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Small Housing Developers in Scotland: Views on outputs & future prospects; obstacles and solutions to building and Help to Buy Schemes

PEOPLE, COMMUNITIES AND PLACES

social research

Small Housing Developers in Scotland: Views on outputs & future prospects; obstacles and solutions to building and Help to Buy Schemes

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Executive Summary

The Scottish Government is striving to find ways to help and encourage small housing developers in Scotland to contribute to its objective of increasing new housing supply. In summer 2016 we undertook an electronic survey to explore the obstacles to building these SMEs (small and medium sized enterprises) had experienced in the previous three years and that they expected to experience in the following five years.

Sixty-six SMEs responded. The findings do not necessarily represent all experiences and expectations of all small developers in Scotland but each respondent's experiences and expectations are valid insights into SMEs in the building industry in Scotland.

The 66 respondents were weighted towards those who deliver mainly in rural and semi-rural areas, those that produce fewer than 30 homes per year and those that had registered for at least one Help to Buy scheme.

Please see Annex A for further information on methods, sample sizes and time frames.

Output

- What has small developers output been in the last three years and what do they expect it to be for the next five years?

Respondents were optimistic for the future. More developers expected to deliver more homes of all sorts and all prices in the following five years than they did in the previous three years (even accounting for the longer time period).

More respondents expected to deliver new builds and slightly more expected to do other types of business, for example, conversions. More respondents expected to sell homes in each of the price brackets (especially the £230,000 to £250,000) more expected to be building private **and** social housing. The optimism was noticeable across the size grouping and urban/rural groupings but was slightly more conspicuous in the small and rural groupings.

That said the respondents to this survey are facing a multitude of barriers to building.

Obstacles

- What are the current barriers to small developers building homes?

- In what way do small developers envisage the barriers changing (improving, getting worse) over the next five years?

The findings suggest that developers' top obstacle over the previous three years was financial, but that fewer expected to experience this as a problem in the future (although it was still the issue expected by the highest number of our respondents in the future).

Planning and infrastructure issues also loomed large as experienced in the past and more of our respondents expected infrastructure issues to act as a barrier in the future. Roughly

the same amount expected planning issues. Utility delays also featured heavily in the past and the future.

There is a very clear expectation that more respondents will be thwarted by a lack of skills in the following five years.

There were some differences in obstacles, both experienced and expected, by size of respondent and by where they carried out most of their business.

For all the groups separately the obstacle experience by most over the previous three years was financial, and for the small, rural and urban groups this was the obstacle that the highest number of them expected to face in the future. For the medium sized and the semi-rural groups the highest numbers expected to face infrastructure and utilities obstacles. Other differences by groupings included more of the medium sized group and the rural and urban groups expecting to experience planning issues in the future than had in the past; the semi-rural group expected fewer.

In sum whilst trying to deliver homes over the following five years small developers expect to face difficulties caused by finance issues, delays, frustrations, financial loss, uncertainty, additional work and viability issues caused by problems with infrastructure (S75s), the planning system and utility delivery.

Solutions

- What actions/changes do small developers think are needed to improve their output?

Respondents called for direct government action on financial issues with grants, assisted loans or the government acting as guarantor for loans. They also suggested working with banks to develop solutions to issues with a lack of finance, the cost of it and the lending criteria.

Further respondents called for central government to use their influence on local authorities and utility companies to pave the way for more straightforward planning and delivery of utilities. Taking this a bit further respondents suggested central co-ordination of, in particular, infrastructure and there was a call for a national infrastructure scheme. Scottish Water was singled out as a particular issue and respondents called for a review of this organisation.

Aware of the on-going planning review[1], respondents expressed a hope that changes would make the process quicker, easier and simpler. A further call for planning directed at the departments themselves was that the perceived attitude of '*anti-development'* would be turned around and that the default should be *'pro-development'*.

Respondents saw the value in they themselves either individually or as a group engaging more openly with local government and the utility companies in order to foster mutual understanding and develop relationships that could be used to overcome obstacles as they presented.

[1] http://www.gov.scot/Topics/Built-Environment/planning/Review-of-Planning/documents

Self-analysis was also detectable with suggestions that the industry could get better at consulting the communities, writing business plans and seeing their work as a public good as well as a business.

Help to Buy

- What is the level and nature of the knowledge of small developers about the Help to Buy shared equity scheme (and other SG initiatives centred on building)?

- For HTB registered developers, what was the motivation for registration where no or few sales were made under the scheme?

- What is developers' experience of:

  the scheme

  the registration process and

  understanding the processes for managing and approving applications?

- What elements of the small developer support provided could change to enable greater participation through (a) registrations and (b) sales under the scheme?

The overall brand of Help to Buy was well known and well used by our respondents. In general those who used it had not only had no complaints about the system and its processes but praised it for its simplicity and efficiency. The process of the schemes then cannot be said to be a barrier for small developers to build under it. On the other hand there were barriers (perceived or otherwise) to delivering under the scheme.

One barrier was also the most prevalent obstacle found to building in general and that was difficulty with financing development.

Three barriers related to the scheme. One was thresholds in areas where average house prices are higher than the rest of the country and respondents thought thresholds reflect local circumstances.

Another was a perception that the percentage funded by government was too low and respondents called for an increase.

Finally, respondents would like to see more marketing of the scheme including targeted marketing at those on housing lists.

Conclusion

Small developers in Scotland were optimistic about the numbers of homes they expected to deliver in the five years following this survey. Nevertheless they still expected to face a myriad of obstacles and barriers, most notably; financial barriers, problems with S75s, difficulties with the planning system and delays in delivery of utilities. They expressed

frustration, a need for additional work, loss of income and viability problems stemming from the obstacles.

Respondents made calls for financial (and other) help from central government, more co-operation from local government and utility providers. They suggested that both individually and jointly they could initiate open engagement with stakeholders in their areas to foster mutual understanding of the issues each faces.

Help to Buy is well known and well used with the only barriers being price restrictions and difficulties with finance in general (as opposed to specific to Help to Buy).

1. Introduction and Respondents

Key points

The Scottish Government undertook an electronic survey to inform policy on supporting small housing developers to contribute to increasing the number of new homes built in Scotland

We asked questions about their experience over the previous three years and expectations for the following five years, on: output, barriers to building and solutions and Help to Buy schemes

66 developers responded from 31 of the 32 local authorities in Scotland

38 respondents undertook their main business in rural areas, 17 in semi-rural areas and 11 in urban areas

52 respondents built 30 or fewer homes per year and 14 built between 31 and 500

49 respondents had registered for at least one Help to Buy scheme

Introduction

The Scottish Government's vision is that everyone in Scotland will live in affordable, quality homes that meet their needs. Working towards this vision an indicator in the National Performance Framework is to "Increase the number of new homes"[2]. In order to achieve this it is vital that all developers can contribute. Two issues have been identified that raise concerns for the part that small developers[3] can play in this objective; (i) a significant decrease in the share of the market for smaller developers since 2008 and (ii) few smaller developers building for the Help to Buy (Scotland) scheme.

This research explores small developers experiences in Scotland and in this way identifies how best we can help small developers to build more homes.

Share of business

Post 2008 smaller developers in Scotland saw their share of the market reduce. National House Building Council Monthly figures for The UK as a whole[4] show that the share of new registrations in 2008 for companies building 100 units or fewer was 28% and that this had reduced to 12% by 2015. Likewise the share for companies building 500 units or fewer was 45% in 2008 but reduced to 26% in 2015. Further, in this vein, the absolute number of

[2] http://www.gov.scot/About/Performance/scotPerforms/indicator/newhomes

[3] In this context we are using the term "small developers" to signify SMEs who build (or deliver) homes. A more precise definition is given later in this chapter

[4] Housing report July 2016 Page 16 Table QS8

small builders registering with NHBC has declined in this time period. From 17,068 registering 100 builds or fewer registered in 2008 to only 9,204 in 2015.[5]

Help to Buy

Help to Buy is a term that covers a number of UK and Scottish Government (SG) initiatives; including shared equity support for people buying a new build home (Help to Buy (Scotland) Affordable New Build) and ring-fenced support for small builders (Help to Buy (Scotland) Small Developer scheme). Both launched in April 2016 replacing similar previous shared equity schemes.

In essence the schemes involve developers registering and then building new homes to sell to buyers who have applied for, and been accepted on, the scheme. The buyers do not pay any interest on the equity, they can buy the equity from the SG (in full or any amount above 5%) or pay the SG back when they sell the home. The amount they pay in both instances will be the same percentage as the government supplied but calculated on the value or the selling price of the home, which may, of course, have increased or decreased.

The reality of the reduced share of the market smaller developers experienced post 2008 was reflected in the figures collected for the original Help to Buy (Scotland) shared equity scheme that ran from September 2013 to March 2016. These showed that the volume builders had a share of support in line with market trends. Although around 200 small developers registered for the scheme, very few actually built and sold homes under the scheme. This was despite the government establishing separate ring-fenced support for smaller developers.

Clearly small developers are facing obstacles to building and in order to increase supply of homes across all tenures over the following five years, barriers to small developers building will need to be addressed. As such the Scottish Government undertook this survey to explore barriers to building homes in general for small developers in Scotland and uncover the reasons for their lack of participation in the shared equity schemes.

Research Questions

The research was designed to provide information to inform policy decisions on enabling small developers to build new homes. It aims to answer the following questions:

- What has small developers output been in the last three years and what do they expect it to be for the next five years?
- What are the current barriers to small developers building homes?
- In what way do small developers envisage the barriers changing (improving, getting worse) over the next five years?
- What actions/changes do small developers think are needed to improve their output?

[5] Ibid

- What is the level and nature of the knowledge of small developers about the Help to Buy shared equity scheme (and other SG initiatives centred on building)?

- For Help to Buy registered developers, what was the motivation for registration where no or few sales were made under the scheme?

- What is developers' experience of:

  the scheme

  the registration process and

  understanding the processes for managing and approving applications?

- What elements of the small developer support provided could change to enable greater participation through (a) registrations and (b) sales under the scheme?

A note on use of language

The terms 'small (housing) developers' and 'SMEs in the building trade' are used interchangeably in this document.

Respondent Characteristics

We have broken the sample down by geographic groups and size, for two reasons. Firstly, to describe the sample in detail for context and as this breakdown gives us groups that are too small for meaningful analysis and comparison secondly, we have used fewer groups to allow us to explore whether developers of different sizes or those working in different geographic situations have different experiences (more below).

Geographic

For description we have used local authority areas and Help to Buy areas, for analysis we have used the urban, rural, semi-rural split as set out in the Randall Definition[6].

We asked respondents in which local authority area they carried out the majority of their business and then any other areas in which they undertook business. The full detailed results are set out in Table A.1 in Annex A and show that survey respondents delivered in 31 of the 32 local authority areas in Scotland (Falkirk was the only area not represented).

We also grouped the respondents by the areas used in Help to Buy analysis on the Scottish Government website, and set out the results in Table 1.1. It shows the largest number of respondents (20 of 66) delivered their main business in the West of Scotland, the others are fairly evenly spread across the five remaining areas with the North-East group being the smallest at nine respondents.

[6] Originally produced in 1985 for the Scottish Economic bulletin as a means of profiling economic trends and indicating need for support in rural Scotland. The system is based upon population density within a unitary authority. Where a unitary authority has a population density of less than one person per hectare it is considered Rural. http://www.gov.scot/Publications/2009/08/07115535/14

Table 1.1: Respondents grouped by Help to Buy local authority area groups Base 66			
Area	Local Authority	Main business area	Other business areas
Central Scotland	Angus	12	22
	Clackmannanshire		
	Dundee City		
	Falkirk		
	Perth and Kinross		
	Stirling		
Highlands and Islands	Eilean Siar	12	7
	Highland		
	Orkney Islands		
	Shetland Islands		
North-East	Aberdeen City	9	14
	Aberdeenshire		
	Moray		
South-East	Edinburgh	13	35
	East Lothian		
	Fife		
	Midlothian		
	Scottish Borders		
	West Lothian		
West	Argyll and Bute	20	44
	Dumfries and Galloway		
	East Ayrshire		
	East Dunbartonshire		
	East Renfrewshire		
	Glasgow City		
	Inverclyde		
	North Ayrshire		
	North Lanarkshire		
	Renfrewshire		
	South Ayrshire		
	South Lanarkshire		
	West Dunbartonshire		

Table 1.2 sets out respondents grouped by rural, semi-rural and urban area. It shows that for respondents main business the majority (38 of 66) work in rural areas. In addition 27 work in semi-rural areas with the remaining 11 in urban areas. The trend reverses between semi-rural and rural areas for the other areas in which the respondents did business as 54 (of 66) respondents did business (other than their main business) in semi-rural areas and 42 in rural areas.

Although 27 respondents were doing business in urban areas as well as the 11 for whom their main business is urban, in general, the respondents are weighted towards working in rural and semi-rural areas. This is unsurprising for two reasons. Firstly, because the majority of Scotland's land mass is rural and semi-rural and secondly and anecdotally it is thought that, in general, large developers prefer not to work in rural areas and small developers fill this gap. In reporting and discussion below we have categorised the respondents using their main business areas and as such have a group of rural respondents (38 in number), a group of semi-rural respondents (27 in number) and a group of urban respondents (11 in number).

Table 1.2: Respondents by Rural, Semi-rural and Urban categories Base 66			
Local Authority	Category	Main business area	Other business
Aberdeenshire	Rural	38	42
Angus			
Argyll & Bute			
Comhairle nan Eilean Siar			
Dumfries and Galloway			
East Ayrshire			
Highland			
Moray			
Orkney			
Perth & Kinross			
Renfrewshire			
Scottish Borders			
Shetland Islands			
South Ayrshire			
Stirling			
Clackmannanshire	Semi – rural	17	54
East Dunbartonshire			
East Lothian			
East Renfrewshire			
Fife			
Inverclyde			
Mid-Lothian			
North Ayrshire			
North Lanarkshire			
South Lanarkshire			
West Dunbartonshire			
West Lothian			
Aberdeen	Urban	11	27
Dundee			
Falkirk			
Edinburgh			
Glasgow			

Size

To indicate whether relative size within the full group impacts on their experience and expectations we have grouped the respondents by the number of homes they built per year on average over the previous three years. This is a crude measurement as output can vary significantly from year to year but, at the least, gives an indication of the amount of homes respondents were delivering. Respondents output by this measure ranged from zero homes built to 300. The results are set out in Table 1.3[7].

It shows that eight respondents sold zero homes, 24 sold between one and ten and 20 sold between 11 and 30. At the other end of the scale 11 respondents sold between 31 and 100 and three sold between 101 and 500. For the analysis we have divided the respondents into two groups by size; those delivering 30 or fewer units are referred to as small (52 of 66) and those delivering over 30 (14) as medium sized.

[7] Using The National Housing Building Council (NHBC) categories

Table 1.3: Numbers sold in three years previous to survey per year on average. Base 66				
0	Zero	Small	8	**52**
1-10	Very small		24	
11-30	Small		20	
31-100	Intermediate	Medium	11	**14**
101-500	Medium		3	

For interest Table 1.4 sets out the numbers of respondents that did the majority of their business in rural, semi-rural and urban areas by size. Unsurprisingly it shows that the largest group of respondents (30 of 66) were both small and rural.

Table 1.4: Urban/rural by small/medium Base 66			
	Small	Medium	Total
Rural	30	8	38
Semi	13	4	17
Urban	9	2	11
Total	**52**	**14**	**66**

One further category we have undertaken for description is whether the respondents had registered for any Help to Buy scheme. 65 answered the question, 49 had registered and 16 had not.

The rest of the report sets out the findings.

2. Output

Key points

Small developers that responded to our survey seemed to be optimistic about the future of their business with more of them expecting to deliver more homes over the following five years than over the previous three years in all the categories we explored

The majority of the respondents (59 of 66) did new build work and for 49 it was all or most of their work.

In the future 65 expected to undertake new build work and 55 expected it to be all or most of their work

Slightly more respondents expected to do other types of business in the future, for example, conversions

Fewer respondents built for the social sector than for the private sector but more respondents expected to build in each sector in the following five years than had in the previous three years

More respondents expected to sell homes in each of the price brackets in the following five years (especially the £230,000 to £250,000) AND they expected to deliver higher numbers than they had in the previous three years

The optimism was noticeable across the size grouping and urban/rural groupings but was slightly more conspicuous in the small and rural groupings

Introduction

This chapter addresses the question:

- What has small developers output been in the last three years and what do they expect it to be for the next five years?

We explored types of work, private and social sector building and sales by cost of homes, in each case we report on the findings for the group as a whole, and where there were discernible differences the findings for small and medium sized respondents, and the findings for rural, semi-rural and urban respondents.

Types of work

Types of work – all

Table 2.1 shows that for the majority of developers that responded to the survey (49 of 66) all or most of their business over the previous three years was new build. Ten further respondents did some new build and only seven did no new build work.

Table 2.1: Proportions of types of work undertaken in previous three years Base 66					
Proportion of their work	New build	Extensions	Refurbishment	Empty homes	Conversions
All	25	0	0	0	3
Most *	24	0	0	0	2
Some **	10	15	22	6	17
None	7	51	44	60	44
Total	**66**	**66**	**66**	**66**	**66**

* More than half ** Less than half

For only a small minority (5 of 66) of respondents converting buildings into homes was all or most of their business, 17 respondents did some conversions but 44 respondents did not undertake any conversions in the previous three years. In total the 22 who did conversions undertook 256 and average of 12 each, actual numbers undertaken ranged from 1 to 120.

For none of the respondents was extending existing homes, refurbishing or bringing empty homes back into use their main or only work. Fifteen respondents did some extension work, 22 some refurbishment and only six brought empty homes back into use. Those six brought a total of 30 homes back into use. Fifty one respondents did no extensions, 44 did no refurbishment and 60 did no conversions.

Table 2.2 sets out the respondents expected proportions of work for the following five years.

Table 2.2: Proportions of types of work expected in next five years Base 66					
Proportion of work	New build	Extensions	Refurbishment	Empty homes	Conversions
All	28	0	0	0	2
Most *	27	0	0	0	3
Some**	10	17	22	9	16
None	1	49	44	57	45
Total	**66**	**66**	**66**	**66**	**66**

* More than half **Less than half

More respondents expected to build new homes (65 as opposed to 59 who built new homes in the previous three years) meaning fewer developers expected build none (only 1 as opposed to 7). The increase in numbers of developers saying they expect to undertake new builds over the following five years could be seen as tentative optimism in this market.

The numbers expecting to undertake conversions and refurbishments in the next 5 years? are roughly the same as the previous three years, (21 and 22 of 66) suggesting that developers undertaking this type of business may specialise to a certain extent. Fifteen of the 21 respondents were able to predict how many buildings they would convert into

homes over that time period; the numbers per respondent ranged from two to 150 and made a total of 549 (an average of 36).

Two more respondents than in the past expected to extend some homes in the future.

Three more respondents than those that had experience of bringing empty homes back into use in the past expected to do some of this work, again a possible sign of optimism. We also asked how many homes these respondents expected to bring back into use but very few were able to predict. That said, six respondents did estimate and said a total of 108 (an average of 18) ranging from 2 homes to 50 homes.

Types of work – small and medium

We explored the types of work respondents had experience of undertaking and expected to undertake by the size groupings (small -fewer than 30, medium - more than 30 builds per year on average). The findings for the small group are set out in Table 2.3.

Fourteen (of 52) respondents in the small category said all their work was new builds over the previous three years, this increased to 21 over the following five years. Please note that all of the six respondents that did not undertake any new builds in the previous three years but expected to undertake some in the following five years were in the small group.

Table 2.3 : Proportions of types of work– Small developers Base 52

Proportions	New build		Extensions		Refurbishment		Empty homes		Conversions	
	Past	Future	Past	Future	Past	Future	Past	Future	Past	Future
All	14	21	0	0	0	0	0	0	2	1
Most*	22	21	0	0	0	0	0	0	2	3
Some**	10	10	14	16	21	21	5	8	16	11
None	6	0	38	36	31	31	47	44	32	37
Total	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**52**

* More than half ** Less than half

Table 2.4 sets out the same information for medium sized respondents . The trend was different to the small category, for 11 (of 14) all their work was new build in the previous three years and only 7 expected it would be over the following five years, that said, 6 said that most of their work would be new build meaning for 13 the majority of their work was estimated to be new build but suggesting they may be looking to diversify their business in the future.

Table 2.4: Proportions of types of work– Medium sized developers Base 14										
Proportions	New build		Extensions		Refurbishment		Empty homes		Conversions	
	Past	Future	Past	Future	Past	Future	Past	Future	Past	Future
All	11	7	0	0	0	0	0	0	1	1
Most *	2	6	0	0	0	0	0	0	0	0
Some**	0	0	0	1	1	1	1	1	1	5
None	1	1	14	13	13	13	13	13	12	8
Total	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

* More than half ** Less than half

Types of Work – Rural, semi-rural and urban

We explored the proportions of new build and other types of business respondents did in the past and expected to do in the future by rural, semi-rural and urban categories. Apart from the general move towards more undertaking new builds there were no findings of interest. (Tables including this data are set out in Annex A for information).

Private or social sector building

Private or social sector building - All

We asked respondents if they built for the private sector or social sector over the previous three years and whether they expected to be building in these markets in the following five years. In each market more respondents said they would be building in the future than built over the previous three years. Once again showing some optimism for the future.

Table 2.5 shows that 52 (of 66) respondents built private homes speculatively over the previous three years and 58 (of 66) said they expected to build private speculative homes over the following five years. For private custom build the corresponding numbers were 24 and 30.

Overall there were fewer respondents working in the social sector in general but there was still a small increase in numbers saying they expected to build in the sector in the future compared to the past. Whereas 25 (of 66) built for housing associations or similar in the previous three years 28 said they expected to do so in the following five years; for local authority building the former was 15 and the latter 17.

Private or social sector building – Small and medium

Looking at the findings by size shows that for both the sizes the pattern is the same for private building with increases proportional to base numbers. On the contrary there was no increase in numbers saying they will build for the social sector in the medium sized category.

Table 2.5: Sectors built for in previous three years and following five years						
Sector	All Base 66*		Small Base 52*		Medium Base 14*	
	Past	Future	Past	Future	Past	Future
Private speculative	52	58	40	45	12	13
Private custom build	24	30	21	26	3	4
Housing associations	25	28	15	22	10	10
Local authorities	15	17	9	12	6	5

* Total will not match bases as respondents built in more than one category

Private or social sector building – Rural, semi-rural and urban

Table 2.6 sets out the findings by rural, semi-rural and urban groups. The largest proportional rise is for semi-rural respondents in the social sector (6 of 17 rises to 11 of 17). Almost all the expected rise in private sector comes from the rural group. Other than that there are no discernible differences between the developers working in the different areas.

Table 2.6 : Sectors built for in previous three years and following five years - Rural, Semi-rural, Urban						
Sector	Rural – Base 38*		Semi-rural – Base 17*		Urban – Base 11*	
	Past	Future	Past	Future	Past	Future
Private speculative	28	33	13	15	11	10
Private custom build	16	22	6	5	2	3
Housing associations	20	22	3	7	2	3
Local authorities	12	12	3	4	0	1

*Totals will not match bases as respondents build in more than one category

Homes sold by cost category

Homes sold by cost category - All

The previous two sections explored numbers of **builds**, we also asked respondents about the numbers of homes they **sold** divided up by price brackets. Please note that house prices differ significantly by location and as the respondents are weighted towards rural areas and, to a lesser extent, the west of Scotland this will impact on the findings. Once again we explored the respondents experience of the previous three years and expectations for the following five years. The findings are set out in Table 2.7.

Table 2.7: Number of respondents sold (and expecting to sell) in cost categories Base 66*						
Timescale	Under 175K	175K - 200K	200K – 230K	230K – 250K	250K to 325K	Over 325K
Previous three years	35	34	28	24	28	29
Following five years	42	46	39	35	35	34

*Totals will not match base as respondents sell in more than one category

Over the previous three years between 24 (of 66) and 35 respondents sold homes in each of the price brackets; the most (35) sold in the lowest cost category (under £175,000) and the least (24) in the £230,000 to £250,000 bracket.

Expectations for the following five years showed between 34 (of 66) and 46 respondents selling in each of the brackets, with £175,000 to £200,00 being the most prevalent at 46 and the highest price category (Over £325,000) being the least prevalent at 34.

Note that similar to the type of homes built, in each price bracket more respondents estimated they would be selling in it in the future than did in the past. For example, for homes under £175,000, 35 sold some over the previous three years and 42 estimated that they would sell some in that bracket over the following five years. This was especially noticeable in the bracket £230,000 to £250,000 in which the former was 24 and the latter was 35.

Looking at this in more detail, Table 2.8 sets out the increase in expected sales by volume. It shows that not only are **more** developers expecting to sell in each price bracket but that **they also expect to sell higher numbers**. For example whereas 12 respondents said they sold more than 30 homes in the under £175,000 price bracket in the previous three years, 17 said they expected to sell more than 30 in the following five years. The same increase shows in every price bracket, another example is in both the £200,000 - £230,000 bracket and the £230,000 - £250,000 bracket where five had experience of selling more than 30, 13 expected to sell more than 30 in the future.

The number of respondents expecting to sell between 6 and 30 homes in the future has also increased in every category whereas the number expecting to sell fewer than five has stayed the same or decreased in all but one category.

Table 2.8: Number of homes sold (and expected to sell) in cost categories – All respondents Base 66*

Number of homes	Under 175K		175K - 200K		200K – 230K		230K – 250K		250K to 325K		Over 325	
	Past	Future	Past	Future	Past	Future	Past	Future	Past	Future	Past	Future
More than 30	12	17	6	18	5	13	5	13	6	8	8	12
Between 6 and 30	9	17	19	19	14	20	10	16	13	17	11	13
5 or fewer	14	8	9	9	9	6	9	6	9	10	10	9
Total selling in category	**35**	**42**	**34**	**46**	**28**	**39**	**24**	**35**	**28**	**35**	**29**	**34**

*Totals will not match base as respondents sell in more than one category

Homes sold by cost category – small and medium

Table 2.9 sets out the same information split by the small and medium sized respondent groups. It shows that a significant increase in numbers from the small group expected to sell in every price bracket in the future whereas medium sized developers were more even over the past and future.

Table 2.9: Number of homes sold (and expected to sell) in cost categories – Small (Base 52*) and medium sized (Base 14*) respondents												
Timescale	Under 175K		175K - 200K		200K – 230K		230K – 250K		250K to 325K		Over 325K	
	Small	Med	Sm	Med	Sm	Med	Sm	Med	Sm	Med	Sm	Med
Previous three years	20	10	23	11	18	10	12	12	17	11	18	11
Following five years	32	10	32	12	29	10	24	11	23	11	24	12

*Totals will not match bases as respondents sell in more than one category

Homes sold by cost category – rural, semi-rural and urban

Table 2.10 sets out sales in cost categories divided by rural, semi-rural and urban respondents. The numbers expecting to sell in each price bracket rises for the rural group, it rises in all but one (£250,000 - £325,000) in semi-rural group and all but two (Under £17,000 and £250,000 – £325,000) in the urban group. This means that in the £250,000 to £325,000 category all the expected increase came from developers in rural areas (rising from 10 (of 38) in the past to 27 in the future).

Table 2.10: Number of homes sold (and expected to sell) in cost categories – Rural (Base 38*), Semi-rural (Base 17*), Urban (Base 11*) respondents																		
Timescale	Under 175K			175K - 200K			200K – 230K			230K – 250K			250K to 325K			Over 325K		
	R	S	U	R	S	U	R	S	U	R	S	U	R	S	U	R	S	U
Previous three years	25	8	8	25	9	8	23	6	8	18	8	7	10	9	7	18	9	6
Following five years	30	10	8	31	12	10	28	9	9	25	10	9	27	9	7	21	10	7

*Totals will not match bases as respondents sell in more than one category

Despite the tentative optimism seen here respondents to this survey report facing a multitude of barriers to building which will be discussed in the next chapter.

3. Obstacles

Key points

Small developers expected to face delays, frustrations, financial loss, uncertainty, additional work and viability issues whilst trying to deliver homes over the following five years

Almost all respondents experienced financial obstacles to building over the previous three years (including a lack of finance, the cost of finance or the lending criteria). Fewer respondents expected to face these in the following five years. Nevertheless it was still one of the obstacles most expected to face

The majority of respondents experienced difficulties with the planning system (including a lack of certainty, poor performance and negative attitudes). As a similar number expected to experience these issues in the future there is no detectable confidence that they will improve

Difficulties with infrastructure (S75s) were the third most cited obstacle experienced by respondents. This is expected to become a major issue for our respondents in the future as many more expected to face these issues in the future than had in the past

Another significant difficulty was delays in delivery of utilities. Similar to infrastructure issues more respondents expected to experience these issues in the following five years than had over the previous three years

Smaller numbers of respondents also expressed difficulties with supply of land and market demand and even fewer expected these to be an issue in the future

In light of anecdotal reports that the building trade in Scotland has been hampered by a lack of skills, a surprising finding was that very few respondents had experienced a lack of skills as an obstacle to their building over the previous three years. Many more, however, did expect to face a lack of skills in the future

We found a few differences between obstacles experienced and expected between different groups of respondents

The most significant difference by size was that respondents from the medium sized group did not expect finance to be a major issue in the future and so we tentatively suggest that those building 30 or more homes per year had confidence in their ability to access finance in the near future

Respondents in the urban group were more likely to have experienced land supply and market demand issues than the rural, semi-rural and the group as a whole, but they had similar expectations that the future would bring financial, infrastructure and planning obstacles

Introduction

This chapter sets out the answers to the following two questions:

- What are the current obstacles to small developers building homes?
- In what way do small developers envisage the obstacles changing (improving, getting worse) over the next five years?

We asked respondents to tell us the top three obstacles to building they have experienced over the last three years, then to mention any others, further to predict the top three obstacles they expect to face in the following five years.

Please note different numbers of respondents answered each of the three obstacles questions as follows:

65 – top three obstacles over previous three years

59 – any other obstacles over previous three years

64 – top three obstacles expected in the next five years

Using the findings the responses have been crudely divided into five categories: financial obstacles to development, difficulties with the planning system, infrastructure (S75) issues, delay in the provision of utilities and an 'other' category which includes; land availability, market demand and skills gaps.

Please note the financial and infrastructure issues are broken down in to sub-categories (see Table 3.1), as such where only the overall category is noted, the numbers that cited a particular obstacle can be higher than the base number (the number that answered that question) because respondents were able to cite more than one obstacle in that group. For example, in Table 3.1, 60 financial issues were cited under any other issues by a base of only 59 respondents, this simply means that some respondents recorded more than one financial obstacle.

Once again please note the caveat in Annex A explaining the small numbers of respondents when they are broken down into groups.

Obstacles as experienced by all respondents

Financial obstacles – All respondents

Table 3.1 shows that the group of obstacles cited most often by the 65 respondents who told us about their top three obstacles over the previous three years was financial issues with 63 citations. Twenty-six (of the 63 citations) were for a lack of development finance, 16 for a problem with the lending criteria for development finance, for 13 the issue was a lack of mortgage availability for customers and for eight the cost of development finance was the problem.

There were 60 citations of finance issues from the 59 respondents that told us about any other obstacles they had faced in the previous three years. The mix of finance issues

changed here with 22 (of the 60 citations) finding customers mortgage finance as the issue, 15 a lack of development finance, 12 the lending criteria and 11 the cost of finance.

The 64 respondents that told us the top three obstacles they expected to face in the following five years only cited finance issues 48 times. This suggests that although finance issues are still anticipated to be prevalent over the following five years not so many respondents expect to face them.

Planning obstacles – All respondents

Also in Table 3.1 the second most prevalent obstacle (cited in the top three issues faced in the previous three years) was planning issues which received 39 citations from the 65 respondents that answered the question. Issues categorised under this heading included that they were unable to obtain consent, that they experienced bureaucracy and delays and inconsistency. These issues caused frustration, a lack of certainty, viability problems, additional work and financial loss for the respondents.

Planning issues also came second in the list of any other issues, with 35 citations from the 59 respondents.

The 64 respondents to the question about future obstacles cited planning issues 37 times, this suggests that respondents do not expect much improvement in planning issues for the future.

Table 3.1: Obstacles to building in the previous three years and expectations for the following five years

Obstacles		Last three years				Next five years	
		Top three Base 65*		Any others Base 59*		Top three Base 64*	
Lack of development finance	Financial Obstacles	26	63	15	60**	19	48
Lending criteria for development finance		16		12		0	
Lack of mortgage finance for customers		13		22		15	
Cost of development finance		8		11		14	
Infrastructure (S75) negotiations (timing)	Infrastructure Obstacles	11	28	11	35	13	48
Infrastructure (S75) blockages (delivery)		9		12		13	
Infrastructure (S75) blockages (costs or funding)		8		12		22	
Planning/Local Authority obstacles (contributions too high, unable to obtain consent, delays, planning gains, inconsistency and attitudes)		39		35		37	
Utilities (delays in provision of water, gas, electricity, broadband)		24		29		33	
Land (unable to buy or obtain an option on land)		8		9		15	
Market demand (for your type of work in your area low)		7		8		0	
Lack of skills		5		5		21	
Already busy (no desire to build more homes)		0		1		0	
Materials (shortage)		0		4		0	
Others (smaller developers disproportionate costs, political turmoil, road bonds)		6		3		4	

* Totals will not match bases as respondents were able to respond in more than one category

Infrastructure (S75) obstacles – All respondents

The next (third) most prevalent obstacle respondents mentioned (in the top three issues over the previous three years) was related to infrastructure or S75 issues (cited by 28 of 65 that answered the question) see Table 3.1. The main issues noted were timing of negotiations on S75s (11 citations) and blockages in delivery and costs (9 citations). All the issues impacted on the viability of developments for small developers in our survey, and like planning issues delays caused additional work, financial loss and a lack of certainty.

The 59 respondents that answered the question about any other obstacles over the previous three years cited 35 infrastructure issues, evenly spread across the costs, delivery and timings.

For the future the 65 respondents that answered the question on the top three obstacles cited infrastructure (S75) issues 48 times (up from 28 in the past). This suggests that some developers are feeling pessimistic about these issues. In particular with costs and funding of infrastructure (viability) as 22 of the 65 mentioned this specifically.

Anticipating respondents would cite infrastructure or S75 issues we also asked them to give us more detail on these issues, the results are set out in Table 3.2.

Table 3.2: Infrastructure (S75) issues Base 21	
Policy failure, no delivery mechanism	1
Difficulties and delays with agreements/consents/sign off/local authorities/bureaucracy/technical approval and providers	13
Lack of public sector finance	1
Delays/difficulties utilities	5
Rural costs too high/costs unrealistic/unviable	5
Road bond issues/consents slow	2
Land supply	1

Table 3.2 shows that the majority of respondents with infrastructure issues experienced costly and frustrating difficulties and delays with agreements and consents, they suffered from bureaucratic delays and technical delays. Some direct quotes illustrate this problem clearly.

One respondent said:

"Delays in getting technical approval and delays in getting infrastructure providers commissioned and to complete the works in the agreed timelines"

Another pointed out the uncertainty this produces:

"Very long legal processes with Council (leading to) uncertainty".

Another explained the further impacts of such delays and the problem of bureaucracy:

"*The delivery of section 75 agreements is too time consuming and onerous. ….. All too often the onus is on the developer to come up with the wording, only for this to be knocked back by the local authorities solicitors wasting time and money."*

S75s impact on viability is described by this respondent:

"S75s often place an undue burden on viability of development. Unrealistic financial conditions often means developments are delayed and again this impacts on the opportunity to provide much needed affordable homes".

Utility delays - All

The other key obstacle from the previous three years was delays in the delivery of utilities which received 24 citations (from 65 respondents) as a top three issue and a further 29 citations (from 59) under any other issues.

As to the future, our respondents (64) cited delays in utilities 33 times meaning more developers expected to experience this in the future than did in the past.

We have illustrated some details respondents experienced on the delays below. Unfortunately Scottish Water was singled out for particular criticism. One responded said:

"Scottish water's inability to provide connections within budget or reasonable time frames"

Another elaborated and named further organisations:

"Scottish Water, BT and Scottish Hydro are a nightmare to deal with. Long delays, confusion between internal staff, too many third party organisations involved. Lack of coherent information. Information changes from person to person. Too much red tape".

Lack of Skills – All

Anecdotally (and regularly in RICs UK Construction Market survey[8]) a lack of skills has been identified as one of the biggest barriers to building new homes. In the first of our two questions on obstacles, of the 65 that specified their top three only 5 cited lack of skills, likewise from the 59 that told us about any other obstacles only 5 cited lack of skills. The following five years, however, is a different issue with 21 of the 65 that answered this question expecting to experience this problem.

This finding suggests a number of interpretations in light of the strength of the perceived lack of skills reported anecdotally and at the UK level. Firstly, it could mean that whilst this has not yet become a major barrier, the building industry is horizon scanning and sees the issue as a 'ticking time bomb'. Secondly, it could mean that even if this problem is not experienced by many the impact of it is disproportional. A third interpretation is to align this finding with the findings in Chapter 2 and suggest that as developers are expecting to build

[8] See for example http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKEwjh1uy6h_bPAhUkBsAKHTjPAloQFggmMAE&url=http%3A%2F%2Fwww.rics.org%2Fus%2Fknowledge%2Fmarket-analysis&usg=AFQjCNEHzoYffEYU7Mia6g3QTZmedZrtJg

more they are not confident that they will be able to recruit the extra workers they might need.

In any case the lack of skills is perceived as a major barrier going forward for small developers.

In light of the relevance of this issue we asked respondents who cited a lack of skills as an obstacle which skills in particular they had experienced as lacking and which they expected to experience as lacking. Over the previous three years respondents mentioned a lack of skilled bricklayers, joiners, painters and decorators, plumbers and electricians. The results for the future are set out in Table 3.3.

Table 3.3: Skills Expected To Be Lacking In The Future

Skills	No of times cited
Professionals (Architects/Engineers/Surveyors)	3
Site/Project Mangers	2
Machine Operators	1
Ground-workers	2
Roofers	1
Rough-casters/Renders	1
All Trades	9
Brickies	1
Joiners	4
Painters	1
Plumbers	1
Construction/Building	4
Labourers	1
Electrician	1
Base 19 Respondents	32

For the future there was a wider selection of skills mentioned. As well as the skills mentioned for the past, respondents mentioned professionals of all types, project managers, machine operators and many (9 of 19) said they expected a lack of skills in all trades to manifest.

Obstacles – Small and medium

A full analysis of the detailed findings setting out the numbers of respondents in each groups experiencing the obstacles and a breakdown of the obstacles in some cases is in Annex B, below is a summary.

As Table 3.4 shows for both the group we have defined as small sized and the group we have defined as medium sized the obstacle experienced over the previous three years by most was financial issues. This reflects the experience of the respondents as a whole. The second most experienced obstacle was planning for the small group as it was overall, for the medium group this was the third most experienced, utility delays was their second

most cited issue. Infrastructure was the third highest issue for the small group again reflecting the respondents as a whole.

Echoing the respondents as a whole, in the following five years the obstacle most respondents in the small group expected to experience was financial issues followed by infrastructure. For the medium sized group the top issues were jointly infrastructure problems and utility delays (the respondents as a whole cited financial and infrastructure issues). For both groups planning was third. It's worth noting that financial issues moved down to fourth place for the medium group, leading us to tentatively suggest that there is a confidence in those building more than 30 homes a year surrounding their ability to access finance.

A lack of skills did not feature strongly as an issue for either groups in the past but more respondents in both groups expected to come across this issue in the following five years again mirroring the respondents as a whole.

Table 3.4: Obstacles ranked by those experienced by the most respondents – Small and medium sized respondents

	Previous three years		**Following five years**
Small sized group	Medium sized group	Small sized group	Medium sized group
1st Financial	1st Financial	1st Financial	Joint 1st Infrastructure
2nd Planning	2nd Utilities	2nd Infrastructure	Joint 1st Utilities
3rd Infrastructure	3rd Planning	3rd Planning	3rd Planning
4th Utilities	4th Infrastructure	4th Utilities	4th Financial
5th Land	Joint 5th Land	5th Lack of skills	5th Lack of skills
6th Market demand	Joint 5th Market demand	Joint 6th Market demand	Joint 6th Market demand
7th Lack of skills	Joint 5th Lack of skills	Joint 6th Land	Joint 6th Land

Table 3.5 sets out whether fewer or more respondents expected particular obstacles to apply to them in the future (than had in the past).

More respondents in the small group expect to experience problems with infrastructure, delays with utilities and a lack of skills in the future and fewer expect to experience financial difficulties (although this is still the number one obstacle) exactly reflecting the group as a whole. For the medium sized group more expect to experience planning issues, infrastructure problems, utility delays and a lack of skills and fewer expect to experience financial difficulties. The only difference in this group to the respondents as a whole was an increase in numbers who expect to experience planning problems.

Table 3.5: Obstacles fewer or more respondents expecting to encounter - Small and Medium sized respondents

Obstacle	Small sized group	Medium sized group
Financial	Fewer	Fewer
Planning	No change	More
Infrastructure	More	More
Utilities	More	More
Lack of skills	More	More

Obstacles – Rural, semi-rural, urban

Table 3.6 shows that the obstacles that our respondents experienced in the previous three years varied by geographical situation.

In the previous three years the obstacle cited by the most respondents in all three groups was financial issues, reflecting the finding for all respondents. The obstacle experienced second most frequently for the rural group was jointly infrastructure and utility problems, for the semi-rural group it was planning and for the urban group it was land. Thirdly, came infrastructure for the semi-rural group and market demand for the urban group.

Expectations for the following five years also differ. In the rural group most expected to face financial issues and infrastructure issues. The urban group expected mostly financial issues and the semi-rural group cited infrastructure issues the most times, although their second placed issue was financial. For the urban group in second place there were three issues expected by the same numbers; infrastructure, planning and land supply. In third place for the rural group it was utilities and for the semi-rural group it was jointly utilities and lack of skills.

Table 3.6: Obstacles ranked by those experienced by the most respondents – Rural, semi-rural, urban respondents

Previous three years			Following five years		
Rural	**Semi-rural**	**Urban**	**Rural**	**Semi-rural**	**Urban**
1st Financial	1st Financial	1st Financial	1st Financial and Infrastructure	1st Infrastructure	1st Financial
2nd Infrastructure	2nd Planning	2nd Land		2nd Financial	2nd Infrastructure and Planning and Land
2nd Utilities	3rd Infrastructure	3rd Market demand	3rd Utilities	3rd Utilities and Lack of skills	
4th Planning	4th Utilities	4th Planning	4th Planning		
5th Land and Market demand	5th Lack of skills	5th Utilities	5th Lack of skills	5th Planning	5th Utilities and Lack of skills
	N/A	N/A	6th Land	6th Land	
7th Lack of skills	N/A	N/A	N/A	N/A	7th Market demand

Table 3.7 sets out for each of the major obstacles whether fewer or more respondents from the different groups expect it to impact on them in the future than it had in the past. In each of the groups (echoing the group as a whole) fewer respondents expected financial obstacles to be of issue. In the rural and urban groups all the remaining key obstacles were expected to be of issue by more respondents, this differs from the group as a whole only in the issue of planning where no change is expected overall. In the semi-rural group fewer expect planning issues, there is no change in the numbers expecting utility delays in contrast to an increased number overall for this obstacle. Similar to the other groups the semi-rural group expected infrastructure and lack of skills to present problems.

Table 3.7: Key obstacles fewer or more respondents expecting to encounter - Rural, semi-rural and urban respondents			
Obstacle	Rural	Semi-rural	Urban
Financial	Fewer	Fewer	Fewer
Planning	More	Fewer	More
Infrastructure	More	More	More
Utilities	More	No change	More
Lack of skills	More	More	More

The next chapter sets out suggested solutions for these obstacles.

4. Solutions

Key points

Solutions included calls for (more) financial help, more co-ordination (of infrastructure and planning) and more co-operation between developers and those delivering planning, infrastructure and utilities

Potential actions for central government:

- directly finance small developers using grants or other mechanisms

- set up a fund from which SMEs in the building trade could apply for assisted finance

- act as a guarantor for loans

- put pressure on or, more collaboratively, work with (i) the banking industry to give favourable terms to SMEs, (ii) local government to reduce or defer payment for S75s

- take more of a role in co-ordinating (and funding) infrastructure, aspects of the planning system and utilities

Potential actions for local government:

- early, collaborative, open and transparent dialogue with developers to ensure a two way understanding of issues

- a change in mind-set in some planning departments where there is a perceived attitude that's "anti-*development*" to make the default position "pro-*development*"

- embrace creativity and innovation

Potential actions for developers themselves:

- approach local government and utility providers as a group or individually and engage to improve understanding of their issues and to help them understand the issues developers face

- combine together to become a stronger voice

Introduction

This chapter sets out the answer to the following research question:

- What actions/changes do small developers think are needed to improve their output?

We asked respondents to make suggestions for actions that could be taken to address or overcome the obstacles reported in Chapter 3 above and in turn increase output. We specifically asked for government actions, actions they could take themselves and general help and support that could help. The detailed suggestions are set out in Annex C, below is an analysis and summary of the key suggestions.

The majority of actions were addressed to central and local government and included direct action and, for central government, action to influence others including local government, private sector finance organisations and utility providers. Respondents also made suggestions for actions they could take.

Suggested solutions – Central government action

Funding

The majority of the action respondents called for central government to undertake address obstacles centred on solutions to financial issues, this included difficulties with infrastructure (s75s) which had financial consequences and impacted on viability.

The respondents called for direct (or grant) funding for SMEs in the building trade, variously they suggested this could come through subsidised workers' wages or help with up-front costs. The "Agricultural Business Development Scheme"[9] was given as an example of this type of funding.

There was a suggestion that central government could direct funds into infrastructure across Scotland (and utility organisations), although another idea suggested was that of co-ordinating as opposed to directly funding infrastructure (more below).

Less direct funding but still involving the use of public funds, respondents suggested the government could become involved in lending or acting as security. Models mooted for this included developing a central lending fund to give *'soft loans'* or '*assisted finance'.* Or to create a Builders Finance Fund (like the current UK fund[10]). One particular use of such a fund was to introduce affordable housing delivery contracts with regular monthly payments giving certainty about funding for affordable homes for SMEs.

A further role suggested for the government was a scheme where it could act as a guarantor for loans for small developers building private homes. One respondent, who may have come across a similar UK government initiative, put it this way: *"(the Scottish Government) ….could utilise their guarantee powers to support SMEs".*

Respondents had suggestions for government action to address skills shortages. One was to specifically boost funding for Skills Development Scotland to address the issue in the building trade. Another suggestion was for government to fund incentives for the industry to bring young people into the business or to giving incentives to SMEs for training.

[9] http://www.gov.scot/Topics/farmingrural/Agriculture/grants

[10] https://www.gov.uk/government/collections/builders-finance-fund

Co-ordination

Respondents saw a potential role for government in the co-ordination of infrastructure nationally and also to a lesser extent co-ordination of planning and utility provision. The suggestions were not detailed but were based on the premise that at present each of these systems is causing difficulties and should they be better co-ordinated this could remove key obstacles to delivery of more homes.

One specific high level idea was for there to be a national infrastructure system delivered by central government.

Respondents, noted the planning reform agenda already underway in Scottish Government, and set out some hopes that planning reform would *"streamline some processes*". Respondents key suggestions were for *"simplification"* more *"efficient"* processes, fewer *"hold ups", "shortened planning and statutory consent time lines"* and *"reduced bureaucracy".* The finding (in chapter 3) that as many respondents expected to come across planning obstacles in the future as had in the past suggests that there was little hope of a big impact of the process over the following five years.

Further suggestions on planning addressed the need for more certainty in the system most especially for timings, one example was a call for shortened planning and statutory consent timelines.

An issue that caused similar problems was the issue of delays in the delivery of utilities and respondents had a number of suggestions for government action to address these; including that the government to *"put pressure"* on utility providers to improve their speed and enhance their level of service. There were also calls for statutory time limits and charges to be imposed and *"set connection charges at a fair level".*

As well as this general call, there were calls for some action to address directly the issue with the one utility provider that was singled out as a particular obstacle to building for our respondents, that being Scottish Water. The government action suggested was *"national review of Scottish Water".* In particular and echoing suggestions for addressing the other obstacles respondents wanted *"transparency about charges and timescales",* this reflected the theme of a need for certainty.

Suggested solutions – Central government influence

Respondents called for central government to use its influence to remove obstacles to enable improve output.

Private finance organisations was one sector respondents suggested government could use their influence. A suggestion was for government to *"put pressure"* on banks to provide finance or enforce special conditions for the building trade. A more collaborative suggestion was for government and the banking sector to work together to develop some particular lending criteria for SMEs in the building trade.

Another sphere of influence respondents suggested government could use was that of their relationship with local government. Once again these suggestions took the form of either putting pressure on them or the more collaborative idea of working with them. There were some detailed suggestions for this work.

One was a call for the government to influence local authorities concerning planning obligations and affordable housing requirements (also variously referred to by respondents as *'section 75s', 'planning gain'*). These were seen as a burden and were thought to have a severe impact in some cases on financial viability. Simply put by one respondent:

"…reduce contribution/ be more flexible on infrastructure and affordable housing for smaller developers"

Commuted payments was flagged as a similar issue and a suggestion was that the government should work with local authorities to enable them to be deferred until project completion when the developer would have recouped the build and land cost.

Referring to the council tax freeze, and showing understanding of the issues local government face, respondents also suggested that if local authorities were able to increase council tax they would be better able to fund basic and fundamental operations such as education and other infrastructure.

Suggested solutions – Local government action

Referring in the main to obstacles relating to planning and infrastructure respondents had suggestions for local authorities.

The main call relating to planning departments referred to a widely held perception respondents had that some planning departments had an assumption against development in general. They also perceived some planning decisions to be about personal preferences. The action they wanted to address this was a call for a turnaround in this attitude so departments became pro-development and 'can do' attitudes were the norm. They also asked for decisions to be more open and transparent to show that they were based on sound and objective analysis.

A further call was for planning departments to "*embrace innovation and creativity*" as opposed to "*hiding under convention and precedent".* Asks that came under this group were for more "*relaxed attitudes to planning*", with an "*ease of restrictions*", "*flexibility" and "openness".*

In a more collaborative suggestion respondents thought that difficulties could be eased if local authorities and developers talked with each other at an early stage, and each took the time to understand each other's difficulties and imperatives. Respondents called for this dialogue to be open and transparent from both sides.

A theme in the planning solutions was action to address the particular issues faced in remote rural areas. These suggestions were not detailed, for example, respondents simply asked for building in rural areas to be *"approached differently by planners"* or *"simplified".* One respondent did expand on the issues suggesting that the difficulty comes from difference in context including that there is no mains gas, for example, which makes it extra difficult to comply with legislation for energy efficiency and carbon reduction.

One further specific idea was that control of local authority stock could be and should be in the hands of local people. This was mooted as a way to encourage investment and raise quality.

Suggested solutions – The industry and individual developers

Respondents had some suggestions about how individual developers could improve their lot by taking action themselves. This centred on, firstly, action to improve their own work surrounding their building including, for example, better community consultations and better business plans. Secondly, a more general (philosophical) suggestion that if developers approached delivery of housing as a public good or an investment in society as well as a viable business they may be able to address more obstacles.

Individually suggestions were also made about pro-active engagement with the local authority planning departments and utility providers to try to understand the issues they were facing and to build up a relationship where these stakeholders could also better understand the issues respondents face. The idea was to increase co-operation to break down the barriers. This idea is also mooted below in relation to groups of developers.

Respondents recognised that individual small developers could have difficulty influencing the bigger issues and some sort of collective action was called for and there were several examples and suggestions of how this could be done.

Firstly, the work Homes for Scotland undertakes as a champion for the industry was highly praised and respondents called for more of the same.

Secondly, there was an example of a putting together a 'HUB' with local authority and other key stakeholders (Flood Team; Planning; Scottish Water and Scottish Enterprise) at the development design stage and a suggestion that this would make it easier to address any difficulties that arose throughout the projects.

Thirdly and similarly respondents talked of grouping together and having frank discussions with individual stakeholders about the problems they are facing and openly discussing the frustrations and costs they faced and how they could be addressed by understanding and a change of attitude. This is also detailed above in connection with local government and was particularly suggested for utility companies.

Fourthly, there was a call for small developers to tell their story, and build up the positive case of the contribution small developers make to local areas, including employing locally, buying materials locally.

A small number of suggestions referred to the issue of a lack of skills.

One idea was to offer incentives for previous employees to come back into the business. This was not to simply swell the numbers but also for skills to be passed on to new recruits.

Suggestions in this category also centred on attracting young people into the business. Promoting the industry to young people using social media and making the industry attractive to young people in the same way.

5. Help to Buy

Key Points

Help to Buy is well known and appreciated by small developers

At the time of the survey there was less knowledge about the new schemes than the original schemes

Both the registration and the administrative stages were highly praised for their simplicity and ease of use and neither of these posed any obstacle to SMEs joining the scheme

For those who hadn't registered the main reason was that the scheme was not relevant, largely because the homes they developed did not fit the criteria

For those who had registered but hadn't sold the main stumbling block was difficulty getting the finance to get developments off the ground and further that there was no demand leading to suggestions for further marketing

Other suggestions for the scheme was that the prices should be relevant to locality and that the percentage of equity taken by the government could be larger

Introduction

This chapter sets out the answer to the following research questions:

- What is the level and nature of the knowledge of small developers about the Help to Buy shared equity scheme (and other SG initiatives centred on building)?
- For HTB registered developers, what was the motivation for registration where no or few sales were made under the scheme?
- What is developers' experience of:

  the scheme

  the registration process and

  understanding the processes for managing and approving applications?
- What elements of the small developer support provided could change to enable greater participation through (a) registrations and (b) sales under the scheme?

We asked respondents if they had heard of any Help to Buy Scotland scheme, the results are set out in Table 5.1. Only one of the 65 respondents that answered the question had not heard of the scheme. Of the 64 that had heard of the scheme the majority (49) had

registered. 31 (of those 49) had made sales under the scheme and 16 had not, one respondent had a sale pending and the other had applied to make sales under it but the application was not accepted.

We explored the findings by size of respondent. In the medium group 13 (of 14) had heard of the scheme and almost all (11) of them had made sales under it. In the small group all 51 that answered the question had heard of it, 14 (of 51) had not registered on it, 15 had registered and not made sales under it (20 had made sales under it). These results suggest that the smaller developers, although they knew about the scheme were less likely to make sales under it than the medium group.

Table 5.1: Knowledge of any Help to Buy (Scotland) scheme – all and small and medium Base 65			
	Small	Medium	**All/total**
Not heard of it	0	1	**1**
Heard of it but not registered on it	14	1	**15**
Registered with the scheme but no sales made under it	15	1	**16**
Registered and sales pending under the scheme	1	0	**1**
Registered and applied to make sales under it but application not accepted	1	0	**1**
Registered, and made sales under it	20	11	**31**
Total	**51**	**14**	**65**

Table 5.2 sets out the same findings by urban/rural split. The one respondent that had not heard of the schemes was in the rural group. The urban group (please see caveat concerning small numbers in Annex A) had the highest proportion of respondents that had registered (9 of 11) on it and made sales under it (7 of 9). The proportions that had registered in the rural group (28 of 36) and the semi-rural group (12 of 17) were roughly the same. Likewise for sales made, in the rural group 17 of 28 and the semi-rural group at 7 of 12.

Table 5.2: Knowledge of and registration on any Help to Buy (Scotland) Scheme – Rural, semi-rural, urban Base 65				
	Rural	Semi-rural	Urban	**Total**
Not heard of it	1	0	0	**1**
Heard of it but not registered on it	8	5	2	**15**
Registered with the scheme but no sales made under it	9	5	2	**16**
Registered and sales pending under the scheme	1	0	0	**1**
Registered and applied to make sales under it but application not accepted	1	0	0	**1**
Registered, and made sales under it	17	7	7	**31**
Total	**37**	**17**	**11**	**65**

We asked the 31 respondents that made sales under Help to Buy, how many sales they made, 25 replied. The numbers ranged between one home sold and 60 sold. Eight sold five or fewer, four sold between 6 and 19, seven between 20 and 39 and six between 40 and 60.

Turning to the New Scottish Shared Equity for Developers Scheme (LIFT), more respondents had not heard of this scheme (17 of the 64 that answered the question as opposed to the one that had not heard of Help to Buy) and far fewer had made sales under it (2 as opposed 31). A higher proportion of respondents from the medium sized group (as opposed the small group) had heard of the scheme, registered on it and both respondents who had sold under the scheme were in the medium sized group.

Table 5.3: Knowledge of and registration on New Scottish Shared Equity for Developers (LIFT) – Small and Medium Base 64			
	Small	Medium	**All/tot**
Not heard of it	15	2	**17**
Heard of it but not registered on it	32	9	**41**
Registered with the scheme but no sales made	3	1	**4**
Registered, and made sales under it	0	2	**2**
Total	**50**	**14**	**64**

Looking at any differences by geographical situation, the semi-rural group were proportionally more likely to have heard of the LIFT scheme than the other groups (15 of 17) and the rural group was more likely than the urban group (26 of 36 and 6 of 11 respectively). The two respondents that had made sales came from the rural and the semi-rural groups.

Table 5.4: Knowledge of and registration on New Scottish Shared Equity for Developers (LIFT) – Rural, Semi-rural, Urban				
	Rural	Semi	Urban	**Total**
Not heard of	10	2	5	**17**
Heard of, not registered	24	13	4	**41**
Registered, no sales	1	1	2	**4**
Registered, made sales	1	1	0	**2**
Total	**36**	**17**	**11**	**64**

We asked the 15 respondents that had heard of Help to Buy but not registered on it which of the different schemes they had heard of. The results are set out in Table 5.5 which shows that of the 14 respondents that answered, 13 had heard of the original scheme, only 8 had heard of the original small developers scheme and even fewer had heard of the new schemes at 5 respondents each.

Table 5.5: Knowledge of and registration on separate Help to Buy schemes		
	Heard of but not registered on Help to Buy: Base 14	Registered on Help to Buy: Base 48
Help to Buy (Scotland) – Original scheme	13	24
Help to Buy (Scotland) – Small developers scheme	8	35
Help to Buy (Scotland) – Affordable new build scheme (New main scheme)	5	6
Help to Buy (Scotland) – Small developers (new small developers scheme)	5	20

Table 5.6 sets out the reasons respondents didn't register on Help to Buy. The main reason was that the homes they were delivering did not fit the criteria (6 of 15), three thought it looked too complicated to register (whilst the 49 that did register had not difficulties) and three others said it didn't seem relevant for their business.

Table 5.6: Main reason for not registering for Help to Buy Base 15	
Main reason	Number
Looked too complicated to register	3
It didn't seem relevant for my business	3
Homes you were delivering did not fit with the criteria	6
I already have all the business I need or can cope with	1
Other	2

Going back to Table 5.5. we asked the 49 respondents who had registered with Help to Buy which of the different schemes they had registered on. Forty-eight replied. Twenty-four registered on the original scheme, 35 on the original small developers scheme and only 6 on the new main scheme and 20 on the new small developers scheme. This means that at the time of the survey there was still some way to go to ensure all relevant developers knew about and registered on the 2016 schemes.

To explore how respondents found the Help to Buy processes we asked those that had registered if they had any difficulty finding out how to register for Help to Buy and all 49 said they did not. Further we asked how they found the process of registering and 29 said very straightforward and the remaining 20 said straightforward. Forty-five of these made further comments all very positive and included that they found it *"quick", "simple",* with *"easy to follow instructions*". Other words used about the process were*: "streamlined", "very easy", "very clear", "easy to find", "easy to follow"* and *"efficient".*

It is worth noting two other aspects that made the process straightforward for our respondents, one was the familiarisation session given by Homes for Scotland and the Help to Buy team and the other was the that the Help to Buy registration team were helpful and friendly.

The 16 respondents that registered for Help to Buy but didn't make any sales under it were asked the main reason for the lack of sales. Four of the 16 stated that they could not raise the finance for the development they intended to sell under the scheme. One respondent said *"..we can't start our excavators without the funding that puts fuel in the tank".*

Five had only recently registered and so did not have any building underway. Two had building underway and sales pending, for one the start of building had been delayed. Another key reason variously expressed was that no customers had *"asked for it".*

For the 31 respondents that had made sales under Help to Buy we asked them how they found the Agent's administration process. The 29 that answered the question all said straightforward (17) or very straightforward (12). When asked what made it straightforward 23 responded. The main reasons were either that the respondents had departments or employees that dealt with the agents or that their solicitor undertook the work. Those who did it themselves said that the processes were *"simple", "well explained", "hassle free",* that *"the agent was knowledgeable"* and that the *"timetables were clear and stuck to".* They praised the system as not only simple but also predictable.

When asked if there was anything we could do to make the registration process simpler 23 comments were received. Fourteen suggested to leave it as it is as it's already *"fit for purpose*". Other comments did not directly address the registration process, nevertheless they are reported here as suggestions for improvements.

One potential need was identified, and came as a warning that the team should be *"resourced up to handle volumes"* clearly thinking the scheme will become more and more popular. Another was a call for more equity to be available, or to *"increase the percentage funded by government"* one suggestion was to go from 20% to 30%. There was a concern that the criteria for accessing mortgages in the new schemes is different (less generous) than the previous schemes.

A further suggestion was that as housing markets had very different prices in different areas that different thresholds could be set, basing it around average house prices in the area.

Mostly respondents liked the scheme and wanted more of it.

One respondent said

".. (Making) the fund larger and increasing access across the price brackets …. may help continue to stimulate the market. This will become ever more relevant when the impact of BREXIT takes hold and the greater uncertainty impacts on banks willingness to lend. This will be a big issue for Scotland given its small population base which is very price elastic"

Annex A: Method and Detailed Tables

Method

The research consisted of an electronic survey of small developers. The sample was not intended to be a statistically representative[11] of all small developers, but efforts were made to include a full range of small developers from across Scotland (urban and rural, of different sizes and those that had and had not registered for Help to Buy).

This method means that the findings are not presented as percentages of developers that answered questions one way or another, rather we report the absolute number of responses and any patterns in answers by groups. We have in some instances used proportions of respondents replying in one way or another for comparisons, so for example, if developers from rural or urban areas of Scotland are tending to reply to questions in particular ways or have a higher proportion of respondents answering the questions a particular way.

The survey was distributed by email to developers registered on the Help to Buy schemes and members of Homes for Scotland. We also targeted small developers through electronic newsletters (including Housing Scotland Today and Federation of Master Builders newsletter). Further, stakeholders including Scottish Federation of Housing Associations and Homes for Scotland put a link to the survey on their websites.

A note on timeframes

We asked respondents to tell us about their experience over the previous three years and their expectations for the following five years. The timeframes differed for pragmatic reasons. For past work we didn't want to go back too far into the post credit crunch economy and for future work we wanted to explore the five years of the next parliament, the time frame the Scottish Government set for delivery of 50,000 homes.

A note on sample size

We received 66 responses, and every response is valid and represents a developer's experience and expectations. Overall considering this number of responses, the spread across the country, the spread of sizes and the degree of consensus in the responses we can suggest that majority of small developers experiences and expectations may be represented in general. On the contrary, when we group the respondents by size and geography (see below) the smaller categories are unlikely to represent the majority of experiences and expectations of the particular group. Nevertheless we use the groupings in the report to describe the experiences and expectations of those who responded to the survey and to compare groups with each other.

A note on 'base' sizes

The base set out in each table is the number of respondents that answered each particular question and it can differ significantly. It is key to understanding the findings to know the bases because they give an indication of the weight of the issue. So for

[11] The sample method was purposive

example, if 10 of 66 respondents answered the question in a particular way it is likely that the answer, although valid and significant for those 10, was less of an issue than if 10 of 14 did so. In an attempt to make the report more readable we have minimised the use of the bases in the text to the first number that base refers to, as such consequent numbers will also refer to that base.

Detailed Tables

Table A.1: Numbers of respondents doing main and other business by local authority area Base 66		
	Majority	Other areas
Aberdeen City	1	8
Aberdeenshire	7	4
Angus	4	3
Argyll & Bute	1	3
Comhairle nan Eilean Siar	1	0
Clackmannanshire	1	2
Dumfries and Galloway	2	0
Dundee	1	6
East Ayrshire	2	2
East Dunbartonshire	1	5
Edinburgh	3	6
East Lothian	3	4
East Renfrewshire	0	2
Falkirk	0	0
Fife	3	9
Glasgow	6	7
Highland	5	5
Inverclyde	0	3
Mid-Lothian	0	6
Moray	1	2
North Ayrshire	0	1
North Lanarkshire	1	6
Orkney	2	0
Perth & Kinross	4	5
Renfrewshire	0	3
Scottish Borders	3	4
Shetland Islands	4	2
South Ayrshire	0	2
South Lanarkshire	6	7
Stirling	2	6
West Dunbartonshire	1	3
West Lothian	1	6
Total	66	N/A

Table A.2: Proportions of types of work– Rural Base 38										
	New build		Extensions		Refurbishment		Empty homes		Conversions	
	Past	Future	Past	Future	Past	Future	Past	Future	Past	Future
All	13	12	0	0	0	0	0	0	0	0
Most (more than half)	17	19	0	0	0	0	0	0	2	2
Some (less than half)	6	7	11	14	19	19	5	6	12	12
None	2	0	27	24	19	19	33	32	24	24
Total	38	38	38	38	38	38	38	38	38	38

Table A.3: Proportions of types of work– semi rural Base 17										
	New build		Extensions		Refurbishment		Empty homes		Conversions	
	Past	Future	Past	Future	Past	Future	Past	Future	Past	Future
All	9	11	0	0	0	0	0	0	0	0
Most (more than half)	5	6	0	0	0	0	0	0	0	0
Some (less than half)	1	0	3	3	2	2	1	3	3	2
None	2	0	14	14	15	15	16	14	14	15
Total	17	17	17	17	17	17	17	17	17	17

Table A.4: Proportions of types of work– Urban Base 11										
	New build		Extensions		Refurbishment		Empty homes		Conversions	
	Past	Future	Past	Future	Past	Future	Past	Future	Past	Future
All	2	5	0	0	0	0	0	0	3	2
Most (more than half)	2	2	0	0	0	0	0	0	0	1
Some (less than half)	3	3	0	0	1	1	0	0	2	2
None	3	1	11	11	10	10	11	11	6	6
Total	11	11	11	11	11	11	11	11	11	11

Annex B: Detailed analysis of Obstacles by groups of respondents – to supplement summary in Chapter 3

This annex sets out details of the obstacles experienced by respondents disaggregated by size and geographical situation. Please note the caveat in Chapter 1 concerning sample sizes. Further please note that in some cases the count (number of respondent giving this answer) will be higher than the base as some categories have been collapsed (several similar categories aggregated).

Obstacles - Small and Medium

We analysed the findings from the three obstacle questions (top three in the past, any others in the past and top three for the future) by small and medium sized respondents. For details of the responses see Table B.3 at the end of this annex. There is a high level summary of the data in Chapter 3 and Table B.1 below sets out slightly more detailed summary, which all the discussion in this section is drawn from.

Table B.1: Obstacles past and future – Small and Medium sized respondents

Obstacles	Small Top three		Medium Top three	
	Past Base 51	Future Base 50	Past Base 14	Future Base 14
Financial	52	41	9	7
Infrastructure (S75)	21	38	3	10
Planning	25	25	5	8
Utilities	17	23	7	10
Land	7	0	1	0
Market demand	6	0	1	0
Lack of skills	4	17	1	4

Financial obstacles – small and medium

The 51 small sized developers who answered the question on their top three obstacles over the past three years cited finance as an issue 52 times. Notably a lack of development finance was cited by the largest number (21/51 see Table B.3).

Proportionally the medium sized developers that responded to our survey did not experience financial obstacles to the same degree, nevertheless nine financial obstacles were cited by the 14 medium sized developers who answered this question.

As for the future, fewer respondents in both small and medium sized categories expected to experience financial obstacles, nevertheless it was still a top three obstacle with 41 citations from the 50 respondents in the small group and 7 from the 14 in the medium group. These findings suggest that there was some optimism about finance in the future but respondents still expected financial obstacles.

Planning Obstacles – Small and Medium

The issue cited by the next largest number of developers in both the small and medium groups was obstacles caused by the planning system (25 of 51 and 5 of 14). The issues included inability to get consent, bureaucracy, delays and inconsistency. There were no differences between the types of issues stated by small and medium sized respondent groups.

For the respondents in the small group the number who said they expect to have planning issues in the future was the same as in the past (25 of 50 although on a slightly different base). For the medium sized group there was an increase to 8 (of 14 from 5 of 14).

Infrastructure (S75) Obstacles – Small and Medium

The 51 respondents in the small group cited infrastructure obstacles 21 times and the 14 in the medium sized group only cited them three times. More respondents in each group expected to face issues of this type in the future (38 of 51 small group 10 of 14 medium group). The main issue within this general category for those in the small group was the cost and financing of infrastructure which was specifically cited as an expected obstacle by 20 respondents.

Utility delays – Small and Medium

Seventeen of the 51 respondents from the small group had experienced delays with utility provision over the previous three years as did 7 (of 14) in the medium group . In both groups more respondents expected this to be a problem in the future (23 of 50 small group and 10 of 14 medium group), but proportionally this issue was expected to be more prevalent for the medium group.

Land availability and lack of skills – Small and Medium

Two other issues that showed a difference between the obstacles the small and medium groups of respondents were experiencing and expecting were the availability of land and lack of skills.

Seven of the 51 in the small group had land availability issues in the past but only 1 of the 14 in the medium sized group. None of either group expected the issue to arise as an obstacle to building in the future.

For a lack of skills a similar proportion had experienced them in the past (4 of 51 for the small group and 1 of 14 for the medium group) but in the future 17(of 51) from the small group expected a lack of skills to provide an obstacle but only 4 (of 14) from the medium

group meaning the small group were slightly more likely to expect these issues.

Obstacles conclusion – small and medium

There are some differences between the obstacles experienced and expected by the respondents we have defined as small and medium. The medium group were less likely to cite financial issues in the past, proportionally more of the medium sized group expected to experience planning issues in the future whereas for the small group the same numbers expected this problem. Also for the future more medium sized respondents expected utility delays than the smaller respondents but proportionately slightly more from the small group expected to face a lack of skills.

Obstacles – Rural, Semi-rural and Urban

Our analysis of the obstacles respondents reported on by whether the respondent was classified as undertaking the majority of their business in rural, semi-rural and urban is set out in full in Table B.4 below. There is a high level summary and analysis in Chapter 3 and a slightly more detailed summary in Table B.2, in which all the data discussed in this section is set out.

Table B.2: Obstacles Past and Future – Rural, Semi-rural, Urban

Obstacles	Rural		Semi		Urban	
	Past Base 38	Future Base 37	Past Base 17	Future Base 16	Past Base 10	Future Base 11
Financial	36	28	13	10	12	10
Infrastructure	17	28	11	15	0	5
Planning	16	22	12	6	2	5
Utilities	17	23	6	7	1	3
Land supply	4	8	0	2	4	5
Market demand	4	0	0	0	3	0
Lack of Skills	3	11	2	7	0	3

Financial obstacles – Rural, Semi-rural and Urban

The 38 rural respondents who answered the question on the top three obstacles they had experienced in the past cited 36 financial issues, urban respondents also cited a high proportion of financial issues (12 citations from 10). In contrast for respondents working

mainly in semi-rural areas a smaller proportion cited financial issues in their top three obstacles (13 of 17), although the numbers experiencing them was still a high proportion.

Fewer respondents working predominantly in rural areas expect financial issues to pose obstacles for them in the following five years than had in the previous three years, although there were still 28 citations of financial issues (from 37 respondents). The numbers of semi-rural and urban respondents citing financial issues in the future are also fewer than the past, like rural respondents significant proportions still expect problems, most notably from urban respondents with 10 citations from 11 respondents.

Infrastructure Obstacles – Rural, Semi-rural and Urban

The 38 rural respondents cited 17 infrastructure issues as obstacles to building in the past and the 17 semi- rural respondents cited 11. Notably the 10 urban respondents that answered this question cited no infrastructure issues.

In each of the three groups more respondents expected infrastructure issues in the following five years. For rural respondents we recorded 28 citations (from 37), the 16 semi-rural respondents cited 15 issues and five citations came from the 11 urban respondents.

Planning Obstacles – Rural, Semi-rural and Urban

Table B.2 shows that planning issues were cited as an issue in the previous three years for 16 (from 38) rural respondents, 12 (from 17) semi-rural respondents and only 2 (from 10) urban respondents.

In the following five years more rural respondents (22 from 37) and urban respondents (5 from 11) were expecting planning issues whereas fewer semi-rural respondents expected these issues (6 from 16).

Utility Delays – Rural, Semi-Rural and Urban

The same amount of rural respondents that reported a problem with infrastructure issues reported problems with utilities in the past (17 from 38). Only 6 (from 17) of the semi-rural group and one (from 10) of the urban group. The numbers expecting utility delays in the future rose in each of the groups. Twenty three (from 37) rural respondents expected to experience them up from 17 in the past. For the semi-rural group it rose only slightly from 6 (from 17) to 7 (from 16), likewise the urban group rose from only one (from 10) to three (from 11).

Land, Market Demand and Lack of Skills – Rural, Semi-rural, Urban

Land supply was only an issue for rural (4 from 38) and urban respondents in the past, proportionately more so for the urban group where four (from 10) cited land supply issues. All the groups reported expecting land supply to be an issue in the future but still in relatively small proportions for respondents from the rural (8 from 37) and semi-rural groups (2 from 16). For respondents from the urban group land supply in the future was expected to be a problem for five (from 11).

Lack of market demand in the previous three years was cited as an issue by 3 (from 38) rural respondents and four (from 10) urban respondents. None of the groups cited any

expected problems with market demand in the future. This may well give weight to the findings in Chapter 2 that small developers are optimistic for levels of business in the next five years.

The relatively low numbers reporting lack of skills as an obstacle to building in the past is echoed across all three groups with 3 (from 38) of rural respondents, 2 (from 17) of semi-rural respondents and zero urban respondents. On the contrary for the future more rural and semi-rural respondents expected to experience this problem (11 from 37 and 7 from 16) and a few urban respondents (3 from 11).

Obstacles conclusion – Rural, Semi-rural and Urban

The differences between the obstacles most experienced and expected between rural, semi-rural and urban groups of respondents can be summarised as follows.

For financial issues urban respondents were proportionally more likely to say they expected to experience them in the future than rural and semi-rural respondents. Urban respondents were also less likely to have experienced or to expect to experience infrastructure issues most especially semi-rural respondents for whom almost all expected this obstacle to impeded them. Rural respondents were more likely to have experienced and to expect to experience utility delays than their counterparts delivering in semi-rural and urban areas. Market demand did not feature as an obstacle for respondents from the semi-rural group and lack of skills was less of an issue for urban respondents than for the other two groups.

B.3: Details of Obstacles - small and medium

	Last three years				Next five years	
	Top three Base 51/14		Any others Base 45/14		Top three Base 50/14	
Lack of development finance	21/3	52/9	14/1	52/8	16/3	41/7
Lending criteria for development finance	15/1		11/1		0/0	
Lack of mortgage finance for customers	10/3		17/5		13/2	
Cost of development finance	6/2		10/1		12/2	
Planning (contributions too high, unable to obtain consent, delays, inconsistency and attitudes)		25/5		24/6		25/8
Infrastructure (S75) negotiations (timing)	8/3	21/3	9/2	26/9	10/3	38/10
Infrastructure (S75) blockages (delivery)	5/4		8/4		8/5	
Infrastructure (S75) blockages (costs or funding)	8/0		9/3		20/2	
Infrastructure (S75) issues general						
Delays in provision of utilities (water, gas, electricity, broadband)		17/7		20/8		23/10
Unable to buy or obtain an option on land		7/1		6/3		0/0
Market demand for your type of work in your area low		6/1		6/2		0/0
Lack of skills		4/1		4/1		17/4
No desire to build more homes (already busy)		0/0		1/0		0/0
Shortage of materials		0/0		3/1		0/0
Others (smaller developers disproportionate costs, political turmoil, road bonds		10/7		8/1		5/3

Table B.4: Details of Obstacles – rural, semi-rural and urban respondents						
	Last three years				Next five years	
	Top three Base 38/17/10		Any others Base 36/15/8		Top three Base 37/16/11	
Lack of development finance	13/6/5	36/13/12	9/5/1	36/16/8	10/4/5	28/10/10
Lending criteria for development finance	8/4/4		6/4/2		0/0/0	
Lack of mortgage finance for customers	8/3/2		14/5/3		8/4/3	
Cost of development finance	7/0/1		7/2/2		102/2	
Planning (contributions too high, unable to obtain consent, delays, inconsistency and attitudes)		16/12/2		16/12/2		22/6/5
Infrastructure (S75) negotiations (timing)	9/2/0	17/11/0	6/3/2	23/9/3	7/5/1	28/15/5
Infrastructure (S75) blockages (delivery)	4/5/0		9/3/0		8/4/1	
Infrastructure (S75) blockages (costs or funding)	4/4/0		8/3/1		13/6/3	
Infrastructure (S75) issues general						
Delays in provision of utilities (water, gas, electricity, broadband)		17/6/1		19/5/4		23/7/3
Unable to buy or obtain an option on land		4/0/4		3/3/3		8/2/5
Market demand for your type of work in your area low		4/0/3		6/1/1		0/0/0
Lack of skills		3/2/0		1/3/1		11/7/3
No desire to build more homes (already busy)		0/0/0		1/0/0		0/0/0
Shortage of materials		0/0/0		2/0/2		0/0/0
Others (smaller developers disproportionate costs, political turmoil, road bonds		8/6/3		5/2/2		3/2/3

Annex C

We asked three open (free text) questions about action that could be taken to address or overcome the obstacles reported in Chapter 3 above and in turn increase output. Firstly, we called for ideas on what action respondents thought the Scottish Government could take to address the obstacles, secondly we asked respondents to set out anything they thought small and medium sized house builders could do individually or as a group to overcome barriers and thirdly we asked for suggestions on any solutions or types of support that could assist them to address the obstacles. We received in total 174 comments from 66 respondents (76, 47 and 51 responses respectively).

More than half the comments reiterated the problems, as these reflected the obstacles reported in Chapter 3, we have not duplicated that analysis here.

The majority of actions were addressed to central and local government and included direct action and, for central government, action to influence others including local government, private sector finance organisations and utility providers. The majority of these suggestions were solutions for financial obstacles, but they also tended towards difficulties with infrastructure (s75s) issues usually focussed on financial consequences on viability. These are reported below under the headings Central Government action, and local government action. Suggestions to address planning issues, although they related to both central and local government are reported separately as are some specific suggestions for utilities and those concerning the lack of skills. There is a further section on how the industry could help itself in general.

We are aware that some of the suggestions are unlikely to be feasible, however, as we asked for the suggestions it is incumbent on us to report what has been expressed. As this is qualitative data we have not reported how many or what proportion of respondents made each suggestion, rather each suggestion stands on its own merit (or otherwise).

Direct government action

Respondents suggested that the government could directly fund some aspects of the work of SMEs in the building trade. One suggestion was targeted grant funding for set up/up-front costs which impact on viability for small developers. This would include planning and infrastructure costs and road bonds. Another suggestion was that the government could provide direct financial input by subsidising workers' wages. And another was a call for a government fund to encourage the building of modular, 'ecosmart' homes.

There was also a suggestion that grants to support development could follow the agricultural diversification grants model, this was a general suggestion with no targeted or specific purpose suggested for the grants.

One respondent said

"*Grant funding or innovative loan funding to assist with higher upfront costs would greatly assist".*

Less direct funding but still involving the use of public funds, respondents suggested the government could become involved in lending and acting as security.

One idea was for the government to set up a central lending fund for developers as an alternative to borrowing from banks. The loans government could provide were variously described as *"user friendly*" or *"soft loans"*. Another phrase used was "*assisted development finance"*, again, specifically for those for whom statutory requirements impact on viability for developments.

A more elaborate suggestion was to create a Builders Finance Fund (like the current UK fund[12]) and use it to introduce affordable housing delivery contracts with regular monthly payments giving certainty about funding for affordable homes for SMEs.

There was high praise for the Scottish Government's Charitable Bond Investment Programme[13] (at the time of writing the 2016/17 scheme was set at £25 million) but respondents felt it could be extended in size and scope.

In a similar vein respondents suggested that the government could go into partnerships with small developers specifically mentioned was to help SMEs develop the more awkward brownfield sites and other regeneration type building.

Help to Buy was acknowledged as a good way to help support buyers to get finance and there were calls for this to be extended but also for the existing schemes to be better advertised. One respondent said

"*There needs to be a marketing campaign to explain Help to Buy and how the monthly payments for a mortgage through that scheme are very competitive when compared against private / local authority rentals. If it is as cheap to buy with the support of help to buy, why are more people not taking up that option? Something is being missed".*

A related suggestion was that the government could underwrite infrastructure development for small developers this was most especially mooted in terms of the issue of SMEs struggling to find funds to provide Road Bonds.

A further role suggested for the government to help overcome the financial obstacles the respondents face was that of a scheme where the government could become involved with backing for finance, acting as a guarantor for loans for small developers building private homes, was one suggestion, others who may have come across a similar UK government initiative put it this way: *"(the Scottish Government) ….could utilise their guarantee powers to support SMEs".*

On suggestions was about government directly funding infrastructure, for example, setting up a fund for education asset delivery. A related idea was for the government to organise (and possibly fund or organise funds for) a national infrastructure system. This relates to

[12] https://www.gov.uk/government/collections/builders-finance-fund

[13] http://www.gov.scot/Topics/Built-Environment/Housing/supply-demand/charitable-bonds

the problem discussed in Chapter 4 that there is *"no policy mechanism for infrastructure delivery*".

Government influencing private sector funders

Respondents suggested the government could "*put pressure"* on banks to provide finance, or to develop and enforce some particular lending criteria for SMEs in the building trade. Respondents also made comments concerning banks not accepting CML (Council of mortgage lenders) certificates to facilitate lending on conversions and their solution was for the government to negotiate with private sector funders.

Local Government

Some of the suggestions for action were that the Scottish Government could influence local authority's ways of working with SME builders, others were directed at local authorities themselves, some at both.

There were, in particular, calls for the government to influence local authorities concerning planning obligations (variously referred to by respondents as 'section 75s', 'planning gain'). These were seen as a burden and were thought to have a severe impact in some cases on financial viability. One respondent said:

"(the government could) ensure that Local Authorities understand development viability and have a proportionate view on planning applications as the costs for a small application is disproportionate and can be prohibitive".

Others went further and suggested that these *"burdens"* were removed or that there should be no requirements for small developments, or affordable housing developments. Simply put by one respondent

"…reduce contribution/ be more flexible on infrastructure and affordable housing for smaller developers"

Possibly more pragmatic, was a suggestion was that to ease the difficulties in this area local authorities should have dialogue with developers at an early stage. They wanted this dialogue to be open and include a positive assumption that S75s would be created to be both deliverable and financially viable for the developer.

Suggestions also centred specifically on affordable housing requirements, one respondent said

"We need to look at the current affordable housing requirements and revise the threshold to 25 units or more, at the moment the fact that this has been reduced to 11 units or more is totally counter-productive. For instance; in order to counter the current Affordable housing requirements it would appear that the value of the non-affordable portion of the development would have to increase to support the affordable portion in essence driving the cost of houses up not down, secondly; a development of High value properties consisting of less houses in more affluent areas more attractive as a smaller development can generate the same return with less restrictive Planning requirements than would be the case if we were building larger developments in less affluent areas. Ironically building

larger developments in less affluent areas would be our preference as developers if such a thing were still viable and we are sure this is what the Government would also prefer".

Commuted payments also came up, specifically respondents suggested that the government should work with local authorities to enable them to be deferred until project completion when the developer will have recouped the build and land cost. A related suggestion was that other upfront costs to local authorities should be deferred. These were justified by respondents saying that increased homes in an area would mean increased council tax payment for the local authorities.

Respondents also suggested that if local authorities were able to increase council tax they would be better able to fund basic and fundamental operations such as education and other infrastructure.

Control of local authority stock was an issue respondents addressed, specifically they suggested developing a Local Community Housing investment model, which would give control of house stock back to the people who live in an area, they thought this would encourage investment in quality.

An idea mooted by respondents was also that measures could be put in place to ensure a wider requisition of Council owned land , followed by funding for communities to be supported in building their own affordable home projects.

A Dutch model was mentioned as an idea for local authorities to help supply less costly land and to increase local authority resources; that is to buy agricultural land and sell it on to developers with planning permissions for only a 10% increase in the cost.

One respondent put it as follows:
"Provide small developers with support on Road Bonds. The level LA's require means that developers are, in principle, funding the cost of roads and sewers twice in the cash flow until the roads get adopted. This impacts available funding to developers which limits number of opportunities developers to look at. {Small developer} work in the outlying parts of the Scottish Borders where rate of sales are low (say 10 units a year) so infrastructure cost are tied up for longer periods (including Road Bonds) therefore limiting expansion".

One of the main obstacles is that local authorities and housing associations are unable to provide funding in line with the current benchmark figures both grant and rental levels indicated in the current SG guidelines. The usual reason being that rental levels indicated by SG cannot be achieved. When carrying out initial project assessments developers use the current SG figures to assess viability. If Councils/ Associations were to apply the grant and rental levels as suggested by SG many more projects would be viable to small developers.

Planning

As explained above many of the suggestions related to planning are directed at both central and local government, however as they are specific to the planning system they are reported separately here.

One suggestion was for central government to have more of a co-ordination role in planning. Similar to the suggestion about a national role for infrastructure respondents called for:

"*A more co-ordinated and tailored approach to development from the government would make things easier"*

A theme in the planning solutions was action to address the particular issues faced in remote rural areas. These suggestions were not detailed, for example, respondents simply asked for building in these areas to be "*approached differently by planners"* or "*simplified".* One respondents did expand on the issues suggesting that the difficulty comes from difference in context including that there is no mains gas, for example, which makes it extra difficult to comply with legislation for energy efficiency and carbon reduction.

A similar ask was for there to be a more relaxed approach from planning departments with regards to small developments.

Another theme was a focus on attitudes. Respondents perceived that as opposed to objective planning decisions that personal preferences influenced decisions and they wanted this to stop. They also asked for a change of mind-set, noting a perception that:

" The starting point for planners is "how can we resist this" rather than " how can we support this".

And asking for:

"a complete change of culture in the Local Authority"

"No more "can't doers" … recruit some "can doers".

"..pro-development not anti-development"

They differentiated between the top level rhetoric which they thought was good and the actual behaviour of those carrying out the work and dealing with developers. Suggesting strong leadership was necessary and:

" ..a willingness to address the real lack of drive and focus at a corporate level within local authorities in so far as economic development is concerned"

Also in this vein respondents perceived that planners were *"at odds with the remit of their colleagues in Housing Departments"*

Noting the planning reform agenda already underway in Scottish Government respondents hoped that planning processes will *"help streamline some processes".* Respondents asked for *"simplification"* more *"efficient"* processes, fewer *"hold ups", "shortened planning and statutory consent time lines", "reduced bureaucracy".*

And further that there was a need to introduce some certainty into the process most especially for timings. Respondents wanted certainty surrounding shortened planning and statutory consent timelines. As one respondent put it:

"We require early certainty over the outcome of planning applications, as the abortive costs can be significant".

Finally respondents wanted planning to *"embrace innovation and creativity".* This was to address a perceived behaviour in planning departments of "*hiding under convention and precedent*". Asks that came under this group were for more *"relaxed attitudes to planning",* with an *"ease of restrictions", "flexibility" and "openness".*

Utility providers

As with planning issues some suggestions for utilities were directed at government but they are discussed here to distinguish them from actions on infrastructure and planning.

Unfortunately one utility provider was singled out as a particular obstacle to building for our respondents that being Scottish Water, this prompted a call for action directed specifically at this utility as respondents called for a *"national review of Scottish Water".*

On the other hand respondents also identified a need for developers to improve their understanding of the issues that utility providers face. They thought this could be achieved through more open dialogue leading to a co-operative way forward with each understanding the others difficulties. Also along these lines and showing some understanding for the issues utilities face respondents called for government to better fund the utilities.

Other suggestions were not so collaborative in nature and called for the government to *"put pressure"* on utility providers to improve their speed and enhance their level of service. There were calls for statutory time limits to be imposed and *"set connection charges at a fair level".*

In a similar vein to suggestions about planning and infrastructure a call for central government to co-ordinate these services and their delivery.

Again echoing suggestions for addressing the other obstacles respondents wanted transparency about charges and timescales. Reflecting the theme of a need for certainty

Lack of skills

A small number of suggestions were addressed to the issue of a lack of skills.

One idea was to offer incentives for old employees to come back into the business. This was not to simply swell the numbers but also for skills to be passed on to new recruits.

Suggestions in this category also centred on attracting young people into the business. Promoting the industry to young people using social media and making the industry attractive to young people in the same way.

Suggestions for government action included funding for Skills Development Scotland or greater incentives for the industry to bring young people into the business and giving incentives for training.

Actions for SMEs

Respondents had ideas about how they themselves could undertake action to address obstacles.

Firstly, there was an acknowledgment that individual small developers would find it difficult to influence the issues they face and also a fear that it could be counterproductive and make matters worse. For example one respondent said;

"*For a developer to take a Local Authority or Utility company employee to task would be suicidal as they hold the key to the progress of a development*"

As such some sort of collective action was called for and there were several examples and suggestions of how this could be done.

Firstly, the work Homes for Scotland does as a champion for the industry was highly praised and respondents called for more of the same.

Secondly, there was an example of a putting together a HUB with local authority and other key stakeholders (TECs, Flood Team ; Planning ; Scottish Water and Scottish Enterprise) at the development design stage and a suggestion that this could ease the following stages

Similarly respondents talked of grouping together and having frank discussions with individual stakeholders about the problems they are facing and openly discussing the frustrations and costs they faced and how they could be addressed by understanding and a change of attitude.

Other suggestions included getting together a forum of developers, act as a collective voice to strengthen their voice, to "*fight"* their corner to ensure their voice was heard and to collectively challenge poor performance in the public sector and utilities.

A more pragmatic suggestion for collective action was to share and trade land banks. And further to spread the cost of infrastructure delivery

Specifically to get finance, to inform each other about difficulties and how they overcame them and to tell their story

"We must sit together and build up the positive case of our contribution as many small parts of a bigger industry. We employ locally. We buy materials locally. We support local events and clubs. We have strong local identity and understand the communities in which we operate. We are not here today and gone tomorrow and have a need to have strong customer relations as they are our references to the potential clients".

Respondents also wanted in some way for improvements to come from the industry themselves for example improved community consultations and better business plans were thought to be a way to address some obstacles. Also to stop seeing housing as simply profit rather as a public good and an investment in society.

One specific call was for developers to "*take more seriously"* and "*investigate"* modular building options, exploring their speedier and more eco-friendly opportunities.

How to access background or source data

The data collected for this social research publication:

☒ may be made available on request, subject to consideration of legal and ethical factors. Please contact Julie.guy@gov.scot for further information.

social research

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