

DELIVERING MORE

 **HOMES FOR
SCOTLAND**

SMALL SCALE HOME BUILDERS REPORT

INCREASING SUPPLY

NOVEMBER 2019

KEY ACTIONS TO CREATE A PLATFORM FOR SUSTAINABLE ECONOMIC
GROWTH FOR SMALL HOMEBUILDERS ACROSS SCOTLAND

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PRIORITY RECOMMENDATIONS

Scottish Government

Scottish Government to create a specific infrastructure grant concentrated on small, brownfield sites and prioritise other grant funding to tackle problems of vacant and derelict land in order to increase development site opportunities for small home builders.

Scottish Government to extend the future of the Help to Buy Small Developers Scheme to 2023 as soon as possible to provide parity for Scottish small scale home builders. Increase the cap to £250k for the Small Developers scheme, recognising the additional build costs they incur through their supply chains.

Local Authorities

Local planning authorities to deliver an SME focused development management approach which:

- Provides a simple, free or low cost planning advice service
- Provides nationally consistent and transparent guidelines on what is required to have an application registered
- Uses a reasonable approach to establish a minimal baseline of technical reports required to register a planning application for a small site;
- Where additional reports above a minimum baseline are required, allows the provision of reports to be a condition of planning consent
- Commits to determining an application for a small scale site within the statutory 8 week period
- Provides a planning fee freeze for SME single-home and minor residential applications
- Introduces a graded approach to fees for example for schemes under 12 homes, 13-25, 25-50 and 50+

Local authority roads departments to:

Adopt roads servicing small sites (up to 50 homes) within the statutory 12 month deadline.

Increase the number of homes allowed off a private road, permitting 12 homes to promote very small sites.

Utility Providers and Key Agencies

Utility providers and key agencies to remove physical and financial barriers on small sites which directly penalise small scale builders.

Industry

Small scale home builders, housing associations and larger developers to work collaboratively together to explore opportunities for partnership working.

Small scale home builders should demonstrate their commitment to sustainable economic growth by signing up to the Scottish Business Pledge.

INTRODUCTION



This report is the result of work undertaken by the Homes for Scotland Small Scale Home Builders Working Group. Working alongside the Federation of Master Builders (FMB) and with input from the Scottish Government and Heads of Planning Scotland, it is a truly collaborative approach to considering the challenges (and identifying some potential solutions) that face this crucial part of the home building industry.

Since the launch of our new strategy in 2018, we have been clear in our commitment to support and grow the small scale home building sector as an integral part of a well-functioning housing market.

It has been heartening to learn of supportive best practice already in place in many authorities and to hear of the enthusiasm which exists across many agencies to help small scale home builders in Scotland.

We now look forward to working with partners in Scottish Government, Local Authorities, utility providers, key agencies and across the industry itself to take forward these recommendations and, crucially, deliver more homes for Scotland.

Nicola Barclay
Chief Executive
Homes for Scotland

FOREWORD

As Ambassador for the Small Scale Home Builders working group and as a small scale home builder myself, I am pleased to be able to put forward a series of clear recommendations which we believe can fundamentally improve trading conditions for SMEs to allow them to make a much larger contribution to the supply of new homes in Scotland.

The focus on smaller scale builders recognises that they simply have not recovered to the same extent as larger builders post-recession, with this sector delivering some 2,000 fewer homes per annum than before 2008. Their recovery would directly contribute to sustainable and inclusive economic growth across Scotland.

Reinvigorating the sector to pre-recession levels would not only increase overall supply but also (due to the nature of the markets in which they generally operate) see an increase in and diversity of product as well as improved local employment and supply chain growth, particularly in secondary and more rural locations.

We fully recognise that all parties must play their part in this. As such, these recommendations are based on the genuine experiences of these home builders and are put forward as a practical approach to dealing with the real issues they face.

Andy Pearson
Ambassador of Small Scale Home Builders Working Group



1 FULL RECOMMENDATIONS

SCOTTISH GOVERNMENT

- 1 Produce new and specific guidance on planning for increased delivery of new homes by small scale home builders.
- 2 Establish National Planning Framework (NPF) 4 policy which waives any requirements for developer contributions on sites of up to 12 homes. Where developer contributions are required above this, a graded approach should be implemented on sites of 13-25 homes with provision made for a proportionate capped fee. Best practice from Heads Of Planning Scotland (HOPS) survey should be fed into the policy process. (See also Rec 9)
- 3 Review of the particular aspects of the Land and Buildings Transaction Tax rates and the Additional Dwelling Supplement which have a disproportionate impact on small scale home builders.
- 4 Create a specific infrastructure grant concentrated on small, brownfield sites and prioritise other grant funding to tackle problems of vacant and derelict land in order to increase development site opportunities for small home builders.



Meeting of Small Scale Home Builder Project to agree final recommendations

FULL RECOMMENDATIONS

SCOTTISH GOVERNMENT	
5	Encourage the Scottish National Investment Bank to build on the firm foundations established by the Building Scotland Fund in the provision of lending products on terms which are fair and equitable to small home builders, reducing the impact of current development lending and market failure of providing road bonds.
6	Extend the future of the Help to Buy Small Developers Scheme to 2023 as soon as possible to provide parity for Scottish small scale home builders. Increase the cap to £250k for the Small Developers scheme, recognising the additional build costs they incur through their supply chains.
7	Develop National Standards on both the design and engineering standards required for new roads. In addition, clear National Guidance on extending the number of homes permitted off a new or existing private road to a new threshold of 12 new homes on the basis that the roads are built towards adoptable standard.
8	Run a proactive information campaign and workshops in conjunction with local authorities and industry bodies, to maximise awareness of the availability of current and emerging Scottish Government initiatives for small home builders, such as lending and skills initiatives.



FULL RECOMMENDATIONS

LOCAL AUTHORITIES	
9	Promote the good practice identified in the Homes for Scotland and Heads of Planning Scotland (HOPS) Survey, set out in detail in the section on planning.
10	Deliver an SME focused development management approach which: <ul style="list-style-type: none">• Provides a simple, free or low cost planning advice service• Provides nationally consistent and transparent guidelines on what is required to have an application registered• Uses a reasonable approach to establish a minimal baseline of technical reports required to register a planning application for a small site;• Where additional reports above a minimum baseline are required, allows the provision of reports to be a condition of planning consent• Commits to determining an application for a small scale site within the statutory 8 week period• Provides a planning fee freeze for SME single-home and minor residential applications• Introduces a graded approach to fees for example for schemes under 12 homes, 13-25, 25-50 and 50+
11	Local Development Plans should provide viable local development opportunities targeted at small scale home builders, with clearly worded policy stating where windfall development is supported. Housing Land Audits, Local Place Plans and Vacant & Derelict Land registers should be regularly updated and used to identify and promote viable sites suitable for small scale home builders.
12	Roads departments within local authorities should: <ul style="list-style-type: none">• Adopt roads servicing small sites (up to 50 homes) within the statutory 12 month deadline, and• Increase the number of homes allowed off a private road, permitting 12 homes to promote very small sites.
13	Waive domestic and commercial rates currently charged on show homes on developments of 25 or less homes.

FULL RECOMMENDATIONS

UTILITIES AND KEY AGENCIES

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|----|--|
| 14 | Provide a Pre-Planning Advice Service for small scale home builders and ensure that they have access to one single reliable senior point of contact throughout the development process to enable better communication and understanding between parties. |
| 15 | Remove physical and financial barriers on small sites which directly penalise small scale builders. |

INDUSTRY

- | | |
|----|---|
| 16 | Small scale home builders should demonstrate their commitment to sustainable economic growth by signing up to the Scottish Business Pledge. |
| 17 | Clearly communicate the social and economic benefits that small scale developments bring to local communities and wider stakeholders to allay the fears of residents and decision-makers. |
| 18 | Continue to explore new innovative sources of finance and pro-actively promote all new and existing finance sources including Government initiatives for infrastructure, skills and training. |
| 19 | Small scale home builders, housing associations and larger developers to work collaboratively together to explore opportunities for partnership working. |
| 20 | HFS to commit to working jointly with HOPS to promulgate best practice identified through the joint survey. |

2 BACKGROUND

This report outlines the barriers faced by the SME home builder sector and focuses on solutions to deal with such constraints and increase the supply of new homes.

For the purposes of consistency, we have classified:

- Small Scale Home Builder: delivering up to 50 homes a year.
- Small Site: up to 25 homes
- Very Small Site: up to 12 homes

It is important to note that for very small sites of up to 12 homes, the commercial viability and risk associated with development is impacted much more significantly by constraints imposed by planning, finance and utility and infrastructure provision than for larger sites where economies of scale begin to kick in.

This report considers the decline of small builders since the recession and recommends clear actions for local and national agencies, as well as the industry itself, to help them grow and thrive again. If they can return to pre-recession levels of output, they could contribute circa 2,000 additional homes a year to Scotland's housing supply, particularly in areas where larger volume developers don't currently build. Furthermore, at an estimated 4 jobs supported per home built, this additional output could support an additional 8,000 FTE jobs.

Assisting small scale home builders is inherently linked to realising the Scottish Government's Economic Strategy of creating sustainable inclusive growth through the provision of:

- High-quality, energy-efficient homes contributing towards a low carbon Scotland
- Employment, trade and supply chain opportunities and local area investment, especially in rural and secondary locations; and encouraging inward investment
- Regenerating vacant or derelict land in urban brownfield sites and helping tackle housing inequality
- Less standardised designs with homes often more tailored to local conditions and and more adaptable for demographic change
- A broader range of housing tenure options

Small scale home builders have historically contributed significantly to housing delivery in Scotland. However, following the 2007/2008 recession, the recovery witnessed by the largest home building companies stands in stark contrast to that of the small scale home builders.

The number of active SME home building companies has decreased from 782 in 2007/2008 to 465 in 2017/18, representing a drop of nearly 40%.

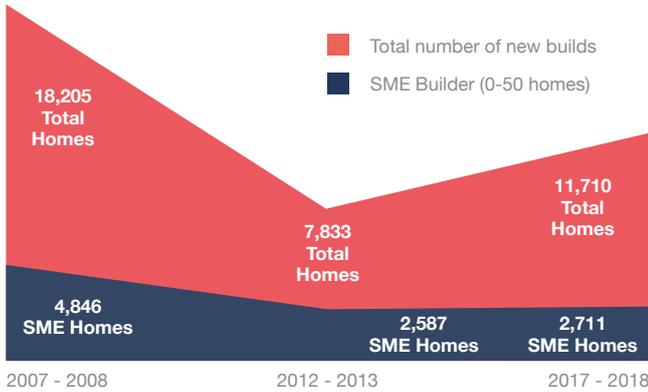


Facilitated groups identifying the barriers and solutions to increasing SME housing output at our focused workshop

BACKGROUND

The number of homes for sale being delivered by these companies has dropped from 4,846 (pre-recession) to just over 2,700 homes a year.

Scottish SME New Build Homes 2007 - 2018



Since 2008, the home building sector has been challenged by increasing complexity and bureaucracy that particularly impacts interests of small businesses. This is exacerbated by:

- A shortage of development finance options available on fair and equitable terms. Since the financial crash, mainstream lenders are generally very cautious about the SME sector. Banks will simply not lend to new entrants or surviving customers.
- A lengthy and complex consents system which makes navigation and cash flow management a challenge. The front loaded costs and lack of certainty prevents SMEs from investing in new projects and limits their ability to grow sustainably.
- A lack of available and suitable housing sites, coupled with the constant struggle of securing implementable planning consents, through a planning system crippled with delays. Whilst larger home building companies can spread risk across multiple sites, for SMEs encountering delays on just one site, this can be the difference between one year of growth and one year of retraction, threatening their very existence.



The insight and geographic spread of participants highlighted common themes

Key Issues

Surveys of SME home builders across the UK have found the planning system itself, along with the inseparable issues of land supply and viability, to be the biggest barrier to delivering homes. Throughout this project, Scottish builders have given us examples of the range of planning challenges they face:

Impact on viability:

- Levels of affordable housing and developer contributions on/ from small sites
- Amount of work & spend before principle of development can be established
- Cost of information requirements at application stage

Confusion and inconsistency:

- Approach to developer contributions
- Information requirements for applications
- Approaches to small sites in plans and housing land audits
- Access to free and reliable pre-application advice

Delays:

- Under-resourced planning teams
- Consultees not providing timeous advice
- Additional information requests post-validation / consultation
- Lack of visible input from heads of service

Policy disadvantages:

- Lack of robust scrutiny of existing allocations between plans
- Lack of good, small housing allocations in plans
- Lack of overt policy support for small windfall sites (other than brownfield / infill)

Because small-scale home builders rarely have more than an immediate or very short-term supply of land, they need timely decisions on planning applications for the sites they are ready to progress. They also need the cost of the application process (fees, additional reporting requirements) and of policy (design, contributions etc) to be proportionate.

Development plans don't tend to allocate sites that only small scale home builders would be interested in. A site for 20 homes, for example, could easily attract a medium to large scale company. Local Development Plans will only play a meaningful role in supporting small scale home building if they allocate genuine opportunity sites and/or include clear, positively-worded policy support for windfall applications for small sites, including on greenfield land.



The collaborative Small Scale Home Builders Project included representatives from the Scottish Government and other key stakeholders

Recommendations – Scottish Government

Produce new and specific guidance on planning for increased delivery of new homes by small scale home builders

A clear and specific government mandate to focus on small scale builders will require all agencies to work together to unlock the capacity of the sector.

Establish NPF4 policy which directs planning authorities to waive any requirements for developer contributions on small home builder sites of up to 12 homes. Where developer contributions are required above this, a graded approach should be implemented on sites of 13-25 homes with provision made for a proportionate capped fee. Best practice from HOPS survey should be fed into the policy process.

The provision of a transparent and consistent approach across Scotland will provide increased developer confidence and reduce risk. The threshold and subsequent graded approach will significantly increase site viability and increase the number of new homes able to be delivered by small scale builders.

Case Study: National Planning Policy Framework (England)

The National Planning Policy Framework in England (updated 19 February 2019) explicitly states that small home builders make an important contribution to housing requirements in local areas and that planning authorities should:

- Accommodate at least 10% of their housing requirement on sites no larger than one hectare
- Use area wide design assessments and Local Development Orders to bring small sites forward
- Support the development of windfall sites through policies and decisions
- Work with developers to encourage the sub-division of large sites where this could speed up the delivery of homes

Recommendations - Local Authorities

Promote the good practice identified in a Homes for Scotland and Heads of Planning Scotland (HOPS) Survey. The following actions could be picked up and adopted by planning:

Provide a simple, free or low cost planning advice service recognising the distinct issues facing smaller developers.

Highland Council has a formalised pre-application service for both local and major developments. For local developments this normally includes a full written response on planning merits. Site visits are undertaken where required. A fee set at 35% of the planning application fee (with a £1,400 limit) enables the robust service. A new process is being trialled which would give early and detailed feedback on road layouts, to help align planning applications with road construction consent requirements.

Take a clear consistent approach to helping small scale home builders ensure their application includes all essential information. Seek only fundamental information at the start of the application process. Where more information is required, this can be conditioned.

Seventeen planning authorities indicated that they provide checklists to help applicants for planning permission. With many providing links to HOPs guidance, some best practice examples included the provision of multiple checklists tailored to different types of development proposals or guidance notes on plans, drawings and additional documents.

Achieve consistency within each authority's own decisions on the materiality of variations and providing information on the council's website.

Clackmannanshire Council's Changes to Proposals guidance lists the factors that are considered when deciding whether any particular change is non-material:

- The original description of the development
- The comparative scale of the original approved development and the proposed changes
- The relationship to site boundaries and neighbouring properties
- Any representations from consultees, neighbours or other third parties on the original application and their relevance to the proposed changes
- Any conditions that may be attached to the planning permission
- Any designation that applies to the site of the development
- The consequences for any relevant development plan policy, e.g. in relation to residential amenity, design, or visual, environmental or traffic impact

Evolve practice on small-scale home building policy so there are clear, specific, good targeted opportunities in each Local Development Plan.

Sixteen planning authorities cited policies they believed would support small scale builders. These ranged from windfall development, housing in the countryside and site allocation policies. On further analysis, the policies are not always positively worded and can be heavily caveated. There is opportunity (and need) here to evolve the current practice rather to provide clear, specific opportunities in each LDP for housing development on small sites, including small greenfield sites.

Adopt new and more flexible approaches to affordable housing contributions (such as credit systems).

Perth and Kinross may accept credit proposals as an alternative to on/off site provision or a commuted sum if a developer puts forward a complete package of sites indicating those which are to be developed wholly for affordable housing or which will have an increased affordable housing percentage and those which are to be developed wholly for private housing or with a reduced affordable percentage. The overall number of affordable homes proposed overall must be equivalent to 25% of the total homes proposed.

Aberdeen City Council recently announced the two year suspension of affordable housing contributions for developers building homes in Aberdeen City Centre. This exemption will run to December 31, 2020. This reflects a Local Authority showing flexibility and understanding of the complex nature of development and the increased risk that contributions can have on making a new project unviable.

Standardise the treatment of small sites in Housing Land Audits, (in line with the Ryden/Brodies research for the Scottish Government. List known, small sites in audits to enable site identification and evaluation. Identify sites with lapsed permission in audits, as these may (depending on the reason the permission lapsed) help small scale home builders in their site.

North Ayrshire indicate that lapsed consents can be viewed through their Housing Land Audit via a filter to show extant versus lapsed sites.

Deliver an SME-focused development management approach which:

- Provides nationally consistent and transparent guidelines on what is required to have an application registered
- Uses a reasonable approach to establish a minimal baseline of technical reports required to register a planning application for a small site
- Where additional reports above the minimum baselines are required, allows the provision of reports to be a condition of planning consent
- Commits to determining applications for small sites within the statutory 8 week period
- Provides a planning fee freeze for SME single-home and minor residential applications
- Introduces a graded approach to fees, for example schemes under 12 homes, 13-25, 25-50 and 50+

Delivering a fairer and more proportionate approach to fees and developer contributions on small sites will directly assist in increasing delivery of new homes by creating a balanced platform for sustainable growth. SMEs do not have the inhouse expertise or resource to navigate the current complexities of the system. Simplifying and supporting them through the system will encourage more to enter and stay in the industry.

Local Development Plans should provide viable local development opportunities targeted at small scale home builders, with clearly worded policy stating where windfall development is supported. Housing Land Audits, Local Place Plans and Vacant & Derelict Land registers should be regularly updated and used to identify and promote viable sites suitable for small scale home builders.

A proactive relationship between authorities and SMEs will allow for increased delivery on small sites, especially in secondary markets.

Recommendations – Industry

Homes for Scotland to commit to working jointly with HOPs to promote best practice identified through the survey.

HFS and the industry need to take a proactive approach to engaging with partners as a demonstration of our commitment to finding joint solutions to barriers.



SMEs prioritising the core challenges they face

Key issues

Access to finance

Financing for a small home building company has become increasingly difficult since 2007/2008 with delays in obtaining planning permission further affecting the risk appetite of lenders. High Street banks have all but stopped lending money to small scale developers or are lending at terms which make many small scale developments unviable. A reopening of banks' lending books to SMEs will be fundamental to significantly increasing the supply of new homes.

SMEs report that banks' lending decisions are less about margin and more about managing risks. Lenders should give due consideration to key project specifics such as track record and quality of build rather than just on a generic risk analysis of small builders. This risk aversion is often compounded by bank staff lacking the skills or experience to assess residential projects and sell the scheme to risk managers.

The level of information required by local authority planning officers before they process an application is prohibitive to those without access to significant levels of finance. Mainstream banks are reluctant to finance this upfront work; they prefer to only provide development funding for viable sites that have planning permission in place.

SME investment and commercial acumen are not accounted for – SMEs risk a significant amount of their own funds getting the project to the stage where they can start a conversation with lenders. SMEs will use their expertise, commercial judgement and local market knowledge to decide that it is worth making the at-risk investment. This does not seem to be considered by lenders when appraising developments.

Often finance is only available on a site-by-site basis and therefore even preliminary work on the next site cannot commence until completion of the previous. This limits the ability of businesses to recycle funding and forward-plan a continual supply of new properties and ensure continuity of employment.

Even if a small-scale home builder can access funding, it takes months and often years to get all consents in place. The money spent is not recouped until the homes start to sell. For a small development, the profit associated with the project may not be released until the very last home has been sold. Indeed it can be the case that capital is locked in for as long as 4-5 years, thus limiting the ability to release and reinvest in further delivery.

The additional costs incurred in the provision of infrastructure or remediation of contamination on brownfield sites is significant for SMEs.

Land and Buildings Transaction Tax and Additional Dwelling Supplement

The level of rates applied through LBTT, how they are applied between non-residential and residential transactions; and different scales within the market all acutely affect small home builders. There are certain anomalies on how Additional Dwelling Supplement is being applied. Evidence from our members has highlighted the negative impact LBTT is having on sales, especially in secondary and rural markets. The case study opposite demonstrates why a review of the scheme is required.

Rates on show homes

The provision of show homes for small scale home builders is crucial; they do not have the same budgets available to larger developers dedicated to marketing teams. Home buyers in Scotland expect to visit a show home to get a feel for the style and quality of the homes being delivered by a home builder. However, the cost of building and decorating a show home is challenging to smaller builders. This is compounded by the rates payable on them, often making the provision of a show home unviable. This ultimately impacts the sales activity of small scale home builders, especially in rural and regeneration areas where the market is slower.

Case Study: LBTT / ADS

- This SME home builder typically explores opportunities on brownfield sites where they can regenerate, improve and maximise available development areas. Their business model results in the replacement of old and inefficient houses with modern, energy-efficient homes and, where appropriate, the inclusion of affordable housing. The resultant addition of mainstream and affordable housing helps address the shortfall in housing numbers required in Scotland.
- However, if purchasing a brownfield site with an existing house or houses which are to be demolished to make way for a new development, they are charged the building rate of LBTT alongside ADS. If they purchase a green field site, the LBTT chargeable would be at the land rate and therefore be significantly lower than the equivalent building rate plus the ADS. Thus, in this instance, LBTT/ADS directly penalises the SME developer undertaking brownfield regeneration in smaller towns or villages.
- This is in addition to the significant costs they incur in demolishing the houses including Planning and Warrant applications, service disconnection costs, asbestos surveys, demolition and removal from site including haulage, tip charges and landfill taxes.
- These costs are prohibitive to any small-scale home builder wishing to develop on brownfield sites and replace unfit homes and has directly resulted in projects becoming unviable.



Whiteburn Projects: Parkview Phase 3, Dundee
HFS Private Development of the Year Small - 2017

Recommendations – Scottish Government

Review of the particular aspects of the Land and Buildings Transaction Tax rates and the Additional Dwelling Supplement which have a disproportionate impact on small home builders.

Anomalies in the current tax regime should be removed in order to provide a system that doesn't place undue burdens on small builders. This will also improve access to vacant and derelict land with domestic buildings on them.

Create a specific infrastructure grant concentrated on small brownfield sites and prioritise other grant funding to tackle problems of vacant and derelict land in order to increase the development site opportunities for small home builders.

The provision of public sector led or grant funding for infrastructure and site preparation would significantly enhance deliverability and increase the supply of homes. With a specific focus on brownfield regeneration for small sites this would tackle underutilised vacant and derelict land and support regeneration in rural areas.

Case Study: Homes England – Home Building Fund

- The £4.5 billion Home Building Fund provided through Homes England provides infrastructure finance through loan funding for site preparation and the infrastructure needed to enable housing to progress and to prepare land for development. Loans from £250,000 are available, with applications from small home builders and brownfield regeneration prioritised.

Encourage the Scottish National Investment Bank to build on the firm foundations established by the Building Scotland Fund in the provision of lending products on terms which are fair and equitable to small home builders, reducing the impact of current development lending and the market failure of providing road bonds.

The Scottish National Investment Bank (SNIB) has a significant opportunity to support housing delivery, especially within the SME sector. There has been success in SMEs accessing the Building Scotland Fund since the introduction of the reduced lending threshold and removal of personal guarantees. This demonstrating that smaller scale developments can offer clearly investable projects.

There is a significant role for the bank to increase housing delivery, offering investment to SME companies, especially in areas where gaps in market provision currently exist.

We fully support the Bank's objectives of:

- Promoting and developing the activities of small and medium-sized enterprises
- Investing in sustainable economic growth, through the provision of long term patient capital
- Promoting and developing the activities of enterprises, where lack of financial investment is holding back economically viable commercial activity

Similar frameworks already exist in the UK. Homes England manages the 'Home Building Fund' and 'Infrastructure Loan Fund', which both act as complimentary to the market, giving developers access to finance where they are unable to get high street funding. With full details in Appendix B, some of the core features of the Homes England's fund are:

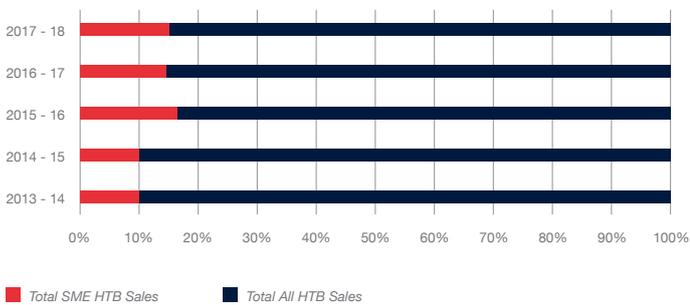
- Prioritise applications from SMEs and for brownfield regeneration
- Arrangement fee is 0.5% for development loans and no non-utilisation or exit fees
- The vast majority of SME transactions have 20% of costs as borrower equity with Homes England funding the 80% balance. If houses are being built then the Homes England loan is often less than 50% of costs and the 30% balance is met by sales recycling. No other mainstream lender currently provides this service of sales recycling

Extend the future of the Help to Buy Small Developers Scheme to 2023 as soon as possible to provide parity for Scottish small scale home builders. Increase the cap to £250k for the Small Developers scheme, in recognition of the additional costs they incur through their supply chains.

Help to Buy (Scotland) has played a significant role in helping first time buyers into home ownership. However, the confidence Help to Buy gives to home builders is significant. This confidence continues to be crucial, particularly on smaller, marginal sites which, despite high housing demand, would be considered too great a risk to invest in without the confidence of a percentage of sales through HTB.

Data published by Scottish Government has shown that out of the 12,832 sales made through Help to Buy between 2013 and 2018, just over 15% of these sales were made by home builders registered on the small developer scheme, accounting for 2,038 sales. Extending the scheme and increasing the threshold for small home builders, will allow for the increased provision of family sized homes in rural and secondary markets.

SME Help to Buy Sales



Source: Help to Buy (Scotland) Affordable New Build Scheme: FOI release, Scottish Government 30 November 2017

Recommendations – Local Authorities

Waive domestic and commercial rates currently charged on show homes on developments of 25 or less homes.

Removal of taxation on these homes will assist the promotion of smaller sites and increase the confidence of developers and funders that there will be a timely exit strategy, while providing a valuable service to customers.

Recommendations – Industry

Small scale home builders should continue to explore new innovative sources of finance and pro-actively promote all new and existing finance sources, including Government initiatives in infrastructure, skills and training.

Other new sources of finance are beginning to emerge with a specific focus on SMEs. In general, such lenders are often willing to lend to SMEs on a higher loan to cost ratio than many of the banks but at higher interest rates and often with personal guarantees required. However, these lenders can often provide access to finance that is not available elsewhere and this can include providing finance through the entire cost of a project.



Headon Developments: The Green, Strathkinness
HFS Best Development - Small 2013

5 UTILITIES, INFRASTRUCTURE AND NON PLANNING CONSENTS

Key issues

Utility Provision

There is a wide and complex range of enabling stakeholders involved in delivering new homes. Water, drainage, electricity, gas, roads and broadband are essential services for new home owners. Site-wide infrastructure such as sustainable urban drainage systems are equally important if we are to create sustainable places. The smooth delivery of infrastructure and provision of appropriate maintenance arrangements is critical.

However, the costs associated with utilities can be significant, both in terms of the initial capital cost of installation and ongoing bills throughout the construction process. This has been exacerbated by lack of transparency behind costings, developers often do not know exactly what they are paying for and may have to pay months in advance for a service. In addition in some instances, such as provision of fibre, the costs of installation to be provided by utility companies actually discriminates against smaller developments.

Poor communication is one of the most cited problems from developers in terms of their relationship with utility providers. Without a dedicated, development team or case manager it can often be difficult to find out who is the right person to deal with an issue and requests to rectify delays and deal with other issues are often not answered promptly.

Non Planning Consents and Key Agencies

An increasingly risk-averse and unpragmatic approach to policy and consent decisions is apparent. Developers report increased barriers from issues as diverse as district heating, flood protection and noise impact. All are important, however key agencies need to focus attitudes and approaches towards enabling development.

Where there are genuine reasons why an otherwise sustainable development should not be commenced 'at this time' the key agencies involved should work with the developer to resolve the issue as soon as possible. As such there is a need for key agencies to buy-in to the Regulatory Reform Act to create a better balance between their own business priorities against wider national priorities.

Key Agencies and other providers of non-planning consents or technical comments on plans and planning applications, should be bound by a common code of conduct, linked to the national outcomes, which begins with a common purpose of enabling development and working with planning authorities and prospective developers from an early stage to ensure that, by the time planning applications and other consent requests are submitted, there should be no barriers to progress.

Utility providers and key agencies should provide a pre-planning advice service for small scale home builders and ensure that they have access to one single reliable clear point of contact throughout the development process to enable better communication and understanding between parties.



Dundas Estates: Kings Court, Dunbar
HFS Private Development of the Year Small 2018

UTILITIES, INFRASTRUCTURE AND NON PLANNING CONSENTS

Road Construction and Road Bonds

A particular barrier to development is the Roads Construction Consent process. As there is no national standard in terms of design used by Local Authorities (currently only guidance is provided through SCOTS National Roads Design Guide), this has created inconsistency in practice across Local Authorities. Further, there are concerns over the lack of joined-up working between roads and planning departments, with a road department frequently only commenting on the geometry and road design after the planning consent has been received, often imposing additional standards or deviations from the original application.

Even after the road design has been approved, the length of time it takes for a Local Authority to adopt a road can be excessively long. With Local Authorities not responsible for their maintenance until adopted and with the financial constraints they are currently facing, they have no incentive to adopt the roads in a timely manner. These delays are hugely detrimental to SMEs who not only continue to maintain the roads but continue to have capital locked in as the road bonds they provide are kept in place for longer than necessary.

An acute problem throughout this process is the requirement for and provision of road bonds by small home builders. The up-front costs of providing a road bond by an SME are hugely significant, in some cases the level of road bond required by certain Local Authorities means that developers, in principle, fund the costs of roads and sewers twice in the cash flow cycle until the roads get adopted. There has been a complete market failure in the provision of road bonds for small home builders by banks and warranty providers. The Scottish Government should consider the offer of guarantees through the Scottish National Investment Bank to help SMEs with the provision of road bonds.

The cumulative impact of the costs and delays associated with road construction for smaller developers is significant, resulting in capital being locked in for longer periods and therefore limiting their ability to grow and provide more new homes.

Case Study: Number of homes allowed off a private access

Results identified from the HOPs Survey revealed that the majority of local authorities allowed five homes off a private access, while others allowed a range from two to nine.

However, there were exceptions in Aberdeen City who judged each site on a case by case basis, and North Ayrshire that permitted twenty homes in a courtyard setting.

The greater flexibility shown here should be adopted by other local authorities.

Recommendations – Scottish Government

Develop National Standards on both the design and engineering standards required for new roads. In addition, provide clear National Guidance on extending the number of homes permitted off a new or existing private road to a new threshold of 12 new homes on the basis that the roads are built towards adoptable standards.

This will increase site viability through removal of the cost of provision of road bonds and reduce programme delays caused by lengthy road adoption processes. New National Standards would help remove the inconsistencies experienced by small home builders across local authorities and help remove unexpected additional standards or deviations from original applications previously approved through the planning process. Affordable housing providers would also benefit from such an initiative.

Recommendations – Local Authorities

Roads departments within planning authorities should adopt roads servicing small sites (up to 50 homes) within the statutory 12 month deadline and increase the number of homes allowed off a private road, permitting 12 homes to promote very small sites.

If local authorities adopt a more flexible approach to increasing the number of homes off a private access, this will allow small home builders to avoid having a road bond in place and therefore diminish some of the up front capital costs which hinder development. Where the road is to be adopted; if adopted within the 12 month statutory deadline, the release of capital will ultimately help the small home builder move on to new projects more efficiently.

UTILITIES, INFRASTRUCTURE AND NON PLANNING CONSENTS

Recommendations – Utilities and Key Agencies

Remove physical and financial barriers on small sites which directly penalise small scale builders.

Costs such as provision of fibre to premises or removal of water capacity constraints, often are significantly higher per home built on a small-scale site thus having a direct impact on the commercial viability of sites and restrict development. Removal or significant reduction in these utility costs will assist site viability and delivery.

Provide a Pre-Planning Advice Service for small scale home builders and ensure that they have access to one single reliable senior point of contact throughout the development process to enable better communication and understanding between parties.

Providing a pre-planning advice services is to the benefit of all parties. During such a service, developers will ensure that any development project is on the radar of the utility company or key agency at the earliest point and can fully understand what applications are required and the detail within them. This in turn will help utility providers understand where development is likely to happen and as such can better plan their future activities and resources. If unexpected issues do arise throughout the development stage, a home builder can access a contact that fully understands the projects and any prior issues.

Case study: Openreach

A fibre connection to homes is now seen as an essential utility to futureproof homes for the UK's transition to a fibre nation.

Having fibre to premises allows new home purchasers to sign up to ultrafast broadband services on the day they move into their new home and to incorporate such new energy features as smart meters.

The main national provider of the fibre infrastructure is Openreach and in the last 12 months they have significantly reduced the charges for provision of the infrastructure.

For sites of more than 30 homes, there is no charge at all to the developer for the provision of fibre to the premises.

However, this is not the case for smaller scale sites which face an inversely sliding scale of costs as illustrated below:

Number of homes	Cost per home	Total cost to developer
29	£17	£493
20	£223	£4,460
12	£588	£7,056
3	£3,172	£6,344

Case Study: Scottish Water

Evidenced in the Scottish Government 2016 Survey, Scottish Water was cited as a particular issue, with problems regarding long delays and inconsistency in communication between developers and internal staff. Whilst SMEs still experience issues with Scottish Water, the changes the utility company are implementing illustrate a willingness on their part to help facilitate the increased delivery of new housing:

- Launching new 'Technical Drop-In Sessions' to allow developers to meet and discuss any issues they have with their application with the Scottish Water technical team.
- They now accept and process applications for water connections at an earlier stage in the planning process, once a local planning authority has issued a validation date, rather than having to wait for full planning permission to be granted.
- Committing to providing a more detailed response to all planning applications received within 14 calendar days.
- Launching a new vesting process to review title and servitude site proposals and mandatory site inspections during the construction process for specific assets and issuing clear guidance and style guides.

None of the above required significant policy changes and should help accelerate the pace of development and foster better working relationships between developers and Scottish Water.

Homes for Scotland was heavily involved in this facilitation process, highlighting the role of organisations such as HFS and other trade bodies working in collaboration to resolve issues without the need for regulatory and legislative change.



Boosting the capacity of SME builders would increase diversity of house styles and approaches

6 SKILLS, RESOURCING AND ATTITUDES TOWARDS HOME BUILDING

Key issues

Skills

The results of the 2016 Scottish Government SME Survey showed only 5 respondents cited lack of skills as one of their top three obstacles at that current time, however 21 respondents cited lack of skills as one of the major problems they expected to encounter in the next five years. Also, the Scottish Government Short Life Working Group on New Housing & Future Construction Skills found that SME home builders were becoming less engaged with apprentices as a result of a lack of awareness of the skills funding available to them. We await new analysis from the 2019 Scottish Government SME Survey which is completing shortly and we will consider if the previous skills concerns are emerging again.

Due to the constraints in local authority funding, planning, building control and roads departments do not have the capacity to deliver their statutory services efficiently and consequentially SMEs are faced with longer delays obtaining regulatory consents thus locking in capital for longer periods and delaying housing delivery.

It is vital that the Scottish Government continues to invest in skills in the home building sector, with a review of the quantity of Scottish construction skills funding reaching the SME home building sector for training and apprenticeships.

Attitudes

In general, there remains low receptiveness to home building at the local authority and neighbourhood level. The need for new homes is recognised by the Scottish Government but culture, perception and practice are all issues that have a great bearing on the industry's ability to deliver the new homes that people across Scotland desperately need. Local authorities must champion the need for more new homes in their areas and recognise that suppressing the supply of new homes causes more problems than it solves. In addition, unlocking the supply of homes delivered by SMEs to pre-recession levels would support an existing 7,200 FTE jobs per annum based on an estimated 4 jobs supported per house built.

Recommendations – Scottish Government

Run a proactive information campaign and workshops in conjunction with local authorities, to maximise awareness of the availability of current and emerging Scottish Government initiatives, such as lending and skills.

It is essential to raise the awareness of small-scale builders to the range of both new and existing support that could be available to them. Often such small-scale businesses don't have resources or time to be fully familiar with all that could be available. A proactive campaign with both government and industry to increase the information regarding availability of finance and delivery models will assist SMEs to access new funding streams and increase delivery across all tenures.



Bancon Homes: Aspire Mews, Aberdeen
Shortlisted: HFS Private Development of the Year - Small 2019

SKILLS, RESOURCING AND ATTITUDES TOWARDS HOME BUILDING

Recommendations – Industry

Small scale home builders should demonstrate their commitment to sustainable economic growth by signing up to the Scottish Business Pledge.

It is appropriate that the industry provides visible evidence of its commitment to inclusive economic growth and signing up for the Scottish Business Pledge is a straightforward way to demonstrate this.

Clearly communicate the social and economic benefits that small-scale developments bring to local communities and the wider community to allay the fears of residents and decision makers.

Industry bodies like HFS and FMB must provide small builders with the evidence they need to promote the economic and social benefits of small home builder developments and as a result increase public awareness and acceptance of new developments especially at a very local level. As well as recognising that small home builders:

Small scale home builders, housing associations and larger developers to work collaboratively together to explore opportunities for partnership working.

Providing high quality new homes with more flexibility to provide alternative, bespoke housing designs where required.

- Offering tailored levels of customer service and care.
- Operating in smaller towns and villages, on complex brownfield sites and in more rural areas, providing investment in smaller local communities.
- Creating jobs, employing local workforces and training young people through apprenticeships in areas they operate.
- Engaging with local communities, working with schools and other public bodies.

To unlock new sites for small home builders and increase the provision of affordable housing, large scale developments should be considered to see if they could provide consented site opportunities that are suitable for smaller firms to develop, and provide different product mix, offering choice to customers.



A&J Stephen: Chapelton, Aberdeenshire
Commended: HFS Private Development of the Year - Small 2018

ANNEX A: PROJECT STRUCTURE

The objective of this project was:

“To reduce barriers to allow small builders to build more homes and encourage new entrants into the industry. The project aims to improve trading conditions and create a platform for sustained growth for small homebuilders in Scotland.”

Chaired by Andy Pearson (Tweed Homes) as Ambassador for Small Scale Home Builders on behalf of Homes for Scotland, the project is a collaborative initiative led by HFS with strong engagement from the Scottish Government. The organisations involved (listed below) allowed us to access sources of expertise from developers, utility providers and others:

- Tweed Homes
- Headon Developments
- Veitchi Group
- Springfield
- RS McLeod
- Oakridge Homes
- RDK Construction
- Eskgrove Homes
- Federation of Master Builders
- Heads of Planning Scotland
- Association of Local Authority Chief Housing Officers
- Scottish Water
- Scottish Government
- Enabling Development Group
- Homes for Scotland Executive Team

Once the main project group membership was established and convened, two distinct work streams were put in place to address the main areas of improvement:

‘Improving Process’, to look at more in depth issues surrounding planning, road construction consents, building control and all other forms of associated infrastructure linked to home building.

‘Finance, Funding and Tax’, focusing on issues around development funding, prolonged capital lock-in and impact on viability, as well Land and Buildings Transactions Tax (LBTT).

An external SME workshop gathered views from the wider SME home builder sector. A total of 25 attendees represented organisations taking part in a range of construction work from refurbishment, conversion and new build. The workshop collated views on what were believed to be the strongest barriers to increasing their output and the solutions required to overcome these. Attendees included representatives from:

- RS McLeod
- A&J Stephen
- Eskgrove Homes
- Headon Developments
- Champion Homes
- Veitchi Homes
- Oakridge Property
- Whiteburn Projects
- RDK Construction
- Struan Homes Ltd
- Ochilview Developments
- Stanley Brash Construction
- Hadden Construction
- Haldane Construction Services
- Spey Building & Joinery
- Carriden Homes
- Green Pads Ltd
- Corryard
- Edgehill Property Assets
- Castle Street Developments
- Diamond Property
- Albany Street Developments

ANNEX B: HOMES ENGLAND

Home Building Fund	
Purpose	There to complement the market - step in and fill the gap. Not aiming to compete. Will not necessarily be cheaper than banks. Finance deals similar. Min for 5 homes £250k. Funding must be state aid compliant.
Who is using it and why?	Developers unable to get high street funding, stretch finance to make equity go further, including for SPVs, difficult sites i.e. contamination/listed building, those with limited experience - no track record but skilled Directors, specialist development leading the market - eco, mmc or housing for older people/disabled etc
Application process	Tried to move away from application forms, checklists and any prospectus. The Home Building Fund Website is the starting point. The initial enquiry is followed up by a telephone call from one of the team to establish how deliverable the proposal is. Thereafter fairly basic transaction information is requested by email. A customer meeting follows where they discuss the proposal in more detail.
Application timescale	Takes around 12 weeks, 3rd party diligence usually comprises valuation, legal and monitoring surveyor costs which takes time but often the biggest delays are from the borrower not responding quickly or their lawyers not prioritising the transaction.
Fees	Typical arrangement fee is 0.5% for development loans and 1% for infrastructure loans. No non-utilisation or exit fees.
Interest rate	For a typical development loan the margin range is normally between 4% and 6% plus the cost of funds. These loans are typically to SME borrowers with a modest covenant. Infrastructure loans are often to larger and stronger counterparties and margin range is between 3% and 5%.
Security	For most transactions they will take a first charge, a debenture and a pledge over bank account. For larger transactions they will also take collateral warranties from certain advisers/contractors.
Personal Guarantees	They would only take Guarantees in specialist cases and usually from other companies within the same ownership or from a related contractor which is completing some of the building works. They try to avoid personal guarantees.
Loan to value/cost ration	<p>The vast majority of SME transactions have 20% of costs as borrower equity with Homes England funding the 80% balance. If houses are being built then the Homes England loan is often less than 50% of costs and the 30% balance is met by sales recycling. This is where the sale proceeds of some of the houses on the site are used to meet development costs. No other mainstream lender will allow sales recycling as it carries significant risk and it does make Homes England different as a lender (if sales are delayed then there is no sales recycling and Homes England have a funding gap). If the development is an apartment block then sales recycling is not possible and the loan will be up to 80% of costs.</p> <p>The borrower equity contribution of 20% of costs often equates to the value of the land so in simple terms if SME developers bring Homes England the land then they will usually fully fund development costs (through loan and sales recycling). On larger transactions (200+ homes) the structure can be equity 15%, loan 15% and recycling 70% because these transactions are heavily phased over a period of time.</p> <p>Market norm is for developers to make a 20% profit on cost so the arithmetic means that the Homes England loan to gross development value is normally below 65%. In a downturn, Homes England could still recover its loan if house prices fell to 65% of forecast. SME developers are investing 20% of costs and making a 20% profit on cost so they will usually make a 100% return on capital over 18-24 months.</p>
Staff	Mainly staffed by ex-bankers with some surveyors. Commercial rates paid to attract skilled staff.

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