

National Assembly for Wales

Communities, Equality and Local Government Committee

CELG(4) HB 26

Inquiry into barriers to home building in Wales

Response from : Ceredigion County Council

The following notes are in response to the inquiry being conducted by the National Assembly for Wales into the barriers facing the house building industry. Information has been supplied for each of the terms of reference. In addition a précis of a survey conducted to gather feedback from the County's construction industry is included for reference.

1. Establish whether development costs are impeding and constraining the delivery of new homes in Wales.

- In Ceredigion there is a restriction on land availability, and higher than average land prices. This is as a result of an atypical land market, by virtue of private ownership (rather than business acquisition) being the norm for land owners. Being a rural County there is a marked shortage of brownfield sites and those that do exist are either being land banked or achieving high prices.
- Development costs are a significant constraint on new home building in Ceredigion by virtue of the lack of economies of scale within the County. This is due to the relatively small scale development in Ceredigion – as a yardstick, in general Ceredigion developments vary between 2 or 3 properties up to no more than say 20 or so properties per development.
- The dearth of finance available to small developers in comparison to the credit lines accessible by large developers. This has more of an impact in Ceredigion due to the proliferation of small to medium sized construction business in the County.
- The rising cost of plant and materials, at a time of very little movement in the housing market.
- The restrictions on RSLs in terms of scheme viability in rural areas, that has a negative impact on contractors.

2. Identify specific concerns of small and medium sized construction companies based in Wales

- There has been a pronounced toughening of finance terms compared with the pre-recession picture, all adding to the difficulty developers face in delivering schemes in Ceredigion (as in the rest of the UK).
- Restricted lending of up to 65% of the project value (Gross Development Value), requiring an upfront financial contribution of at least 35% of the scheme value by the developer. These terms are far more onerous for small scale developers than larger companies, and in some cases do not apply to larger firms, who have alternative credit lines available to them.
- A general requirement of at least a 25% gross margin for all projects, as a pre-requisite for securing funding, regardless of other viability thresholds being used to measure schemes i.e. planning terms
- A rise in interest rates for finance of between 8% -12% exclusive of arrangement fees and early exit fees, even at a time of historically low Bank of England Base Rates. The rates are not universally applied, but are usually applicable to small to medium sized businesses.

3. Identify “quick-wins” that can be implemented by the Welsh Government to assist the whole homebuilding industry.

- Recognition of the true cost of land in ACG calculations in rural areas, to allow SHG funded housing to be delivered. This would require Welsh Government to allow a system of tiered calculations.
- Removal of VAT for works associated with bringing empty properties back to market, and in respect of the conversion of non-residential listed building (warehouses etc...) for residential use.
- Release Finance Wales funding to support the building industry with low interest rate loans
- Review the number and the work of the RSLs in Wales, with an eye to taking advantage of economies of scale, and access to private finance
- Discourage landowners and developers from stalling on planning consents and the practice of future land banking. Once engineering operations have commenced on site there should be the introduction of an annual charge tantamount to reduced council tax.
- Exclude planning permissions given for affordable housing from the constraints of the overall allocation numbers under the LDP to a given area and allow permissions in all areas where it can be demonstrated that there is demand.
- Make effective use of Council/public land and property holdings to support affordable house building to take a lead in creating local development partnerships and special purpose vehicles and joint ventures, using their own land and or other public landholdings.
- Increase awareness of the public and make it easier for them to understand and access affordable self-build
- Use all money raised from all LCHO and Right to Buy sales to invest in new affordable homes locally
- Investigate alternative methods of house building, (Community Land Trusts etc...)

Ceredigion Development and Construction Sector Survey November 2012

A sample survey of Ceredigion's development and construction sector undertaken by the Housing Strategy Team was aimed at collating respondents' thoughts and attitude towards developing in Ceredigion. The sample size was very small, but the responses echo the wider data available, and as such it is reasonable to take note of its findings:

- The major impact of the credit crunch on businesses has been the increase in plant and material costs (72% of respondents) followed by the availability of development finance (54%).
- Almost 2/3 of respondents felt that there had been a change in land availability and/or affordability since the financial crash
- The major impact was felt to be the availability of personal mortgage finance (82%) for purchasers.
- Negative impact of rise in the price of plant or materials (77%)
- Negative impact of planning policy (69%).

- Development finance was also an issue for 64%, but land price had not had an effect on more than half of the businesses. This is likely to be a result of the sample survey including all sectors of the construction industry, some of whom would not be directly involved in land purchase.