The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.
Preface

Housing market renewal

The origins of the programme

Industrial decline between 1970 and 1990 led to population reduction and areas of intense deprivation, especially in some northern inner cities and towns. Where populations have fallen significantly, neighbourhoods have been vulnerable to a spiral of decline characterised by rapidly falling property values, more people moving out, dereliction, and empty homes attracting antisocial behaviour. By the early 2000s, it had become clear to politicians, practitioners and academics that traditional housing solutions were not enough (Ref. 1, Ref. 2). The case was made to the 2002 Comprehensive Spending Review (CSR) for a more radical approach\(^i\).

The policy response

In 2003, the Housing Market Renewal (HMR) programme began to tackle low demand and abandonment (Ref. 3). Its aim is to deliver change on a large scale, working across areas with weak housing markets, irrespective of local authority boundaries.

Nine pathfinders – increased to ten in 2008 – were created, covering some of the most deprived areas in the country and with the most severe low-demand housing problems\(^ii\). All are located in parts of the Midlands and North of England. The pathfinders brought together partnerships of local authorities and other concerned parties to tackle this problem. Acting as agents for change, pathfinders have been charged with the development and delivery of wide-ranging strategic plans for their housing markets, to deal with the root causes of problems and not just displace them\(^iii\).

Responsibility for the implementation of the programme moved from the Department for Communities and Local Government (DCLG) to the Homes and Communities Agency (HCA) on 1 December 2008. By March 2011, £2.2 billion will have been invested directly through the programme, which has also secured more than £1 billion additional investment from public and private partners.

\(^i\) comprehensive spending reviews (CSR) set firm and fixed three or four year expenditure limits for government departments

\(^ii\) pathfinder areas are outlined in appendix 1

\(^iii\) displacement is where policy and investment in one area might simply encourage the problem being tackled to move elsewhere and so to shift beyond the reach of intervention
The role of the Audit Commission

Since the programme’s start, we have been assessing the pathfinders’ performance. Our work supports their development and provides DCLG and the HCA with an independent assessment of how effectively the HMR programme is working locally. Our reports also provide commentary on the programme to help inform policy debate and decisions.

Structure of the report

This is the fourth HMR programme review undertaken since 2003. It uses work undertaken by the Commission over the last year to review the work of the pathfinders.

This 2009/10 review occurs during a period of economic and organisational change that is unique in the pathfinders’ short history. The environment has changed profoundly, impacting on the underlying strategic and operating assumptions that shaped the design of the HMR programme. The policy environment has also shifted. In October 2010, the government announced that the HMR programme will end in March 2011 - eight years into what was originally envisaged as a ten to 15-year programme.

In this review we look back at the original objectives and explore recent progress and performance in the current challenging economic context. We then consider how HMR can adapt to ensure continued relevance as local partnerships seek to continue prioritised interventions in the absence of national dedicated funding.

The report covers:

- HMR ambitions and summary progress;
- the changed economic context in which it is now operating;
- pathfinders’ recent achievements within the current economic climate;
- HMR key outcome measures and market trends;
- HMR value for money;
- the future for HMR; and
- our conclusions.

[1] previous HMR programme reviews are available on our website at: [www.audit-commission.gov.uk/housing/marketrenewalpathfinders/majorperiodicreports/pages/default.aspx](http://www.audit-commission.gov.uk/housing/marketrenewalpathfinders/majorperiodicreports/pages/default.aspx)
Summary

Cumulatively, HMR achievements have been significant and, in a difficult year, pathfinders have continued to make progress. The HMR programme is making a difference to the communities it serves, with fewer empty houses, reduced crime, and more jobs and training opportunities, especially in those neighbourhoods that are more advanced in their programmes. By March 2011, HMR investment will have averaged about £115 per resident per year – surprisingly less than the comparative spend by the New Deal for Communities (NDC) programme per head on housing.\[i\] By March 2011, pathfinders will have:\[ii\]

- refurbished more than 108,000 existing homes;
- attracted private investment to complete over 15,000 new homes;
- readied substantial sites for future development through selective acquisition and clearance of up to 30,000 properties;
- generated some £5.8 billion of economic activity across the economy;
- created some 19,000 jobs in construction and related industries; and
- helped maintain over 2,600 jobs in the construction industry each year\[iii\].

Since 2003, in pathfinder areas, HMR has provided the finances and the impetus for action to rebuild housing markets. But the basic principle of HMR has been significantly affected by the economic downturn. The HMR programme was conceived in a time of economic and market growth. In 2010, the reality is very different: the financial environment that pathfinders operate in has changed profoundly since the 2008 credit crunch. The assumption of access to long term public, private and personal finance to complement HMR funding is no longer a reality.

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\[i\] the NDC Programme (1999-2010) was designed to achieve the holistic improvement of 39 areas by improving outcomes across six themes: three 'place-related' outcomes: crime, the community, and housing and the physical environment; and three ‘people-related’ outcomes: education, health and worklessness. Detailed comparisons are contained in the value-for-money section later in this report
\[ii\] based on cumulative outputs provided by pathfinders, February 2010
\[iii\] see paragraph 9 for calculations regards economic activity and jobs
In 2009/10, significant short-term fiscal stimulus to the housing market helped to mitigate the impact of the recession. In many places, development projects are carrying on largely thanks to public money. But public spending cuts are very significant. The impact could be disproportionately severe in HMR areas, with the risk of private sector retrenchment to areas perceived as being of less risk and with higher reward.

While dedicated funding will end after March 2011, HMR still has a valuable role to play in supporting the increased resilience of what are still vulnerable neighbourhoods – but a fundamental reshaping is needed. Local Enterprise Partnerships (LEPs) will have a pivotal role in determining future priorities and could serve HMR areas well by more closely joining economic and housing agendas. In some HMR areas LEPs have been approved and look likely to inherit some pathfinder responsibilities. In other areas LEPs are still evolving and proposals for continuing the legacy of HMR are yet to be determined. In many places, the focus will be on the delivery of economic development and inward investment projects. In all cases the challenge will be to build upon the legacy of HMR and identify new sources of funding to continue locally agreed priority interventions that help to drive the economy forward.

Eight years into the programme, many homes have been built and many more refurbished. HMR at a neighbourhood level has helped to stabilise market conditions and provide a strong sign of change. But activities in most HMR areas are not yet of a scale likely to tip the balance in favour of a normal market response. Changing the nature of demand and closing the socio-economic gap between HMR areas and those around them are still challenging ambitions.

Significant gaps remain between the most deprived and the least deprived areas within constituent council areas. Not enough local people are yet able to benefit from the range of initiatives under way. In particular, more residents need better skills and higher qualifications to get jobs, and a wider range of jobs needs to be protected or created. A realistic future vision is needed for these areas given the changed economic circumstances and the housing and economic problems they continue to face.

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i  between June 2009 and March 2010, the go-ahead was given for over £4.2 billion of government investment to stimulate the housing market – as outlined later in this report under the changed economic context for HMR

ii  Local Enterprise Partnerships (LEPs), set to replace Regional Development Agencies by April 2012, will be locally owned partnerships between local authorities and business to drive economic growth across an economic area.
The impact of the recession has been pronounced. In HMR areas, since 2008, the number of empty homes has increased, counter to national and regional trends\(^i\). The gap in house prices between pathfinders and their respective regions has widened, having previously reduced, and the number of house sales has rapidly declined. Some pathfinder areas continue to lose population.

By 2010, there were some signs of recuperation in most HMR areas. However, it remains unclear whether the period from 2002 to 2007 represents a superficial recovery or a substantive one. The question is, in the changed economic circumstances, will these low-demand areas return to being areas of last resort, rather than benefiting from growth in adjacent higher-price areas?

The 2010 Spending Review identified that dedicated HMR funding will cease from March 2011. This was not widely predicted and all pathfinders together with their sponsors and constituent local authorities are exploring potential options for continuing the work started by HMR. This will vary depending on local needs and resources. There will be opportunities to bid for other funding but not on the same scale, and the primary focus is likely to shift from physical regeneration to broader economic considerations.

Whatever the future holds, ensuring the primacy of the needs of local communities – a key feature of HMR – will have renewed resonance. There is an ongoing need to support residents and promote community cohesion in these challenging market areas. It will be important to build on the pathfinder legacy, prevent market deterioration and manage the risk of community disaffection which may follow from what some will consider the untimely and premature ending of this programme in their neighbourhood.

In February 2011, the Commission published its final strategic reviews on each of the ten pathfinders\(^ii\). These outline in greater detail the risks associated with the programmes demise at a local level, and consider the emerging plans and possibilities for continuing the work started by pathfinders. Local partners are taking a different approach in each area - to suit local needs and available resources. But generally, led by LEPs, the primary focus is likely to shift from housing and physical regeneration to encompass broader economic considerations.

\(^i\) detail is outlined later in this report – see HMR key outcomes and market trends chapter on page 20

\(^ii\) reports available on the Commissions webpages at: http://www.audit-commission.gov.uk/housing/marketrenewalpathfinders/strategicreviews/pages/default.aspx
Recommendations

National government and the HCA should determine how to invest limited resources within the Regional Growth Fund, and any other national decided investment streams, most effectively to support the resilience of failed market areas. This should include:

■ identifying what has been delivered and what remains to be done to support HMR areas, in order to inform future decisions and build on past investment;
■ ensuring that dedicated and coordinated funds support people and place-based interventions;
■ exploring mechanisms to reduce transaction costs associated with regeneration schemes;
■ maintaining an overview on the outcomes delivered and the value secured for local people; and
■ working with lenders and developers to maintain commitment and investment in these areas.

Local partnerships should finalise options for structural change to pathfinder partnerships, ensuring that transitional arrangements do not detract from programme delivery and agreeing key principles to build on pathfinder achievements to date. This should include:

■ developing community capacity and linking community engagement and involvement with strategic planning;
■ building market knowledge and intelligence linked to economic development outcomes;
■ developing a clear view of place and the roles of neighbourhoods;
■ integrating and aligning funding to develop place-based budgets;
■ modelling governance that melds democratic accountability, community involvement and independent representation to agree strategy and programmes and secure value-for-money outcomes;
■ taking stock of amassed land holdings and assessing which delivery model might encourage added investment and support local economic growth; and
■ building impact assessment into regeneration business plans in any future place based funding programme.

transaction costs include bidding for funding and all of the associated professional services and legal costs.
Chapter 1 Ambitions and progress

Key features and original assumptions

1 As the HMR programme approaches its final year of the 2008-2011 funding grant, it is appropriate to reflect on ambitions and progress so far.

2 HMR is a complex policy. The aim is ‘to rebuild housing markets in areas with low demand for housing’. Programme aims were deliberately broad to allow pathfinders to use local targets and success measures. HMR is not a ‘one size fits all’ approach, but all pathfinder areas share the need for modern homes in sustainable markets. This requires a combination of refurbishment, demolition and new building and should not be left solely to market forces.

3 Dedicated HMR funding provided the impetus. A key assumption was that partner organisations and funders – including private developers and individual homeowners – would, in time, commit their own resources. This would create a long term programme of investment to tackle the underlying causes of market failure, not simply the symptoms.

4 Another defining feature of HMR was the requirement for cross-boundary, sub-regional working, which recognised the reality of the scale at which housing markets operate. Pathfinders are arguably the unacknowledged pioneers of this approach, which is becoming more widely adopted in LEPs, Local Investment Plans and Functional Economic Market Areas.

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i aim as expressed on the Homes & Communities Agency (HCA) website

ii Local Investment Plans aim to secure more efficient investment delivery in places in line with locally determined priorities. Functional Economic Market Areas have been identified by DCLG (Ref. 20) which broadly correspond to sub-regions or city regions
Summary of progress

HMR was originally envisaged as a ten to 15-year programme. Eight years in, many of the schemes now reaching fruition had been, or were being, developed before HMR came into being. It takes time to secure residents’ support for new approaches. But progress has been significant. Table 1 shows total HMR activity and funding broken down across the years.₁

Table 1: HMR original total funding and outputs per year 2002-2011

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<tr>
<td>HMR £m</td>
<td>*74.4</td>
<td>194.3</td>
<td>303.2</td>
<td>314.1</td>
<td>405.6</td>
<td>381.0</td>
<td>346.0</td>
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<td>Acquisition</td>
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<td>3,922</td>
<td>3,987</td>
<td>4,678</td>
<td>3,308</td>
<td>30,987</td>
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<td>Refurbishment</td>
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<td>17,079</td>
<td>11,245</td>
<td>14,539</td>
<td>18,620</td>
<td>11,020</td>
<td>18,290</td>
<td>7,882</td>
<td>108,734</td>
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<tr>
<td>New build</td>
<td>445</td>
<td>524</td>
<td>2,389</td>
<td>3,889</td>
<td>2,529</td>
<td>1,424</td>
<td>2,342</td>
<td>2,238</td>
<td>15,780</td>
</tr>
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</table>

* includes £23.4 million for programme preparation between 2002 and 2004.
** output targets prior to removal of ring fencing and budget cut.

Source: funding DCL; outputs 2008/09 onwards HCA; outputs prior to 08/09 pathfinder returns to AC.

This highlights that:

- overall levels of HMR activity, as demonstrated in reported outputs, in 2009/10 exceeded the peak of 2007/08 when HMR funding was at its greatest;
- refurbishment has been the dominant HMR activity throughout – accounting for more than 60 per cent of total reported outputs; and
- three years into the programme there was a step change in new build. Significant new build has been a key feature since, although with the wider housing market downturn, levels have not returned to the peak seen in 2006/07.

In undertaking these activities, pathfinders have developed a sophisticated understanding of factors that affect housing markets at various levels, and how interventions can effect changes to markets. Most pathfinders have developed master plans, setting out in detail the types and extent of activity required, factoring in quality and heritage considerations and guarding against the risk of simply displacing problems to neighbouring areas. Many of these plans are now consolidated as part of local authority statutory planning documents.

i data provided by pathfinders February 2010 in response to Audit Commission survey. Data for the last two years was not fully supplied by all pathfinders. Revised data is currently being collected in order to confirm actual against projected figures in 2009/10 and updated estimates for 2010/11
Most pathfinders have tried to understand and influence the dynamics of their local labour market so they can match the housing market, and housing supply, to the needs and aspirations of existing communities and the future workforce.

Pathfinders have only recently been required to record the economic impact of their interventions. No formal output data is therefore available to report the number of jobs and training places directly delivered through HMR. However, it is estimated that based on funds allocated and the level of activity reported by pathfinders, up to March 2011 the HMR programme will have:

- generated some £5.8 billion of economic activity across the economy;\(^i\)
- created some 19,000 jobs in construction and related industries;\(^ii\)
- helped maintain over 2,600 jobs in the construction industry each year.\(^iii\)

HMR investment has provided the impetus to get local authorities and others to integrate their funding to address specific areas’ issues on a holistic basis. Private sector resources have been attracted and developers have built high-quality homes in areas where no new housing had been built for a long time.

Pathfinders have earned a good degree of trust and confidence in local communities as the programme has matured. Activities at a neighbourhood level have helped to stabilise market conditions and provide a strong signal of change.

Confidence has been returning to the pathfinder areas, but the challenge remains to change the nature of demand and close the socio-economic gap between these areas and those around them. Activities are usually not yet of a scale likely to tip the balance in favour of a normal market response.

The fact that key challenges still remain in pathfinder areas represents the stage reached in such a long term programme, rather than any failure of pathfinders. It also reflects the scale of pathfinder activity compared with the scale of the housing and labour market as a whole. Together these suggest the need to consider a different approach, which local partnerships, including the emerging LEPs will want to explore as they develop proposals for future interventions.

\(^i\) calculated on HMR capital spend (90 per cent of total), using findings from the study; Construction in the UK Economy; the benefits of investment, October 2009 - that £1 spent on construction output generates a total of £2.84 in total economic activity

\(^ii\) calculated on HMR total new build, using data on jobs created reported in Government response to DCLG Committee’s report on Housing and the Credit Crunch follow up Sept 2009: HMSO CM7695 Crown copyright, which equates to at least 1.25 jobs created or maintained for each new house built

\(^iii\) calculated on HMR refurbishment (60 per cent of 90 per cent capital spend); using data in House of Commons written answers 28 June 2010; that DCLG in 2009 estimated every £1 million of investment in home refurbishment supported 17 net jobs for a year
Chapter 2  The changed economic climate

14 In 2009, we described what had been a challenging year for HMR (Ref. 4). The credit crunch had hit the pathfinder areas hard and created a risk of heightening the already severe housing and socio-economic challenges that they faced. However, HMR status and funding had gone a significant way towards changing the dynamics of the housing market in pathfinder areas, and cushioning the worst of the recession’s early effects.

15 Between June 2009 and March 2010, significant government stimulus to the economy mitigated the recession’s impact. The go-ahead was given for over £4.2 billion government investment to support house building across the country\(^i\). Pathfinders and their constituent councils benefited to varying degrees from these initiatives\(^{ii}\) (see Case study 1). This helped maintain momentum in HMR areas and provided more certainty to those who control other funding streams, and to private sector investors. But this level of public intervention was unsustainable.

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\(^{i}\) total investment recorded in ministerial announcement of round three Kickstart funding, 31 March 2010

\(^{ii}\) initiatives included: Kickstart programme supporting restarting construction on stalled sites; Homebuy equity loan scheme to help first-time buyers; and the Public Land Initiative, taking out the up-front costs and risks involved in site purchase and preparation as contractors pay for public land only once the completed homes are sold
Case study 1

**HMR areas benefited from short-term fiscal stimulus for house building**

Kickstart funding of more than £5 million across a number of sites, including five in South Yorkshire, two in Hull, two in Middlesbrough, one in Pennine Lancashire and six in Liverpool, has ensured that construction of more than 600 new homes remains on track.

Sites in Doncaster and Newcastle are among the first to be made available under the Public Land Initiative: up to 271 new homes will be built.

In Birmingham and Sandwell, funding has been secured to build 157 new council homes.

In Tees Valley, the pathfinder is working with a sub-regional agent for Homebuy, called Time2Buy. Local advertising and a targeted service helped 138 families to move into low-cost homes within the pathfinder area in 2009/10.

In 2010, positive signs of recovery have yet to translate into any sustained upturn in the housing market, and HMR areas remain fragile. Lack of development finance and a reduction in business confidence has reduced the supply of new homes in the pathfinders, as it has across the country. House builders are still suffering from the value of land holdings falling and are unable or unwilling to resource the commencement of the construction of large sites, preferring to proceed with caution on what is effectively a build-to-order basis. At the same time, difficulties accessing mortgage finance and increasing unemployment have suppressed demand from individuals. This has affected the fundamental assumption underlying HMR – the availability of public, private and personal finance.

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**Notes:**

i the Office for National Statistics estimate the UK economy decreased by 0.5 percent in the final quarter of 2010, compared with an increase of 0.7 percent in quarter 3 when underlying growth was broadly similar to that in quarter 2 (1.1 per cent) and well above the 0.3 per cent growth of the first three months of the year

ii a £300 billion mortgage funding gap estimated by Council for Mortgage Lenders in newsletter issue 6, 30 March 2010
Professor Michael Parkinson’s 2009 report on the impact of the recession on regeneration (Ref. 5) described the commercial property market as being in a ‘bubble’ between 2001 and 2007. Commercial property values rose 53 per cent over that period and residential property by 126 per cent between 1994 and 2007. While property values were rising at these levels, there were strong incentives for private investment. The model for intervention in pathfinder areas was thus influenced heavily by a set of market conditions that suited private capital investment, supported by a rising market in which sufficient value could be envisaged to offset the associated risk.

Since 2008, the extent of change in markets, reduction in credit availability and approach to risk by funders and developers alike is such that it is uncertain – and some would say unlikely – that previous conditions will reappear, especially in those places that are seen as marginal. Previous market conditions are now seen as extraordinary. Some investors and developers may have hoped to sit it out and wait for a return to the ‘norm’, but it seems that a new housing market reality is in place.

In May 2010, the incoming government faced an unprecedented £156 billion deficit. In June, their emergency budget identified around a third of the £6.2 billion in-year savings as coming from local-government-related spending. HMR was one of many funding streams affected, with a £50 million capital budget reduction, representing a 17.5 per cent in-year cut for each pathfinder. The ring-fencing of HMR funds was also removed as part of a move to give councils more freedom over local spending decisions.

The removal of the ring-fence offers opportunities for greater flexibility, as councils have to cope with broader in-year cuts. Table 2 shows the cuts to HMR and the remaining budget, alongside cuts made to constituent council budgets announced in June.
Table 2: Cuts to 2010/11 budgets in HMR pathfinders and constituent councils

<table>
<thead>
<tr>
<th>Pathfinder</th>
<th>HMR budget cut £000s</th>
<th>HMR remaining budget £000s</th>
<th>Constituent council</th>
<th>Cuts made to council budgets £000s</th>
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<td></td>
<td>Integrated Transport Block Grant&lt;sup&gt;xxiii&lt;/sup&gt;</td>
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<td>BNG</td>
<td>4,611</td>
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<sup>xxiii</sup> Capital Grants: mainly Integrated Transport Block

<sup>xxiv</sup> Local Authority New Build: approved allocations but not yet contracted

<sup>xxv</sup> Revenue cuts do not exceed 2 per cent of budget and include Area Based Grant, Working Neighbourhoods Fund, Supporting People admin, Cohesion, Home Office and Local Enterprise Growth Initiative

<sup>xxvi</sup> Housing Planning Delivery Grant: provisional allocations shown for 2009/10. The grant has now been abolished, but some commitments may remain (systems/staff) which councils may want to continue to fund

Audit Commission  Housing market renewal  14
<table>
<thead>
<tr>
<th>Pathfinder</th>
<th>HMR budget cut £000s</th>
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<td>Local Authority New Buildxxiv</td>
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<td>Area Based Grantxxv</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Stockton</td>
<td>600  - 2,580 297</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Darlington</td>
<td>420  - 930 438</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Redcar and Cleveland</td>
<td>410  - 2,350 165</td>
</tr>
<tr>
<td>Urban Living</td>
<td>1,918</td>
<td>9,052</td>
<td>Birmingham</td>
<td>3,200  - 12,630 165</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Sandwell</td>
<td>870  - 4,050 384</td>
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<tr>
<td>West Cumbria</td>
<td>142</td>
<td>858</td>
<td>Barrow-in-Furness</td>
<td>-  - 250 73</td>
</tr>
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<td></td>
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<td></td>
<td>Copeland</td>
<td>-  - 100 83</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Allerdale</td>
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<tr>
<td>Total HMR</td>
<td>50,054</td>
<td>260,703</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Audit Commission analysis

The Spending Review in October 2010 announced the end of the HMR programme amid many cutbacks in the public sector. Table 3 shows the reduction in revenue support from government to local authorities in pathfinder areas 2011/13. Reduction in housing and regeneration capacity and capability is likely, although at this stage, it not yet possible to assess the final impact of cuts.
<table>
<thead>
<tr>
<th>Council</th>
<th>2011/12 cuts £million</th>
<th>% change</th>
<th>2012/13 cuts £million</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
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</tr>
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<td>Gateshead</td>
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<td>-£7.9</td>
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<tr>
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<tr>
<td>Sheffield</td>
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<tr>
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<tr>
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<td>-£40.2</td>
<td>-7.1</td>
</tr>
<tr>
<td>Sefton</td>
<td>-£19.5</td>
<td>-6.7</td>
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<td>-3.9</td>
</tr>
<tr>
<td>Wirral</td>
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</tr>
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<td>-£9.4</td>
<td>-4.3</td>
</tr>
<tr>
<td>Burnley</td>
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<td>-19.5</td>
<td>-£3.2</td>
<td>-17.7</td>
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<tr>
<td>Hyndburn</td>
<td>-£2.9</td>
<td>-16.6</td>
<td>-£2.2</td>
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<td>Pendle</td>
<td>-£3.3</td>
<td>-16.5</td>
<td>-£2.5</td>
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<td>Blackburn</td>
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<td>-10.5</td>
<td>-£8.6</td>
<td>-5.6</td>
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<td>Rossendale</td>
<td>-£0.9</td>
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<td>-£0.6</td>
<td>-5.7</td>
</tr>
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<td>Darlington</td>
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<td>-3.6</td>
<td>-£2.9</td>
<td>-3.1</td>
</tr>
<tr>
<td>Stockton</td>
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<td>-£6.2</td>
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<tr>
<td>Redcar</td>
<td>-£12.9</td>
<td>-8.4</td>
<td>-£5.0</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

i A Transition Grant in 2011-2012 caps the reduction at 8.9 per cent; Manchester and Liverpool, for example getting £15.55 million grant.
### Table: Housing Market Renewal Cuts

<table>
<thead>
<tr>
<th></th>
<th>2011/12 Cuts £million</th>
<th>% Change</th>
<th>2012/13 Cuts £million</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middlesbrough</td>
<td>- £15.4</td>
<td>- 9.1</td>
<td>- £5.8</td>
<td>- 3.8</td>
</tr>
<tr>
<td>Hartlepool</td>
<td>- £12.0</td>
<td>- 10.3</td>
<td>- £5.8</td>
<td>- 5.6</td>
</tr>
<tr>
<td>Birmingham</td>
<td>- £105.3</td>
<td>- 8.3</td>
<td>- £49</td>
<td>- 4.2</td>
</tr>
<tr>
<td>Sandwell</td>
<td>- £23.7</td>
<td>- 6.7</td>
<td>- £11.7</td>
<td>- 3.6</td>
</tr>
</tbody>
</table>

*Source: DCLG*

**22** HMR is just one of a number of activities competing locally and nationally for more limited resources. Investment in failed market areas needs to continue, but the extent to which partnerships are able to deliver programmes will depend on the outcomes of each local authority's emerging response to the settlement for local government, housing and regeneration.

**23** Any future programme that embraces HMR must be coupled with private growth to generate economic activity, create employment and nurture fragile local economic recovery. Construction is an essential element for this economic growth, and in certain areas HMR has a valuable role to play. However, where HMR is taken forward, it should be part of a broader package of measures designed to revive the economic fortunes in failed market areas.
Chapter 3  Pathfinder responses and recent progress

24 In 2009, the Audit Commission reviewed how each of the pathfinders was responding to the changing market conditions. We recommended they considered revising existing programmes and targets, rephasing developments and restructuring development agreements to maximise value for money. We also recommended a review of complementary, non-HMR finance, likely to be secured as part of a more robust approach to business planning for a range of future scenarios.

25 Difficulties in raising finance from the banks and falling property prices mean that many schemes are no longer financially viable for developers. Some low estimates by lenders of the sales value of new homes in regeneration areas have not helped. The tendency among developers is to hedge their bets and focus on less risky developments. Building new houses in HMR areas has therefore slowed down. However, pathfinders have worked hard with their partners and sponsoring organisations to maintain momentum. Partnerships are developing products to help people buy homes and keep developers on site (see Case study 2).

Case study 2

Pathfinders are finding new ways to help people buy homes

In Newcastle and Gateshead, lenders have responded positively to a 20 per cent ‘Cash Deposit’ scheme – 5 per cent from the developer, 5 per cent from the borrower and 10 per cent from HMR. It will be introduced in 2010/11.

In Manchester, a ‘Try Before You Buy’ scheme lets people take on a tenancy of six to 12 months, with rent money going to help with deposit payments if they eventually decide to buy the property.

26 Figure 1 shows core outputs reported by all pathfinders over the last three years, in which HMR funds played a part. Given the challenging market conditions, outputs are impressive. The overall decrease in new build and acquisition is surprisingly marginal and balanced by increases in refurbishment and demolition.

i Reports for individual pathfinders can be found on our website: wwwaudit-commission.gov.uk/housing/marketrenewalpathfinders/marketchange/Pages/marketchange200910.aspx
27 A significant number of new homes originally planned as being for sale have been converted to social rented housing. House building that has continued has required extra gap funding\(^i\) and the renegotiation of planning Section 106 Agreements and conditions.\(^{ii}\) While this represents a short-term, pragmatic response to market conditions, it is unclear what impact this will have on long term aims, for example to redress tenure imbalance.

\(^i\) gap funding is a tool to pump-prime development where the costs of private development are likely to exceed developers' estimates of sale values. Gap funding has enabled new housing to be provided in deprived areas – especially low-demand areas – combining the efforts of the public and private sectors

\(^{ii}\) section 106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is called a Section 106 Agreement
For many pathfinders, the emphasis is on using HMR resources to prepare for future development once the market recovers. Most are carrying out work to ‘de-risk’ sites to make them more attractive to private developers. However, the timescale for redeveloping some large cleared sites remains vague. Where this is so, some pathfinders are considering interim or alternative uses for cleared land. These sites need to be managed and maintained to a good standard to ensure they do not adversely affect the quality of the environment or undermine neighbourhood sustainability.

Pathfinder success in improving employment and training opportunities is growing (see Case study 3), although the outputs achieved by HMR remain limited in their impact. Some need to develop this aspect of their work more. New HCA reporting requirements should help. From April 2010, pathfinders have to report quarterly on progress against new HCA apprenticeships and employment indicators.

**Case study 3**

**HMR projects are helping people get jobs and training**

In 2008/09 in Oldham and Rochdale, 120 people were trained and 80 helped into construction-related jobs as a direct result of HMR. Ten per cent were from under-represented groups.

In Birmingham and Sandwell, HMR activity was used to develop Britain’s first apprenticeship in demolition, with South Birmingham College and the Sector Skills Council. And contractual undertakings as part of HMR funding agreements will help 159 people into work.

By the end of 2009, the Merseyside pathfinder had helped 20 businesses move to more suitable premises by providing rent relocation grants and loans.

HMR work in East Lancashire during 2008/09 created 71 jobs and safeguarded 13. A further 25 young people found apprenticeships and 16 work experience placements. In 2009, a new apprenticeship training agency found places for 32 apprentices. Individuals are also receiving support to set up and sustain small construction businesses.

In North Staffordshire, HMR contracts include community benefit clauses, bringing extra benefits to local communities. In 2009, local labour made up 33 per cent of the workforce, 52 per cent of subcontracting was to local firms, and use of local goods and services was at 33 per cent.
Pathfinders continue to engage local communities effectively and many are developing their accountability to local people at a strategic level (see Case study 4). Local influence is apparent, with HMR plans changed to reflect local views. In Hull and Middlesbrough, for example, revised plans include extra refurbishment and changed boundaries and phasing of work. In Moss Side, Manchester, local residents, community groups and landlords, as well as developer partners, are involved in reviewing the original plans for the area, remodelling the tenure mix and property type and delaying demolitions. In East Lancashire, residents are helping to prioritise a range of options for temporary use of stalled development sites.

**Case study 4**

**Pathfinders are developing their accountability to local people**

In Birmingham and Sandwell, five local residents on the pathfinder board ensure a strategic challenge to the policies and practices of the partnership, and help to decide where and how regeneration funds will be spent.

In Oldham and Rochdale, a residents’ sounding panel inputs into the development of pathfinder policies and decision making at a strategic level. Local joint delivery groups – including residents and councillors with representatives from key agencies – link strategic plans at a local level.

In Merseyside and Newcastle Gateshead, residents panels are helping to ensure that local people inform the development and delivery of interventions. Residents have also been trained to help them engage more effectively in the regeneration process.

But success in most localities is, as yet, relatively small scale compared with the problems faced. In part, this is because of the scale of operation. While overall geographical boundaries of the HMR programme dwarf that of previous regeneration initiatives the number of homes within the boundary represents just a proportion of the total housing stock in constituent councils (see Table 4). And with work focused on key neighbourhoods, the direct reach at this stage in the programme, is even further proportionate.

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**Audit Commission**

Housing market renewal
Table 4: Number of homes in pathfinders and their local authority areas

<table>
<thead>
<tr>
<th>Pathfinders</th>
<th>No. of homes in constituent local authorities</th>
<th>No. of homes in HMR pathfinder area boundary</th>
<th>Homes in HMR area as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNG</td>
<td>213,393</td>
<td>72,992</td>
<td>34.2</td>
</tr>
<tr>
<td>Elevate</td>
<td>205,985</td>
<td>69,129</td>
<td>33.6</td>
</tr>
<tr>
<td>Gateway</td>
<td>263,887</td>
<td>116,110</td>
<td>44.0</td>
</tr>
<tr>
<td>MSP</td>
<td>316,975</td>
<td>130,214</td>
<td>41.1</td>
</tr>
<tr>
<td>NewHeartlands</td>
<td>480,810</td>
<td>136,812</td>
<td>28.5</td>
</tr>
<tr>
<td>PiA</td>
<td>183,989</td>
<td>81,955</td>
<td>44.5</td>
</tr>
<tr>
<td>Renew</td>
<td>207,745</td>
<td>68,609</td>
<td>33.0</td>
</tr>
<tr>
<td>Tees Valley</td>
<td>291,351</td>
<td>133,939</td>
<td>46.0</td>
</tr>
<tr>
<td>TSY</td>
<td>576,147</td>
<td>63,243</td>
<td>11.0</td>
</tr>
<tr>
<td>Urban Living</td>
<td>543,288</td>
<td>95,682</td>
<td>17.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,283,570</strong></td>
<td><strong>968,685</strong></td>
<td><strong>29.5</strong></td>
</tr>
</tbody>
</table>

Source: Audit Commission analysis

Wider market weaknesses in pathfinder areas

Continuing challenges – some extending beyond pathfinder boundaries – remain to be tackled. There are still significant gaps between the most and the least deprived areas. Not enough local people are able to benefit from the range of initiatives under way.

- More residents need better skills and higher qualifications to get jobs. In Salford, as many as 50 per cent of working-age residents in poorer parts of the city do not work.[i] In Birmingham, 21 per cent of working-age people have no formal qualifications, while in Barnsley the figure was 23 per cent in 2008, almost double the UK average of 12.3 per cent.[ii] Five of the ten worst-performing cities for low skills identified by Centre for Cities (Ref. 6) also feature in the ten worst-performing cities for employment. All are in pathfinder areas: Blackburn, Hull, Liverpool, Barnsley and Birmingham. In these areas, a focus on increasing the skills of the population will be particularly important.

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[i] data from Oneplace area assessment, December 2009
[ii] data from Centre for Cities report (Ref. 6)
A wider range of jobs needs to be protected and created. In Rotherham, employment rates are lower than in many other parts of the country and jobs are often poorly paid. In Barnsley, an estimated 8,500 new jobs are needed just to bring the employment rate up to the average for the region. In Blackburn in 2009, we found that while many new businesses started, two thirds did not survive, and several thousand jobs were at risk in the Tees Valley because of threats to the steel and chemical industries.

A realistic future vision is needed. In East Lancashire, ambitious plans are emerging, but it is too early to say how achievable or effective these will be. Significant risks to Stoke’s long term plans have already been identified. The changed economic circumstances and the enduring economic problems facing Stoke make it hard to see where future growth will come from. In Tees Valley, more work is needed to develop a better understanding of what works well and what partners need to do to compete in a global economy. In all areas, previously agreed plans for HMR will need reviewing, given the end of dedicated funding after March 2011.
Chapter 4  Key outcomes and market trends

33 It is difficult for regeneration programmes to prove conclusively that positive outcomes are a direct consequence of interventions they have sponsored. HMR is no different. It has the explicit aim of being a ‘transformational’ programme. Pathfinders and their partners are expected to be innovative catalysts for change in local housing markets. HMR is looking to tackle the root causes of decline, not just the symptoms.

34 HMR is attempting this in ten large sub-regional areas, each with challenging, complex structural issues and each having suffered long term decline. It is an ambitious and long term task.

35 Nearly half of the top 1 per cent of the most deprived areas nationally are located in the HMR areas. Table 5 shows the degree of deprivation within the total population of each pathfinder area. NewHeartlands, Merseyside, has the biggest concentration, with nearly one in three of its population living in the top 1 per cent of most deprived areas nationally.

Table 5: Deprivation in pathfinder areas 2007

<table>
<thead>
<tr>
<th>Pathfinder Area</th>
<th>Percentage in top 1 per cent most deprived</th>
<th>Percentage in top 5 per cent most deprived</th>
<th>Percentage in top 10 per cent most deprived</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNG</td>
<td>7.1</td>
<td>38.8</td>
<td>52.0</td>
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<tr>
<td>Elevate</td>
<td>14.1</td>
<td>36.4</td>
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<tr>
<td>Gateway</td>
<td>7.4</td>
<td>23.9</td>
<td>44.2</td>
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<tr>
<td>Manchester Salford</td>
<td>19.0</td>
<td>43.7</td>
<td>69.6</td>
</tr>
<tr>
<td>NewHeartlands</td>
<td>30.0</td>
<td>65.3</td>
<td>81.2</td>
</tr>
<tr>
<td>Oldham Rochdale</td>
<td>7.4</td>
<td>33.6</td>
<td>51.6</td>
</tr>
<tr>
<td>Renew</td>
<td>4.2</td>
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<td>47.4</td>
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<tr>
<td>Transform</td>
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<td>Urban Living</td>
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<td>11.0</td>
<td>44.9</td>
<td>57.4</td>
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<td><strong>All pathfinders</strong></td>
<td><strong>11.5</strong></td>
<td><strong>39.8</strong></td>
<td><strong>58.5</strong></td>
</tr>
</tbody>
</table>

Source: DCLG Index of Multiple Deprivation 2007

There are 32,482 super output areas (sub-district small areas of, on average, 1,500 people) nationally that the IMD 2007 ranked in terms of multiple deprivation. Some 325 of these small areas form the top 1 per cent of most deprived from this index nationally. Of these, 153 or 47 per cent are in the 10 pathfinder areas.
Success for pathfinders is often simplistically reported as house price gains or having tackled low-demand housing. The reality is far more complex and bound up with much wider market forces. Even so, it is useful to examine changing housing market outcomes in pathfinders and their wider local authority areas, all of which are seeking a better quality of life for residents.

Until the economic downturn in 2007, positive trends were apparent. Subsequently, while there remains some lag in available data, the impact of the recession is clearly evident.

**Reduction in the number of empty homes**

An explicit aim of HMR is to reduce the number of empty homes, and over the long term, this has been achieved. Levels of empty homes have fallen across HMR areas and their wider local authority areas faster than the rest of the country. But, as shown in Figure 2, levels remain high, and have risen slightly during 2008, while a downward trend returned nationally and regionally.

Gaps remain in data supplied at a pathfinder level but the trends are similar to those in the wider local authority areas. HMR neighbourhoods, however, continue to record higher levels of empty homes than the authority average and, in some areas, levels have recently increased.

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Figure 2: All empty homes 2002 to 2009

![Figure 2: All empty homes 2002 to 2009](image)

Source: DCLG HSSA data

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Audit Commission Housing market renewal
Overall, there is a more significant fall in the number of private empty homes, as shown in Figure 3. And, while the level has risen during 2008, this is generally in line with national and regional trends.

Figure 3: Private homes empty over six months 2002 to 2009

Source: DCLG HSSA data

41 The quality of the housing stock, and of neighbourhood environments, has improved since the start of HMR. Analysing data from the English House Condition Survey, shown at Figure 4, a clear trend is apparent in the reducing levels of reported poor-quality environments in pathfinder areas.

Improvement in housing stock and wider environment

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i this survey looked at factors such as neglected buildings, private gardens and public spaces, vandalism, graffiti and other forms of anti-social behaviour and concentrations of empty and boarded-up buildings
Levels of non-decent housing have also reduced across all tenures in all pathfinder areas since 2003. However, the levels were still high according to the latest data, although illustrations are unavailable because of changes in recording national data.

Positive population change

Figure 5 outlines the trends in population change since 1982 in pathfinder local authority areas, their regions and nationally. This shows that, after some 20 years of decline, there has been population growth in most HMR areas over the last decade.
Figure 6 shows population change in the seven years from 2002, compared with the previous six years. It highlights more marked recent growth in pathfinder regions than nationally, although because of the relative small scale of pathfinder activity compared to wider influences at a local authority and regional level; it is unlikely that HMR activity will have contributed to these trends at this stage.
While medium-term trends appear positive, most areas are still losing population to surrounding areas. Figure 7 shows that, since 2002, population increase in pathfinder local authorities is mainly because of international migrants, adding an extra dimension for these areas to consider. Independent research\(^i\) indicates that these inward migrants are positively impacting upon HMR areas by increasing demand for private rented and owner-occupied housing, as well as having skills and qualifications that are supportive of improving levels of local employment. However, it also stresses the importance of ensuring pathfinder initiatives respond to the needs and housing aspirations of those residents at most risk of social exclusion.

Composite figures also mask some significant local variations. Figure 8 shows some local authority areas have not yet seen positive change. Places in East Lancashire, Merseyside and Tees Valley, in particular, continue to lose population.
Figure 8: Population change for pathfinder local authority areas 1996 to 2009

Source: Office for National Statistics

Audit Commission  Housing market renewal
Increased house prices and levels of demand

47 Up to 2007, in all pathfinder areas, house prices rose overall as well as at the bottom end of the market (as measured by the 15th percentile – shown at Figure 9). Since 2007, in line with national trends, house prices fell in all areas. Early signs of recovery in prices in most HMR areas in 2009 have not all been sustained into 2010; Merseyside in particular seeing prices continuing to fall. It is unclear yet how much the period 2002 to 2007 represents a superficial or structural recovery.

Figure 9: 15th percentile house prices in pathfinder areas 2000 to 2009

Source: HM Land Registry

48 A key aim of HMR is to close the gap between prices in pathfinder areas and their respective regions. Figure 10 shows that by 2007 all were making good progress and some were close to achieving this aim, with Manchester Salford making particular gains. However, the gap has opened again since 2008.
Since 2007, pathfinder areas have all seen numbers of house sales reduce dramatically overall, (Figure 11) and as a proportion of those in their wider local authority areas (Figure 12). While the phased nature of HMR may generate some peaks and troughs in activity, the rapid decline in the volume of sales linked to wider economic circumstances suggests the HMR areas remain fragile and have yet to benefit from and fully reconnect to markets in neighbouring higher-price areas.
Figure 11: Numbers of house sales in pathfinder areas 2000 to 2010

Source: HM Land Registry
Reduced worklessness

50 We have earlier\(^i\) outlined HMR contribution to improving employment and training opportunities, and looking at a broader level, worklessness in constituent councils up to 2008 fell faster than the national average (see Figure 13). But rates remain high, and have recently risen in line with national trends as more residents claim job seekers allowance.

\(^i\) see case study 3, page 18.
As we noted earlier, crediting positive change in outcomes to specific inputs is complex. However, some organisations are exploring different ways of doing this. Some pathfinders are undertaking impact analysis within their areas, using various techniques. The Audit Commission is also helping pathfinders to explore how to map impact at a neighbourhood level. Early findings suggest that HMR is having a demonstrable positive impact at neighbourhood level with fewer empty homes, reduced crime and rising house prices, especially in those neighbourhoods which are more advanced in their programmes.
Chapter 5  Securing value for money

52  Through the effective and innovative use of public funds to improve homes and neighbourhoods, pathfinders seek to create conditions likely to attract more private money into HMR areas. Figure 14 shows that while HMR remains the major source of investment, it has attracted increasing levels of private money into pathfinder areas. While private funding has levelled off, in 2008/09, for the first time, it slightly exceeded other public funds invested.

Figure 14: Sources of investment in HMR areas 2005 to 2009

53  Overall funding has remained fairly consistent over the last three years. In 2009/10 fewer HMR resources balanced by an increase in other public funds. 2008/09 was the first time that all pathfinders formally reported on the private resources secured. While reporting remains inconsistent, year-on-year data (Figure 15) shows most pathfinders continue to lever in significant private resources despite difficult market conditions. Three pathfinders, Hull, Manchester Salford and East Staffordshire, in 2009/10 managing to increase the ratio of private funds attracted by HMR.
Figure 15: Public and private sector leverage ratio - individual pathfinders 2008 to 2009

Source: DCLG/HCA core indicators (Audit Commission analysis)
The overall ratio of funding, shown in Figure 16, increased in 2009/10. Every £1 of HMR investment attracted an additional £0.50 private funds and £0.68 of public investment. The public ratio increased to levels seen in 2006/07. While the gearing of private resources has been consistent over the last three years.\(^i\)

Figure 16: Public and private sector leverage ratio - HMR programme 2005 to 2009

- 2005/06
- 2006/07
- 2007/08
- 2008/09
- 2009/10

Source: DCLG/HCA core indicators (Audit Commission analysis)

The total leverage of £1.18 for every £1.00 of HMR investment was expected to increase substantially as more new homes were built on sites amassed through strategic acquisition.\(^ii\) However, given current market conditions, this is unlikely in the short term.

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\(^i\) due to significant variation in reported figures, Transform South Yorkshire and Urban Living were excluded from the private leverage calculation reported last year, but they have been factored in here to give these comparative figures

\(^ii\) strategic acquisition is the buying of land and derelict housing to create sites for new homes
The ratio currently falls short of what some other publicly funded regeneration programmes and agencies have achieved. (See Figure 17) Although direct comparison is not wholly appropriate – because HMR is at an interim stage, while other programmes have been completed – it does point towards what could be achieved long term, given more favourable economic conditions.

Figure 17: Comparison of funding attracted by different programmes

<table>
<thead>
<tr>
<th>Programme</th>
<th>£'s per public investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Market Renewal</td>
<td></td>
</tr>
<tr>
<td>Single Regeneration Budget</td>
<td></td>
</tr>
<tr>
<td>Urban Development Corporations</td>
<td></td>
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<tr>
<td>New Deal for Communities</td>
<td></td>
</tr>
<tr>
<td>Regional Development Agencies</td>
<td></td>
</tr>
</tbody>
</table>

Source: Audit Commission

HMR has a higher gearing ratio than the NDC programme. Up to 2008, government investment in the NDC programme averaged around £450 per resident per year. With housing at 31 per cent of total NDC spending, this equates to just under £140 per person a year (Ref. 10). In comparison, by March 2011, HMR investment will have averaged about £115 per resident a year. It is surprising that the NDC programme will have spent more on housing per resident than HMR has, given that the focus of HMR is on tackling major problems in the housing market.

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i Data in Figure 17 is derived from a range of reports: RDA (Ref. 7) UDC (Ref. 8) SRB (Ref. 9) NDC (Ref. 10)

ii HMR average figure is based on 2008 population estimates best fitted to actual pathfinder/HMR boundaries – excluding West Cumbria and West Yorkshire – totalling 2,123,856
Demonstrating value for money has remained a challenge for the programme, but pathfinders have made progress. In many HMR areas, framework agreements\(^i\) have added value through using local labour, promoting high-quality design, ensuring effective consultation and securing affordable homes. These agreements also ensure any increases in values are shared between the developers and the pathfinder.

The common evidence base built by pathfinders has led to better integration of different policy areas and better targeted spending. Many have already been influential in developing cross-boundary strategies linked to their housing market plans (see Case study 5).

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**Case study 5**

**Pathfinders are linking cross-boundary housing and economic plans**

In Oldham and Rochdale, the pathfinder has worked with the Economic and Skills Alliance to present an investment prospectus for the HMR area to the HCA and the North West Development Agency. This outlines the links of the HMR programme to wider regeneration work within the Greater Manchester City Region to improve skills and create jobs, build more affordable homes and tackle climate change.

In East Lancashire, the pathfinder has formed a regeneration company for the region, having already led many initiatives to increase employment and training opportunities for local people.

In North Staffordshire, the pathfinder is part of a broader regeneration partnership. It has helped locate Britain’s Centre of Refurbishment Excellence in Stoke. This will provide a business incubator for new products and skills to help support efforts to regenerate the local economy.

---

But in future, a greater coordination and concentration of public assets and investment is needed alongside private resources to get the most benefit from regeneration. We have identified that to improve services and increase value for money, public bodies need to learn from one another and work more closely together (Ref. 11). And a more coordinated approach, focused on both places and people, is needed in HMR areas to ensure complementary economic and physical outcomes that respond to the needs of a recognised geographical market area.

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\(^i\) framework agreements set out terms and conditions under which specific call-offs can be made throughout the term of the agreement.
HMR is recognised as one of several initiatives that have begun the process of aligning capital investment within a place (Ref. 12). Nationally, a range of interrelated activities and pilots have previously explored opportunities for efficiency savings and public service reforms, including Total Place and Total Capital¹. These suggested (Ref. 13) a need to reduce multiple funding sources, align public sector investment more closely and reduce the transaction costs of bidding for funding. These principles could similarly and usefully be applied in HMR areas. Pooling budgets has also been widely promoted (Ref. 14) and could be considered in HMR areas where partners are willing and able to sign up to shared outcomes.

At a micro level, other opportunities for efficiency gains could be considered. Over the years the transaction costs of regeneration schemes have increased significantly. Many regeneration projects, including those of the HMR pathfinders, find there are considerable hidden administrative and legal costs in coordinating and agreeing development plans between the public and private sectors (Ref. 15). These costs need to be reduced, particularly for smaller schemes where they often represent a large share of the overall development cost.

High levels of national debt in 2010 place an increased emphasis on value for money. Future tightening of public spending is inevitable. Lower levels of public resources must be put to best use by considering the whole portfolio of assets that the public sector can bring to bear in regenerating towns and cities. In HMR areas, this should include continuing to work effectively across administrative boundaries, coordinating public and private investment and developing a greater understanding of the role of each place in the local economy.

¹ Total Place, piloted in 13 local authority areas, looks at how a ‘whole area’ approach to public services can lead to better services at less cost. Total Capital pathfinders seek to promote pooled budgets and support joint working between local authorities, Job Centre Plus and Primary Care Trusts.
64 Since 2003, in pathfinder areas, HMR has provided the finances and the impetus for action to rebuild housing markets. But the basic principle of HMR was significantly affected by the economic downturn. The HMR programme was conceived in a time of economic and market growth. In 2010, the reality is very different: the financial environment that pathfinders operate in has changed profoundly since the 2008 credit crunch. The assumption of access to long term public, private and personal finance to complement HMR funding is no longer a reality.

65 At a national level, some commentators suggest the current lack of loan, capital and equity finance is a temporary feature of the market and will be restored as banks rebuild their balance sheets (Ref. 5, Ref. 16). However, the scale and nature of the shock to the market suggests that the market characteristics and financial models that supported private investment in the past are unlikely to return quickly, or to the same degree.

66 Whatever the pace of future market recovery, a changed lending environment and attitude to risk is likely to affect residential development business models (Ref. 17). In pathfinder areas where developer profit margins can be narrow, public resources will still be needed to keep private developers on board.

67 Developer interest can be fragile. In many places, redevelopment projects are carrying on largely thanks to public money, for example Kickstart (see Case Study 1). Development agreements that transfer risk to the private sector no longer work without huge subsidies\(^1\). New public-private partnership models for regeneration finance that reinforce financial partnering principles while driving high-quality design and sustainable development need to be found nationally and in HMR areas.

\(^{1}\) site-specific development agreements are generally used to establish cooperation between partners on issues such as planning, finance, land acquisition, transport and the public realm.
Some pathfinder partnerships have been exploring the potential to set up Joint Venture or local asset backed vehicles (LABVs)\(^i\) (see Case study 6). But these are complex to develop and do not in themselves change market conditions. They might usefully support delivery in some HMR areas, but only after considering which models may be most suitable in particular circumstances and looking at alternative approaches outside HMR areas and how easy these may be to replicate locally.\(^ii\)

### Case study 6

**Pathfinders are helping to set up new delivery vehicles**

In Newcastle Gateshead the HMR pathfinder is helping to set up joint venture vehicles in both constituent councils. Private sector partners have been appointed and some £60 million of HMR funds, together with council and HCA contributions, is set to secure £400 million private investment and deliver more than 4,000 new homes.

In Birmingham and Sandwell, and in North Staffordshire, partners are also exploring the possibility of setting up Local Asset Based Vehicles to create an investment stream.

### Future delivery vehicles

As we approach the end of the dedicated HMR pathfinder programme, stakeholders will need to take a view on the role and structure of a range of future delivery vehicles for regeneration activity and be clear about their priorities and how they interlink.

The HCA supports the continued major funding of activities in a number of failed neighbourhoods. In HMR areas, the HCA has identified three different challenges likely to need customised support:

- larger pockets of market failure in need of restructuring, but close to strong economies;
- contained and diminishing pockets of market weakness close to functional economies; and
- significant areas of structural failure remaining severely detached from the economic mainstream.

LABVs are arrangements where public assets are used to attract longterm investment from the private sector for a stream of development projects. They are designed to bring together a range of public and private sector partners in order to pool finance, land, planning powers and expertise to ensure an acceptable balance of risk and return for all partners and to plan and deliver projects more strategically

see, for example, a number of models and their application are outlined in case studies in *Transforming Estates*, a report by ECOTEC and the Chartered Institute of Housing, October 2009
Several commentators have debated this classification of areas by type and the potential for geographic linkages (Ref. 6, Ref. 18, Ref. 19). All point to the need for a greater understanding of a place’s role in the economy and of exploiting the relationships between neighbouring places. Developing more effective strategies across administrative boundaries is important, particularly in a time of fiscal constraint where public spending needs to be as effective as possible.

Local authorities will have a more pivotal role, including through participation in LEPs, which could serve HMR areas well by more closely joining the economic and housing agendas.

Although specific powers and responsibilities of LEPs have yet to be determined, they are already starting to take shape in all regions across England. In some places, such as South Yorkshire, Tees Valley and the Manchester City Region, LEPs have been approved and look likely to inherit some pathfinder responsibilities. In other areas LEPs are still evolving and proposals for continuing the legacy of HMR are yet to be determined.

In many places, the focus will be on the delivery of economic development and inward investment projects. The new world of localism could mean new opportunities for cities to take the initiative over tackling worklessness, alongside broader place-based issues, including HMR.

Different locally accountable structures have always been a feature in managing and delivering the HMR programme. Some pathfinders – including those in East Lancashire and North Staffordshire – have already reviewed their strategic role and ambitions to focus more directly on economic agendas. All are now in dialogue with their sponsors and constituent local authorities to decide the most appropriate shape for taking forward HMR in their locality. Whatever model is selected, partnerships must ensure that transitional arrangements do not detract from programme delivery and agree key principles to build on the pathfinder legacy.

Effective use of amassed land holdings

Resources must be put to best use by considering the whole portfolio of assets the public sector can bring to bear in regenerating towns and cities. HMR funding has readied significant sites for future development in pathfinder areas, and land assets held by Regional Development Agencies could transfer to councils or LEPs. It will be important for partners to take stock and decide the best use of amassed land holdings, and assess which delivery model might encourage added investment and support local economic growth.

On 28 October 2010, the first 24 LEPs received approval in the Government’s White Paper Local Growth: Realising Every Place’s Potential.

Regional Development Agencies currently manage economic development at regional level. They are likely to be replaced by LEPs in April 2012.
Local communities will also be able to utilise the new Community Right to Reclaim Land\textsuperscript{i} to request that empty public sector land or buildings are sold off, so they can be brought back into use. A detailed list of all the land and property assets owned by the HCA was produced in January 2011\textsuperscript{ii}, so communities can see where land and property is located, and its status.

Some HMR areas are benefiting from Growth Point funding\textsuperscript{iii}. In such areas, there is the potential to combine the agendas by packaging and cross-subsidising more attractive sites with HMR schemes, without risking the aims of market renewal.

There is a risk that high-profile and expensive projects will continue to be seen as ‘top priority’ despite being less relevant in the prevailing market conditions. Partnerships will need to be rigorous in re-examining the rationale for schemes. Using care and due diligence, they will need to assess, remodel and reposition some schemes using new development assumptions and thinking.

The challenge will be to build upon the legacy of HMR and identify new sources of funding to continue locally agreed priority housing interventions that help to drive the economy forward. This is likely to include bids to the £1.4 billion Regional Growth Fund, intended to help develop the private sector in areas where there is a high reliance on public sector employment. We have identified (Ref. 21) that the areas with the highest sensitivity to public sector job losses are often already deprived because a weak local private sector is a key reason for greater reliance on public sector jobs. This characteristic applies to many HMR areas. Rebalancing such economies away from public sector employment to private sector-led growth will be an enormous challenge which will need to be pursued with increased vigour if these localities are to become sustainable in the longer term.

The first bids to the Regional Growth Fund in January 2011 include submissions from partnerships in HMR areas. Some bids, including Middlesbrough retain a focus on housing regeneration schemes, while others, including Birmingham and East Lancashire focus more on business support. There is no shortage of bidders for limited resources\textsuperscript{iv} and HMR areas may find it hard to compete with more buoyant city economies that have the best chance of creating extra jobs. This may add to the case for preserving a dedicated fund to support specific failed market areas.

\textsuperscript{i} announced 2nd February 2011, by the summer, a new one-stop shop will provide citizens with information about empty land and buildings they can develop to improve their local area

\textsuperscript{ii} see \url{http://www.homesandcommunities.co.uk/public/documents/assets-jan2011.csv}

\textsuperscript{iii} the New Growth Points (NGP) programme was launched in 2006 and extended during 2008/09. Seven of the 49 NGP partnerships are closely linked with the HMR programme

\textsuperscript{iv} in 2010/11, RDAs had £1.5 billion between them, whereas the Regional Growth Fund is £500 million each year for 2011/12 and 2012/13 and £400 million for 2013/14. Around £250-300million is set to be made available in the first round of bids in January 2011
The HMR programme has made a substantial contribution to improve housing and economic circumstances in local areas. It continues to make a positive difference to the communities it serves. Activities at a neighbourhood level have helped to stabilise market conditions and provide a strong signal of change. Confidence has been returning to the pathfinder areas but it remains a challenge to change the nature of demand and close the socio-economic gap between these areas and those around them.

Interventions and activities in most areas are not yet at a scale likely to make a substantial difference in market terms. This represents the stage of the programme reached, and shows the need for a long term approach. Equally, it reflects the scale of HMR activity compared with the scale of the housing and labour market challenge in these areas as a whole, and suggests the need to consider a different approach.

The HMR programme will end in March 2011. While various joint venture models and partnerships are in development, public funds are limited and attracting private finance to failed market areas remains challenging.

In difficult times, different approaches are needed to ensure a coordinated, people and place-based programme. HMR policy and strategy has been dominated by physical place-shaping activities. A better understanding of the dynamics between the local housing market and the local economy is needed alongside broader, targeted work to support the resilience of failed market areas. We must also ask whether more funds should be spent on more holistic, people and place-based interventions, rather than primarily on housing.

Local enabling and decision making will determine a more flexible use of future resources. Local Authorities and LEPs will have a significant role in shaping and delivering local economic policy and regeneration, working towards outcome-driven growth objectives. It will be important at all levels to take stock of HMR progress and challenges and consider how best to build on the pathfinder legacy.

HMR areas need continuing investment. The communities in these deprived areas will still need support, and the task of regenerating housing markets will continue. The recession and spending cuts has made the task harder. HMR Pathfinders have generally made sound progress in mobilising capital investment in a mix of refurbishment, new build and demolition. Even in the areas of greatest deprivation, house prices have moved nearer the regional average since the beginning of the programme. However, some areas will require continuing support to address underlying economic and housing market frailties.
For all organisations in times of unrivalled pressure on the public purse, the overwhelming focus has to be on delivering effectively locally agreed priorities and securing greater efficiency and value for money. In HMR areas, given what some will consider the untimely and premature ending of this programme, the emphasis must be on completing current key interventions; not least to ensure that promises made to communities are met and to reduce the risk of previous investments being undermined by leaving a legacy of uncompleted projects. At this stage there are too many isolated and vulnerable residents still living in poor housing, and a significant risk that neighbourhood regeneration projects stall, leaving communities living in a poor quality environment indefinitely. Successors to pathfinder partnerships will need to focus on these challenges.
Appendix 1  The pathfinder areas

The pathfinders cover sub-regional housing markets that straddle two or more local authority areas.

- Bridging Newcastle Gateshead (Newcastle and Gateshead).
- Gateway (Hull and East Riding of Yorkshire).
- Transform South Yorkshire (Sheffield, Barnsley, Rotherham and Doncaster).
- Urban Living (Birmingham and Sandwell).
- Renew North Staffordshire (Stoke on Trent, Newcastle under Lyme and Staffordshire Moorlands).
- Manchester Salford (Manchester and Salford).
- NewHeartlands (Liverpool, Sefton and Wirral).
- Oldham and Rochdale Partners in Action (Oldham and Rochdale).
- Elevate East Lancashire (Blackburn with Darwen, Hyndburn, Burnley, Pendle and Rossendale).
- Tees Valley Living (Middlesbrough, Hartlepool, Darlington, Redcar and Cleveland and Stockton on Tees).

Their locations are shown in Figure 20.

West Cumbria and West Yorkshire have received HMR funding since 2006, but have not been formally regarded as pathfinders. The latter was integrated into Transform South Yorkshire from April 2008.
Figure 18: The location of market renewal pathfinder areas

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Source: Audit Commission
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