

# FMB House Builders' Survey 2021



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# Contents

- 4**  
**Executive summary**
- 6**  
**Introduction and context**
- 7**  
**Respondent profile  
and industry structure**
- 8**  
**Main constraints on supply**
- 10**  
**Buyer demand**
- 11**  
**Access to finance**
- 13**  
**Small sites and land  
availability**
- 15**  
**The self and custom  
build market**
- 16**  
**The planning application  
process**
- 18**  
**Developer contributions  
and viability**
- 20**  
**Workforce and skills**
- 21**  
**A guide to biodiversity  
net gain**





**80<sup>th</sup>**  
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# Executive summary

**The Federation of Master Builders' (FMB) annual House Builders' Survey aims to build a clearer picture of the experience of small and medium-sized (SME) house builders in England. It is the only annual survey of its kind to do so.**

In 2021, the availability of land is the most prominent barrier to SME house builders' ability to build more homes. It is the most commonly cited constraint to growth and in addition nearly three quarters of respondents say that the number of small site opportunities is decreasing. This prompts questions as to whether national policies to promote small sites are in fact being implemented.

On the positive side, assessments of buyer demand are extremely buoyant, access to finance for SME house builders appears to have improved significantly and many more respondents are planning to grow their workforce over the next year than are planning to shrink it.



Project by J P McDonagh Construction Limited

## Main constraints on supply

- The 'lack of available and viable land' is the most commonly cited constraint (63% of respondents) on SME house builders' ability to build more homes.
- This is closely followed by 'materials shortages' (62%) and 'the planning system' (61%).
- 'Lack of finance to the company' (29%) has dropped significantly and has fallen out of the top three responses for the first time, but 'shortage of skilled workers' (53%) has risen sharply.

**Lack of available land is the biggest barrier to building more homes**

## Buyer demand

- When asked to rate current buyer demand in the housing market (out of 5), the average score was 3.86 – the highest average score this question has received since it was first asked in 2013.

**Assessments of buyer demand are extremely positive**

## Access to finance

- When asked to rate lending conditions to SMEs for residential development from 0 to 5, the average score was 2.34 – the highest score since the question was first asked in 2013.
- 'Fees charged on new or existing loans' was rated as the most significant finance-related issue, just ahead of 'poor loan to asset value ratios'.
- Private equity (used by 41% of respondents) has replaced high street banks (used by 32% of respondents) as the most common source of finance.
- 45% of respondents stated that there are sites that they have an interest in that are stalled for finance-related reasons.

**Assessments of access to finance have improved**

## Small sites and land availability

- 71% of respondents report that the number of small site opportunities is decreasing; only 4% say that the number is increasing.
- 11% of respondents believe that small sites are being taken more seriously by planners and local authorities.

**Nearly three quarters say small site opportunities are decreasing**

## The self and custom build market

- 63% of respondents said that a significant increase in the number of people able to access the self and custom build market would have a positive impact on their business and their ability to build more homes; 28% believe it would be very positive.

**63% say boosting self and custom build will help them build more homes**

## Planning application process

- Respondents rated 'inadequate communication by officers' as the most significant cause of delay in the planning application process, closely followed by 'inadequate resourcing of planning departments'.
- Respondents rated 'overall complexity and the cost of consultants required to deal with this' as the most significant cause of additional cost in the planning process.
- Only 19% of respondents feel either a 'very high' or 'quite high' degree of certainty over the outcome of planning applications; 33% feel they have 'quite low' or 'very low levels' of certainty; and 48% say they feel medium levels of certainty.

**Only 19% feel high levels of certainty over the outcome of planning applications**

## Developer contributions

- 57% of firms said that there are sites that they would otherwise be interested in, but which they believe would be unviable due to likely developer contributions.

## Workforce and skills

- 36% of respondents are planning to grow their on-site workforce over the next year, against just 7% who are planning to decrease their on-site workforce.
- More firms say that they are employing apprentices (31%), offering work experience (30%), training new workers (26%) or up-skilling existing workers (46%) than did last year.

**More than a third will be growing their workforce over the next year**





## Introduction and context

This survey, now in its tenth successive year, helps us to build a more comprehensive understanding of the experience of small and medium-sized (SME) house builders in England, and allows us to track this over time. It is the only annual survey of its kind to do so.

### The position of SME house builders

The context for this survey is the severe decline in the SME house building sector that we have seen over a number of decades. In the 1980s, SME house builders built 40% of new homes, but they now build only 12%. Over this period, the supply of new homes has therefore become increasingly reliant on a relatively small number of larger scale house builders.

This has undoubtedly had a damaging impact on the capacity, competitiveness and diversity of the house building industry and has likely served to slow down the delivery of new homes, as delivery has become more concentrated on larger schemes. The FMB believes that the industry is unlikely to be able to sustainably deliver 300,000 high quality homes per year without a reverse in the decline of SME house builders.

The evidence of this survey has consistently been that many SME house builders would be able to expand their output of new homes

if they did not face significant barriers to doing so.

Reducing these barriers will enable existing small developers to expand and deliver more homes and it will facilitate more new entrants to the market, including the large numbers of skilled small contractors who have the ability and willingness to bring forward their own developments, if the business environment were more conducive to them doing so.

### Change over time

Over the last five years' we have seen government policy, and policy of all the major parties, take on board these concerns. This survey shows that in some areas we are now seeing some signs of improvement. In 2012, access to finance was the most prominent barrier facing SME house builders, cited by 72% as a major barrier on their ability to build homes. This year we have seen that figure fall to 29%, in part thanks to targeted policies and interventions influenced by the data revealed in our surveys.

### Longstanding frustrations

However, other areas have proved more resistant to improvement. Concerns over availability of land and the lack of small site opportunities have, if anything, grown rather than diminished,

despite amendments to national planning policy requiring local planning authorities to enable development on a wider range of sites. Responses to this survey raise real questions as to whether these changes are yet being fully implemented.

Responses and comments also show high levels of frustration at the delays and uncertainties thrown up by the planning application process, with blame being placed on both inadequate resourcing and lack of positive engagement by planners. Percentages citing both planning and land availability as major concerns have jumped-up significantly from last year.

### New and emerging concerns

Last year, some results reflected the serious uncertainties caused by the pandemic and Brexit. These factors continue to influence this year's results, not least in the fact that we are seeing concerns over materials shortages and skills shortages emerge for the first time as among the most pressing constraints on SME builders. These now pose real and significant challenges which policymakers and industry itself will need to address. The FMB will draw on this survey to continue to work with all parties to raise awareness of, and seek long-term solutions to, these issues.

# Respondent profile and industry structure

The profile of respondents to the House Builders' Survey is reflective of those parts of the FMB membership and wider construction industry that are active in smaller-scale house building.

In FMB membership, just over half of more than 7,000 members are engaged in house building activity, as part of a wider suite of services. 15% of members say that house building is their main area of activity.

## Sample

- The survey received 123 responses from SME house builders.
- All respondents were FMB members in England who list house building as one of their main trades.

## House building output

- 66% of respondents said that this year they will build between one and ten units; 5% of respondents will build between 11 and 30 units; 1% will build between 31 and 100 units; and 28% will not build any new homes in 2021.
- When asked to forecast output in 2022, 71% expect to build between one and ten units; 10% between 11 and 30 units; 1% between 31 and 100 units; 1% more than 100 units; and 17% do not expect to build any new homes in 2022.

## Business models

- 46% of respondents build homes only as contractors; 10% build homes only as developers; and 44% build as both developers and contractors.
- Of those who build as a contractor, 86% build new homes to the plans and specification of a homeowner (also known as self and custom build), 40% build for other developers or main contractors, and 9% build for housing associations.

## Site sizes

- The great majority of respondents (75%) typically tend to concentrate on sites of between one and five units; 37% focus solely on sites of one unit; 13% build sites of more than 10 units; and 4% build sites of 25 units and more.

**66% of respondents said that this year they will build between one and ten units**

**46% of respondents build homes only as contractors; 10% build homes only as developers; and 44% build as both**

**The great majority of respondents (75%) typically tend to concentrate on sites of between one and five units**



Project by Mendip Developments Ltd





## Main constraints on supply

Each year this survey asks SME house builders what they consider to be the main barriers to their ability to build new homes. We can therefore track responses to this question over time (see Figure 1).

### Greatest barriers to building

In 2021, the 'lack of available and viable land' is the most commonly cited barrier to building more homes (cited by 63% of respondents). Land is closely followed by 'materials shortages' (62%) and 'the planning system' (61%). See Table 1 for full results. It is noteworthy that these top

responses all are cited by a high percentage of respondents. The top three answers all register above 60%. By comparison, in 2019 and 2020 the top responses were 43% and 48%, respectively.

Over the past eight years there has been a relatively high level of consistency in these results (see Figure 1). Lack of available and viable land has been the top response in six of the previous eight years and concerns over the availability of land, availability of finance and the planning system have been the top three concerns in every year since 2013.

### Significant changes in 2021

However, this year we can see some significant changes. For the first time materials shortages appears among the top responses, cited by 62% compared to a previous high of 24% in 2018 and 2020. 'Shortage of skilled workers' rises above 50% for the first time, against a previous high of 43% in 2018. These concerns are not a surprise. The FMB's Q2 2021 State of Trade Survey found 98% of SME builders reporting material price rises, 53% struggling to hire carpenters/joiners and 47% struggling to hire bricklayers.

**Table 1: Q. What would you say are the main constraints, if any, on your ability to build more homes i.) currently and ii.) looking ahead over the next three years?**

Constraints	Currently	Over the next three years
Lack of available and viable land	63%	62%
Materials shortages	62%	49%
The planning system	61%	54%
Shortage of skilled workers	53%	54%
Cost of Section 106 agreements	33%	29%
Cost of Community Infrastructure Levy (if applicable)	33%	34%
Lack of finance to the company	29%	32%
Restricted mortgage availability	16%	16%
Cost of national regulations	10%	10%
Cost of locally imposed standards	9%	9%
No constraints	4%	4%



However, the extent to which these are now being seen as major constraints on house building activity is striking.

The other notable change is that access to finance has fallen down the list of concerns significantly. This has been trending downwards over the last five to six years but has dropped sharply again from 41% in 2020 to 29% this year. This is in keeping with other indicators which reflect an improved development finance market for SME developers, albeit one that continues to be challenging for many (see 'Access to finance' section).

### Looking ahead

When we asked house builders to look ahead at the main barriers over the next three years, there are significant drops in those

concerned about materials shortages (from 62% to 49%) and the planning system (from 61% to 54%). There are slight increases in those concerned about 'shortage of skilled workers' and 'lack of finance to the company'.

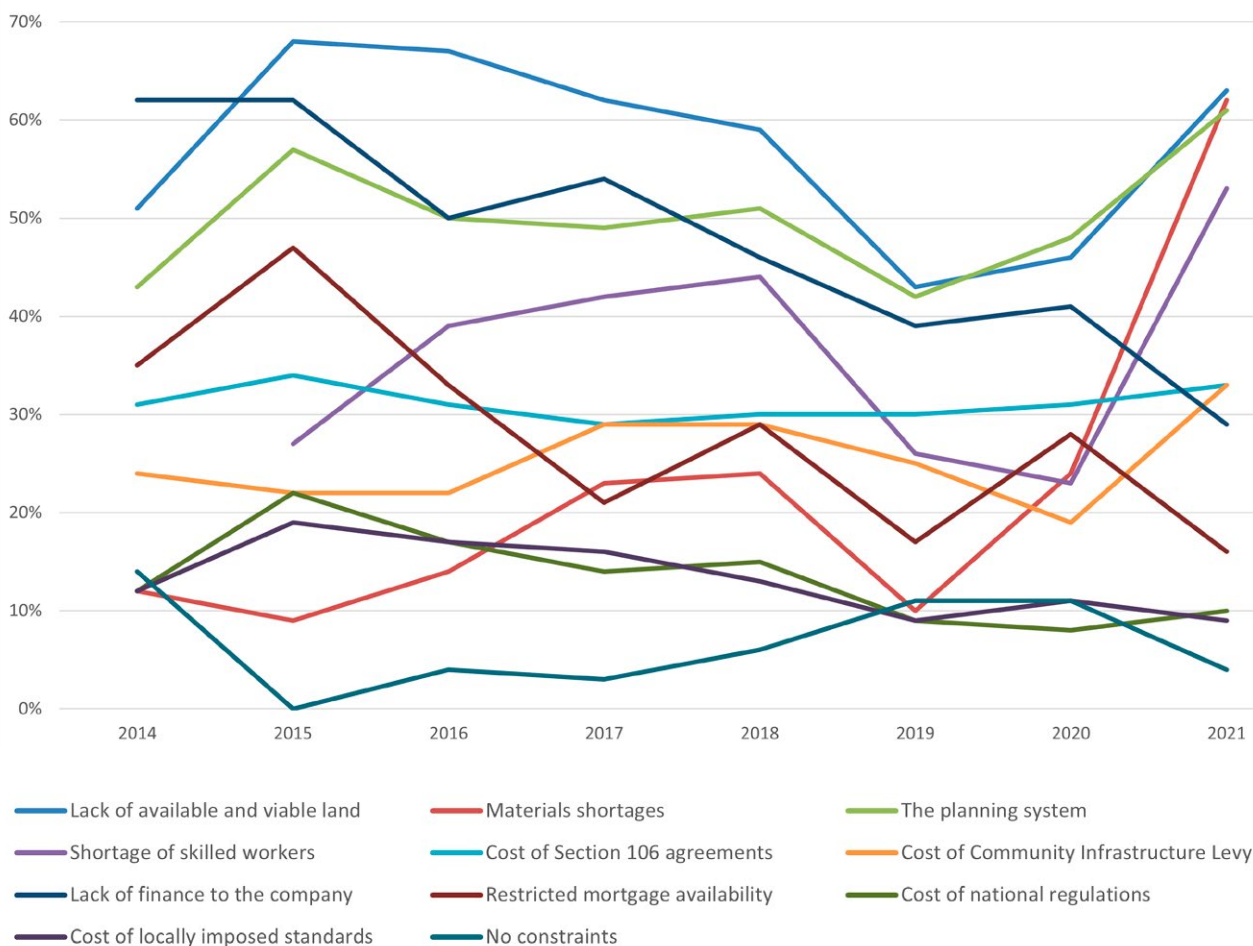
### Responses can differ by type of firm

Analysis of responses on constraints to supply broken down by firms' characteristics (i.e. business model, output and site sizes) reveal some important differences and some notable constants. Perhaps not surprisingly, the planning system is a greater concern for those who work as developers than it is for those who work as contractors, but it is also a greater concern for those who build more units per year and work on sites of ten units or larger.

On the other hand, land availability is slightly more of a concern for those who work as contractors, and it becomes slightly less of a problem the more units per year and the larger the sites a firm tends to work on. Given the percentage of contractor respondents who build for private clients, it also suggests that availability of sites for self-build opportunities could be a contributory factor here. It is also notable that, of those firms who are not building any homes in 2021, land availability is clearly the greatest concern.

Concern over materials shortages was consistently high among all types of firm, all levels of output and all site sizes, although it was slightly higher among those building out sites of more than ten units.

**Figure 1: Q. What would you say are the main constraints, if any, on your ability to build more homes? (Responses to this question from 2014-2020 surveys)**



# Buyer demand

Respondents' assessments of buyer demand suggest that it is extremely strong right now. Current buyer demand was rated on average at 3.86 (out of 5), the highest score yet returned since this question was first asked in 2013.

This marks a sharp upturn in the assessment of buyer demand from last year (see Figure 3). Last year's survey was taken when we were still in the relatively early stages of the pandemic and respondents reported that the economic uncertainty caused by Covid-19, and to a lesser extent Brexit, had led to a sharp drop-off in demand.

Demand has clearly rebounded strongly. When asked to explain their assessment of buyer demand, the most common response was that the pandemic, its impact on

people and the rise of remote working, had caused people to reassess where and how they wanted to live.

**"The level of demand has been extremely high as people seek to change their living habits on the back of Covid. Lifestyle change in my opinion has brought about a need for more outside space, and additional room to work from home, which has provided many with a complete change in how they work and live."**

**"The pandemic has created the perfect storm for the residential sector, giving a slight wake up call on the need to provide good levels of housing stock in a variety of forms, and allowing people to seek these in more areas than perhaps would have been expected."**

**"People leaving cities/office hubs as they are able to work from home now."**

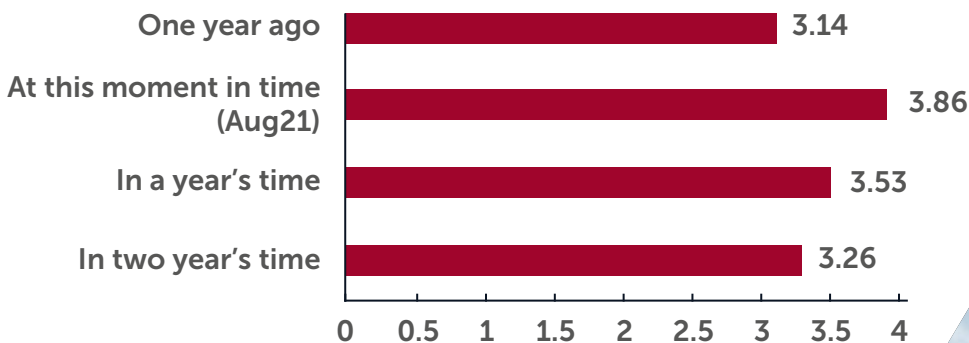
A lot of respondents also noted the important role that the reductions in Stamp Duty Land Tax had played in supporting the market over the past year, and an equal number mentioned the general shortage of properties on the market

**"Reduced Stamp Duty. House buyers moving out of the city and towns."**

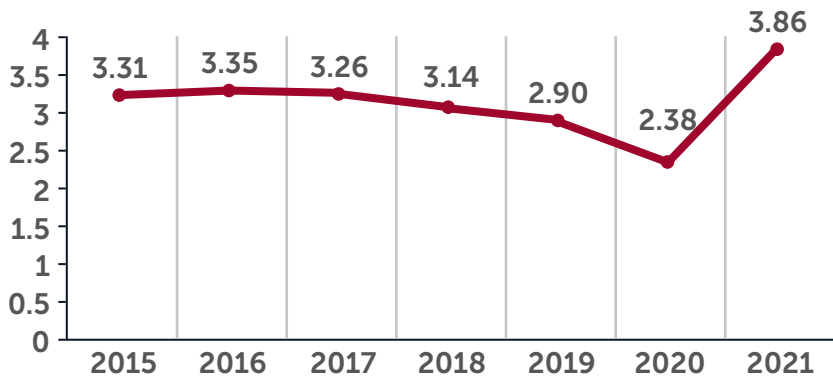
**"Low stock levels. Not enough houses on the market currently."**

Assessments of future demand suggest that respondents expect demand to moderate slightly over the next two years, but to remain relatively strong (see Figure 2).

**Figure 2: Q. How would you assess/predict buyer demand in the housing market (out of 5, where 0 reflects very low demand and 5 reflects very high demand)?**



**Figure 3: Q. How would you assess/predict buyer demand in the housing market (out of 5, where 0 reflects very low demand and 5 reflects very high demand)?**



Project by Kisiel Group

# Access to finance

The percentage of SME house builders citing access to finance as a major barrier to growth has been trending downwards in recent years. It rose back up last year in the midst of the pandemic, but it has fallen significantly again this year.

Respondents' assessment of lending conditions adds further weight to this. When asked to rate lending conditions to SMEs for residential development from 0 to 5, the average score was 2.34 – the highest score recorded since the question was first asked in 2013.

Table 2 shows how dramatically this has changed over the past nine years. In 2013, the average score was just 0.95, with 41% of respondents scoring lending conditions to SMEs at zero out of five. This shows just how severe a problem access to finance was for SME house builders at some points in the last decade.

Respondents rated 'fees charged on new or existing loans' to be the most significant finance-related concern they faced. 'Poor loan to value ratios', which has been rated as the most significant issue

for the previous three years, was the second most raised issue (see Figure 4). These concerns are reflected in respondents' comments (see below).

## Sources of finance

It is also interesting to note the changes in the sources of finance which respondents are using (see Figure 5). In comparison to last year's responses, we can see a shift away from high street banks as a source of finance – 32% of respondents say that this is a source of funding, down from 48% in 2020 – and towards private equity (including personal contacts), which is up to 41% from 25%. We also see increased use of challenger and overseas banks and crowd-funding and other non-bank platforms.

**Interestingly, a couple of respondents report having made use of the Government's Home Building Fund; one reports having acquired lending supported by the ENABLE Build guarantees (supported by the British Business Bank and Homes England); and another through the Housing Growth Partnership, a partnership between Lloyds**



**Bank and Homes England offering equity finance to house builders.**

## The development finance market

All these findings support the conclusion that the development finance market for SME house builders has become steadily more favourable over the last six to seven years, as the market has diversified, with increasing appetite among smaller specialist lenders and challenger banks to lend to

**Table 2: Q. What is your experience of the current lending conditions to SMEs for residential property development (score where 0 reflects very poor conditions and 5 reflects excellent conditions)?**

	0	1	2	3	4	5	Average score
<b>2021</b>	8%	17%	27%	35%	8%	5%	<b>2.34</b>
<b>2020</b>	12%	23%	31%	25%	6%	3%	<b>1.98</b>
<b>2019</b>	10%	20%	26%	35%	9%	1%	<b>2.15</b>
<b>2018</b>	13%	24%	24%	29%	7%	3%	<b>2.02</b>
<b>2017</b>	25%	23%	20%	28%	4%	0%	<b>1.63</b>
<b>2016</b>	18%	24%	24%	26%	8%	1%	<b>1.85</b>
<b>2015</b>	23%	22%	31%	24%	1%	0%	<b>1.59</b>
<b>2014</b>	36%	22%	30%	9%	1%	1%	<b>1.20</b>
<b>2013</b>	41%	30%	22%	7%	0%	0%	<b>0.95</b>

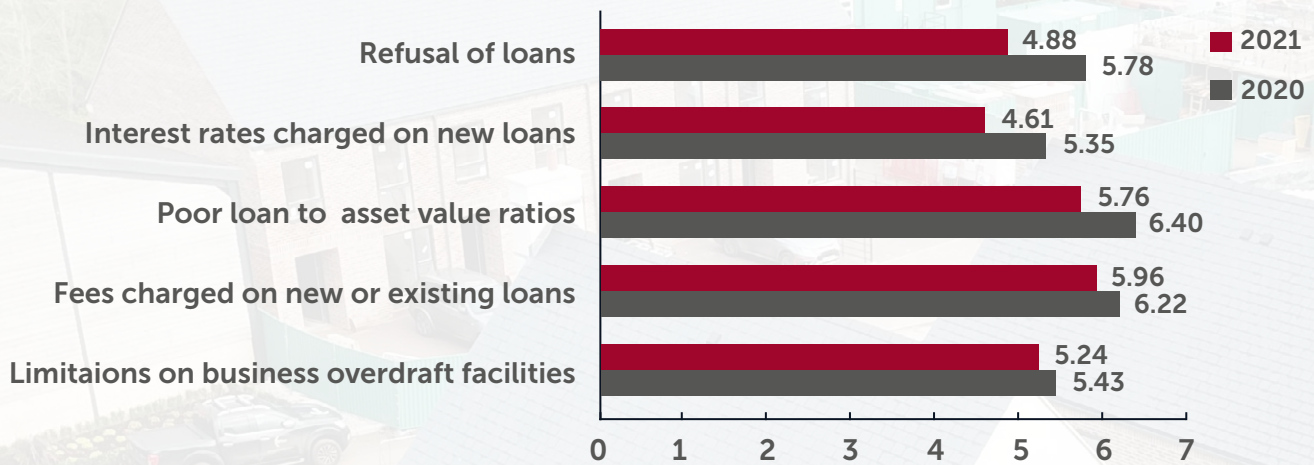
**"Initial rate is attractive, but increases substantially once you get down to the final figures."**

**"Expensive setting up and exit fees."**

**"You need a huge deposit for land and build costs."**

**"Too slow on decision making and most firms are not interested in the small developer/contractor."**

**Figure 4: Q. How significant are the following finance-related issues in restricting your ability to increase your house building activity (out of 10, with 0 being not significant at all and 10 being extremely significant)?**



smaller scale developers. SME house builders may also have benefited from an extended period of low interest rates, which enables them to offer attractive returns to high net-worth individuals (hence increased use of private equity and brokers seen in Figure 5).

However, borrowing from smaller lenders tends to come at a higher price, which is not immediately obvious from the headline rates (hence concern over the fees applied to loans). The cost of

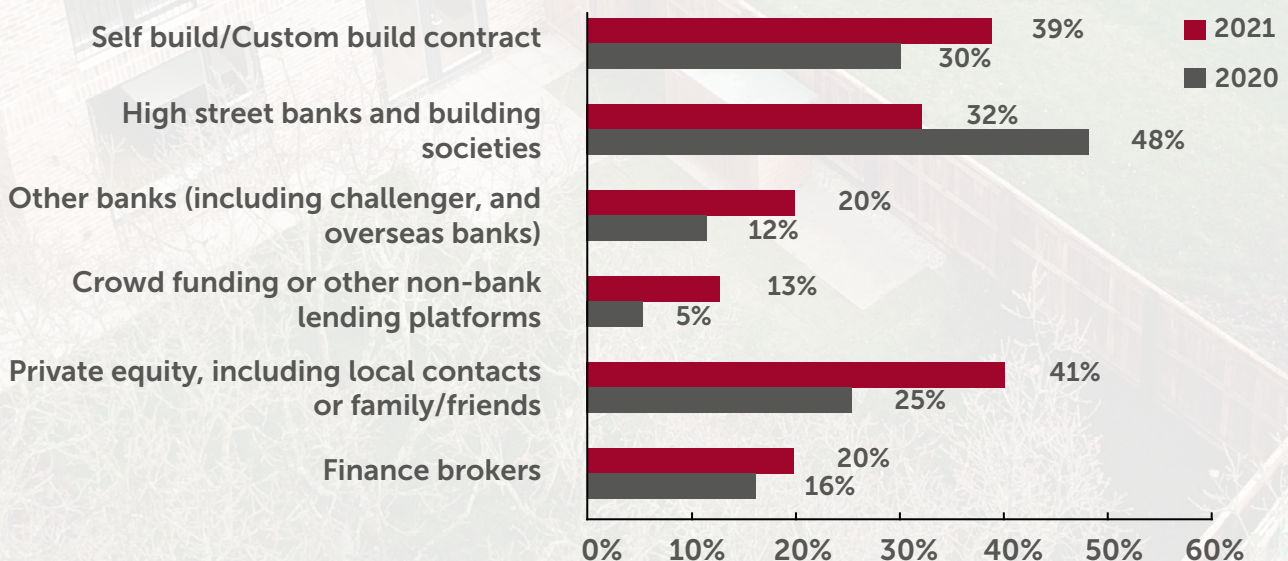
borrowing is therefore relatively high and loan to value ratios remain a structural constraint to growth for many. The market is particularly difficult for new entrants without a track record or accumulated assets. It is important we continue to seek interventions which can help to reduce such barriers.

As comments by respondents make clear, access to finance is still a serious barrier to growth for many, and indeed 45% of respondents continue to report

that there are sites that they are involved in that are stalled for finance-related reasons.

**Government should continue to support and develop a range of targeted interventions, like the Home Building Fund, the ENABLE Build programme, and partnerships between Homes England and individual lenders, which are now helping to support a healthier development finance market for SME house builders.**

**Figure 5: Q. Which of the following ways do you tend to acquire funding for development (tick all that apply)?**





## Small sites and land availability

In this year's survey, 'lack of available and viable land' is the most commonly cited constraint on SME house builders (cited by 63%), and we know that this is a slightly greater concern for those who work on the smallest sites and those who build for private clients.

In addition, 71% of respondents reported that the number of small site opportunities is decreasing (see Table 3). Only 4% said that the number is increasing. This is a stark finding.

It is in the nature of small sites that in some locations the number of high value infill sites will have

diminished significantly over time, though redevelopment and changes of use should continue to throw up some new opportunities. However, SME house builders commonly report that they know of numerous small sites in suitable locations for new housing, but in which the local authority appears entirely uninterested.

**In some locations, more could and should be done to enable small site opportunities on the edge of existing settlements, allowing for incremental, organic development, where there is clear community demand for housing. Local**

**authorities and Homes England should also be much more proactive in working with developers to encourage some sub-division of larger sites where this is appropriate.**

11% of respondents believe that small sites are being taken more seriously by planners and local authorities (see Table 3). However, this is a small number and is considerably lower than the 41% who answered positively to this question in 2018.

In 2018, the Government amended the National Planning Policy Framework (NPPF), adding



paragraph 69 which requires planners to promote a good mix of small and medium-sized sites in a number of ways, including a requirement to identify land to accommodate at least 10% of their housing requirement on sites of no larger than one hectare.

However, when asked in this survey, only 5% of respondents said that this policy had yet led to an increase in small site opportunities (see Figure 6).

**There must now be a much stronger focus on implementation of the requirements in NPPF**

**paragraph 69, including monitoring local authority delivery.**

There are very good reasons to do this beyond its impact on SME builders and the local industry. Enabling small site opportunities should also serve to speed up the delivery of new homes and promote greater choice and quality in new housing.

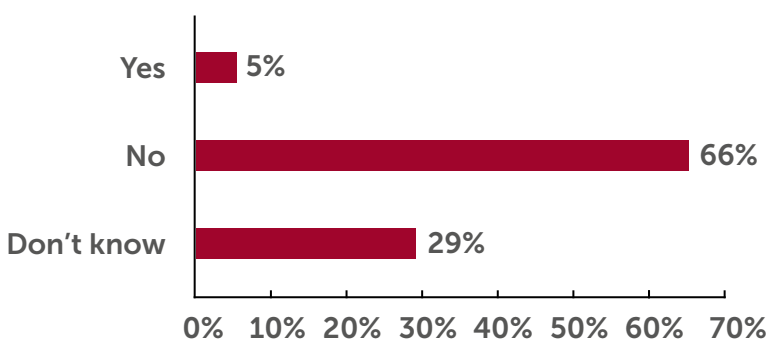
**Local authorities should understand and acknowledge the strategic importance of proactively enabling a range of deliverable smaller sites to come forward.**

**11% believe that small sites are being taken more seriously by planners and local authorities, down from 41% in 2018**

**Table 3: Q. On the issue of the availability of opportunities for small site development, which of the following statements do you agree with (please tick all those you agree with).**

	2021	2020
The number of small site opportunities is decreasing	71%	64%
The process of obtaining planning for small sites seems to be getting worse	54%	37%
The number of small site opportunities has not changed	13%	19%
Small sites are being taken more seriously by planners and local authorities	11%	19%
The process of obtaining planning for small sites seems to be improving	9%	10%
The number of small site opportunities is increasing	4%	7%

**Figure 6: Q. Since 2018, the NPPF has required local authorities to identify enough small sites (of one hectare or less) on which to accommodate at least 10% of their housing requirement. Is this policy yet driving an increase in small site opportunities for you?**



# The self and custom build market

Among respondents to this survey who work as contractors, 86% have worked for clients who are building their own homes. We know that some SME developers also follow a client-led custom build approach. Therefore, this market is clearly a significant one for SME house builders.

When asked, 63% of respondents said that a significant increase in the number of people able to access the self and custom build market would be good for their business and their ability to build more homes. This included 28% who believe it would be very positive (see Figure 7).

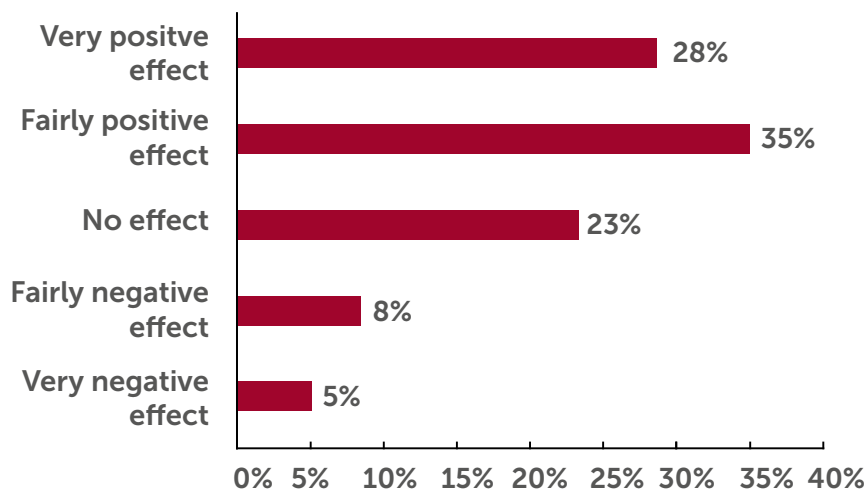


Project by Mitchells Construction & Development Ltd

Only 13% believe it will have a negative impact. The only unfavourable comment expressed a concern that this could decrease small site opportunities for those not pursuing a self or custom build approach.

In accordance with these findings, the FMB believes that enabling more people to access self and custom build solutions would have a significant net positive impact on the SME house building sector and its ability to build more homes, while helping to create a healthier, more diverse housing market.

**Figure 7:Q. If there was a significant increase in the number of people able to access the self and custom build market, what effect do you think this would have on your business and your ability to build more homes?**

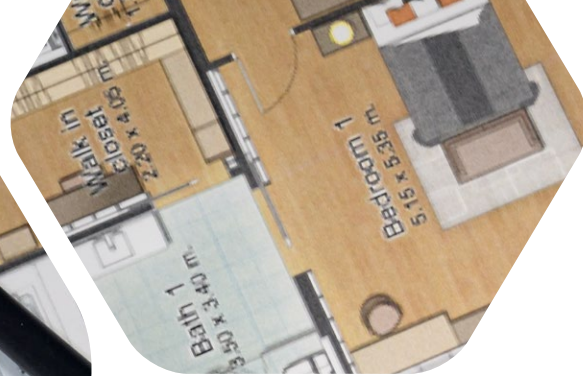


**We welcome the Government's commitment to expanding access to this market and urge them to adopt the recommendations of the Bacon Review, including a sustained effort to raise awareness of the Right to Build.**

**"This is a hugely underinvested area. We undertake only a few self-build schemes, but there should be many more available. Local Authorities do not support or prioritise these."**

**63% of respondents said that a significant increase in the number of people able to access the self and custom build market would be good for their business and their ability to build more homes**





**Respondents rated 'inadequate communication by officers' as the most significant cause of delay in the planning system**

## The planning application process

In this year's survey, 61% of respondents identified the planning system as a major constraint on their ability to build more homes (see Table 1). The planning application, or development management, process is a key element of these frustrations. We have also seen that 54% of respondents believe the process of obtaining permission for small sites is getting worse (see Table 3).

The disproportionate delays which can be involved in getting an implementable permission for even the smallest sites, tie up resources and can be difficult to plan for.

When asked to rate the significance of different causes of delay, respondents rated 'inadequate communication by officers' as the most significant cause of delay in the planning system (see Table 4). In the previous three years, 'inadequate resourcing of planning departments' has ranked first, closely followed by inadequate communication. This year those rankings have reversed.

This is reflective of conversations with SME house builders who feel that delays are as often the result of a culture of unresponsiveness that can exist within some

departments, as they are a result of the chronic under-resourcing that many departments undoubtedly face.

**The FMB continues to call on the Government to enable greater resourcing of local planning departments as a matter of urgency. At the same time, planning departments must engage in a more proactive and ongoing dialogue with SME builders, for instance through local developer forums, to improve mutual understanding and seek to minimise unnecessary burdens and delays.**

**Table 4: Q. How important would you rate the following as causes of delay in the planning process? Score from 0 to 5, where 0 is completely unimportant and 5 is extremely important.**

Causes of delay	2021	2020	2019	2018
Inadequate communication by planning officers	4.10	3.79	3.99	3.58
Inadequate resourcing of planning departments	3.93	3.80	4.03	3.89
The signing off of planning conditions	3.69	3.29	3.63	3.47
Signing off of Section 106 agreements	3.51	3.09	3.58	3.37
Delays caused by statutory consultees	3.49	3.38	3.71	3.24
Negotiating Section 106 agreements	3.47	3.24	3.44	3.47



When asked what one thing SME house builders would change about the planning system, responses included:

“Produce better, black and white guidelines for developers and train planning officers to implement them correctly.”

“Seek to resource the LPAs with qualified, motivated and engaging staff on all levels.”

“Be more consistent.”

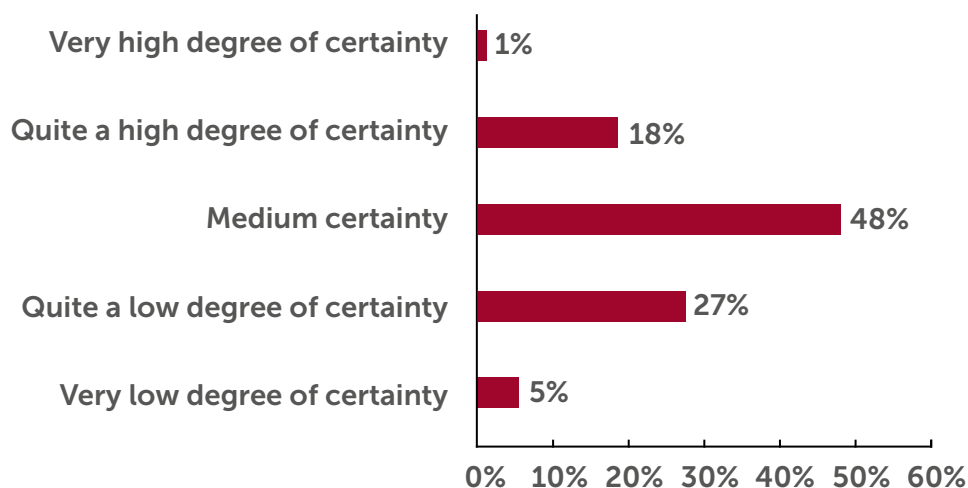
“Without the right people, no matter what you look to do to resolve the system, those issues will remain if there are no additional or even fully staffed departments to facilitate or implement any meaningful changes.”

“Get more planners and get them all back in the office to answer phones and emails.”

**Table 5: Q. How important would you rate the following as causes of additional cost in the planning process? Score from 0 to 5, where 0 is completely unimportant and 5 is extremely important.**

Causes of additional cost	2021	2020	2019	2018
Overall complexity and the cost of consultants required to deal with this	4.08	3.77	4.02	4.01
Excessive information requirements	3.96	3.74	4.19	4.20
Costs imposed by delays in the system	3.94	3.73	3.95	4.17
Fees for pre-application discussions	3.54	3.23	3.59	3.64

**Figure 8: Q. On average, how much certainty do you feel about the outcomes of planning applications?**



Respondents rated ‘overall complexity and the cost of consultants required to deal with this’ as the most significant cause of additional cost in the planning process (see Table 5). This is followed by ‘excessive information requirements’, which can themselves result in added complexity and consultancy fees. There is no change in the ranking of these factors from last year. In the rankings of causes of delay and cost we see a relatively high level of consistency over time.

The cost of obtaining planning becomes more inhibitive for SMEs, the greater the degree of

uncertainty they face over the outcome of the process. It is therefore concerning that, when asked, only 19% of respondents feel a high degree of certainty (‘very high’ or ‘quite high’) over the outcome of planning applications (see Figure 8). A third feel they have low levels of certainty and just under half (48%) report a medium degree of certainty.

**The FMB urges the Government to press ahead with its proposed reforms to the planning system designed to bring greater transparency, greater certainty and greater speed to the process.** The direction of travel set out in

**Only 19% of respondents feel either a high degree of certainty (‘very high’ or ‘quite high’) over the outcome of planning applications**

the 2020 Planning for the Future White Paper would provide small house builders with the greater certainty they need to be able to bring forward more high quality, well-designed homes of the type that meet the aspirations of local people.

# Developer contributions and viability

57% of respondents reported that there are sites that they are interested in, but which are unviable due to likely Section 106, Community Infrastructure Levy (CIL) or other developer obligations (see Figure 9). One respondent commented:

33% of respondents cite the cost of Section 106 agreements as a major constraint on their ability to build, and the same number cite the cost of CIL. It is therefore vitally important that we get the system for assessing developer contributions right, so that the cumulative impact on small site viability is not undermining the SME house building sector.

**“Currently all sites. Not enough room for profits anymore. No longer looking to develop. Just looking to do extensions now.”**

The Government announced its intention in the 2020 White Paper to replace Section 106 and CIL with a single ‘Infrastructure Levy’. Some of the details of this policy remain undecided, but in this survey we set out the key elements of the policy, as currently known, and asked respondents to assess their impact on small site viability.

The response to the proposed Infrastructure Levy policy is mixed and evenly balanced (see Figure 10). Respondents are slightly more likely to view the impact on small site viability as positive rather than negative (42% vs 39%). But slightly more respondents predict the impact will be ‘very negative’ (16%) than ‘very positive’ (13%).

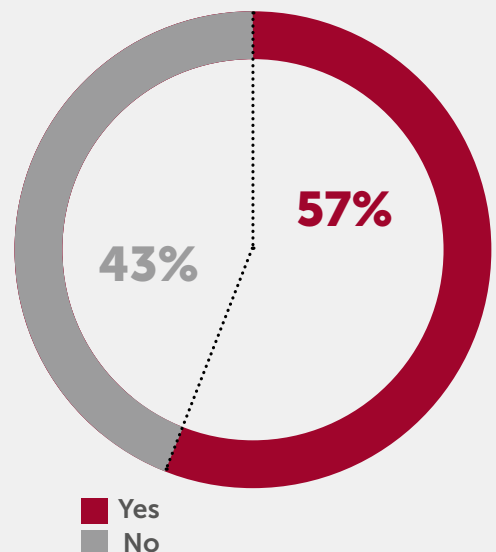
Positive responses reflect feedback from some SME house builders that a standardised approach to developer contributions

would help SMEs to better price-in contributions when negotiating with landowners. Negative responses likely reflect concerns that the total value of contributions from the smallest sites will increase significantly from their current level, as there is no proposed threshold to replace the existing ten unit threshold for affordable housing obligations. It may also reflect concerns over the possible impact on the viability of large numbers of more difficult or atypical small sites.

**The FMB is calling on the Government to carefully calibrate the impact of the Infrastructure Levy on the viability on small sites, and to consider applying a ten unit threshold to all or part of the levy, in order to support the viability of small sites and the SME house building sector.**

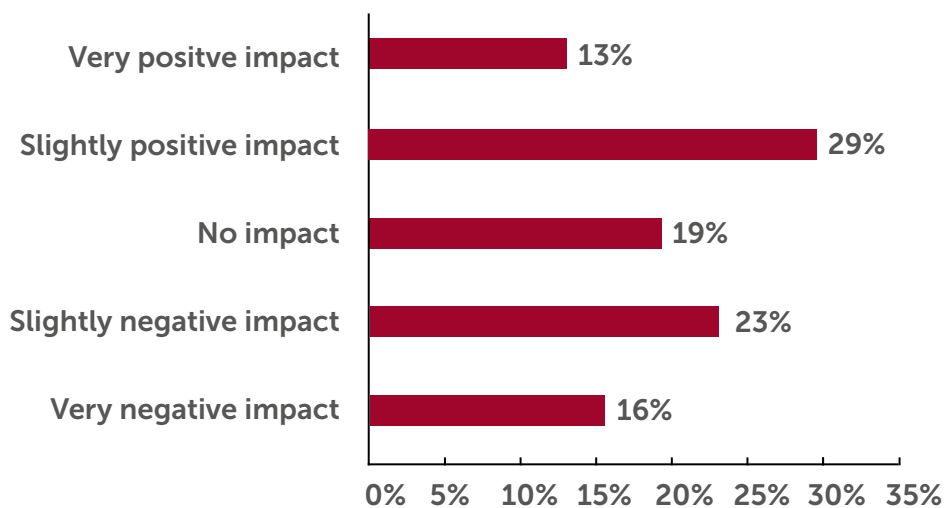


**Figure 9: Q. Are there sites which you would otherwise be interested in, but which you believe would be unviable due to likely Section 106, CIL or other obligations?**





**Figure 10: Q. On balance, what impact do you think these changes [existing proposals to replace S106 and CIL with a single Infrastructure Levy] are likely to have on the viability of small sites?**



**The response to the proposed Infrastructure Levy policy is mixed and evenly balanced**

# Workforce and skills

As we have already seen, a majority of respondents to this survey identified a shortage of skilled workers as being a major barrier to their ability to build more homes. This is not surprising, given the evidence we have of mounting skills shortages over recent months, as demand has rebounded strongly from the pandemic.

36% of respondents to this survey are planning to grow their on-site workforce over the next year, against just 7% who are planning to decrease it (see Figure 11). This compares to 29% planning to increase, and 11% planning to decrease, their workforce in the 2020 survey.

To meet these ambitions and tackle current and future skills shortages, the industry will need to recruit and

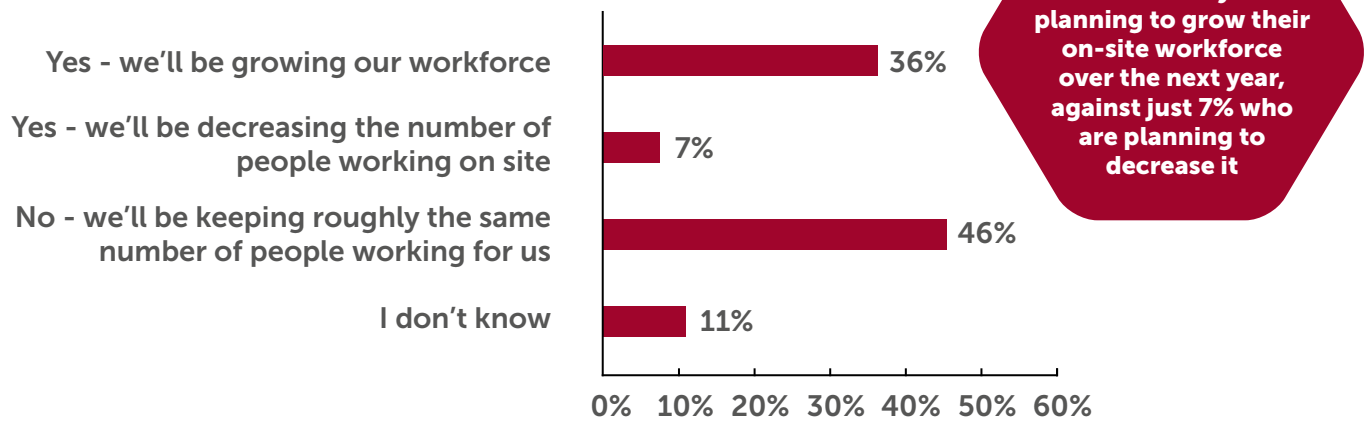
train many more new entrants, as well as retaining and continuing to upskill its existing workforce. SME builders will need to play a central role in this, as we know that SMEs train 71% of all apprentices in construction, including the majority of bricklayer apprentices.

As typically happens in a recession, last year's survey showed the number of firms taking on apprentices and offering other training opportunities falling. This year's responses (which look back over the past year to August 2020) show some recovery in these indicators. More firms say that they are employing apprentices (31%), offering work experience (30%), training for new workers (26%) or up-skilling existing workers (46%) than did last year. See Table 6 for full details.



However, the construction industry needs to redouble its efforts to meet the serious skills challenge it faces, and policymakers need to support the ability of SMEs – who do most construction training despite having least resources – to lead this. **The most effective means of support would be enhanced employer incentive grants for SMEs training new apprentices. We also need to see increased efforts within colleges and schools to signpost young people to the opportunities and rewards offered by careers in construction.**

**Figure 11: Q. Do you plan to alter the number of people working on your sites (whether employed or subcontracting) over the year ahead, compared to a base line of this time last year?**



**Table 6: Q. In the past year (since August 2020) has your company done any of the following (tick all that apply)?**

	2021	2020
Employed one or more apprentices	31%	30%
Provided work experience	30%	23%
Provided onsite training for new workers	26%	24%
Up-skilled current workers	46%	38%
None of the above	36%	31%

**Colleges and schools should do more to signpost young people to a career in construction**



# A guide to biodiversity net gain

Global biodiversity is decreasing at a faster rate than ever before, and in the UK, 15% of species are now threatened with extinction. Loss of habitat through new development can be one of many causes of this. The FMB therefore understands the importance placed on reversing this decline and supports the principle of the biodiversity net gain policy being introduced through the Environment Bill.

However, we also need to recognise that SME builders will face particular challenges in achieving biodiversity net gain on small sites, and especially small brownfield sites. Small brownfield sites can often be very rich in biodiversity, while on small schemes there can be very limited space for green infrastructure.

## The Biodiversity Net Gain policy

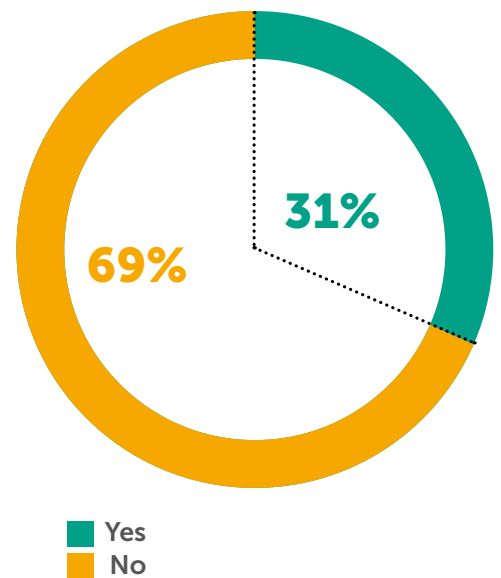
Existing policy requires planners to identify and pursue opportunities for net gain and some local

authorities have already adopted mandatory net gain policies. However, the Biodiversity Net Gain (BNG) policy will require all new developments in England – with the exception of permitted development and householder applications – to achieve a 10% net gain in biodiversity. This requirement will come into effect in 2023, following a two-year transition period.

## Industry awareness

Just under one third of survey respondents were aware of this upcoming requirement. As the legislation is yet to pass and implementation is still over two years away, this is perhaps not too surprising. However, it does underline the need for Government and industry bodies to work together to make sure that the industry is better aware of the changes and has the information and clarity it needs to meet these requirements with minimum extra cost or delay.

**Figure 12: Q. Are you aware of the Government's intention to require house builders to demonstrate a biodiversity net gain of 10% on all their sites?**





## How Biodiversity Net Gain will work

- A 'general condition' will be applied to all planning permissions in England. The condition will require a biodiversity gain plan to be submitted and approved by the local planning authority before development can commence. The Government has promised a simplified process for minor development (sites of less than 10 units).

- The biodiversity gain plan will need to contain an assessment of the value of habitats before development and after development and show how a 10% net gain will be achieved in on-site biodiversity, or, if on-site gain cannot be achieved, through registered off-site gain or the purchase of biodiversity credits.
- These values will be calculated using a standardised biodiversity metric, intended to

provide an objective, verifiable measure. A simplified metric for small sites (see below) is being produced by Natural England.

- This metric is focused on losses and gain to habitats that support biodiversity. It does not account for impacts on individual species, though this could be incorporated into the metric in future.
- There will be no change to protections for designated wildlife habitats, irreplaceable habitats (such as ancient woodland), or locally designated sites.
- The Government has said that there will be a targeted exemption for brownfield sites that would otherwise face difficulties in delivering viable development.

## Industry concerns

Given the concerns of SME house builders regarding cost, complexity and delay in the planning process already highlighted, it is not surprising that a large number of them fear that the BNG policy could add to these (see Table 7). In addition, nearly half of





**The Government has promised to produce appropriate guidance for small developers**

respondents fear that they will bear all or most of the cost of meeting BNG requirements, and that it will threaten the viability of some brownfield sites. The former suggests that the expectation set out in the consultation, that a consistent, standardised requirement will enable additional cost to be absorbed into land values, is not an expectation shared by a lot of SME house builders.

It is clear that some of these concerns the Government is attempting to address, for instance in allowing for a brownfield exemption and a more streamlined process for smaller sites, but it is important in doing so that it consults closely with SME house builders in order to ensure that these are effective in practice.

**Further information**

Natural England have published a biodiversity **Small Sites Metric**. This is a beta version on which feedback is being invited until 31 October 2021. The FMB would encourage all house builders to look at this and pass it on to designers and relevant consultants that they work with in order to assess the implications for current and future schemes, and to feedback their thoughts.

The Government has promised to produce appropriate guidance for developers. It is important that in doing so they produce clear, concise guidance aimed at enabling small scale developers to meet the requirements with minimal cost and complexity.

as well as guidance for planners on treating such sites with due proportionality.

In the meantime, the following may be useful sources of information:

- **Partnership for Biodiversity in Planning** website
- **Biodiversity Net Gain – Good practice principles for development**, produced by CIEEM, CIRIA and IEMA
- **Biodiversity Net Gain – Good practice principles for development case studies**, produced by CIEEM, CIRIA and IEMA

**Table 7: Q. What problems, if any, do you envisage this policy might have for your business (tick all that apply)?**

It will add to the length of time it takes to get a permission and start building	53%
We will bear all or most of the cost of this	49%
It will threaten viability of some brownfield sites	43%
It will increase the cost of bringing forward planning applications	41%
I don't think it will be a problem	11%





## About the Federation of Master Builders

The Federation of Master Builders (FMB) is the largest trade association in the UK construction industry representing over 7,000 firms in England, Scotland, Wales and Northern Ireland.

Established in 1941 to protect the interests of small and medium sized (SME) construction firms, the FMB is independent and non-profit making, lobbying for members' interests at both the national and local level. The FMB is a source of knowledge, professional advice and support for its members, providing a range of modern and relevant business building services to help them succeed. The FMB is committed to raising quality in the construction industry and offers a free service to consumers called 'Find a Builder'.

For further information about the FMB, visit [www.fmb.org.uk](http://www.fmb.org.uk) or follow us on Twitter [@fmbuilders](https://twitter.com/fmbuilders). For further information about the FMB House Builders' Survey 2021, email [publicaffairs@fmb.org.uk](mailto:publicaffairs@fmb.org.uk).

## About Openreach

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