Chair of the Support for Small Housebuilders Inquiry

Catherine West MP
Vice-Chair of the Support for Small Housebuilders Inquiry

Introduction

1. There is a widely acknowledged gap in the UK between the amount of homes needed and those being built. Since the 1970s, there have been on average 160,000 new homes each year in England.[1] The consensus is that 225,000 to 275,000 more homes need to be built per year to keep up with population growth and tackle years of under-supply.[2]
2. At the same time, there has been a decline in the number of companies building homes. According to the Home Builders Federation (HBF), in 1988 around 12,000 small builders were responsible for 40 per cent of new build homes compared to around 2,500 building 12 per cent today.[3]
3. The scale of the decline suggests there is significant potential in the SME sector to make a substantial contribution to building the homes needed, if construction firms can be tempted back into the delivery of new homes. Further, enabling small builders already in the market to scale up and build more is also likely to help relieve the housing shortage. Smaller builders are more likely to build on smaller and infill sites of little interest to larger firms, and by nature of the size of the site do so more quickly, helping to raise supply.
4. In December 2017, the APPG for Small and Micro Business launched an inquiry into how the SME house building sector could be better supported by Government policy to overcome some of the barriers holding them back from building. The group took evidence from small housebuilders and developers, alongside policy experts.
5. This inquiry sought to make recommendations to Government in the key areas – access to finance, access to skills and labour, supply chain practice and wider barriers to building – that smaller house builders find challenging in the current market.
6. This report presents the main findings from the inquiry. It argues that whilst there have been steps in the right direction by Government to support SME builders and developers in the housing market, there are distinct challenges and barriers facing them which need further action.
7. Underpinning action in these areas, there must be a distinct Government strategy for small housebuilders that addresses the specific challenges they face. As the National House Building Council (NHBC) evidence argued, output for medium and large builders show a more resilient trend over time, suggesting there are particular factors affecting the smaller firms in the market.[4] This means that solutions to solving the problem will require specific solutions for small builders, and not just market-wide interventions.

1 Fixing our broken housing market, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf
2 Ibid
3 Home Builders Federation, 'Reversing the decline of small housebuilders', Jan 2017. https://www.hbf.co.uk/documents/6879/HBF_SME_Report_2017_Web.pdf
4 NHBC Foundation, Written evidence

Access to Finance

8. Much of the evidence this inquiry received highlighted issues accessing finance. Unlike larger builders, small developers and builders tend not have a large pool of capital and rely on borrowing to finance a project. A Federation of Master Builders' (FMB) survey from 2017 found that 54 per cent of SME housebuilders cited access to finance as a major barrier affecting their ability to build more homes.[5]

9. It is widely acknowledged that there was a reduction in the availability of finance after the financial crash in 2008. Beyond a general reluctance to lend to SME builders and developers[6], evidence highlighted specific issues related to accessing finance. Dominic Williams from the Federation of Small Businesses (FSB) highlighted the introduction of the Basel Accords, which has resulted in less appetite for risk in the banking sector.[7] Therefore, finance for small builders often comes with low loan-to-cost ratios, typically 60-65 per cent (small developers used to be able to get 70-80 per cent, and some times as much as 90 per cent).[8] This often drops even lower when an entire scheme is taken into account.[9]

10. In practice, this means developers can borrow less, and need to source further equity through self-financing or investment, which evidence to the inquiry found can be difficult.

11. Further, Ian Thomas from LendInvest and Dominic Williams from FSB both highlighted that banks tend to insist that their loan is repaid before any of the developer's equity can be drawn out. This locks equity in to single sites and restricts development on new sites until completion of the last units in a scheme.[10]

12. Other issues raised include high interest rates, fees, and banks often requiring full planning permission before agreeing to a loan, meaning builders have to fund associated costs themselves.

13. Much of the evidence cited that as high street banks have become more centralised, there has been the loss of relationships at a local level, meaning that there is less flexibility in the terms of finance. Ian Thomas from LendInvest highlighted that historically, where a local bank manager knew a builder well, there would be confidence within the bank to lend to them, even if the scheme had not obtained all permissions or planning decisions has yet to be made.[11] This has implications for lending to schemes in regions outside London. For example, Ben Francis from Hygrove Homes thought lending climates in Wales were challenging because decisions on financing are made in London by people with no knowledge of the region he operates in, restricting confidence in lending there.[12]

5 FMB, Written evidence
6 IPPPR, Written evidence
7 Dominic Williams, Oral Evidence
8 Home Builders Federation, 'Reversing the decline of small housebuilders', Jan 2017. https://www.hbf.co.uk/documents/6879/HBF_SME_Report_2017_Web.pdf
9 IPPR, Written Evidence & Dominic Williams, Oral Evidence
10 Ian Thomas, Oral Evidence & Dominic Williams, Oral Evidence
11 Ian Thomas, Oral Evidence
12 Ben Francis, Oral Evidence

14. More generally, there has been some improvement in the availability and cost of finance. The lending climate in general for small businesses has improved since the financial crash. Evidence from the NHBC Foundation suggests finance is less of a major concern for small housebuilders and developers than it was in 2014[13]. According to FSB, in Q4 2017 the proportion of small businesses successful in their credit applications stood at 66 per cent, up slightly from 62 per cent a year ago, and from 50 per cent in the same quarter in 2012.[14]

15. The Government have taken steps to improve the finance available to small builders and developers through the Home Builders Fund, a £3 billion fund available for housebuilders[15]. Feedback on this has been positive, with FMB reporting their members are pleased with the way it is working.[16] However, up to January 2018 only £281.5m (42% of all approved funding) had been allocated to SME builders.[17] With the announcement of a further £1.5 billion at Autumn Budget 2017[18] specifically targeted at supporting SMEs, the fund has some way to go to scale up.

16. At Spring Statement 2018, the Government announced it was extending the Housing Growth Partnership[19]. This scheme, in partnership with Lloyds Bank, invests alongside smaller builders in new developments, providing money to support their businesses, helping get workers onto sites and increasing housing supply.

Recommendations

17. Steps to improve access to finance through the Home Builder's Fund and the Housing Growth Partnership are welcome, but the Government should run a wide-ranging awareness campaign that highlights the opportunities available, enabling them to scale up financial support available.

18. Government must look for long term solutions to improve the terms for loans and a Government-backed guarantee might be one option. The British Business Bank's ENABLE Guarantee Programme exists to encourage additional lending to smaller business by reducing the capital required to be held against such lending. To date, they have only one major lender (United Trust Bank) signed up to deliver this for the housebuilding sector. To improve the terms offered to small builders, Government should raise awareness of this scheme and encourage more lenders to join. This would go some way to improving poor loan-to-cost rations currently in the market.

19. The Government should explore incentives that would encourage investment in to SME housing, helping developers overcome challenges in finding equity for their schemes.

13 In 2014, 42% small housebuilders and developers described the limited availability of finance as a serious impediment to their business. In 2017, only 20% reported that. NHBC Foundation, Written evidence
14 FSB, Small Business Index, Jan 2018 and FSB, Small Business Index, Jan 2012
15 https://homebuildingfund.campaign.gov.uk/
16 Federation of Master Builders, Oral Evidence
17 https://www.whatdotheyknow.com/request/449603/response/1090050/attach/4/FOI000975%20Response.pdf?cookie_passthrough=1
18 Autumn Budget 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661480/autumn_budget_2017_web.pdf
19 Spring Statement 2018, https://www.gov.uk/government/speeches/spring-statement-2018-philip-hammonds-speech

Poor payment practice within the supply chain

20. Poor payment practice is a longstanding problem faced by small businesses across all sectors. Research undertaken by FSB has found that a third of payments to small businesses are late[20] with some small businesses reporting the payment terms of some large businesses have grown from 30 days to well over 100 days in some cases. Instances of supply chain bullying are rife across the UK's payment culture with almost one in five (17%) FSB members reporting they have faced supply chain bullying in one form or another in the previous two years.[21]

21. Poor payment practices are having a significant economic impact. 37 per cent of small businesses said they had run into cash flow difficulties and an estimated 50,000 small businesses shut down each year due to late payments.[22]

22. The evidence to this inquiry confirms this is an issue felt in the building sector. An Electrical Contractors' Association (ECA) and Building Engineering Services Association (BESA) survey found that 20 per cent of commercial projects are paid in 60 days or more.[23] Sue Wimpenny from The Lady Builder gave a specific example of a three month wait for payment on a pilot hotel project worth £100,000. She felt taking on the whole project became too much of a risk because three month's debt on the payment for the entire business would be too much for her business.[24]

23. Retentions practice in the construction industry adds a specific challenge for small firms. Typically, five per cent (though this can be up to ten per cent) of payment for work undertaken by businesses in the supply chain is held in retention by the main contractor to provide security in the event of defects with that work.

24. Evidence to the inquiry argued that this practice has been abused. An FMB survey found that 45 per cent of retention payments were overdue with 12.5 per cent written off as bad debts.[25] The ECA and BESA has found that £10.3 billion of the construction sector's turnover of £220 billion is held in retentions and that an estimated £7.8 billion has been unpaid across the construction sector over the last three years.[26]

25. The recent collapse of Carillion highlights the danger of bigger firms holding on to money. Retentions payments will be treated like any other outstanding debts in the liquidation and included in the general body of unsecured creditors and unlikely to be returned down the supply chain.

26. ECA and BESA found retentions were withheld because of disputes over defects, a company higher up the supply chain becoming insolvent or no reason was offered.[27]

20 FSB, 'Time to Act', Nov 2016
21 Ibid
22 Ibid
23 ECA and BESA, Written Evidence
24 Sue Wimpenny, Oral Evidence
25 FMB, Oral Evidence
26 ECA and BESA, Written Evidence
27 Ibid

27. Withheld retention payments have resulted in inhibited business growth (60%), weakened relationships in supply chains (58%) and reduced investment in training and development (56%).[28]

28. Further, money held up in the supply chain exacerbates some of the issues highlighted in the Access to Finance section of this report. Small builders and developers struggle to raise equity to put into new developments; waiting for money from previous projects only further delays money going into new projects. Lulu Shooter from FMB gave the example of one member who had reported that the amount of capital he had tied up in retentions would be enough to turn him from a contractor in to a developer.[29]

Recommendations

29. The Government should strengthen the Construction Supply Chain Payment Charter, making it mandatory for all large developers and creating a new "three strikes and you're out" rule targeting repeat offenders of late payment. This will help tackle the poor payment culture in sector.

30. The Government should lead by example and commit to project bank accounts within all public construction projects. The decision not to use project bank accounts should require a written ministerial statement. When money is allocated for a particular project, it would be held in trusts rather than by the larger firms in the supply chain. This would protect businesses throughout the supply chain if a big firm goes bust, as happened with Carillion, and would allow them to be paid for work they have already completed.

31. The Department for Business, Energy and Industrial Strategy's consultation into Retention Payments in the Construction Industry should be seen as an opportunity to reform retention practice. The Government should introduce a trust account for retentions, similar to the Tenancy Deposit Scheme, whereby retention money would be held in a separate bank account. When works are completed, an independent representative would be responsible for surveying the work and releasing the funds, which would avoid exploitative practice in the sector. Builders in the evidence session welcomed this is an idea to solve some of the issues they face with poor payment.[30]

28 ECA and BESA written evidence
29 FMB, Oral Evidence
30 David Ede, Oral Evidence and Sue Wimpenny, Oral Evidence

Labour and Skills

32. The construction sector is facing a growing skills shortage. A skills shortage vacancy is one that can't be filled because of an inability on the part of employers to find the right skills in the labour market. The former UK Commission on Employment and Skills (UKCES) survey found that construction has the joint highest proportion of skills shortage vacancies of any industry.[31] The number of skills shortage vacancies in the construction sector rose from 5,000 in 2013 to 12,000 in 2015.[32] The FMB State of Trade Survey in Q3 2017 highlighted specific trades where skills shortages were most prevalent – 61 per cent of SMEs in the construction sector reported difficulties hiring carpenters and joiners; 59 per cent had difficulties hiring bricklayers, 49 per cent site mangers; 46 per cent supervisors; and 39 per cent plumbers.[33]

33. Despite the clear demand for skilled workers, participation in further education construction courses has declined substantially. The number of learners in construction and built environment declined by 25 per cent between 2012/13 and 2015/6. [34]

34. In one of the evidence sessions, Ben Francis from Hygrove Homes reported a lack of interest in both children and young people in schools, but also by schools themselves, in careers advice and information from employers in the construction industry. His firm has been undertaking community outreach with schools which was eventually cancelled in lieu of an IT course.[35]

35. There is also a belief that those students that do undertake further education courses do not graduate with the right skills for the sector. A recent study showed six months after finishing a construction qualification in England, just 40 per cent were employed in construction, with another 25 per cent on another construction related course, and 12 per cent unemployed.[36]

36. This is likely to be exacerbated by what IPPR deems a 'demographic time bomb'[37]. Two in five workers in the construction sector (a million in total) are set to retire in the next 20 years.[38] Ben Francis' evidence recognised this problem, saying that if you stepped on to any of his sites you'd see an aging workforce with very few youngsters coming through.[39]

37. Brexit has the potential to add further challenges to the skills available in the industry. The construction industry has a greater proportion of EU migrants than the rest of the economy (9% compared to 7.4%).[40] In London, 30 per cent of construction workers are EU nationals.[41]

38. Alongside filling vacancies within the industry, Annie Peate from FSB also highlighted that construction businesses are struggling to train employees once they hire them[42]. UKCES data has shown that employers in construction report the second lowest levels of investment in training of all industries, with the key barriers being the costs of training, lack of resource and time.

31 UKCES, 'Employer Skills Survey 2015', May 2016. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web__May_.pdf
32 IPPR, Written evidence
33 FMB, Written evidence
34 IPPR, Written evidence
35 Ben Francis, Oral evidence
36 IPPR, Written evidence
37 Ibid
38 Ibid
39 Ben Francis, Oral evidence
40 IPPR, Written evidence
41 LCCI, Written evidence
42 Annie Peate, Oral evidence

39. This is exacerbated by the construction sector having a high proportion of self-employed workers; 42 per cent of construction workers are self-employed, over three times the level in the rest of the economy.[43] FSB research from 2016 found that only 19 per cent of self-employed people received training to assist them in their business in the past five years.

40. One route to raising skills in the sector is through apprenticeships. According to the London Chamber of Commerce and Industry (LCCI), 63 per cent of property and construction firms said there was a benefit to employing an apprentice[44]. However, the number of apprenticeship starts in the construction industry is declining. Official figures from the Department for Education show construction made up four per cent of the total number of apprenticeships 2016/7, but 15 per cent a decade earlier.[45] Statistics from the Construction Industry Training Board show that there were fewer starts in 'Construction, Planning and the Build Environment' in 2016/7 (21, 010) than in 2015/16 (21,460).[46]

41. The evidence suggests small firms need more encouragement and support to hire an apprentice. LCCI research found that 15 per cent of business leaders in the construction sector said that increased financial support would make them more likely to hire more apprentices.[47] This was echoed by Sue Wimpenny in the evidence sessions who saw increasing apprenticeships as key for the sector but needed more financial support to host them[48].

Recommendations

42. Construction will be one of the first new T-Levels to be taught from 2020 which is a positive step. The Government must ensure that they design a system that works for smaller housebuilders and developers. The recent T-level action plan stipulates that the compulsory work placements students must undertake should be an average length of 50 working days, for a minimum of 315 hours.[49] FSB research shows that just six per cent of small businesses would offer work placements as they are currently proposed.[50] Financial support, a formal agreement with clear responsibilities for students, business and schools, and advice and support would help small firms deliver a high-quality and worthwhile experience.[51] Building this in to the T-Level design will be crucial in ensuring smaller firms can provide enough work placements to meet demand in their sector.

43. The Government must ensure the National Retraining Scheme prioritises small business and the self-employed. Steps to address this in the National Retraining Scheme, which will be piloted with construction along with digital skills, are welcome but again this must be designed with small business in mind. The Conservative Manifesto said that the costs of the National Retraining Scheme training will be met by Government, with companies able to gain access to the apprenticeship levy

43 IPPR, Written evidence
44 LCCI, Written evidence
45 Department for Education, 'Apprenticeships level SSA framework' (dataset), 2017
46 FMB, Written evidence
47 LCCI, Written evidence
48 Sue Wimpenny, Oral evidence
49 Department for Education, 'Post-16 technical education reforms: T level action plan', October 2017. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650969/T_level_Action_Plan.pdf
50 FSB, 'Learning the Ropes', Dec 2017
51 38% of small businesses would like financial help to support them to offer this type of work placement, 29% say they would benefit from a formal agreement between the student, the business and the college outlining responsibilities on all sides, 26% would like accessible advice and support to help them deliver a high-quality and worthwhile experience. FSB, 'Learning the Ropes', Dec 2017

to support wage costs during the training period. The National Retraining Scheme is a positive step but we would welcome Government considering how to support smaller firms who don't have a levy fund to support wages.

44. The Government should consider allowing tax-deductions for training courses for the self-employed that develop new, not just refresh existing, skills. Currently, if a business owner undertakes training that updates existing skills then it is tax-deductible; however, if they undertake training that gives them new skills it is not. HMRC should consider changing the tax treatment of training to incentivise the self-employed to take up training, ensuring that the significant proportion of self-employed workers in the construction sector are developing their skills.

45. From April 2018, larger firms can opt to share up to 10 per cent of their apprenticeship vouchers with another employer. The Government should urge levy-paying businesses to prioritise transferring some or all of their vouchers to small businesses in their supply chain, sector or community, over larger businesses, to help smaller firms to take on more apprentices.

46. A post-Brexit immigration system must fully consider the needs of the UK construction sector given the challenges they face in recruiting the right skills. The Government must take into account that there tends to be a high proportion of self-employed workers in the construction sector who would not be served by an employer-driven visa system and should consider providing specific visa category for self-employed EU citizens with minimal proof of assets. A very small percentage of small firms employ foreign workers outside the EU and will struggle with a visa system like Tier 2 and so any post-Brexit immigration system must be employee responsive and allow access to the right people for the job without red tape.

Barriers to building

47. The inquiry asked what wider barriers small housebuilders faced when building homes. The evidence we received highlighted three elements of the building process that SME builders and developers find challenging: the availability of small sites to build on, the planning process, and developer contributions.

Availability of small sites

48. A NHBC Foundation survey found that 37 per cent of small builders and developers cited availability and cost of land as their most serious business challenge.[52] An IPPR survey found that for two thirds of SME builders, the lack of available and viable land was a constraint on building homes.[53] FMB has consistently found that lack of available and viable small sites is the most widely cited constraint on the ability of SME housebuilders to build more homes, and their survey from 2017 found that 54 per cent small builders reported that the number of small site opportunities has decreased.[54]

49. Local authorities often prioritise identifying large sites over smaller ones for reasons of expediency and cost effectiveness.[55] There can be greater local opposition to smaller sites, especially for infill sites which are likely to be located near, or next to, other residential developments.[56] Indeed, applications on smaller sites are less likely to be granted by local planning authorities, 86 per cent of major and 83 per cent of minor applications were approved.[57]

50. This is a particular issue for urban areas, where most of the available land will be on smaller, infill sites and demand for housing is high. For example in London, the population is expected to reach 10 million by 2027, meaning the capital will need 66,000 new homes every year until 2030.[58] This will often require innovate solutions. For example in Islington Council identified a number of disused garages across the borough for housing development.[59]

Planning process

51. The planning process was widely cited as a barrier to building more homes. The NHBC Foundation found that 38 per cent of small builders and developers thought the planning process and associated costs, were their most serious challenge.[60]

52. Specific concerns raised include costs associated with planning, which the NHBC Foundation found had gone up for 80 per cent of small builders and developers since 2014[61], developer contributions (which are covered separately below), excessive information requirements, and length of time to taken reach a planning decision. Sue Wimpenny from The Lady Builder gave an example where a site for three houses had taken 15 years, four planning applications and two appeals to get permission. [62]

52 NHBC Foundation, Written evidence
53 IPPR, Written evidence
54 FMB, Written evidence
55 IPPR, Written evidence
56 Sue Wimpenny, Oral Evidence
57 IPPR, Written evidence
58 LCCI, Written evidence
59 For example developments on Amour Close: https://www.islington.gov.uk/Business/architects/housing/islington%20architects%20residential%20boleynrd?extra=19 and Parkhurst Road: http://www.islington.media/r/6226/old_garages_are_transformed_into_new_council_homes
60 NHBC Foundation, Written evidence
61 Ibid
62 Sue Wimpenny, Oral evidence

53. The process and the associated costs of planning is often disproportionate to the development size, which can be prohibitive for small builders who are operating under resource, time and knowledge constraints compared to larger builders. For example, a traffic impact assessment for a 10 unit site is not significantly different from that of a 100 unit site.[63]

54. Part of the issue, particularly regarding time taken for planning decisions, is under-resourced planning departments, which FMB found in both 2016 and 2017 to be the single biggest reason for delays to consent being granted.[64] According to the Royal Town Planning Institute (RTPI), since 2010 there has been a decrease on average of 37 per cent in planning policy staff and 27 per cent in development management staff.[65] A planning department faced with time constraints is more likely to prioritise a site with more units, further exacerbating the issue for smaller builders who build on smaller sites. Also, small builders often rely on services offered by planning departments for pre-development advice which may be reduced as resources decrease or may now be offered at a cost.

Developer contributions

55. Related to planning are challenges faced with developer contributions. A LCCI survey found that 46 per cent of SME housebuilders said uncertainty over Section 106 or the Community Infrastructure Levy (CIL) was a key barrier related to the planning process.[66] Nearly half (49%) of FMB members said that there were sites which they would otherwise be interested in but which they believed would be unviable due to Section 106, CIL or other obligations.[67] There is a disproportionate cost on both the time taken to negotiate contributions and on the contributions themselves for small housebuilders building on small sites. For example, on bigger schemes economies of scale make it more viable to contribute a proportion to social housing. [68]

56. The inconsistent approach to how developer contributions are handled creates challenges for small firms. Small housebuilders and developers experience variations in requirements to meet Section 106 obligations and CIL has been calculated differently by local authorities within their area of operation. Daniel Ede in the evidence session gave an example that in Oxford City CIL is charged at £100m^{2,} whereby in neighbouring West Oxfordshire the charge is double that. Similarly he gave an example of a site in Standford in the Vale, with two phases of 20 units. For the first phase Section 106 contributions included primary school places, but the second it didn't.[69]

57. Further, poorly administered developer contributions can also add delays to the planning process. Section 106 can take up to 6-12 months to negotiate. Daniel Ede reported one site where Section 106 negotiations took over a year. These delays can itself sometimes be enough to jeopardise the viability of a particular scheme.[70]

63 FMB, Written evidence
64 Ibid
65 RTPI, 'How we can respond to the pressures on local authority planning', Oct 2015. http://www.rtpi.org.uk/media/1496890/RTPI%20Arup%20Research%20Report%20Investing%20in%20Delivery%2010%20October%202015.pdf
66 LCCI, Written evidence
67 FMB, Written evidence
68 Sue Wimpenny, Oral evidence
69 Daniel Ede, Oral evidence
70 Ibid

58. The recent exemption from Section 106 contributions for developments under ten units has been welcomed. The NHBC Foundation found that 41 per cent small builders and developers reported this had a positive impact[71], a sentiment echoed by small builders in the evidence sessions.[72]

Recommendations

59. The Government must push forward with the proposals to ensure 20 per cent of sites in local plans are small sites. Local Authorities should be encouraged to take steps to increase the provision of small sites through measures such as releasing brownfield sites and breaking up larger sites in their plans. The Government and Local Government Association should share best practice, highlighting councils who have taken innovative steps to increase their small sites provision.

60. The Government should ensure that funds raised through the planned increase in Local Authority planning fees must be ring-fenced for increasing the capacity, both in terms of staff numbers and expertise, of local planning departments. This will enable more resources to be freed up to quicken the planning process for housing developments, with appropriate safeguards. The Government should also ensure that other Local Authority functions closely related to house building, such as plan making and enforcement also have their funds bolstered.

61. The planning system is too complex for small firms to understand and administer. For example, since 2010 the Government has introduced over 1700 pages of secondary planning legislation. Government's revised National Planning Policy Framework should be seen as an opportunity to streamline the planning process for small scale developments to free up developers and housebuilders to build more homes.

62. Developer contributions are inconsistent and create disproportionate costs for small firms. Developer contributions should be standardised, where possible, for smaller developments, taking into account the fact that infrastructure requirements are typically much lower on smaller sites. This would make the process easier and cheaper for small businesses and also relieve the burden on planning departments. To recognise the additional costs and the minimal impact on local infrastructure of small sites, the Government should launch a consultation on a ten unit or 100sm^2 de minimis on Community Infrastructure Levy contributions.

71 NHBC Foundation, Written evidence
72 Daniel Ede, Oral evidence

Appendix: Witnesses and Written Evidence

The following organisations provided written evidence to the inquiry

- Electrical Contractors' Association and Building Engineering Services Association (joint evidence)
- Federation of Master Builders
- IPPR
- London Chamber of Commerce and Industry
- National Housing Federation
- NHBC Foundation
- SEC Group

The following witnesses gave oral evidence to the inquiry

- Daniel Ede, Director, Ede Holdings Group
- Ben Francis, Director, Hygrove Homes
- Annie Peate, Policy Advisor – Education and Skills, Federation of Small Businesses
- Lulu Shooter, Policy and Public Affairs Executive, Federation of Master Builders
- Ian Thomas, Co-Founder and Chief Investment Officer, LendInvest
- Dominic Williams, Chair of DCLG Unit, Federation of Small Businesses
- Sue Wimpenny, Director and Owner, The Lady Builder

For more information contact:
David Hale, Federation of Small Businesses
david.hale@fsb.org.uk