

Federation of Master Builders (FMB) – Written evidence (UKH0058)

About the FMB

1. The Federation of Master Builders (FMB) is the largest trade association in the UK construction industry, representing more than 7,000 firms in England, Scotland, Wales and Northern Ireland. Established in 1941 to protect the interests of small and medium-sized (SME) construction firms, the FMB is an independent, non-profit organisation, lobbying for members' interests at both the national and local level.
2. Half of FMB members build new homes as part of what they do and 15% are specialist house builders. In the FMB's 2020 House Builders' Survey, 65% of respondents reported their output of new homes in the previous calendar year as being between one and ten units; 3% built between 11 and 30 units; 3% built more than 30 units; and 23% did not build any new homes. Of these firms, 56% built houses solely as a contractor, 12% solely as a developer and 32% acted as both the developer and contractor.

Q1. What is the current composition of the UK's housing sector?

3. In relation to the size of the firms, in the 1980s, SME house builders built 40% of new homes, but now build only 12%. Over this time period, the supply of new homes has become increasingly reliant on a relatively smaller number of volume house builders.

Q3. Does the Government's target of 300,000 new homes per year accurately reflect housing demand? Is this target achievable?

4. The FMB believes that the sharp decline of SME house builders we have seen in recent decades, and the increased concentration of housing supply in the hands of a small number of volume house builders, is incompatible with the type of industry that will be necessary to consistently deliver 300,000 high quality homes per year.

Q6. Is the construction sector able to deliver the UK's housing demand? What barriers are facing the sector?

5. The FMB believes that the industry is unlikely to be able to sustainably deliver 300,000 high quality homes per year without a reverse in the decline of SME house builders, and a more diverse house building sector – including a greater role for self and custom build – that this would entail. SME house builders consistently state in surveys that they would be able to expand their output of new homes if they did not face significant barriers to doing so. These barriers and what we can do to address them are set out below.
6. Reducing and ameliorating these barriers will enable existing small developers to expand and deliver more homes and will facilitate more new entrants to the market, including the large numbers of skilled small contractors who have the ability and willingness to bring forward their

own developments, if the finance and planning environment were more conducive to them doing so.

7. In the [2020 FMB House Builders' Survey](#), the most commonly-cited barriers to SME house builders' ability to build more homes were:
- 'The planning system' (48%);
 - 'Lack of available and viable land' (46%); and
 - 'Lack of finance to the company' (41%).

These three factors have consistently come top of SME house builders' list of concerns since this survey began in 2013.

The planning system

8. The FMB House Builders' Survey found that 48% of respondents considered 'the planning system' a major barrier to their ability to increase their output of new homes. The survey also found that:
- 'Inadequate resourcing of planning permissions' was the most significant cause of delay for SMEs engaging with the planning process.
 - 'Overall complexity and the cost of consultants required to deal with this' was considered the most significant cause of additional cost for small builders.
9. Taken together, the level of uncertainty which small developers face when navigating the planning system and the disproportionate cost and delays involved in getting implementable permissions for small sites, can be prohibitive for many small builders. The FMB supports a comprehensive change to the planning system, and the FMB responded positively to the proposals set out in the Government's planning White Paper (see below in answer to question 7). However, the system also needs to be better resourced and to undergo a significant culture shift, involving among other things, greater levels of engagement and constructive dialogue with smaller builders.
10. We believe that the following would significantly improve the planning system in a way that would support SME house builders to build more high quality homes:
- Greater investment in the capacity of local authority planning departments. The FMB supports the Housing, Communities and Local Government Committee's call for the Government to bring forward an additional £500 million over the next four years for local authority planning departments. This will help address significant delays in the planning process that disproportionately impact smaller house builders, and enable local authorities to engage in more constructive and proactive dialogue with SME builders to enable small site opportunities.
 - More local authorities and combined authorities should make use of local developer forums which can bring together SME house builders, planners and a range of relevant stakeholders, to enable constructive dialogue and improve understanding around common challenges, including the improvements to the planning application process.

Availability of land and small site opportunities

11. 46% of SME house builders view the lack of available and viable land as a major barrier to their ability to build more homes. For SME house builders, suitable land generally means smaller sites, and 64% of respondents to the same survey reported that the number of small sites opportunities was decreasing. Opportunities for SME house builders will depend on the availability of sites of the right size in good locations; the expectations of getting planning permission on these sites; and the price expectations of small landowners, which tend to be relatively fixed.
12. The way in which smaller sites tend to be treated within the plan-making process is an important factor. Local plans tend to be overwhelmingly focused on larger strategic sites, leaving SMEs largely reliant on bringing forward non-allocated sites on which the risk of not getting planning permission is that much higher. In addition, consciously or not, overstretched planning departments are more likely to see delivery of housing on a small number of large sites as easier to manage, both logistically and politically.
13. The overall impact of this can be an unintended structural bias against smaller scale development, which can inhibit the participation of SME builders in the market and which serves to slow down the speed of housing delivery as well. The speed of delivery of private homes on large sites is limited by market absorption rates. As is widely recognised within the industry, identifying and permissioning a wider range of sites, and in particular more small sites, is therefore likely to be an effective means of speeding up the delivery of new homes.
14. In order to increase small site opportunities for SME house builders:
 - There should be a much stronger focus on implementation of the requirements in the National Planning Policy Framework (NPPF) for local planning authorities to identify smaller sites sufficient to meet at least 10% of housing delivery. This would be aided by improved understanding and acknowledgement by local authorities of the strategic importance of enabling a range of deliverable small and medium sized sites to come forward.
 - Local authorities and Homes England should be much more proactive in working with developers to encourage some sub-division of larger sites, where is scope to do so, to provide more opportunities for SMEs.
 - Planning policies should enable more small site opportunities on the edge of existing settlements to allow for incremental, organic development.

Access to finance

15. Since the financial crisis of 2008, SME house builders have experienced much greater difficulty in accessing the finance they need to build. Major lenders have sought to reduce their exposure to the property sector and have been much more reluctant to lend for smaller scale residential development. Access to finance has improved over the course of the last

five to six years, because of, among other factors, the increased prevalence of smaller specialist lenders and challenger banks who are willing to lend to SME developers, and a range of supportive Government policy interventions.

16. Yet, access to finance remains a significant barrier to growth for many SME builders. In 2020, 41% of SME house builders still cited access to finance as a key constraint on their ability to build more homes, and 33% of firms believed lending conditions had deteriorated in 2020. In addition, the FMB House Builders Survey has tracked which finance-related concerns are the greatest barrier to SME builders. This has shown that concern over straightforward loan refusals has declined significantly over this time, and that the terms on which finance is available has now become the critical factor for SMEs. 'Poor loan to asset value ratios' has consistently been rated the greatest finance-related cause of concern for SME house builders over the last three years.

17. In order to continue to support better access to finance for SME house builders:

- The Government should continue to support and develop the ENABLE Build programme, which will help unlock more private finance and develop working relationships between small house builders and commercial lenders.
- Government should continue to improve the Home Building Fund run by Homes England and explore more market interventions by Homes England along the lines of the [partnership deal](#) it has put in place with Invest & Lend to support more favourable lending to SME developers, including those developing sites of less than five units.

Q7a. How can the planning system be shaped to meet housing demand?

18. The FMB welcomes much of the direction of travel in the Government's proposals for reform of the planning system, as set out in the Planning for the Future White Paper. We strongly agree with the need for greater transparency, greater certainty and greater speed in the planning process. The FMB strongly welcomes the ambition set out in the White Paper to grow the SME house building and self and custom-build sectors. To note, the FMB's support for the reforms is conditional on ensuring that the quality of new homes built isn't compromised in the process.

19. As set out above (in response to question 6), SME house builders face a number of key challenges within the planning system. These are: failure by local authorities to identify, allocate and enable sufficient numbers of small sites; higher levels of uncertainty over the outcome of applications, and particularly applications for non-allocated 'windfall' sites; and the disproportionate costs and delays involved in obtaining implementable permissions for small sites.

20. Under the more 'zonal' approach to planning set out in the White Paper, developments within identified 'growth' and 'renewal' areas which meet the specifications of design codes and other planning policies will be able to go through quicker, simpler forms of consent. This should markedly

improve the degree of certainty that SME builders face and reduce the costs and delays involved in the planning process, hence tackling two of those three key challenges.

21. SME house builders are generally positive about design code-based approaches to planning, so long as these are not excessively prescriptive. Their business models, which typically rely on delivering a premium product and maintaining a strong local reputation, mean that they will be well-placed to deliver the kind of quality in design and construction that design codes informed by the views of local people will require.
22. It is less clear the impact that these reforms will have on the number of small site opportunities for SME house builders. This may depend on the types of areas identified as 'growth' and 'renewal' areas by the local authority, and the number of suitable small site opportunities these are likely to involve. As such, the FMB believes that it is important that requirements on local authorities to promote a 'good mix of sites' and ensure a sufficient supply of small and medium-sized sites – requirements set out in paragraph 91 of NPPF – are, to the greatest possible extent retained within the existing system.
23. The FMB welcomes some of the key aspects of the proposed new Infrastructure Levy. In particular, the levy should make the system of developer contributions simpler and reduce the protracted delays which can be caused by the negotiating and signing-off of Section 106 agreements. The fact that the levy will be charged as a percentage of the final value of the property will reduce risk for SME builders and the levy being chargeable at, or just before, the point of sale will significantly help cashflow and further reduce risk.
24. However, we do have significant concerns about the potential impact of the levy on the viability of smaller scale development. In the FMB 2020 House Builders Survey, 55% of SME house builders reported that there were sites which they would otherwise be interested in, but which they believe would be unviable due to likely Section 106 and CIL obligations.
25. We have two major concerns about the current Infrastructure Levy proposals. Firstly, the total value of developer contributions from sites of fewer than 10 homes will likely jump significantly from its current level, as there are no exemptions or reductions to replace the existing ten unit or 0.5 hectare threshold for affordable housing obligations. This policy currently helps to support the viability of small scale development and its removal will have a negative impact. Secondly, Small sites and the difficulties and costs involved in building them out can be enormously varied. The lack of flexibility in the proposed levy system means that it is likely to impinge on the viability of small sites that diverge significantly from the norm or the average.
26. As such, we are calling on the Government to consider carefully the overall impact that the single levy could have on the viability of small sites before introducing the levy, and to guard against a negative impact to

retain an exemption or reduction in the levy for sites of less than ten units.

Q8. What can be done to improve the quality of new homes? How can the design and aesthetics of new homes be improved?

27. Raising building standards is at the core of the FMB's purpose and at the heart of what it means to be a Master Builder. SME house builders are well placed to help improve the aesthetic value of new homes. An FMB survey found that consumers are twice as likely to be 'very satisfied' with the quality of their home if it was built by an SME compared to if it was built by one of the top 20 volume house builders.

28. As mentioned above, the business models of SME house builders typically rely on maintaining this reputation for delivering a premium product. Lacking the economies of scale of volume builders, they are unlikely to be able to compete on price, and so will tend to differentiate themselves through quality of design and quality of build. Many SME builders (both house builders and those operating in the wider construction sector) have strong in-house design and build expertise.

29. Moreover, many SME builders are active in the self and custom build market, whether acting as developers or contractors. This is a model of housing delivery which is geared around responding to people's desire for well-built, well-designed homes. The FMB believes that there is potential to deliver significantly more homes through this model, and we strongly support the recently published Bacon Review and its recommendations as to how this sector could be significantly scaled up.

Q9. Is the workforce equipped with the professional, digital and other skills required to meet housing demand, for example in the construction, planning and design sectors? What can be done to overcome skills shortages?

30. The shortage of skilled labour in key trades is undoubtedly a serious constraint on the capacity of the house building and wider construction industry to build the new homes we need. The FMB's 2020 House Builders Survey found that 23% of SME house builders cited shortage of skilled workers as a major barrier on their ability to build more homes. However, we have reason to believe that skills shortages have mounted significantly over the past year, as the industry has bounced back from the pandemic.

31. The FMB's State of Trade Survey for Q2 2021, the only survey to track the experience of SME builders on a quarterly basis, found a significant rise in skills shortages:

- 53% of SME builders were struggling to hire carpenters/joiners;
- 47% were struggling to hire bricklayers;
- 36% were struggling to hire general labourers;
- 31% were struggling to hire plasterers.

32. The only long-term solution to current shortages is for the industry to attract, recruit and train many more new entrants than it currently

does. SME builders will need to play a vital role in this. SMEs train 71% of all apprentices in construction, including the majority of bricklayer apprentices.

33. However, data from the Department for Education shows that total starts on apprenticeships in Construction, Planning and the Built Environment have been declining year on year since 2018. Just 21,900 apprenticeships were reported in 2019/2020.¹ This means that the Government has failed to meet its commitment to grow this to 25,000 by 2020, as set out in the Construction Sector Deal.

34. The FMB supports the Institute for Apprenticeships' ongoing review into the construction apprenticeships landscape, and would support the rationalisation and simplification of the process for developing these apprenticeships. We also support the proposals in the FE White Paper for local employers to play a greater role in developing skills plans for the local area. Collaboration between local authorities, colleges and employers will be extremely important in allowing us to tackle skills shortages.

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¹ <https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships/2019-20>