

CORPORATE AFFAIRS

# Homes for the next generation

Lessons from the West Midlands

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## Introduction



**Marianne Fallon | UK Head of Corporate Affairs, KPMG**

The number of homes we are building in England is falling far short of what is needed. This has potentially profound social and economic consequences for the country as a whole and especially for families unable to afford a home of their own. Increasingly, the housing shortage is becoming a major political concern.

KPMG is proud to be partnering with Shelter, combining our respective expertise and networks to develop innovative policy approaches which aim to support the process of tackling the national housing shortage. This report sets out the findings from the West Midlands roundtables, where we convened key stakeholders across the housing sector to discuss the shortage of housing supply. We will test these findings with national housing sector stakeholders at our Action Tank event later in the year. The output from the Action Tank will feed into KPMG and Shelter's joint report drawing together recommendations and a case for change which will be presented to government in 2014.



**Campbell Robb | Chief Executive Shelter**

Our housing shortage is a growing problem for young families in England. Priced out of home ownership and unable to access secure social housing, families on ordinary incomes are increasingly trapped in expensive and insecure rented homes. At Shelter, we've seen a huge increase in renting families coming to us for advice often because they are struggling to pay the rent. With the gap between the homes we need and the homes we are building at historic highs, the pressure on family incomes is set to increase further. We need political will and real action to see the 250,000 new homes per year we need in England to meet household growth. However it feels as though politicians are struggling to find answers on how this can be delivered.

The ground-breaking partnership between Shelter and KPMG offers a fantastic opportunity to start answering that question. KPMG and Shelter have brought together housing and finance experts, local authorities, private house builders and housing associations in the West Midlands. By speaking to the key players actively involved in one housing market, we have taken a new approach.

In this report we set out the first findings from the project, taken from KPMG-hosted roundtables in the West Midlands. We will build on these findings over the coming months and consider how they can be applied to national policy. Getting homes built on the scale required must be a priority for government, local authorities and industry. This project will provide a clear agenda for bold action.

# Executive Summary

## Introduction

There is a chronic shortage of homes in England.<sup>1</sup> This fact is now rarely disputed, yet a consensus on how to respond has not emerged. Shelter estimated in a recent report that England as a whole has a growing shortage of 100,000 to 150,000 homes per year.<sup>2</sup>

The consequences of this shortage are stark. Rising house prices and rents are pricing out young families, and placing a major burden on their parents via the Bank of Mum and Dad. Government is spending twenty times as much on high housing costs through housing benefit as it spends building new affordable homes.<sup>3</sup> Beyond the financial costs, young people are deferring major life events such as moving out of their parents' homes or starting a family. Having a secure family home has also been linked to educational attainment, health and wellbeing – so the consequences of our housing shortage for families are truly vast.<sup>4</sup> In a recent survey for KPMG, major employers identified housing costs as one of the top three barriers to business growth.<sup>5</sup>

It is in this context that KPMG and Shelter have worked together on this project. Rather than starting from the national shortage as Shelter has done recently<sup>6</sup>, the partnership is taking a different approach. We are starting from one particular housing system – that covered by the West Midlands' Local Enterprise Partnerships (LEPs)<sup>7</sup> – in order to understand why it is failing to deliver the homes needed. In recent years a new tier of economically focused local government has started to emerge, through Local Enterprise Partnerships, but also City Deals, Enterprise Zones and the Regional Growth Fund.<sup>8</sup> This project is one of the first to reflect that change in governance and delivery.

Over a number of months KPMG and Shelter have spoken with some of the most important players involved in the housing sector in the West Midlands. They have told us why they think not enough homes are being built and given early views on some of the policies that may be needed to close the gap.

Overall, there was a strong consensus that more homes need to be built to meet housing need and numerous examples of collaboration between different parties to improve supply.

However our participants were firmly agreed that **without a major intervention to change the cost and availability of land for development, we cannot expect the step-change in housing supply that is needed.**

This report sets out the evidence from those meetings and points us towards the areas in which solutions will be needed to boost housing supply to meet housing need.

Some of the messages we heard are challenging for current policy assumptions. Others suggest that bold new approaches will be required.

We heard that:

- **Access to development finance was not the major issue** for larger house builders, despite often being seen as critical by politicians and policy makers.
- Equally, those we spoke to thought that **supply side solutions needed to form the primary focus** of the strategy for addressing housing under-supply, rather than – for example – stimulating mortgage lending.
- **Gaining planning permission and meeting building regulations were not seen as the most significant barriers** by most of the participants, however there was frustration with how long it took to gain permission compared to other countries.
- Social housing providers are **running out of room to grow** within their current funding arrangements from central government. While social housing providers have increased their output in the West Midlands in recent years, they need capital investment from government to reduce their leverage.

1. England rather than the UK is used as a point of comparison as housing is a devolved matter, so the framework for public interventions varies widely between the nations of the UK. Shelter therefore focuses on England, while Shelter Scotland and Shelter Cymru focus on Scotland and Wales respectively.

2. Solutions to the Housing Shortage, (Shelter, 2013)

3. Bricks or Benefits? (Shelter, 2012)

4. Chance of a Lifetime: The impact of bad housing of children's lives, (Shelter, 2006)

5. London Business Survey, (CBI and KPMG, 2013)

6. Solutions for the Housing Shortage, (Shelter, 2013)

7. Local Enterprise Partnerships (LEPs) are locally owned private/public partnerships across English areas with a wide mandate to encourage job creation, growth and investment.

8. Cities Outlook 2013, (Centre for Cities, 2013)



Those we spoke to also identified areas for improvement in the housing supply system:

- There should be a much more **strategic long term vision** on meeting housing need in the West Midlands. It was felt that there was too little co-ordination across boundaries on providing the infrastructure and investment needed for housing and allocating land for development. Furthermore, collaboration on strategic sites needs to occur over a sufficiently long timescale to ensure sites are deliverable. There was a strong feeling that this co-ordination and strategy should happen at a level above individual local authorities but below the previous 'regions'. The group was undecided as to whether the LEPs would be the right institutions to fulfill that role. There were concerns about their lack of powers, lack of democratic accountability and current low investment from government.
- Key to any strategic vision should be **clearer data for all market participants** on public and private land ownership and price. On public land, participants found it hard to establish ownership or sale price due to complex ownership structures involving multiple public bodies such as local authorities, the NHS and the MOD.
- There was an appetite to **support new smaller builders into the market, including by increasing custom built homes**. Participants told us that many smaller builders had gone under since the recession and that there could be problems with capacity in the supply chain if building picked up. There is anecdotal evidence that inflationary pressure in the construction industry supply chain is already emerging.
- Investment in housing will **generate positive long term returns** of increased growth and tax revenues, and reduced spending on housing benefits, healthcare, unemployment and a range of social services. There is a need for a clearer economic model that makes the nature of this investment equation visible to policy makers at a local and national level, giving them the ammunition to overcome short termism and inter-departmental budget discussions.
- This in turn may help the case **for increased investment in social housing**. Encouraging different business models into the sector could enable housing associations and others to play their part in increasing affordable housing supply and provide greater sector resilience.



## Executive Summary continued...

## Why focus on the Local Economic Partnerships?

Local Enterprise Partnerships (LEPs) are locally owned partnerships between businesses and councils which were set up by the Coalition government. There are 39 LEPs in England as of August 2013.<sup>9</sup>

For this project, we have focused on the geography covering the three West Midlands LEPs<sup>10</sup>:

- Greater Birmingham and Solihull
- Black Country
- Coventry and Warwickshire

Focusing on the LEPs allows an understanding of a particular housing market. This spatial area takes account of the jobs market and infrastructure, as well as housing – giving a useful indication of a functional housing market area in which a house building system should be working.

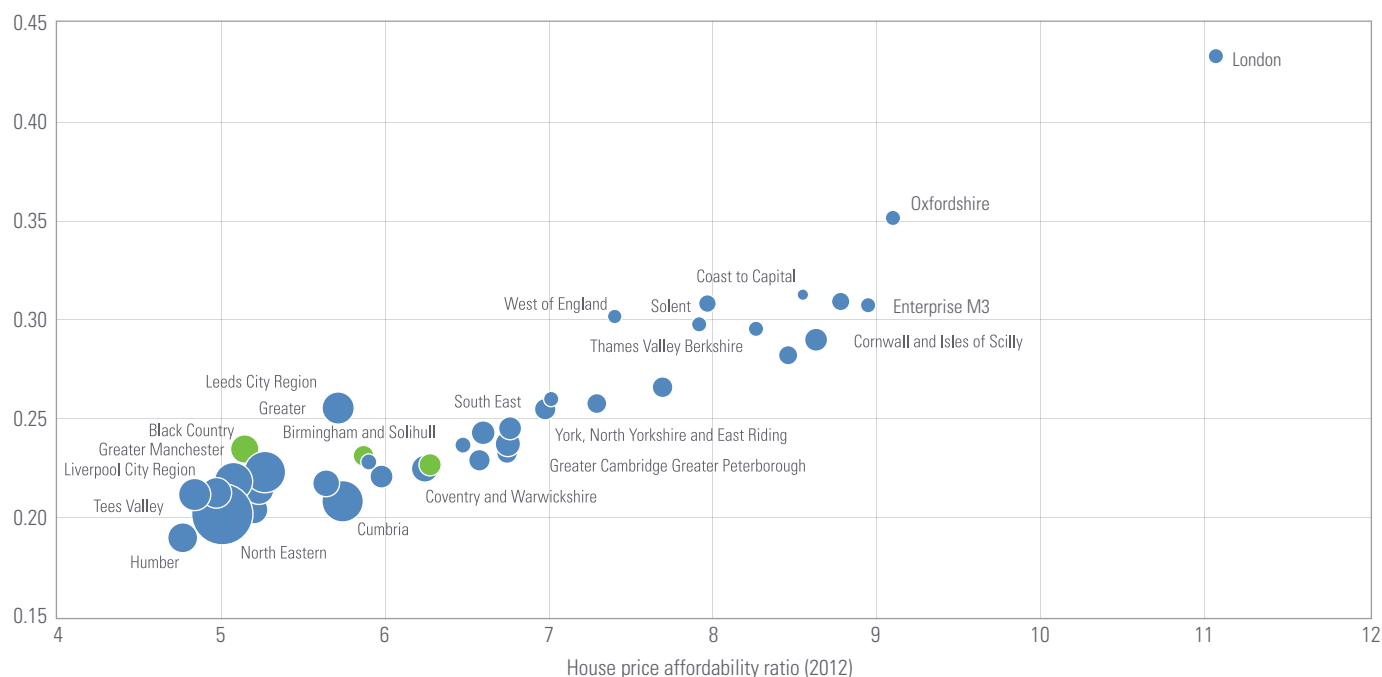
However it was clear from participants that there are also draw-backs to understanding housing supply in the context of LEPs. Housing often isn't their primary concern, compared to infrastructure and employment. Equally while the policy environment is broadly supportive of LEPs, they haven't been given the full funding and powers called for in the recent Heseltine Review which may mean they are not yet ready to co-ordinate housing supply strategically across their geography.<sup>11</sup>

Focusing on the West Midlands provides the project with a major housing market in England which is neither the very high demand of London, nor the very low demand market of the North East. The graph below shows that the three LEPs in the West Midlands are fairly typical English housing markets in terms of rental and ownership affordability and stock of empty homes.

**Figure 1: West Midlands LEPs (in green) are fairly typical English housing markets**

**House price affordability (2012), rental affordability (2011/12). The size of bubble represents the proportion of long term vacant stock (2012)**

Rental price affordability ratio (2011/12)



Source: Department for Communities and Local Government (DCLG), Valuation Office Agency, Nomis, Annual Survey of Hours and Earnings, Birmingham City Council.

9. The LEP Network

10. [www.lepnetwork.org.uk/leps.html](http://www.lepnetwork.org.uk/leps.html)

11. No Stone Unturned in Pursuit of Growth, (Lord Heseltine, BIS 2013)





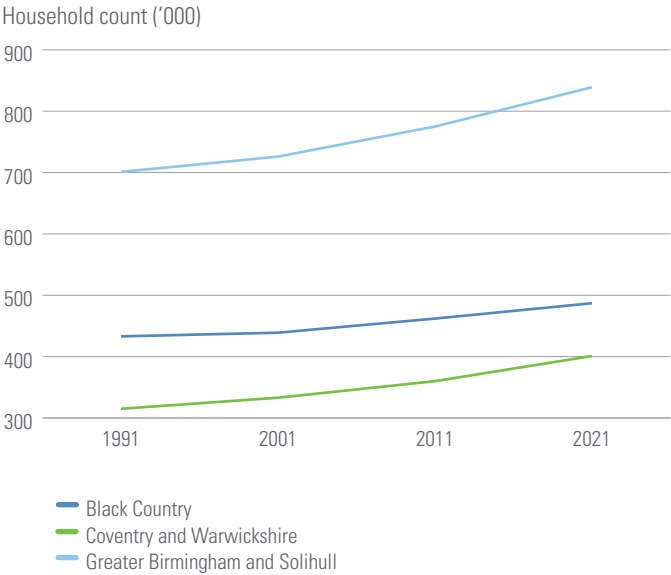
## The housing shortage in the West Midlands

The West Midlands’ housing market is fairly typical within England, more affordable than the South East and less than the North East. The West Midlands is therefore somewhere that you would expect a functional housing system to deliver enough homes. However this has not been the case.

The West Midlands has seen a growing number of households over the last ten years and is expected to undergo rapid population growth over the next ten years. This mirrors England as a whole. Government projections suggest that the number of households will grow by 221,000 per year up to 2021 in England.<sup>12</sup>

**Figure 2: The number of households is increasing in the West Midlands LEPs**

**Household count (1991-2011) and forecast (2011-2021)**



Source: DCLG

However as the number of households who need a home has increased over the last 30 years; the number of homes built has fallen in the West Midlands.



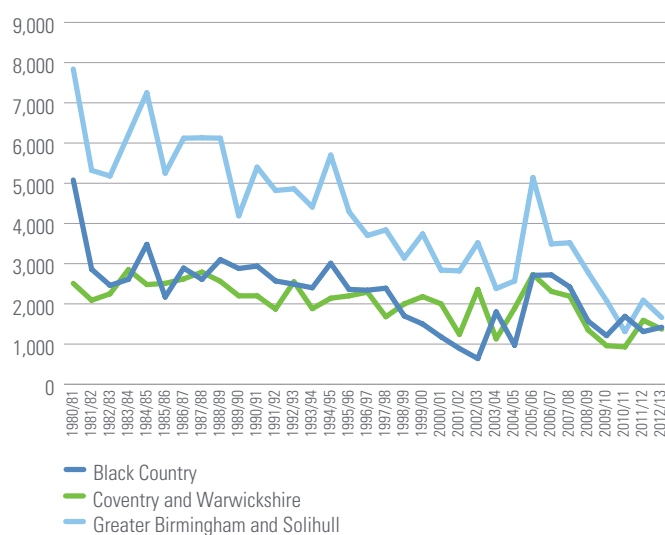
12. Households Interim Projections 2011 to 2021 (DCLG, 2013)





**Figure 3: House building is declining in the West Midlands LEPs**

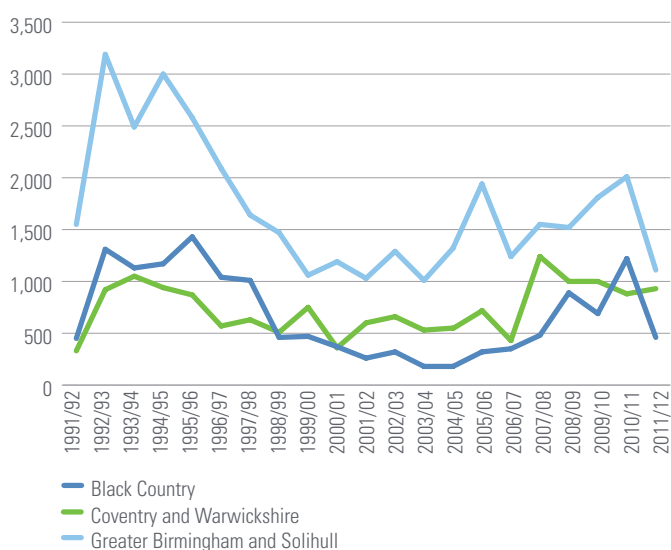
House completions by West Midlands LEP (1980/81 – 2012/13)



Source: DCLG

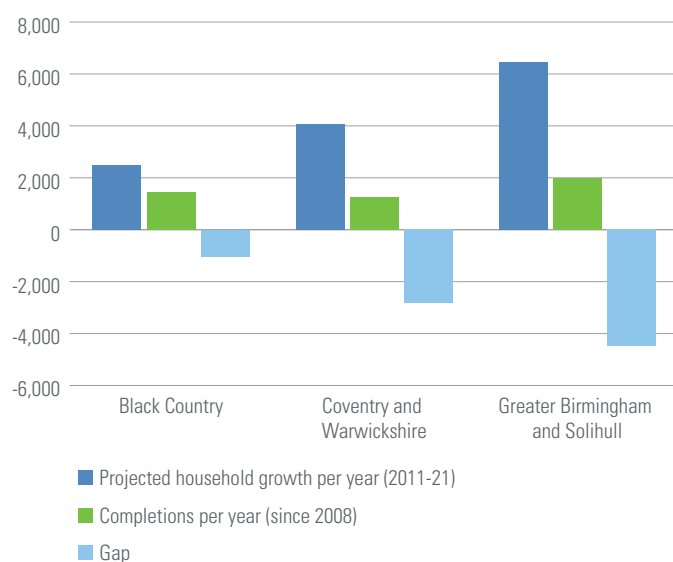
The main fall in homes built in the West Midlands has come from the private market. Affordable housing delivery by housing associations and local authorities has been more stable over the last twenty years. Despite this relative stability, affordable housing provision has not come close to filling the gap left by falling private sector house building.

## Executive Summary continued...

**Figure 4: Affordable housing provision in the West Midlands**

Source: DCLG

Overall, the gap between the number of homes built and the number needed in the West Midlands is large (8,300 homes per year), with Greater Birmingham and Solihull LEP facing a possible shortfall of over 4,000 homes per year in the coming decade.

**Figure 5: The gap between the homes being built and the homes needed****Household growth and housing completions by West Midlands LEP area**

Source: DCLG

In summary, the gap between the number of homes needed and the number being built in the West Midlands is large and growing. According to a recent report, housing affordability in the West Midlands has 'soared' in recent years with average house prices now more than six times local wages.<sup>13</sup> This mirrors the national picture and makes the West Midlands a useful case study for the housing shortage in England.

13. Birmingham Post, August 2013



## Methodology

Rather than conducting a purely desk based study, KPMG and Shelter have spoken with many of the major participants in the West Midlands housing market. By speaking to the private house builders, housing associations, local authorities and others, our analysis presents an 'on the ground' view of why not enough homes are being built.

We held a series of three sector based roundtables with a focus on:

- Private developers
- Local authorities
- Housing associations

In each session we tested the group's view of the major causes of the housing shortage. In a final roundtable we brought the groups together to discuss the solutions that might be available to close the gap between the homes we need and the homes we are building.



### Participants in the West Midlands LEPs project

To gather evidence, KPMG and Shelter ran a series of roundtables and meetings in the West Midlands with key housing sector stakeholders. These included local authorities (both councillors and council officials), housing associations, LEPs and private developers. The sessions were also attended by KPMG and Shelter experts on tax, audit, housing supply and social housing.

All the quotations and findings are unattributed as we ran the sessions under Chatham House rules.



## Findings

We've set out the findings from our roundtables according to the major themes which emerged:

- Cost and availability of land
- Falling public investment
- Difficulties with governance and data
- The need for greater competition and innovation

### Land

#### Summary:

The cost and availability of land to build homes was identified as one of the major factors holding back housing supply in the West Midlands.

- Private developers agreed that **acquiring land was the biggest upfront cost** – and crucially the major risk – in their business model.<sup>14</sup>
- Local authorities acknowledged that they **had not identified enough land** to meet their housing targets and that certain authorities felt **'hemmed in' by constraints** on land use such as green belt designation. Green belt designation is set by local authorities in their local plans, indicating that the pressure here is political rather than technical.
- Participants felt that **public land was hard to access** due to the variety of public bodies involved in different sites. Some local authorities felt that there was **too much expectation for public land to be 'gifted'** to developers when this meant a loss on their balance sheets. It was felt that more innovative models could be brought forward to allow local authorities and developers to share risks and benefits of land use.
- Participants **did not think land banking was a major issue** in the West Midlands. Private developers argued that their land banks had reduced in size since the financial crisis. However there was a recognition that an increase in land held under 'option agreements' could be a factor in the decline of land banks, but that it is hard to measure without better data. Equally there was a lack of data on the amount of land with planning permission owned by non-developers.<sup>15</sup>

In addition there was a clear message from all participants that 'contaminated land'<sup>16</sup> was a reason why sites were not being developed. The risks associated with taking on such sites were large and unpredictable. Innovation is needed to counteract this risk, either by the public sector taking on this risk or by incentivizing the private sector to do so. There is a question around whether current tax reliefs (e.g. land remediation relief) aimed at providing a financial incentive to developers to regenerate brownfield areas are sufficient, or whether there needs to be an increased focus by HMRC and local councils on regenerating specific brownfield areas, for example, by potentially increasing the rates of contamination relief for that specific area (and hence, improving the margins and viability of brownfield site development), providing reduced rates/increased capital allowances for future occupiers and other financial incentives to stimulate the regeneration process. This isn't an issue for all parts of the region, but where it is an issue it can be a major obstacle.

Large sites are, by nature, more complex and ownership typically more disparate e.g. across different financial institutions. Generating momentum on these sites requires significant local authority resource, and only so much of this exists. It is important that smaller schemes, which may be quicker and easier to bring to life, are not neglected.

#### What they said:

**Private builder:** "Land is the biggest upfront cost for development."

**Housing association:** "Why is there no easy-to-access register of land ownership and sales prices?"

**Local authority:** "Public land is as much a subsidy as public spending. Giving it away is not a sustainable solution."

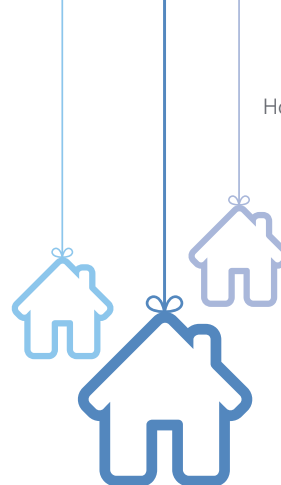
**Private builder:** "In Holland they release enough plots of land for the number of homes needed each year. Why can't we do that here?"

14. The risk is created because developers must bid for land on the basis of their expectations about future house prices. Therefore in a house price boom developers are prepared to bid high for land, and when prices fall those sites can no longer be developed profitably.

15. A recent study for the GLA in London found that 55 percent of the pipeline of development land was in the control of firms which do not build. (Molior, 2012)

16. Developers gave examples of former industrial sites which have high clean up costs, but also land with mine-shafts or potential mine-shafts below. Acquiring the land to make a full evaluation was considered too risky.





### What will it take to build the homes we need?

The stakeholders we spoke to in the West Midlands felt that the cost and availability of suitable land was a major – if not the major – barrier to building the homes needed. Bold approaches will be required to ensure that enough land is available for development.

Currently, participants felt that there was too little data available on land ownership or price either in the private market or publically owned land. This situation has worsened since 2011 as the government has stopped publishing land price data via the Valuation Office Agency.<sup>17</sup>

The group felt that a more strategic approach to land use could involve local authorities or other public bodies cleaning up contaminated sites and releasing them back into the market, so long as the body had funds available to purchase the land. There was also an appetite for a more strategic approach to new major sites, with participants discussing European models and some UK models (like the Olympic Park) which brought together land management, infrastructure and planning powers.

While the group was clear that land costs were a major issue, there is a need for a greater understanding of how different models of land market or planning system intervention could sustainably lower land prices.

17. Homes and Communities Agency,  
<http://www.homesandcommunities.co.uk/ourwork/residential-land-value-data>.

## Findings continued...

**Case Study: Other European approaches to land assembly**

In the West Midlands it was clear from those we spoke with that the cost and availability of land for house building was a major obstacle to expanding development. In some European countries local authorities take a different approach to the land market.

**Germany: land pooling**

Germany uses a legally binding process of land pooling. The process begins with the local authority determining the area of the site for development and the rights and claims of all individual plots are added together. The land planned for infrastructure (transport and social) is then taken from the total area. The remaining land is then returned to the original land owners as a proportion of either the original value or land area. If the area is allocated by land value then the landowner has to pay the uplift in value – i.e. the difference between the original land value and the new land value – to local government as the public investment in infrastructure makes the land more valuable. This means the municipality can recover the costs of the initial investment in infrastructure.<sup>18</sup>

**Netherlands: land parceling**

In the Netherlands, local government would buy a site at existing land value – generally, agricultural value – which, as with the German model is achieved via a compulsory purchase. It would then service the land by investing in social and transport infrastructure. It then parcels up the site into smaller plots and sells them to developers at a price that in total would cover the infrastructure costs. If this generates a surplus then local government would keep the revenue, but if it generates a deficit then either central or local government would have to subsidise it.<sup>19</sup>

**Case Study: Green belt swaps by Cheshire East Council**

Stakeholders in the West Midlands felt that land designation that prevents development was not always appropriate. Some local authorities in England are getting past this problem by swapping land in and out of their green belt.

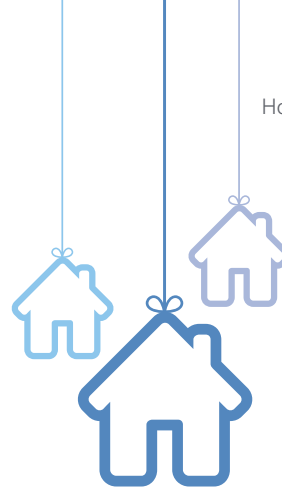
Following the example of Cambridge, Cheshire East Council is proposing green belt land swaps in order to boost the number of houses built and hit its Local Plan targets of delivering 27,000 homes and 20,000 new jobs by 2030.

Under the plan, the council will release around 80 hectares of publicly owned green belt agricultural land near Wilmslow in order to develop a new community of 1,800 homes. The council is also proposing two new 1,000-home villages south-east of Crewe – one partly on green belt land and the other located on land identified as a “green gap” in the existing local plan. In return, the council will allocate a new area of green belt – around 800 hectares of land – around the town of Nantwich, in order to prevent it merging with Crewe.

The thinking is that a plan-led system will enable houses to be built within sustainable and viable communities. In order to achieve economic growth, areas that are of economic importance need to expand while sustainable communities require reducing urban sprawl. Here, land swaps, driven by the council, can ensure houses are built in areas of high demand while the total amount of green belt land is not reduced.

18. Connellan, O. – Land Assembly for Development – The Role of Land Pooling, Land Re-adjustment and Land Consolidation FIG XXII International Congress (2002)

19. Golland, A. and Oxley, M. ‘Housing development in Europe’ in Golland, A. and Blake, R. – Housing Development: Theory, Process and Practice p307-8 (2004) (Routledge: London)



### Ideas to discuss

The cost and availability of land for house building was identified as a major barrier to building enough homes:

- Do local authorities or other bodies have sufficient powers to increase the supply of land into the market for house building? If so, why aren't they being used?
- Is there a market mechanism that can be used to release more land (i.e. community land auctions)?
- Will getting more land into the market sustainably reduce land prices, or do we need additional reforms to ensure land prices remain lower?



Findings continued...

## Finance and investment

### Summary:

Those we spoke to were clear: a significant expansion of affordable housing will require upfront investment.

- For private builders, there was a feeling that they could access development finance from banks if needed.
- For affordable housing provision, **falling public investment was the biggest barrier** to delivering the number of homes needed. Providing subsidised housing requires some form of subsidy. While many housing associations are seeking to diversify into commercial activities, significantly reduced capital funding inevitably limits their financial capacity to build new affordable homes.
- **There was a mixed view from local authorities.** Some felt that lifting the borrowing cap on their Housing Revenue Accounts would help them to expand output, but for others this was not necessarily the case. Some local authorities had been in talks with institutional investors about growing their local private rented sector, but this had not yet come to fruition. It was also true that some authorities had found obtaining member support for releasing land to be challenging unless it was evident that partners in the housing association and private sectors were willing to share the risks and rewards, and brought innovative solutions to achieving this.
- **From all participants there was a view that house price affordability, not mortgage lending, was the underlying problem for consumers.** Housing has to become more affordable through stable or lower prices, rather than bigger mortgages relative to incomes as were available in the mid 2000s.

### What they said:

**Housing association:** “The problem we face isn’t the cost of borrowing or access to finance; it’s the fact that our borrowing level is already high relative to our assets and can’t go much further.”

**Private developer:** “We can access development finance from lenders; it’s not an issue for us.”

**Housing association:** “Uncertainty about government investment means that we are very conservative in our assumptions and our building rates.”

**Housing association:** “In the end, affordable housing requires upfront subsidy – either through land or finance.”

### What will it take to build the homes we need?

The message from the West Midlands was that access to finance was not the main barrier that developers faced. Private developers cited land costs and the slow planning process as bigger hurdles, while housing associations identified declining government grant investment and policy uncertainty as the bigger barriers.

Across England, policies have been introduced to allow private and not-for-profit developers to access finance for development at lower costs. Results so far have been mixed.<sup>20</sup> A more sustainable solution would be to increase grant levels to allow housing associations to borrow and build more affordable homes, while tackling more pressing issues such as land costs.

In order to increase public investment in homes there are two options:

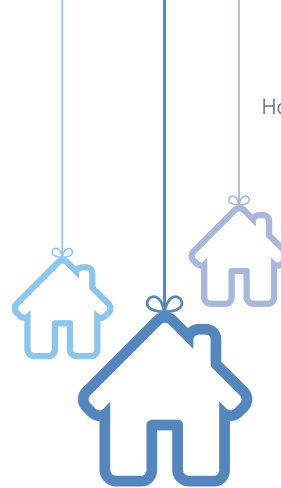
- **Traditional public borrowing and spending** from central government or local authorities. Capital investment from central government has been cut twice over the last three years, with a 60 percent cut in the 2010 Spending Review. Shelter has argued that there is a strong economic and social case for increasing traditional investment in homes, both from central government grant funding and through further reform to local authority spending rules.<sup>21</sup>
- **New models of investment.** There have been a number of recent proposals for new models to bring extra public investment into housing, such as Quantitative Easing (QE) for housing.<sup>22</sup> There may be an opportunity to develop models to bring in new public investment into housing by demonstrating the economic benefits of new homes through an ‘earn-back’ model – as Manchester has used for infrastructure investment.

20. Built to Let scheme in disarray, Financial Times 11 June 2013

21. Solutions for the Housing Shortage (Shelter, 2013)

22. Strategic Quantitative Easing (New Economics Foundation, 2013)





### What might a new model look like? Manchester's Earnback

We identified the need for new investment in housing as a core problem for housing associations in expanding their house building. However, with the budget deficit a major political concern there is a need for models of housing investment which do not increase public borrowing.

Under the Coalition's localism agenda, a step towards greater financial devolution was taken as a result of 'City Deals' where local areas could obtain greater control of spending if they could demonstrate savings or efficiency. The most prominent of these was one part of the Manchester City Deal known as 'earnback'.

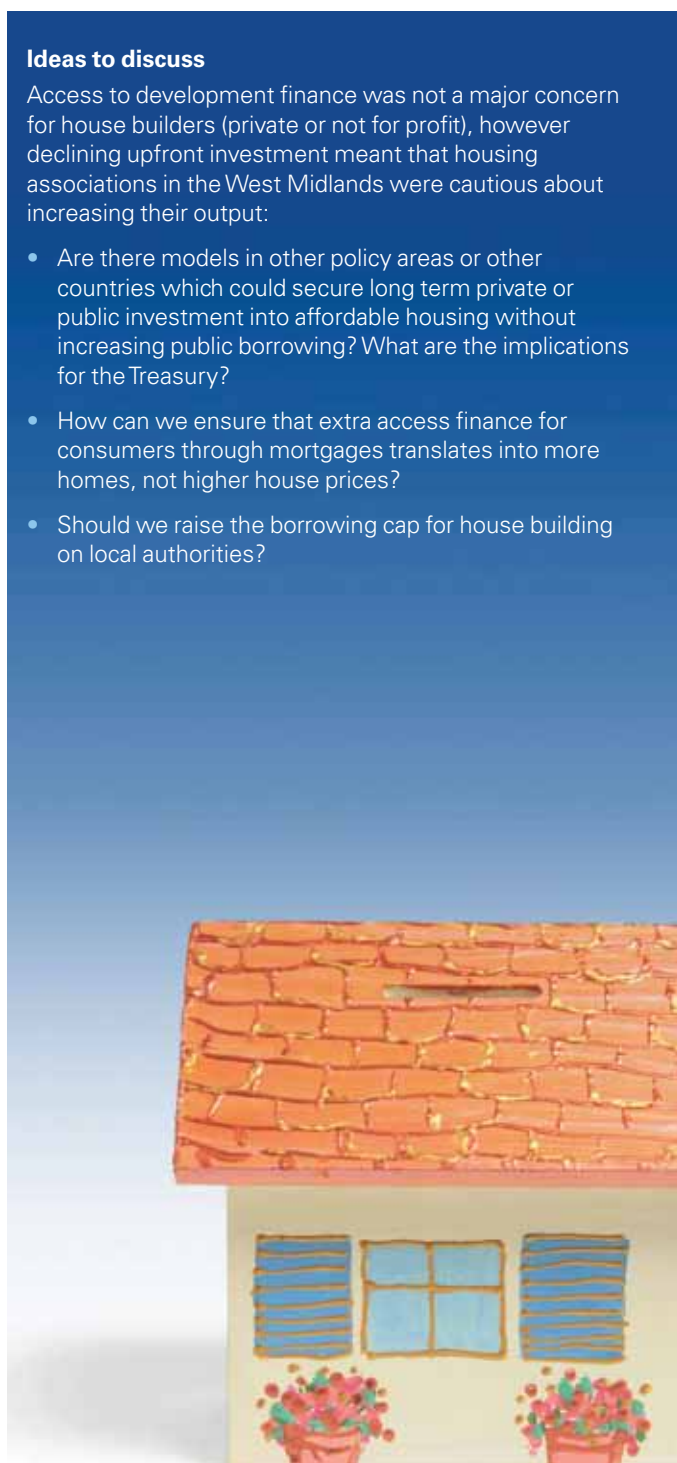
The Manchester Earnback Model rewards an area for taking on some risk from investment that generates economic growth. Greater Manchester Combined Authority will invest in infrastructure with the aim of generating economic growth. Where this growth occurs, it will generate extra tax receipts for the Exchequer. This upfront investment cost is then paid back from the Treasury to the Combined Authority. These 'earned back' funds are then reinvested into further infrastructure projects and so the Combined Authority is rewarded for generating economic growth and shouldering some of the risk. This form of tax-increment financing will last for 30 years and has a maximum value of £1.2 billion.

The deal has allowed greater investment into key projects such as the £290m South East Manchester Multi Modal Strategy (SEMMMS) road scheme to the airport, and has accelerated other schemes in the pipeline, such as the Metrolink extension to Trafford Park.

### Ideas to discuss

Access to development finance was not a major concern for house builders (private or not for profit), however declining upfront investment meant that housing associations in the West Midlands were cautious about increasing their output:

- Are there models in other policy areas or other countries which could secure long term private or public investment into affordable housing without increasing public borrowing? What are the implications for the Treasury?
- How can we ensure that extra access finance for consumers through mortgages translates into more homes, not higher house prices?
- Should we raise the borrowing cap for house building on local authorities?



## Findings continued...

## Governance, planning and data

### Summary:

A theme throughout the meetings we had with stakeholders in the West Midlands was that a more long term, strategic approach was needed to governance and planning. Participants felt that currently there is too much uncertainty and not enough co-ordination between different bodies responsible for planning, infrastructure and investment.

- There was a feeling that decisions around new development, land use and planning were short term because **they were determined by political cycles**.
- Private developers felt that the **planning process was too long, costly and burdensome** – especially in comparison to other countries' systems. However it was recognised that **further reform of the planning system would create uncertainty and slow development**, at least in the medium term. Overall, participants wanted innovation and reform around the National Planning Policy Framework (NPPF), rather than for it to be scrapped.
- Local authorities thought a more joined up approach was needed **between the private and public sectors**, and between each other. Local political pressures made it difficult to co-operate across local authority boundaries to identify the best sites for new homes.
- **Lack of data was a common problem** for market participants, with the land market identified as particularly non transparent.<sup>23</sup>

### What they said:

**Private builder:** "Land use planning should be de-politicised – changes in policy bring uncertainty and risk."

**Local authority:** "We need a market area strategy with strong governance. Otherwise we end up challenging each others' local plans."

**Housing association:** "We need to join up plans on housing and infrastructure. Local authorities are squeezing out CIL [infrastructure funding from housing developers] to boost the number of housing units delivered on site. This isn't sustainable long term."

**Local authority:** "There is far too little data and it's often at the wrong levels of detail. We need better data on land use and ownership, housing need and potential housing demand."

### What will it take to build the homes we need?

To get enough homes built a joined up approach across local authority boundaries will be needed, bringing together the not-for-profit and private developers with planning authorities and infrastructure investment.

In the original plan for the LEPs the government suggested one of their core functions could be 'strategic housing delivery'.<sup>24</sup> LEPs have the advantage of covering a market area which takes account of employment and infrastructure, making them a useful economic geography for house building. However there may be other bodies which are more appropriate. LEPs do not have direct democratic accountability and so there may be a risk that providing them with extra powers could fail to gain political traction or local consent.

The experience in the West Midlands, indicated by participants in our roundtables, was that the current housing supply system was skewed by the lack of any 'regional' body with both a mandate and powers to significantly increase housing supply. This meant that local authorities were forced to challenge each other's plans for housing supply when they were unable to meet their own need. While participants thought there had been advantages to the previous Regional Development Agencies, they did not simply want a return to that model as they felt that the geography covered was too large.

Another option may be to add 'parallel' institutions into economic sub-regions, such as new Garden City corporations, which could significantly boost housing supply. This model was used extensively with the New Towns, which were independent of local authority control and had significant planning powers and finance.<sup>25</sup>

Either way, we need a more co-ordinated approach with much better access to crucial data such as land ownership. Evidence suggests that data can be crucial in driving forward an agenda for growth and new housing.<sup>26</sup> The new approach would need to build on the work of existing strategies, whether from LEPs or other bodies.<sup>27</sup>

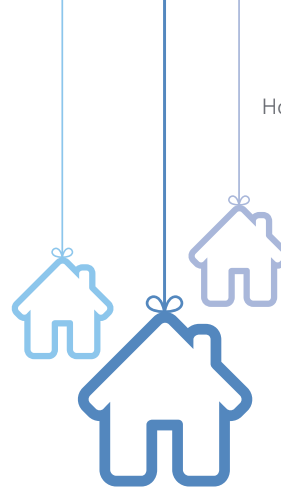
23. According to the Land Registry, 20 percent of all land in England and Wales is still not registered. There is also a lack of public data around control of the future development pipeline through option agreements.

24. Local Growth White Paper, (HM Government, 2010)

25. Transferable lessons from the New Towns, (ODPM, 2006)

26. Consensus Building for Strategic Planning in Cambridge, (LGA and PAS, 2013)

27. For example in one of our sessions the Black Country Development Agency was mentioned as a local body which had created a strategy for housing supply.



### Case Study: Cambridge Futures

Co-ordination of house building strategy across local authority boundaries over the long term was a key issue raised in the West Midlands. One successful approach that could signpost a way forward is Cambridge Futures.

Cambridgeshire is one of the most economically successful places in England but local authorities' recent cooperation to generate economic growth has not always been present.

Until the adoption of the 1996 Local Plan, the working document guiding planning in Cambridge was the Cambridge Town map dating from 1961. This effectively followed planning proposals of the 1950s which recommended that the population of Cambridge should be limited to 100,000 people by restricting development and defining a green belt.

The biggest change came with the extensive and visionary ambition of Cambridge Futures, which brought together local authorities, businesses and academics to form a genuine partnership. With such a shift, there were tensions – particularly from South Cambridgeshire District Council whose members largely represent small village interests – but the direct and strong leadership from Councils' Directors and Leaders ensured there was the necessary cross border collaboration. This meant a wider vision was shared, planning was coordinated over a larger area and economic growth was achieved.



### Olympic Park and Garden Cities

In England there has been a long history of developing new places through single-purpose development corporations. This approach was used in the New Towns in the 1950s and 60s as well as Urban Development Corporations in the 1980s, and most recently major regeneration sites such as the Olympic Park in East London.

The advantage this approach brings is a single, co-ordinating body with powers and finance to develop the housing and infrastructure of a new settlement together. Alongside other measures, this approach could significantly boost housing supply.

Development of the Olympic Park was led by a single body with planning and land powers, significant financial backing and long term political will. Over 3,000 compulsory purchase orders (CPOs) were used on the site to control land prices. Integration with transport and education investment has created a new community in high housing demand East London which has a large proportion of affordable housing.

### Ideas to discuss

A long term, collaborative approach to house building was seen as crucial by those in the West Midlands. They felt that planning should be less burdensome in terms of the length of time it took for builders to gain approval, but a clearer cross-boundary strategy was needed to join up infrastructure, housing and social services.

- Without further costly reforms to the planning system, how can we speed up planning decisions?
- Should long term strategy on housing supply be co-ordinated at a level higher than local authorities but lower than regions? How would this work in practice? What powers would be required and how would these bodies relate to existing institutions such as local authorities?
- Should parallel organisations – such as development corporations – be introduced to bring a step change in the level of housing supply? What would be the main barriers to this?



Findings continued...

## Innovation and Competition

### Summary:

Alongside the core conclusions, there was also a feeling that there were other smaller scale changes that could be made to improve the quality of local homes and increase competition and innovation within the market and by affordable housing providers.

- Some local authorities are looking at using innovative land deals to decrease risk for house builders and therefore increase the amount of affordable housing provided (see box below).
- There was a feeling that more could be done to **link major employers into the housing supply system**. Some major employers such as supermarkets own large land banks which they are looking to gradually reduce.<sup>28</sup> There may be an opportunity to work with employers to increase the provision of affordable housing on these sites if it benefits their employees. Birmingham has two well known examples of Garden Suburbs, Bournville and Harborne Tenants, planned in conjunction with major employers, Cadbury and GKN in the early twentieth century to provide decent homes near places of employment. The success of these developments was down to a combination of local government, local business and the local house building sector working effectively together – potentially a model to reinvent in the twenty first century.
- Participants thought that much more should be done to **encourage self or custom build housing**, which is rare in the UK compared to other European countries.
- There are over **200 housing associations in the West Midlands**. Participants thought that more could be done to get the most out of smaller associations – through mergers, pooling headroom, sharing expertise – as well as the focus on the output of the big players.
- Local authorities felt that **institutional investment in the private rented sector** was a debate happening in London, but was a model that would struggle to get off the ground outside of the capital. There had been some discussions with potential investors, but no schemes have yet taken off.

### What they said:

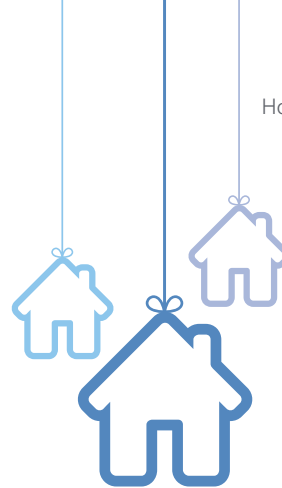
**Local authority:** “[Big supermarket] has major land holdings in the region which it may want to dispose of given the trend towards smaller inner city stores. They are holding on however because of the risk of land being lost to competitors. Is there a way through this?”

**Local authority:** “We’ve done a land deal with a house builder to take away some of the upfront risks in a project and guarantee affordable housing delivery.”

**Housing association:** “Why can’t we encourage more people to custom build their own homes as they do in Europe? This would help support smaller builders too.”

28. FT, Changing times sees Tesco shelve landbanks (April 17th 2013)





### What will it take to build the homes we need?

Bold action is required to tackle the deficit of homes in the West Midlands. We have seen that those spoken to in this project felt that action on land cost and supply, public investment and strategic governance were vital to ensure that enough homes are built. However there was also a feeling that existing housing market could be more innovative and open to new players to improve the quality of homes and improve competition in the market.

Improving the quality of new build homes has been shown to increase the likelihood of communities accepting development.<sup>29</sup> We also know that competition within the house building sector has declined significantly in recent years and is especially low compared to other countries.<sup>30</sup> By encouraging smaller builders and custom build we can diversify the range of house builders in the market and spark competition on quality.



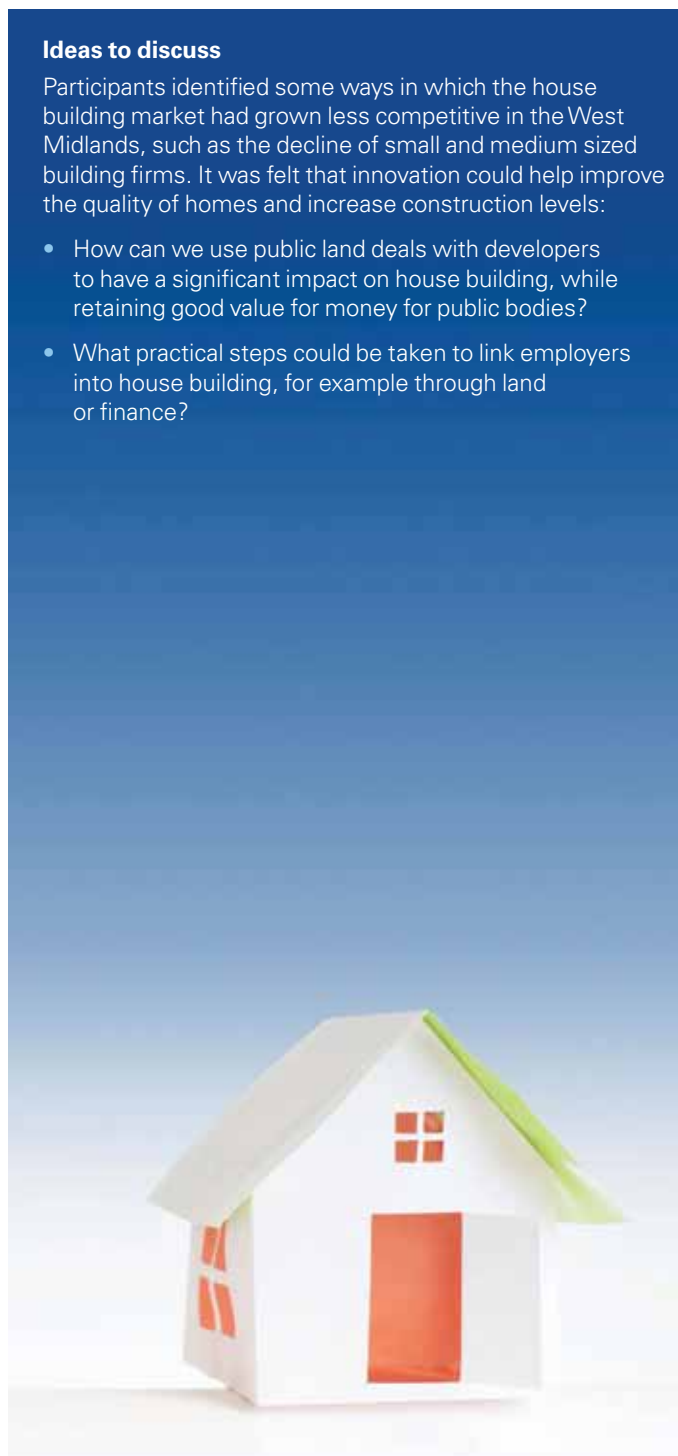
#### Local government attitude to risk sharing?

Risk sharing models between the public and private sectors are emerging and proving successful, albeit on a relatively small scale. The participants in the West Midlands from both the public and private sectors were enthusiastic about exploring such models.

### Ideas to discuss

Participants identified some ways in which the house building market had grown less competitive in the West Midlands, such as the decline of small and medium sized building firms. It was felt that innovation could help improve the quality of homes and increase construction levels:

- How can we use public land deals with developers to have a significant impact on house building, while retaining good value for money for public bodies?
- What practical steps could be taken to link employers into house building, for example through land or finance?



29. Little boxes, fewer homes (Shelter, 2013)

30. Solutions for the Housing Shortage, Ibid

## Conclusions

This report sets out KPMG and Shelter's findings from a series of meetings with major players in the West Midlands' housing sector. The following broad conclusions will be used, along with additional research and evidence, to develop recommendations for what is needed to solve the housing shortage nationally.

- Development finance and planning were not seen as the main barriers to getting homes built. Among the stakeholders from the private and public sectors that we spoke to, the consensus was that the main barriers to building more homes were:
  - i. land cost and availability,
  - ii. falling investment in affordable homes,
  - iii. poor co-ordination on spatial planning,
  - iv. difficulty of entry into the market for smaller house builders.
- While the land market and the cost of land were identified as the core problem holding back housing supply, there was not a clear view from stakeholders as to how land could be sustainably released for development at a lower cost. KPMG and Shelter will look in more detail at European and other models for land market reform which could break the vicious cycle of rising land prices and declining house building and make recommendations.
- There was a strong view that more consistency was needed from public policy. The participants in our study felt that policy stability was essential for their business models and to allow proper forward planning. Stakeholders felt that another full re-design of the planning system would slow output even more. We need to create new ways to provide long term stability without radical planning overhauls.
- There is not enough good quality, accessible data. As organisations reliant on data, KPMG and Shelter were surprised by how little data is available within the land and developer markets. Better use of and accessibility of data must be a core part of a better housing delivery system.
- Bold solutions are essential. The housing shortage is growing each and every year, with severe consequences for those unable to afford a home of their own. In the next phase of our joint project, Shelter and KPMG will refine our initial ideas from the West Midlands and consider how they could be applied across the country to relieve the housing shortage.





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CRT002426 | September 2013 | Printed in the UK