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.
The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:
- any director/member or officer in their individual capacity; or
- any third party.
The government’s housing market renewal (HMR) programme has been in place for more than six years. Focused on tackling the problem of declining demand for housing in parts of the Midlands and North of England, the programme is dealing with issues of a scale and complexity that have not really been addressed before in Britain. Certainly there have been major urban renewal programmes through both clearance and improvement in previous decades (clearance in the 1950s and 1960s, rehabilitation and improvement in the 1970s and 1980s) but not in such a comprehensive and market focused manner, or with a central government programme focused upon nine (now ten) designated HMR pathfinder areas.¹

Since the programme’s inception, the Audit Commission has been assessing the performance of the HMR pathfinders on behalf of what is now the Department for Communities and Local Government (CLG). Our work supports the pathfinders’ development and provides CLG with an independent assessment of how effectively the national HMR programme is being delivered at a local level.

Operational responsibility for the pathfinder programme was transferred from CLG to the Homes and Communities Agency (HCA) on 1 December 2008.² HCA has indicated that it will require the Audit Commission to continue to work with pathfinders and to provide commentary on the programme to help inform policy debate and decisions.

This report is informed by our ongoing work with pathfinders, and reviews the progress that pathfinders are making, in particular since our last review, published in December 2006. It also outlines the challenges pathfinders continue to face, explores some of the emerging issues and provides a series of conclusions and recommendations. It is being written against the backdrop of a series of fundamental changes in the operating environment for pathfinders, all of which will impact on these areas and the likelihood of the success of the programme.

¹ Pathfinder areas are outlined in Appendix 1.
² HCA: The new national housing and regeneration delivery agency for England, whose role is to create thriving communities and affordable homes. It brings together the functions of English Partnerships, the investment functions of the Housing Corporation, the Academy for Sustainable Communities and key housing and regeneration programmes delivered by CLG.
The HMR programme is centred on building stronger regional and subregional capacity to cope with economic change in a flexible and locally responsive way. Pathfinders are well placed to contribute to changing agendas and have much to offer. In many ways, HMR is now poised to provide a base for HCA investment.

- Pathfinders have long recognised the need for integration of strategies and activities, with links between housing and the economy of particular importance. In many respects, the programme is a forerunner of the place-shaping and collaborative agendas that are now emerging.

- Pathfinders have been supporting communities through change, promoting community capacity building and contributing to local employment and training initiatives. Real expertise has been developed about vulnerable neighbourhoods and markets and the ways that urban change can be managed.

- Some pathfinders have begun to shift their activity from physical regeneration to encompass growth and economic development. Though that may change in the light of current circumstances, close alignment between connected programmes will need to be achieved in order to ensure that more communities ultimately benefit from economic recovery.

The rationale of the HMR programme remains entirely valid. There are deeply ingrained structural and social issues affecting communities and homes and pathfinder areas are potentially vulnerable in the event of a deepening recession.

- At the local level, many HMR neighbourhoods show clear signs of changed physical appearance, reduced numbers of vacant properties and other neighbourhood improvements. However, at the wider market level, despite some positive trends overall since 2002, some HMR areas are facing particularly severe conditions. Given the scale and complexity of the challenges in these areas, there is still much to do in order to ensure that the format is sustainable in the long term.
Summary

- Areas in the Midlands and North of England continue to be among the most challenging, and pathfinders still have much to do to deliver against the long-term aim of creating sustainable communities. Their task will be even more difficult in the current economic situation. Of the ten cities ranked by Centre for Cities (Ref. 1) in January 2008, as being most exposed to recession over a range of data, seven of the ten are in pathfinder areas.

- Pathfinders are tackling far more than housing market failure. Of the 1 per cent most deprived areas nationally, 43 per cent are in HMR areas. Despite close proximity to some thriving cities, high levels of deprivation are apparent in HMR areas. This indicates a lack of connectivity between pathfinder populations and economic success and provides an ongoing regeneration challenge.

In terms of delivery, the HMR programme has reached an important stage in its development. From the outset, the programme was always expected to adapt and develop over time. Evidence shows that pathfinders have responded well to policy shifts and emerging issues, changing the programme and organisational arrangements while maintaining core delivery. Looking ahead, the question of ‘what next?’ for the programme and pathfinders will need to be explored.

- Impressive ground work has been laid – systems, governance arrangements, staff, plans and programmes are in place and sites have been cleared. New build is being delivered, confidence boosted, expectations heightened and community and other capacity built. Issues around heritage, the scale of demolition and community engagement are also being tackled.

- In 2007/08, pathfinders have shown a clear transition from start-up to delivery phase, with most starting to make the switch from land acquisition to the delivery of high quality new homes. Over 7,000 homes were constructed or converted in HMR pathfinder areas in 2007/08 – a one-year figure broadly comparable to the total achieved over the five previous years. In many respects therefore, the market downturn could not have come at a worse time.
• The institutional framework around pathfinders has recently altered, with the transfer of functions to HCA as part of the move to consolidate investment and regeneration activity. In bringing together regeneration funding and functions, the creation of HCA marks a new stage in the journey begun by the pathfinders.

• A number of government proposals, arising from growth targets and the review of subnational economic development and regeneration, are set to impact on HMR areas. These proposals have the potential to further strengthen local and regional coordination and activity to build capacity to cope with economic change. However, care will be needed to ensure that key programmes are closely coordinated to maximise the impact and effectiveness of area based interventions.

• The interconnection between the housing market and the economy is increasingly recognised. Economic failure and the loss of a strong economic base are often the root cause of housing market decline, and HMR is increasingly seen as being linked to, and an essential part of, a wider programme of economic growth and renewal. At the same time, better housing makes these areas more attractive to both business and employees so the two agendas do need to be inextricably linked.

It is difficult to distinguish between the impact of pathfinder projects and broader market influences, especially just 6 years into what was originally envisaged to be a 10 to 15 year regeneration process. However, there are signs of positive progress against key outcome measures, with fewer empty homes, house prices closing the gap on the average of their respective regions, and many areas seeing increases in population since the start of the decade. The broader impact of the programme’s subregional focus, its influence on brokering strong alliances and innovation is also particularly apparent.
Summary

- Of the ten multi-area agreements (MAAs) formally agreed in January 2009, seven are in the North of England, and all of these involve pathfinders’ constituent local authorities. While most aptly focus on economic and employment targets, these MAAs also include the delivery of almost 40,000 new homes in the North of England.

- Of the 20 additional growth points announced in July 2008, 7 are closely linked with the HMR programme, and comprise 10 per cent (£58 million of £584 million) of the total growth point funding announced by the government in December 2008. Many pathfinders played a key role in developing growth plans in their area.

- Difficulties remain in trying to isolate the HMR impact on outcomes from wider changes affecting indicators, such as changes in house prices, empty homes and other low demand indicators. Nevertheless, since the start of the programme, there have been positive trends in most areas. Progress against key outcome measures is detailed later in this report.

- Engagement with private sector partners is a key strength of the pathfinders’ approach. Over the last three years, overall levels of private sector investment across all market renewal areas rose at more than twice the rate of HMR investment. However, total public sector investment in the programme still far outweighs private sector investment and getting better value for money remains a challenge.

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I MAAs, introduced in 2007, bring together local public and private sector partners to focus on the issues which most affect them and to work in collaboration across a wide range of policy interventions to address economic challenges.

II The New Growth Points (NGP) programme was launched in 2006, when 29 local authorities and partnerships were named as NGPs commencing a long-term partnership for growth with government. During 2008/09 additional local authorities keen to pursue sustainable growth were invited to bid for a second round of NGPs. Twenty were successful.
2009/10 will be a difficult period for HMR. Pathfinders are developing their response to changing market conditions, but it is likely that progress, as measured by new build, will slow over this period. Targets will need to be renegotiated and plans revised, and this is not without risk. Exceptional times and conditions will also test the pathfinders’ understanding of key drivers of local market change, and will require reflection and reinvigoration to ensure that maximum benefits are derived for these strategic regeneration areas when the upturn begins.

• Established partnerships with external agencies and private sector representatives have enabled most pathfinders quickly to begin considering how their programmes will need to adapt to changing market conditions. Work is ongoing and progress is being made. However, some of the options being considered are quite high risk so an enhanced focus on risk management and value for money will be increasingly important.

• In many pathfinder areas, the local market has been sustained by people with weak credit records and high loan-to-value borrowing. The gap in house prices between pathfinder areas and the wider region that has been narrowing over the past few years may open up again. Lenders and developers are aware there is a heightened risk in HMR areas, and will be cautious about future levels of engagement. Maintaining effective progress will be vital.

• Although there is some evidence of private developers stepping back, this is not complete withdrawal. Cross subsidy across new build schemes will be more difficult, and there is a risk that objectives for high quality, mixed tenure developments will be compromised in the immediate term. While changes to the 2008/09 programme may be relatively easy to accommodate, adjusting to unpredictable market pressures in 2009/10 and beyond will prove more difficult.
National government and HCA should:

- **Encourage a greater national interest in, and appetite to learn from, pathfinders.** The pathfinders have shown that it is possible to build and deliver a subregional programme at a local level through multi-area and inter-agency working. HCA is well placed to use lessons from HMR in its wider regeneration role, and should be prepared to champion HMR as a programme where a range of interventions and techniques have been tested. More thought needs to be given to the overall promotion of the programme both to other organisations and localities. More work also needs to be done with developers and lenders on a national basis, to ensure that HMR remains firmly on the agenda.

- **Incorporate a vision of HMR as part of HCA’s forward strategy.** Retaining the flexibility of the programme to deliver coordinated interventions based on the identified needs of the local community is key. But a big picture for the programme is now needed. This should take into account pathfinders’ potential transformation around regeneration and growth and ensure appropriate links between programmes. It also needs to acknowledge the long-term nature of addressing structural issues in these areas, whatever the overriding economic conditions.

- **Identify appropriate measures for determining the impact of the HMR programme.** While each pathfinder area has its own distinct long-term challenges, there is now scope to undertake work across the programme to try to distinguish its impact from broader developments and evidence value for money. This will need to focus on the common attributes between the different areas where these can be measured, but also to recognise their essential differences and successes. This should also include considering the use of non-pathfinder areas as comparators and exploring the value of some ‘softer’ measures of progress.
• **Implement an enhanced monitoring regime.** It is important for HCA to effectively implement the enhanced monitoring regime agreed with pathfinders to provide a clearer picture of progress against key outputs, outcomes and milestones. This should take account of recession impacts and include mitigating strategies. A more robust approach to business planning by pathfinders should be included as part of this. HCA should require more stringent local evaluation of what is being achieved and address inconsistencies in the way outputs are currently reported.

• **Explore the pros and cons of refocusing the programme.** Market renewal, growth and economic development need to be delivered in a complementary and coordinated manner to secure long-term sustainable communities. HCA needs to explore how best to do this. In many respects, the HMR programme is a forerunner of the place shaping and collaborative agendas now emerging, which aim to align physical, social and economic regeneration activity more closely. In HMR areas, pathfinders are well placed to help deliver against these agendas.

**Pathfinders should:**

• **Maintain a focus on supporting communities and vulnerable households.** Pathfinders have been effectively supporting communities through change, promoting community capacity building and contributing to local employment and training initiatives. They are well placed to work with partners in helping local communities through the downturn in terms of supporting vulnerable households.

• **Keep lenders and developers well informed.** This publicly financed programme should provide confidence and encouragement to the private sector to engage in HMR areas. But, given current market conditions, this needs to be backed by regular dialogue, commentaries and good quality statistics on how the market is evolving during the downturn, with an updated business plan showing the resources being applied.
• **Sensitively adapt plans to maintain momentum.** Where appropriate and after careful discussion with partners, pathfinders must adapt plans to maintain momentum. A range of policy responses and new products should be considered, including revising programmes and targets, re-phasing developments and restructuring development agreements. There may be opportunities to speed up elements of HMR programmes to upgrade homes and the environment and bolster local economic activity. The relative merits of different potential approaches need to be assessed and any impact on longer-term aims carefully weighed.

• **Develop a range of pilot interventions to test market response and resilience.** In keeping with the need for innovation, and building upon work already underway, pathfinders, in liaison with partners and sponsors, should develop a range of pilot interventions to test market response and resilience. Pathfinders should ensure a focus on maintaining quality and momentum, and capturing lessons to share more widely.

• **Maintain focus on improving efficiency and effectiveness.** Generally, a more comprehensive and sophisticated approach to value for money is still required. This needs to incorporate better use of comparator information and benchmarking; fuller consideration of sustainable development in decision making; and a review of complementary finance as part of a more robust approach to business planning for a range of economic and housing market circumstances for the next two years of the programme and beyond.

• **Focus on identified areas for improvement.** Across the programme, there are some aspects, such as evaluating the impact of interventions and clarifying the role of the private rented sector that would benefit from further attention by all pathfinders. However, individual pathfinders have different strengths and weaknesses, and each should therefore focus on improving areas of identified individual underperformance.
• **Retain a clear emphasis on quality and keep an eye to the future.** Despite current market difficulties, it is important for pathfinders and their partners to make the right decisions now so that places are ready to benefit from the eventual upturn.

### The Audit Commission will:

- **Continue to promote best practice** and further develop and expand the web-based compendium of good practice and learning from the HMR pathfinders.

- **Maintain appropriate expertise and provide independent analysis** of the programme to meet the requirements of the sponsoring body and support the further development of individual pathfinders.

- **Review and refine its reporting and monitoring processes** to reflect emerging issues and ensure effective use and analysis of accumulated data.

- **Support further development and refinement of the programme** by working alongside pathfinders, HCA and others including in considering what measures would be most helpful in determining the impact of HMR.

- **Ensure HMR work appropriately informs Comprehensive Area Assessment (CAA).** Housing markets will be an important element of this new performance framework and learning arising from pathfinder partnerships will be fed into the process.

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1. CAA is a new assessment framework for councils and their partners in England taking effect from April 2009.
Introduction

The current market context

1. 2008/09 has been a very difficult year. We are in the midst of a global banking crisis. Nationally, the economy has moved into a sharp recession, shrinking by 1.5 per cent in the last quarter of 2008 and 1.9 per cent in the first quarter of 2009. The latest contraction was worse than had been expected and was the biggest three-month decline in gross domestic product (GDP) since the third quarter of 1979. Taken together it was the worst six-month decline in GDP since the Office for National Statistics began publishing the figures. The Chancellor’s prediction in the 2009 Budget Report was that GDP for the whole of 2009 would shrink by 3.5 per cent. The International Monetary Fund predicted a 4.1 per cent decline for 2009, while the Centre for Economic and Business Research forecast a 4.5 per cent contraction this year. Much depends on the length and severity of the economic downturn. But there can be no doubt that these events will have far reaching implications for the UK as a whole and not least for the growth and regeneration agendas and for the HMR programme in England.

2. We have already found that nine out of ten councils across England are concerned about falling property prices, and predict that reductions in development will reduce the number of new homes being built (Ref. 2). Property and land values have fallen sharply, and the volume of activity in the housing market is currently very low. Only half as many new build houses were started in the third quarter of 2008 as in the same period in 2007. Alongside this, unemployment and home repossessions are increasing the demand on services, while local authority income is falling.

3. A recent report reveals the cities most exposed to recession and least well placed to ride out job losses and business closures over the coming months (Ref. 1). The report uses measures of economic prosperity, social deprivation and the quality of the built environment to rank 64 of the UK’s largest cities and towns. Generally, in all data sets, of the cities ranked in the bottom ten, seven are in pathfinder areas, with Hull and Liverpool in particular faring worst on most indicators. Considering that cities across the whole of the UK, including Glasgow and Belfast, are included within this ranking, the potential vulnerability of pathfinder areas to a deepening recession is high.

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I Based on gross domestic product (GDP) data from the Office for National Statistics. GDP measures the value of all the goods and services produced by a country.

II Figures reported on BBC News website Friday, 24 April 2009 – http://news.bbc.co.uk/1/hi/business/8015704.stm
In pathfinder areas, and their wider subregions, there remain deeply ingrained structural and social issues affecting communities and homes. The areas were originally chosen because they displayed very severe housing market and socio-economic problems. Generally, while some progress in tackling these issues has been made, all areas still suffer from acute multiple deprivation and have problems with the condition, type, tenure and location of their housing stock. While the full impact of the market downturn has yet to be seen, it is clearly possible that pathfinder areas, which contain some of the more marginal places and communities, will be among the worst hit, and will take longer to recover.

Pathfinders have previously operated in the context of a thriving national economy and housing market, where the challenge was for these areas to close the gap with surrounding areas. Now, while the aim remains constant, the nature of the challenge has changed. National issues in terms of demand and supply of new housing are significantly heightened in pathfinder areas. On the demand side, tightened lending criteria have reduced households’ ability to buy homes, and many of the people finding it most difficult to access finance are the very ones that pathfinder products are geared towards. This includes lower income households, younger people and first time buyers. On the supply side, current market conditions mean that developers are reluctant to build in areas of greater risk.

Developers have traditionally been wary of building in some pathfinder areas because of the relatively low sale prices compared to some other areas. HMR status and funding had begun to change this, with formal partnerships beginning to deliver more substantial new build schemes. However, these areas remain challenging and overall improvements fragile. While changes to the 2008/09 programme may be relatively easy to accommodate, adjusting to unpredictable market pressures in 2009/10 and beyond will prove more difficult.

Ongoing policy and programme adjustment is also being prompted by changes in the institutional framework around pathfinders. There has been a transfer of functions to HCA as part of the move to consolidate investment and regeneration activity. A number of proposals arising from the review of subnational economic development and regeneration have the potential to further strengthen local and regional coordination and activity to build capacity to cope with economic change. These are discussed in more detail later in this report.

Multiple deprivation – areas showing signs of poor environment, low educational achievement, above average unemployment, low wages and high crime.
Structure of the report

8 We have outlined above the challenging context against which the HMR programme is currently operating. Given this, and the fact that we are now six years into this programme, we have focused on some of the broad strategic issues facing the programme, as well as commenting on recent performance. The report considers:

- The evolving nature of the programme – how the changing external environment and policy developments have impacted on the programme to date, and how the pathfinders have responded.

- The impact of the market downturn – how the mortgage market downturn and its feed through to the wider banking crisis and the general recession may affect HMR.

- Programme evaluation and wider public policy developments – the most recent commentaries of the pathfinder programme covering major external evaluations and other developments likely to impact on the programme in future.

- Recent progress and performance of pathfinders – pathfinders’ recent progress and direction of travel based on ongoing review and assessment of key interventions and overall programme delivery.

- Key outcome measures and market trends – progress against key outcome targets, focusing on homes subject to low demand, empty homes and house prices.

- Conclusions – the overall progress and positioning of pathfinders, some unresolved issues and what will be important in moving the programme forward over the difficult year ahead.
The evolving nature of the programme

9 The HMR programme originated from the acknowledgement by politicians, practitioners and academics in the late 1990s and early part of this decade of low demand for housing, particularly in many parts of the Midlands and the North of England. The case for HMR was informed by a series of studies of low demand areas (Ref. 3 and Ref. 4) and was made through a subsequent bid to the 2002 Comprehensive Spending Review. At a time when the UK as a whole was prospering and with increased expenditure commitments to support that growth, the government was acutely conscious of areas that were clearly not part of that process and where a range of social and economic problems were manifesting themselves.

10 It was recognised that the solution reached beyond individual authorities and required long-term, sustained, subregional engagement and funding. The HMR programme was the result and securing sustainable market outcomes in pathfinder areas remains the long-term goal. Over the past six years, the programme has helped develop a more sophisticated understanding of the nature of housing markets. It is now well understood that housing markets do not respect administrative boundaries, and that a strategic approach to assessment, planning and intervention is required. This realisation was a defining feature of the pathfinder programme.

11 In what was originally envisaged as a long-term programme of 10 to 15 years, HMR is now either a third or a half of the way through its possible programme life. The programme spending of £2.2 billion up to 2011 is a substantial sum for government to commit to re-engineer local housing markets.

12 Any long-term programme commitment has to adapt to change, whether policy and political change, or because of wider economic forces. In reality, the external environment and the policy agendas have undergone radical change since the programme was initiated, and further policy change can be anticipated given the general election no later than 2010.

I Low demand housing – housing judged by individual councils and housing associations to be particularly unpopular and difficult to let.

II Comprehensive spending reviews set firm and fixed three-year expenditure limits for government departments and, through public service agreements, define the key improvements that the public can expect from these resources.
Recognising the scale, complexity and innovative nature of the programme, the government has been clear that there could be no universal solution to the problem of low demand areas. Pathfinders and their constituent local authorities have had a high degree of autonomy in determining local priorities. Inevitably some will see the strengths of the programme – local discretion, diversity and flexibility – as weaknesses, but it should not be argued that they are failures of omission, this approach being intrinsic to overall programme commissioning, with annual targets for core indicators agreed with pathfinders and outputs monitored by CLG and HCA.\(^1\)

HMR has been working in largely uncharted territory, attempting to re-invigorate local housing markets through a variety of methods, some of which were untested. HMR has had to put in place a complex array of arrangements, given that the pathfinder areas typically cover a number of local authorities, a range of central and local government programmes and diverse communities.

Comparison is not straightforward. It is important to recognise that pathfinders vary significantly in terms of budgets and resources. In 2008/09, HMR funding allocations to individual pathfinders ranged from £13 million to £54 million. Moreover, given the diverse nature of the programmes, the different starting points and the varied ways that pathfinders are organised, there are significant variations in partnership arrangements.

In our previous reports, considerable attention has been focused on the devolved governance and operational arrangements, covering in some detail what each pathfinder was doing; not least in terms of good practice and the lessons they might learn from each other. This is to be expected in the start-up phase, with process and procedure issues dominating before actual outputs and outcomes are being achieved on the ground.

Given the scale and complexity of the challenges already outlined, 6 years into what was originally envisaged to be a 10 to 15 year regeneration process, there is still much to do in order to ensure the format is sustainable in the long term. However, the groundwork that has been laid over the last six years is generally impressive in terms of data collection, working arrangements and building programme capacity, including land assembly, community engagement, master planning and private sector engagement.

What is striking about the HMR programme is the extent of policy and wider change that has taken place and is planned further, and the ways the pathfinders have already adapted and changed as a consequence (see Case study 1).

Core indicators – pathfinders are required to define targets and report to CLG and HCA on levels of output achieved against a range of indicators, including numbers of homes demolished, acquired, built and refurbished.
Case study 1
Reflecting the changing nature of regeneration, the Elevate East Lancashire pathfinder will become part of a new Pennine Lancashire Development Company, which will look at wider economic and social aspects of the area as well as the physical issues. The Company was set up in shadow form in September 2008 and will become operational in 2009. It aims to ensure that housing and economic interventions are planned and delivered in an integrated way, gaining more value from HMR and other programmes, including the Local Enterprise Growth Initiative. It should also add significant capacity, by sharing staff and financial resources.

A sub-regional Integrated Economic Strategy is already being developed by the Company which will be responsible for delivering parts of the Pennine Lancashire MAA, reporting to the Pennine Lancashire Leaders and Chief Executives’ Group.

19 CLG has set out its intention to give greater freedom to local authorities in terms of spending allocations, thus enhancing flexibility and local solutions. Guidance was also given regarding regional funding allocations for the inter-connected areas of transport, housing, regeneration and economic development.

20 In bringing together regeneration funding and functions, the creation of HCA marks a new stage in the journey begun by the pathfinders. Power and responsibility are brought together at the centre, as part of the move to consolidate investment and regeneration activity. Retaining the flexibility of the programme to deliver coordinated interventions, based on the identified needs of the local community, must remain key. This will have to be balanced against any new central direction and overarching vision for HMR that may be developed taking into account pathfinders’ potential transformation around regeneration and growth and appropriate synergies between programmes.

21 HCA is beginning its ‘single conversation’ with local authorities and partners to embrace the full range of housing and regeneration activities within an area. Undoubtedly, pathfinders need to be part of that, and in many senses HMR is now poised to go forward strongly and provide a ready base for HCA investment.

22 In that regard, the economic downturn of the last 12 months could not have come at a more damaging time. In this next section, attention is turned to the mortgage market downturn and its inter-relationship with the wider banking crisis and the general recession.

By engaging local authorities in a ‘single conversation’ on all aspects of housing and regeneration in an area, HCA aims to connect local ambition with national targets and agree and secure local delivery.
The impact of the market downturn

Almost by definition, HMR areas are at the margins of normal housing market operations. Despite this, research has suggested that lenders were continuing to lend to the variety of borrowers seeking to buy homes there (Ref. 5). Having said that, it was necessary to work with lenders to negotiate the homeswap scheme, through which households that needed to sell their existing home at below the value of the mortgage to facilitate clearance, could take the outstanding debt with them to their new home and add it to the mortgage.

Pathfinders have been acquiring buildings and land in their area, to generate sites for higher quality housing redevelopment. New homes have already been built on some of these sites, and private developers and housing association partners were poised to make a start on many more. However, the downturn in house prices and the drop in the number of sales since mid 2007 have forced a retreat in these areas. The question now is, what will happen next?

To date, little hard evidence is available. A report on the impact of the credit crunch on regeneration (Ref. 6) concludes that weaker areas are more exposed to the credit crunch but, more positively, that areas that were worth investing in five years ago or one year ago are still worth investing in. It identifies that the financial crisis is not over yet and that the pressures on regeneration will get more intense in the coming months. However, it also outlines opportunities for partners to take stock, get some better land deals for the public sector, put in some community and physical infrastructure and make the right decisions now so that places are ready to benefit from the eventual upturn.

Most pathfinder boards are considering a range of responses including revising programmes and targets, re-phasing developments and restructuring development agreements (see Case study 2). Depending on their local circumstances, pathfinder programmes are deploying a mix of the following:

- promoting mortgage relief and deposit schemes and developing new financial products for first time buyers and those on lower incomes;
- investing more funding in neighbourhood management projects, particularly environmental works, to improve safety and security and maintain quality of place in major intervention areas, so that they are well placed when the market picks up;
- revisiting master plans and phasing out apartment blocks in favour of family housing where appropriate;
- getting increased value for money by renegotiating contracts with developers, acquiring land for large future programmes at reasonable prices and accelerating acquisition and demolition programmes;

Findings
Developing longer-term agreements with the private sector, including joint asset-based delivery vehicles to deliver key priorities, especially where these are supported by public money, for example through the growth points initiative;

- gap funding schemes, regarded as essential to maintain momentum and economic activity;
- re-phasing developments and sharing development risks;
- renegotiating income received from the sale of land, to reflect current poor market circumstances, but building in potential for a greater share of profits in the future;

- selling properties to housing associations and considering other tenure options to deal with unsold stock, such as intermediate rent, rent to purchase, assured short-holds; and
- progressing retail and leisure developments in advance of some of the residential developments.

Case study 2

NewHeartlands, Liverpool is working on a scheme for the council to provide mortgages for first-time buyers, focusing on those wishing to buy in the pathfinder area. It is also showing mortgage lenders around the pathfinder area with a view to gaining their support and confidence to provide lending to HMR residents.

Gateway, Hull and East Riding is working on future delivery models involving flexible tenure options to try to enable delivery of new homes to be driven forward faster than the rate of outright sales would allow. This could potentially involve a joint venture vehicle with more rented units in the early years while continuing to test the market for outright sales. Gateway is aiming to establish a ‘one stop shop’ for sales and marketing for all tenure types to maximise take-up and choice.

Joint asset-based delivery vehicle – long-term partnership or joint venture between a local authority (or other public sector body) and a private sector partner that brings together local authority land and private sector funds and skills into a commercial partnership, and uses the value of the assets to raise funds to enable investment and/or regeneration projects.
Findings

**Negative scenario**

28 Given that the market is still relatively weak in these areas and that activity and reputation are only slowly returning, it is possible that the squeeze on credit, the fall in confidence, the drop in prices and the deferral of new development that is happening all over the country will be felt even more severely in these areas. The tone of the early commentaries in pathfinder board papers and local press comment would support this view.

29 From their perspective, lenders are aware that there is a heightened risk in these areas. If it is felt that the market will turn down even more sharply in these areas, it is likely that they will be even more cautious about lending into the pathfinders. That is particularly true when many of the potential borrowers may have weaker credit histories. Key target markets of most pathfinders include families on lower incomes and first time buyers, who are likely to have limited savings and little experience of servicing long-term loans, and therefore may be deemed by lenders to be more risky. Informal contact with lenders suggests that this is the case. If the local market has been sustained by people with poor credit records and high loan to value borrowing, then the gap in house prices between pathfinder areas and the wider region that has been narrowing over the past few years may open up again.

30 Likewise, developers who are due to build new homes will be facing the possibility that these will not sell easily or, if they do, discounting will be required. Cross subsidy across schemes will be more difficult, and there is a risk that objectives for high quality, mixed tenure developments will be compromised. Sites elsewhere considered to have better prospects may take priority and certainly there is some evidence that builders are withdrawing from new schemes, or deferring some existing developments in pathfinder areas. This in itself will erode the hard-won gains and leave pathfinders with the prospect that empty sites will remain for some years, weakening housing market recovery. There will be considerable variation in the ways this might play out.

31 Put together, there is a strong case for saying that these specific markets will suffer disproportionately in a downturn.

**Positive scenario**

32 There is an argument to suggest that, because these areas have experienced house price increases from a low base, they may be somewhat insulated from the steep declines being recorded elsewhere. This is possible, not least because these markets are also being underpinned by government expenditure on a planned and known basis. On the assumption that this is known and understood, buyers, lenders and developers should be more confident that prices will be supported and stabilised.
Although there is some evidence of private developers stepping back, this is not complete withdrawal. Given that there is real evidence of demand, these sites are less speculative than elsewhere.

Pathfinders are already finding that they can take advantage of lower prices to accelerate acquisition of houses and land in strategic locations. Programmes of refurbishment and environmental improvement work are being brought forward. There is also an increased focus on affordable rented housing and other forms of low cost home ownership and deferred purchase such as rent-to-buy and, in the longer term, it will be important to retain the intended mix of homes for sale.

On balance

Programme evaluations, outlined in the next section of this report, generally conclude that it is too early to say how these areas might perform in the downturn. Prices and volumes of sales are falling in all pathfinders and much depends on the scale of the housing market downturn and the recession. Given that there will be a spectrum of buyers who range from risk averse to substantial risk appetite, we can expect to observe a variety of behaviour. While the Parkinson report (Ref. 6) does not predict a mass sell-off of rental property, some pathfinders are already reporting that buy-to-let landlords are more eager to dispose of their property portfolios than before.

However, given the difficulties faced by both lenders and developers, we can expect them to adopt a strong risk-averse attitude, balanced to a degree by wider issues around public responsibility and public relations. Where the numbers are relatively small, some may feel they can carry the risk. However, overall, such organisations will likely step back, and defer expenditure or lending at least for a period, to see how the downturn works through. When the situation becomes clearer they will re-evaluate their position.

In part the question depends on the supply of finance to both developers and house buyers. This is a UK wide problem and Sir James Crosby was commissioned by the government to review the situation. His report (Ref. 7) outlined that the UK was facing a shortage of mortgage finance because of the contraction and closure of the securitisation market through which around 25 per cent of UK mortgage finance was raised. He suggested that 2009 would see negative net lending (that is, mortgage repayments would exceed new mortgages lent) and that sole reliance on a deposit based system for raising finance was unwise. He

I People buying homes, usually as an investment, for the purpose of renting them out to others.
II Securitisation is a means of raising finance secured on the back of identifiable and predictable cashflows derived from a particular set of assets.
argued that the UK mortgage market needed a vibrant securitisation market to meet the demand for funds and he recommended the government offer guarantees to help restart that market.

38 The government accepted Crosby’s recommendations. The government also announced a package of measures to support the banking system, including recapitalising the major banks, providing a guarantee on inter-bank lending and injecting new liquidity into the system. As part of the conditions for this, the banks were to ensure a flow of funds into the mortgage market, support home owners in difficulty and fund small businesses.

39 A cross-departmental announcement in September 2008 set out a package of measures to support first time buyers and households in difficulties with their mortgages. It included the bringing forward of social housing spending with explicit mention of the need to work with regional development agencies to support the ‘most critical regeneration schemes where market conditions have led to slowing down or stalling’. Subsequently a fiscal stimulus package was announced as part of the Pre-budget Report, including the creation of a homeowner mortgage support scheme to assist buyers in difficulty and proposals allowing councils greater freedom to build more homes for families in need. These initiatives have been further developed in the 2009 Budget Report.

40 It is impossible to be clear at this stage what impact all of these measures, alongside the sharp cuts in interest rates, might have and how they will impact at a local area level. An Oxford Economics report on vulnerability (Ref. 8) suggests those areas with a reliance on financial services, real estate and construction will be most exposed. Leeds, for example, is seen as more exposed than Sheffield. Figure 1 shows the 30 authorities in the HMR areas ranked in the vulnerability scale from the highest (most vulnerable to job losses) to the lowest.

41 While the Oxford Economics report suggests Newcastle-upon-Tyne is most vulnerable, ranked 33 out of 408 local authorities, a different ranking is evidenced in the range of data sets used by the Centre for Cities. In its recent report, (Ref. 1) Hull and Liverpool are identified as most at risk, with Stoke and Blackburn also among the most vulnerable larger cities and towns. The central message is that, in the coming period, the challenges faced by different cities will vary significantly and the response needs to be tailored to local needs. While debate will continue about which specific areas will probably be most affected, there is general agreement that all places will feel the impact, and that the North of England will generally fare worse. In those areas with many residents working in low-skill, low-wage sectors, adjusting to job losses will be more difficult and recovery will take longer.

‘Ensuring a fair housing market for all: A major cross-government package of new measures to meet current challenges in the housing market’ announced 2 September 2008.
Figure 1
Vulnerability of local authorities in HMR areas to the credit crunch

Source: Oxford Economic Vulnerability Index 2008
Data on sub prime mortgages suggests these mortgages are concentrated in the Midlands and the North of England.\(^1\) Auction sale prices across the UK have fallen sharply by around 30 per cent.\(^2\) Both are relevant to HMR areas. Parkinson (Ref. 6) suggests that in economically and financially marginal places, projects and people are most at risk, with developers likely to focus private sector residential investment in more prosperous areas. The thrust of this is that HMR areas are likely to suffer, even though there is less truly speculative house building in these areas because of the careful planning process undertaken.

At such a delicate moment, there is much that pathfinders need to do to keep the momentum and not least to reduce the scale of any withdrawal by the private sector. This should include:

- maintaining a focus on supporting communities and vulnerable households through changing and challenging circumstances;
- where possible, speeding up efforts to both upgrade homes and environment and bolstering the local economy. Pathfinders are engaged in a range of labour intensive activities and are thus well placed to ensure public funds are directly benefiting local employment;
- pathfinders keeping lenders and developers well informed and backing their commentaries with good quality statistics on how the market is evolving and what their investment plans are;
- where appropriate and after careful discussion with partners and sponsors, pathfinders adapting plans and offering to use subsidy or other mechanisms to reduce the risks other organisations are concerned about as a means of keeping key partners engaged. Clearly, care is required, but at this stage any progress that does not compromise core HMR principles must be viewed as positive; and
- in keeping with the spirit of innovation, pathfinders in liaison with partners and sponsors should develop a range of pilot interventions to test market response and resilience, with a view to promoting learning and more widely replicating successful products and interventions.

The 2009 Budget Report unveiled a £1 billion package for Britain’s housing market, confirming a number of interventions relevant to HMR. This included bringing forward £775 million spending on housing investment and regeneration; bringing forward £400 million funding for additional social housing over the next 12 months; and an extension of the £200 million Mortgage

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1. Sub prime – the term typically refers to mortgage candidates, though any form of credit offered to people who have had problems with debt repayment is classed as sub-prime.
Rescue Scheme, to support vulnerable homeowners. The range of measures announced in the Budget Report aimed to lessen the impact of the downturn, and speed recovery, but views vary as to the likely length and depth of this recession. We can expect to see difficult conditions through 2009 and into 2010. But ambitious efficiency plans have been set in train, and from 2011, pressure on government finances will mean overall spending will shrink. The HMR programme will be affected and pathfinders will need to adjust their plans in the light of these new conditions.

45 The impact of the credit crunch and subsequent recession needs to be monitored very closely and the monitoring system should be upgraded to reflect that. These exceptional times and conditions will also test the pathfinders’ understanding of key drivers of local market change. It will provide a valuable opportunity for reflection.

46 In the short term, although not impacting to the same extent, national programme evaluations and broader policy developments continue to be important triggers for pathfinders’ future development. These are discussed in the next section.

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Programme evaluation and wider public policy developments

47 This section of the report draws together the most recent commentaries of the pathfinder programme covering major external evaluations, and considers wider developments likely to impact on the programme.

48 A number of influential reports and policy statements have been produced or further developed since the Audit Commission’s last annual review. There is clearly a major shift underway in terms of the policy approach to growth and regeneration built in part on the experience of the pathfinder programme.

49 Measuring the impact of the programme on local and subregional housing markets remains a key issue for pathfinders and external commentators. Some headway is beginning to be made, but to try to distinguish between the impact of pathfinder projects and broader market influences is complicated.

50 The pressure to provide justification of this quite radical programme has led to a number of reports to date being forced to acknowledge that it is too early to see measurable progress. These reports have often then gone on to list the many other issues that pathfinders have been

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1 The government anticipates £5 billion value for money savings in 2011/12 raising the 2007 Comprehensive Spending Review target from £30 billion to £35 billion. In the next Spending Review period additional efficiencies to help support the economy and front-line services will rise to £9 billion by 2013/14. Health must find £2.3 billion of savings in 2011, education £1 billion, local councils £600 million.
asked to tackle, including community cohesion, crime and anti-social behaviour and heritage. In so doing, they added to a sense of this programme not meeting the expectations that were set for it even though they were in practice redefining what it needed to do. What is striking is that typically the pathfinders have been able to respond well to these widening agendas along with continuing to focus on their core roles.

51 The reviews, though different in a number of details, all focus on a number of issues in relation to both the policy framework and to the administration of the HMR process:

• The progress to date. Unsurprisingly, given the substantial expenditure involved, there has been concern that the emphasis has been upon demolition rather than replacement. However this is primarily a phasing issue.

• A continued drive to see better coordination, integration and involvement, with much of the emphasis on the processes involved and how they can be improved. This is understandable given the complex arrangements and the lack of powers of the HMR pathfinders themselves. Securing appropriate strategic alignment of organisations and programmes has been an early priority for pathfinders and in general this has been achieved.

• More specifically there is general recognition that HMR areas may be assessed on the basis of housing market failure, but the reality is that sustainable recovery requires economic regeneration as part of the package.

• The absence of clear outcome measures. There are clearly concerns that, for a number of justifiable reasons, the programme is poorly specified in terms of the measures that might be used to assess what it is achieving. Measures such as the rise in house prices or a fall in the number of vacant dwellings are outwardly sensible but there are a number of issues around them:
  – the geographic level at which they are measured, how they are measured and the frequency of measurement;
  – the causal model that underpins any change in such measures (in other words, the extent to which it is a product of the pathfinder activity) and the degree to which these measures express the underlying problem that policy is attempting to solve;
  – the degree to which any success as captured by that measure also suggests new problems, for example, a rise in house prices can make affordability more of an issue and increase the cost of intervention; and
how soon one might expect to see measurable progress given the scale and complexity of the issues – all reports argue that it is too early in the programme’s lifecycle to clearly evidence impact or judge overall success.

52 As this suggests the HMR programme was underspecified with respect to clear outputs and, given its complexity and longevity in government policy terms, it has been vulnerable to shifting policy agendas and organisational environments. Right from the outset the programme was always expected to adapt and develop over time and the evidence shows HMR areas have responded well to this. Moreover, because there was no central blueprint for implementation, there were always going to be local differences in how pathfinders responded and this has proved to be the case. However, the central question of what the overall programme deliverables should be remains a key issue for HCA to resolve as part of its current review of performance management.

National reports focusing on pathfinders

53 As the momentum and profile of the programme built up, so did the level of scrutiny by external bodies. In 2007/08, two high profile assessments of the HMR programme were published (Ref. 9 and Ref. 10) and both, very understandably given the public debates current at the time, gave considerable attention to the question of the planned demolition of homes.

54 The National Audit Office (NAO) report recognised the considerable challenges that the pathfinders face and stressed that, while it was ‘too early to judge the overall success of the programme’, CLG needed to provide greater certainty and clarity over the future objectives, funding and governance of the programme. It acknowledged that HMR was a radical and high risk approach and that the programme was being adapted (for example, outlining demolitions will be reduced from over 90,000 to 57,000 and there will be a net reduction in housing in only three pathfinders). NAO recognised that HMR interventions could in the short term add to problems regarding turnover, instability, speculation and vacancies.

55 The report highlighted a number of other tensions including the complex local arrangements; the differentials between the likely time span of the HMR pathfinders and the time horizons of the funding and planning regimes in place at CLG; and the changing nature of CLG engagement moving from considerable intensity at the outset with 12 staff through to a much more limited engagement prior to passing responsibility for the programme to HCA. It also refers to the problems in trying to isolate HMR impact from other changes taking place, which at the time included general house price inflation.
The Public Accounts Committee (PAC) report was based on evidence and discussion that took place following publication of the NAO report. It highlights some of the challenges the pathfinders have faced in terms of the scale of demolition, the lack of statutory powers and the limited base on which to judge success.

While raising specific issues that are still to be addressed, both reports offer qualified support for pathfinders and for the HMR programme overall.

Recommendations in the PAC report sought to reinforce key findings around:
- the need to align plans and strategies at neighbourhood and regional level;
- the significance of heritage;
- the importance of meeting the aspirations of existing residents;
- the risks of a demolition programme linked to uncertain future funding; and
- the absence of hard evidence about impact.

In response, CLG broadly concurred with the PAC, highlighting how it and the pathfinders were already responding to the conclusions reached. This included putting in place ‘by March 2009, a new, meaningful but streamlined set of measures to monitor future performance’. This has been taken forward by HCA, which has worked with pathfinders to identify a number of additional outcome indicators for collection from April 2009. It also aims to provide greater certainty and clarity of future objectives and funding through development of the ‘single conversation’, although the level of funding beyond 2011 currently remains uncertain.

Pathfinders are similarly making progress towards addressing many of the other issues raised. A recent report (Ref. 11) demonstrates how the townscape and heritage appraisals recently completed by pathfinders have helped to define an area’s sense of place and meaning. It suggests how the positive lessons learned from HMR can be applied elsewhere, citing its use in promoting collaboration between agencies and making a positive contribution to the planning process. These heritage appraisals have also proved a catalyst for a wide range of initiatives involving the local community (see Case study 3).

Pathfinders themselves, and specifically, through the HMR Chairs Group, have commissioned work from leading academics and HMR commentators to help stimulate debate and inform policy direction. The two most recent reports (Ref. 12 and Ref. 13) understandably highlight the pathfinders’ strengths in acting as catalysts for change, programme design and delivery along with strong regional alignment, high level of skills and a robust evidence base. These are seen as key strengths in the current climate and ones which will be attractive to HCA in its search for delivery partners. It is argued HMR pathfinders are in many respects forerunners of both MAAs and CAA.
Indeed, of the ten MAAs formally agreed by January 2009, seven are in the North of England, and all these involve pathfinders’ constituent local authorities. In most cases, pathfinders, and the partnerships they have helped strengthen, are taking a key role in their planning and delivery (see Case study 4). While most focus on economic and employment targets, the delivery of almost 40,000 new homes in the North of England is also included as part of these MAAs.

**Case study 3**
The Oldham-Rochdale HMR pathfinder heritage appraisal (Lathams 2006) is a good example of how townscape analysis can be integrated into a heritage appraisal. Each of the character area maps includes ground figure plans along with clearly identified landmarks and views. This appraisal also demonstrates the effective use of an extensive participation programme with community workshops embedded in the overall approach.

In Kirkholt, part of the area covered, the townscape and heritage appraisals are being used as the basis of community leaflets that explore the heritage of HMR areas, including a heritage trail, and have sparked community excavations enabling residents to explore archaeology dating back to the Middle Ages.
Findings

Case study 4

The Tees Valley MAA, signed in July 2008, was developed with the pathfinder partnership as a mechanism to help deliver the City Region Business Case. Targets for 2011 include: securing 6,000 new homes, a 0.3 per cent increase in the overall employment rate and a corresponding reduction in people on out of work benefits.

The programme will support the priorities outlined in regional strategies and allows for the five local authorities to be able to re-profile the sequencing of individual projects, between and within: housing market renewal, housing growth funding, major schemes (transport) funding and regional development agency single programme funding, in order to effect transformational change.

63 The HMR Chairs Group reports highlight further issues including:

• the limitations of house prices as an indicator of housing market health;

• the need to conjoin renewal and urban growth and to recognise that new supply is important even in areas where there has been a fall in the population;

• the evidence, in relation to the credit crunch, which suggests that developers and lenders are retrenching, compulsory purchase order related re-mortgaging has become more difficult and buy-to-let markets have weakened sharply;

• the current challenges that local authorities and housing associations are experiencing, namely reduced capital receipts, fewer shared ownership sales and increasing concerns with securing matched private funding; and

• the need for subregional action, working closely with developers and lenders and bringing forward public expenditure and renegotiating agreements to mitigate the downturn.

64 The very nature of the arrangements for pathfinders has created the space for the Chairs to make these continued influential interventions on the shape and direction of the programme. It is powerful advocacy, with reports offering a unified view of the future. However, as our ongoing assessments reveal, we should not ignore the reality that the underlying performance across pathfinders, discussed later in this report, is varied. Adapting and developing the programmes alongside current political and economic realities makes considerable sense but it should not be a substitute for maintaining a focus on performance.

Capital receipts – money the pathfinder or its partners receive by selling off land and buildings.
Local evaluation by pathfinders

While evaluation activity in some pathfinders remains underdeveloped, independent evaluation activity has been undertaken locally or commissioned by most. Generally, this body of work has pointed to successes in particular areas within them that give some optimism for the future or which, at the very least, suggest that conditions are in place that could facilitate future improvements. These evaluations include evidence that pathfinders are having an impact in both delivering outputs in particular neighbourhoods and in addressing key drivers of change (see Case study 5). They include evidence of noticeable impacts in particular areas in terms of reducing vacant properties, changing physical appearances and neighbourhood improvements. Added to this, their relations with the private sector, their engagement with communities, resident confidence and reduced crime, work to develop low cost home ownership and master planning were all seen as positive building blocks for the future.

However, here too, there is clear recognition that, alongside physical market renewal, economic development needs to be delivered if long-term sustainability is to be achieved.

Case study 5

An independent mid-term local evaluation commissioned by RENEW North Staffordshire looked in detail at four broadly representative case study projects. It found the pathfinder to be having a significant impact, citing that around 85 per cent of new homes constructed in the area were as a direct result of HMR intervention. It also highlighted the wider added value the pathfinder had brought to the sub-region in terms of stimulating scaling-up of activity, attracting additional resources and providing strategic leadership. The report found that RENEW had begun to deliver against its original objectives to tackle the oversupply of terraced housing, improve housing conditions and create better quality housing environments.

However, despite the significant localised impact of interventions, the evaluation also found there to be little tangible evidence that the programme had yet created confidence in the longer-term prospects for growth in the sub-region. The report argued that going forward a key factor will be the continuing development of the wider North Staffordshire Regeneration Partnership; a partnership evolving from the pathfinder and now responsible for delivering coordinated housing and economic regeneration of the area.
Wider policy developments

67 It is clear that the HMR programme is located within a fast moving policy and market environment and focuses on building stronger regional and subregional capacity to cope with economic change in a flexible and locally responsive way.

68 The government is aiming to clarify new economic development structures and empower local and regional partners through a range of aligned proposals. The developing regional and subregional agenda, including MAAs, the scrapping of the regional assemblies and the strengthened role of the Department of Business, Enterprise and Regulatory reform is still underway, and further change to subregional structures and strategies is set.

69 The government published its response to the consultation document *Prosperous Places: Taking Forward the Review of Sub National Economic Development and Regeneration* on 25 November 2008. This sets out how the government aims to deliver more effective economic decision making and planning in England’s regions and localities. These reforms aim to put in place a legal and policy framework to assist regions, subregions and local areas in responding to current economic difficulties, preparing for the upturn and strengthening jobs and business growth.

70 The Audit Commission welcomes the main proposals set out in *Prosperous Places*, which focus on regeneration and economic growth; the need for a central concern with outcomes not processes; better coordination and policy alignment; and devolution to communities and councils.

71 The proposals are very much informed by the decisions that led to HMR and subsequent experience. In many ways pathfinders, which are not statutory bodies but rather strategic alliances and partnerships essentially between local authorities, provide a forerunner for some of these developments. It is therefore surprising that the experience and learning from them has not featured in these proposals more prominently.

72 How all this works out in practice will be key for pathfinders over the next few years. Issues of local accountability, local decisions and actual implementation as distinct from plans and strategies are critical to taking forward the HMR agenda and delivering outcomes on the ground. As we move into the next years of the HMR programme, delivery and outcomes now become central priorities albeit within a changing strategic context – one which focuses on place shaping to contribute to economic and housing growth, rather than one focused on stemming decline.
The thrust towards an emphasis upon growth, devolved powers and community engagement had been amplified in a number of announcements in 2008. The need for integration of housing and the economy has also been reinforced by national reports, (Ref. 14 and Ref. 15), which argue for the integration of housing and economic development, especially in relation to shaping concentrations of poverty. The pathfinders have long recognised the need for integration of strategies and activities, with links between housing and the economy being of particular importance. In the long term, the government’s housing growth plans present an opportunity for housing to support economic development in specific areas.

Of the 20 additional growth points announced in July 2008, seven are closely linked with the HMR programme. These areas comprise some 10 per cent (£58 million of £584 million) of the total growth fund allocations announced in December 2008.

All pathfinders are affected by new growth plans to varying degrees, and most will have strategic responsibility for overseeing growth and renewal in a combined manner (see Case study 6). This blending of growth and regeneration and renewal marks an important further step in the life of the HMR programme. Indeed, the HMR Chairs (Ref. 13) suggest that HMR areas provide a focus for intelligent investment, offering a growth strategy with a difference, building on existing communities and investment.

**Case study 6**

In December 2008, Newcastle Gateshead was announced as one of the Additional Growth Points and allocated £4.7 million to 2011. The pathfinder, Bridging Newcastle Gateshead, will lead delivery of the programme to provide new homes, with the early phases of the growth programme closely aligned with HMR priority development sites. This provides synergies both strategically and operationally, and presents good opportunities to accelerate delivery.

After 2011, the focus will move to areas outside of the cities’ inner core. Pathfinder research and intelligence identifies that growth, alongside continuing renewal work will support future economic prosperity by providing better access to housing that meets the needs and aspirations of a range of different people.
However, while such connectivity undoubtedly presents opportunities for wider regeneration, there is also a potential risk around competing strategies and interventions. Without close alignment between the two programmes, the housing market in pathfinder areas could continue to polarise, creating separate communities that are not benefiting from economic growth. It will be important to ensure synergies between the HMR programme and the Growth Point programme.

Finally, another contribution from government, (Ref. 16) highlights the economic rationale for identifying place and sets out the importance of making interventions at the right spatial scale. The paper provides useful additional support to the HMR programme rationale.

**External commentary on market renewal**

Alongside the substantial output from government and related bodies, there is a small but significant external selection of literature on market renewal and pathfinders that can provide an alternative perspective on the HMR programme.

A high profile example is the trilogy, Cities Limited (2007) Success and the City (2008) and most recently Cities Unlimited (2008), that has evolved around the theme of successful and unsuccessful places both here in Britain and abroad.1 The first and the last of these reports challenge the value of urban policy intervention arguing that even with this funding the beneficiary cities have slipped further behind.

*Cities Unlimited* attracted most attention because it very directly challenged regeneration arguing that ‘towns that were once in the right place at the right time, may well now be in the wrong place at the wrong time’.

But the Commission’s own work on coalfield regeneration (Ref. 17) raises questions over this analysis and demonstrates the potential contribution of regeneration activity. Our report illustrates that many coalfields areas, which must represent the definition of being ‘in the wrong place at the wrong time’ following the pit closures, have been able to re-invent themselves and have out-performed similar declining areas over the last ten years. Regeneration funding has been a fundamental feature of this transformation as it has allowed coalfield areas to clear and develop sites and construct substantial new transport infrastructures. Consequently, many coalfield areas now offer low cost, un-congested new sites with good connections to national transport infrastructure at precisely the time that employment is relocating from major urban areas in search of these types of location.

1 Leuning and Swaffield, published by the Policy Exchange.
As is the case with HMR areas, the problems of coalfield areas are far from solved. However, public funding provided to these areas has allowed many of them to be reconstructed and reconnected back to a national economy in which the emerging new economic geography is increasingly weighted in their favour. It is unclear whether this would have been achieved in the absence of public support on the scale witnessed in the coalfields.

The Audit Commission continues to carry out independent assessment of pathfinders’ performance and to identify specific recommendations to help the programme develop at a national and local level. The most recent progress and direction of travel is considered in the next section.

Recent progress and performance of pathfinders

The Audit Commission uses a structured framework for completing its performance review and scrutiny of HMR pathfinder performance, allowing a series of challenging, appropriate tests and questions to be consistently applied. This supports the pathfinders’ development and provides CLG and HCA with an independent assessment of how effectively the national HMR programme is being delivered at a local level.

This framework has been periodically updated to maintain currency as the pathfinders developed and as the environment they operate in has changed. The latest version incorporates a focus on some of the key issues identified for improvement in our last annual review. This included specific recommendations around:

- focusing on community cohesion;
- maintaining attention to design quality and sustainable development principles;
- developing strategies for the private rented sector;
- working to sustain marginal home ownership, and an appropriate supply of affordable homes to create balanced mixed communities;
- monitoring market dynamics and understanding the underlying factors that influence the market in each local area; and
- improving efficiency, effectiveness and overall value for money.

In general, most pathfinders have responded well to the range of overarching and individual recommendations identified by the Audit Commission. Progress is fully evidenced in the reports published in 2008, which are available on our web pages.
By December 2008, all pathfinders, aside from Urban Living, were found to be performing strongly in one or more aspects of performance. And while Urban Living remains in catch-up mode, it should be acknowledged that it is the most improved pathfinder over the last year. It has obtaining an improved score in five of the seven key measures of performance and an overall improvement from performing adequately to performing well. Tees Valley Living, not one of the original pathfinders and assessed for the first time in 2008, is currently on a similar trajectory.

Two other pathfinders, Renew North Staffordshire and Partners in Action Oldham and Rochdale, also secured overall assessment improvements in the last year, moving from performing well to performing strongly overall. These now join Manchester Salford and Bridging Newcastle Gateshead HMR pathfinders, which retained the assessment of performing strongly obtained in February 2008.

All pathfinders are now judged to be performing well or strongly, and continue to make recognisable progress. While all retain the capacity to improve on current performance to different degrees, the upgrading in performance on the key measures is very encouraging and points to a clear improvement trajectory with some of the weaker pathfinders making the strongest progress.

In terms of key measures, it is very clear that strategic alignment is the measure on which most pathfinders score best, with eight of the ten performing strongly. This demonstrates the programme’s success in building partnerships and alliances within the context of regional and subregional economic, housing and planning policies. It also shows the pathfinders’ achievement in securing close collaboration with the local partnerships that set strategies and deliver regeneration in agreed priority neighbourhoods.

There is also a strong focus on delivering against the place shaping agenda. This reflects the programme’s original aims and evolving focus in tackling housing market weakness in a holistic way, aligning physical, social and economic regeneration activity, with the ultimate goal of creating sustainable communities. As previously identified in this report, the programme is in many ways a forerunner of the wider initiatives currently being progressed by the government and HCA.

Key measures in the assessment framework are: update and use of housing market intelligence; place shaping; affordable homes and mixed communities; community cohesion, consultation and support; delivery and impact; strategic and operational alignment; and efficiency and effectiveness.
Case study 7

In 2007/08, pathfinders reported that over 7,000 homes were newly constructed or converted (for example to create family homes from buildings previously occupied as flats) in HMR areas. This one-year figure is comparable to the total achieved over the five years prior to this.

Almost 1,200 of these new homes were built in South Yorkshire last year, and major physical change is now evident in a number of areas. In Rotherham town centre new retail and residential units are making a significant impact, and high quality design has attracted new investment in early phases of the programme. The pathfinder’s Delivering Design Quality project is also supporting developers in Mexborough in Doncaster and Burngreave in Sheffield, to improve the quality of their new development, helping to attract new residents to the area.

The South Yorkshire pathfinder is also leading the development of a sub-regional approach to the zero carbon agenda, including running a series of seminars called the Carbon Zero Project, aimed at developers, house builders, housing associations and senior staff from local authorities.

Some achievements in respect of design and sustainable development have been impressive. Most, although not all of the pathfinders, have developed overarching design and sustainable development protocols and policies to inform appraisal of new build schemes. However, at this stage none of the pathfinders are currently in a position to make fully informed decisions on sustainable development. In the future there will be benefits to better integrating environmental impact assessments within the broader framework for decision making as part of options appraisals and pathfinders’ project appraisals.¹

However, the most improved measure over the last year was in terms of delivery and impact, reflecting the clear transition from start-up to delivery phase of the programme, with most areas starting to make the switch from land acquisition to delivery of high quality new homes (see Case study 7). Five pathfinders improved their performance in this area. Now, nearly all are judged to be performing well or strongly, although we can expect market conditions to significantly affect performance across all pathfinders in this respect over the next few years.

Environmental impact assessments – assessment of the possible impact (positive or negative) that a proposed project may have on the natural environment. The purpose of the assessment is to ensure that decision makers consider the ensuing environmental impacts to decide whether to proceed with the project.
Most pathfinders are continuing to develop their understanding of the private rented sector through research and their use of market intelligence. While some pathfinders have recognised the growing part that the private rented sector could take to increasingly meet housing need in the future, there is as yet no consistent strategic approach to this sector. For example, some pathfinders have aimed to restrict the number of new build properties in their intervention areas sold for private renting through appropriate marketing and covenants. In other areas, sales to the buy-to-let market have been actively encouraged, and up to 40 per cent of newly built properties are let out to tenants.

The Parkinson report suggests that growth of the private rented sector will now slow as fewer people will want to buy in a falling market. Conversely, as the shortage of available credit continues, the use of new build properties for private renting could increase. This will raise management and other issues for pathfinder new build schemes, and it will be important for pathfinders to consider the role and impact of this sector.

Established partnerships with external agencies and private sector representatives has enabled most pathfinders to quickly begin considering how their programmes will need to change to respond to changing market conditions. However, some of the options being considered are quite high risk and as such an enhanced focus on risk management and value for money will be increasingly important. The focus on high quality, sustainable developments must not be sacrificed.

In general terms, more work is also needed by all pathfinders to further improve overall performance in their approach to tackling affordable homes and mixed communities and in better demonstrating value for money.

Value for money has been recognised for some time as an area where the pathfinders need to develop a more robust approach. To give impetus to this, since the last annual review the Audit Commission has produced an interactive value for money toolkit. This is intended to help HMR practitioners find their own answers to a series of challenges, from macro decisions at the programme level through to ensuring value for money from individual projects. An assessment specifically focused on the pathfinders’ approach to use of resources was also developed and introduced in 2008.
Our work indicates that progress is being made, but more needs to be done. While three pathfinders have made recognised improvements over the past year in terms of efficiency and effectiveness, it generally remains one of the poorest performing areas. We found that performance in use of resources varied across the pathfinders. Four were judged to be performing well. Three were assessed as performing strongly, having developed a more strategic approach to value for money and integrated investment programmes (see Case study 8). The other three, while continuing to make progress, were not yet demonstrating an overarching strategic approach to value for money and were only performing adequately.

In developing their 2008/11 programmes, a number of the pathfinders developed inclusive approaches to reviewing strategic investment priorities. In some cases, this led to a refocusing of investment on HMR areas. Most of the pathfinders have a good mix of skills to effectively develop and manage their programmes. Those taking on expanded remits are reviewing staffing capacity and skills accordingly, and all have robust commissioning and procurement processes in place and sound systems of monitoring and control.

Most pathfinders have appropriate strategies in place to manage assets accumulated through the programme, particularly from the acquisition of land and buildings. Formal policies have also been agreed by pathfinders and their constituent councils to ensure that reuse of these assets, known as capital receipts, is focused on HMR objectives.

Case study 8

Partners in Action Oldham Rochdale has developed a coordinated investment strategy across the HMR area with English Partnerships and the Housing Corporation as a precursor to the work of the HCA.

Its prospectus for a joint business plan focuses on a coordinated approach to development including property standards and mixed tenure requirements. The plan identifies a steep increase in the supply of new affordable housing in the pathfinder area and wider across the two councils. In the next five years, the plan envisages a total of 1,397 new affordable dwellings being built across the two councils, an increase from 99 per annum in 2006/07 to 2007/08 to 279 per annum over the five years. Seventy-one per cent of this will be in the pathfinder area.
Figure 2
Sources of investment in HMR areas 2005/08

Source: CLG Core Indicators 2005/06 – 2007/08
Figure 2 illustrates the sources of all investment (both complementary and directly levered) across all HMR areas over the period 2005/06 to 2007/08, broken down by HMR investment, other sources of public sector investment and private sector investment. This is based on incomplete information, as despite being required by CLG to submit full information on investment over the three-year period, not all pathfinders provided this. However, it does indicate that public investment across the pathfinders remained fairly constant over the period. In comparison, overall levels of private sector investment across all market renewal areas rose at more than twice the rate of HMR investment.

However, there is a lack of consistency across the pathfinders in the way that information on levered funding is captured and reported. Data quality is an issue, which makes meaningful comparison problematic. For example, Figure 3 illustrates the relative reported performance of each of the pathfinders in securing both public and private leverage. The graph highlights some large variations in reported figures, but it is currently unclear whether this reflects differences in actual performance or merely differences in the way statistics are compiled and reported by the different pathfinders. Specific recommendations in this report for an enhanced monitoring regime include the need to ensure that such inconsistencies are addressed.

Moreover, some of the pathfinders’ business plans for 2008-11 made very optimistic predictions about levels of private sector leverage likely to be achieved during this period. These will need to be revised and reviewed as part of a more robust approach to business planning for a range of economic and housing market circumstances for the next two years of the programme and beyond.
Due to significant variation in reported figures, Transform South Yorkshire and Urban Living have been excluded from the average private sector leverage calculation. Including Transform South Yorkshire and Urban Living increases the average to £0.47.

Generally, engagement with private sector partners is a key strength of the pathfinders’ approach although, as can be seen, directly levered public sector investment in HMR areas still outweighs private sector investment in most cases. Excluding outliers, across the pathfinders every £1 of HMR investment attracted an additional £0.29 of private sector investment and £0.46 of levered public sector investment.

Figure 3
HMR pathfinders’ public and private sector leverage ratios

Source: CLG Core Indicators 2007/08
This reflects the general pattern within most regeneration projects of public sector leverage outweighing private sector leverage. However, private sector leverage to date is low compared to that achieved by comparable regeneration projects that have been completed. For example, the Single Regeneration Budget (SRB) programme, secured total leverage of £1.57 private and £1.98 public for every £1 of SRB (Ref. 18). However, 6 years into what was originally envisaged as a 10 to 15 year programme, the HMR programme is still at a relatively early stage in terms of evidencing such outcomes so a direct comparison with other completed programmes is not wholly appropriate at this stage.

Pathfinders procure a range of professional and related support services from a combination of local authority and private sector providers, in a number of cases realising additional benefits for communities including training and employment opportunities. In some cases, services such as legal, demolition and design have been subject to market testing but this is not as widespread as it could be.

Some reductions in costs have been achieved between 2005/06 and 2007/08, but these have tended to be opportunistic rather than resulting from a planned approach to improving efficiency. Where efficiency plans are in place, they tend to focus on organisational costs rather than taking a more strategic approach. The approach to understanding and benchmarking costs, both within and between pathfinders requires further development. HCA will have access to comparator information for a wider range of housing regeneration projects which may provide opportunities for taking a more rigorous and outward looking approach to benchmarking of costs and help broaden understanding of value for money.

Good practice

While the goal of sustainable market outcomes is still being pursued in pathfinder areas, learning and transferable lessons are now apparent. The programme has many transferable lessons for those engaged in housing and regeneration at all levels. A defining feature of HMR is its subregional focus, and there are a number of lessons for policy makers operating at this geographic level. At a more local level, area intervention continues to be important with some innovative interventions being delivered.

The SRB was the main source of government funded support for local area regeneration in England over the period 1995/96 to 2000/01.
Part of the Audit Commission’s role is to capture and disseminate good practice and in reviewing performance, we have found many examples that others may find of use when considering how to tackle their own complex regeneration challenges. Many are featured on our web based compendium of good practice from the HMR pathfinders at www.audit-commission.gov.uk/marketrenewal. Launched in 2008, the site offers some of the more innovative, proven and replicable examples of good practice from the pathfinders and their partners.

Sharing knowledge and good practice between local partnerships is generally a positive feature of the pathfinders’ approach. It will be particularly important in the future to broaden the focus on sharing innovation and good practice with those outside the programme, and developing a more proactive promotional strategy.

Despite the many signs of positive progress in performance reported above, it remains difficult to evidence clear outcome measures that can be directly attributable to the HMR programme, where there is a proven causal effect. As outlined earlier, national reports conclude that it is too early to make firm judgements about the impact of the programme given its long-term nature. But six years into this programme, there is a need to identify appropriate measures for determining the impact of the HMR programme. Existing high level outcome targets are in place for the programme overall, focusing on homes subject to low demand, empty homes, and house prices. It is useful to review progress on these briefly, while reflecting that a wider review of performance management led by HCA is currently underway, which will need to explicitly address the issue of how best to measure progress and impact.

Nationally, helped by what were benign market conditions, some significant improvements have occurred in these headline indicators. The impact of the current market downturn is not yet fully evidenced in the latest available data. However, it remains clear that areas in the Midlands and the North of England continue to be among the most challenging, and that pathfinders still have much to do to close the gap with regional averages in indicators such as house prices and levels of deprivation, as well as to deliver against the long-term aim of creating sustainable communities.

Ongoing analysis of CLG data returns shows that since 2002, when the programme was conceived, the extent of reported low demand housing has reduced nationally year on year. CLG’s low demand indicator is one that local authorities have found difficult to measure consistently, so figures should be regarded as indicative of perceived low demand rather than any scientific count. Nevertheless, as shown in Figure
there has been a significant reduction over the last six years, with reported low demand falling from 5 per cent to 1.5 per cent of the total housing stock. However, as shown in Figure 5, the highest reported figures continue to be in the North of England.

**Figure 4**
*Change in reported low demand housing 2002-08*

Source: CLG HSSA data
Figure 5
Reported numbers and percentages of low demand housing by tenure and by region 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>Social</th>
<th>Private</th>
<th>Total</th>
<th>Per cent social</th>
<th>Per cent private</th>
<th>Per cent total</th>
</tr>
</thead>
<tbody>
<tr>
<td>East of England</td>
<td>2,770</td>
<td>0</td>
<td>2,770</td>
<td>0.7</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>East Midlands</td>
<td>7,814</td>
<td>0</td>
<td>7,814</td>
<td>2.5</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>London</td>
<td>2,098</td>
<td>4,001</td>
<td>6,099</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>North East</td>
<td>8,745</td>
<td>21,546</td>
<td>30,291</td>
<td>3.2</td>
<td>2.4</td>
<td>2.6</td>
</tr>
<tr>
<td>North West</td>
<td>23,340</td>
<td>137,586</td>
<td>160,926</td>
<td>4.0</td>
<td>5.4</td>
<td>5.2</td>
</tr>
<tr>
<td>South East</td>
<td>4,516</td>
<td>0</td>
<td>4,516</td>
<td>0.9</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>South West</td>
<td>3,502</td>
<td>1,616</td>
<td>5,118</td>
<td>1.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>West Midlands</td>
<td>14,852</td>
<td>21,441</td>
<td>36,293</td>
<td>3.3</td>
<td>1.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Yorkshire and Humber</td>
<td>15,296</td>
<td>58,000</td>
<td>73,296</td>
<td>3.6</td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Nationally</td>
<td>82,933</td>
<td>244,190</td>
<td>327,123</td>
<td>2.1</td>
<td>1.3</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: CLG HSSA data

Nationally available data on the numbers of empty homes or vacancies shows that this issue is still a particularly relevant one across the country – one that is not seeing a huge improvement. Figure 6 shows the trend over the last six years; total vacancies reducing from 3.4 per cent in 2002 to 3 per cent of the total housing stock (685,215 homes) in 2008.
The number of private sector houses vacant for over six months, shown in Figure 7, has similarly only seen a small reduction from just below 308,000 in 2002 to just over 293,000 in 2008. Again, the highest reported figures are in the Midlands and North of England.
Pathfinders continue to deal with high levels of both vacant and long-term vacant properties, reflecting the national situation. This is an issue that, while seeing some overall improvement, remains a key one. As shown in Figure 8, across all the pathfinder local authorities, the percentage of total voids has reduced since 2002 from 5.1 per cent to 4.5 per cent. The rate of private long-term vacancies as shown in Figure 9 has similarly reduced from 3 per cent to 2.5 per cent, although there has been a general increase in proportions of long-term vacancies in the most recent year, reflected in the HMR areas figures.
Figure 8
Percentage of total empty homes in pathfinder local authority areas and their regions 2002-08

<table>
<thead>
<tr>
<th>Region</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>All pathfinders local authority average</td>
<td>2.50</td>
<td>3.00</td>
<td>3.50</td>
<td>4.00</td>
<td>4.50</td>
<td>5.00</td>
<td>5.50</td>
</tr>
<tr>
<td>North and West Midlands non HMR LAs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North East</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North West</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West Midlands</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CLG HSSA data
While across all the pathfinder local authorities there are now fewer empty homes, the extent of both the issue and the change since 2002 varies between the areas. Figure 10 shows some of the wide variations across different pathfinder local authorities in 2008. Some, with less than 3 per cent, better the UK average while others more than double it.
120 Within specific HMR areas, the number of empty homes is generally greater than the local authority averages. Latest reported figures record up to 9.5 per cent vacant (6 per cent long-term vacant). Even these aggregate figures may mask more acute problems, in particular neighbourhoods where problems are most concentrated.
Clearly absolute house prices have risen everywhere in the country in the years since 2002, and while both price levels and volumes of sales have declined in the last year, they remain much higher than the early part of this decade. Sixty-three local authority areas were identified in 2002 as having house price levels substantially below national levels (their 15th percentile prices being less than 70 per cent of the national 15th percentile). Twenty-four of these (38 per cent) were pathfinder local authorities (including the five Tees Valley local authority areas). By the last measurement of this indicator, that number was down to 20, of which 9 (45 per cent) were pathfinder local authority areas. This suggests an overall closing of the gap from the lowest price areas and national figures as well as overall house price rises, although conversely an increase in the percentage of such properties located in HMR areas.

As shown in Figure 11, absolute house prices have risen in pathfinder areas, and generally at a faster rate than nationally – an issue that prompted much comment in earlier days of the programme. Pathfinders’ house prices have also generally closed the gap on their respective regions although to varying extents across them. That said, they remain among the lowest price areas within their respective regions and subregions and there is little evidence to show any particular HMR neighbourhoods have experienced sharp rises and been transformed in market terms.
Prices at the lower end of the market (as measured by the 15th percentile) have also increased and closed the gap on regional levels as shown in Figure 12, while proportions of low value sales have also reduced in all pathfinder areas. From mid 2007, in line with national trends reflecting the overall market downturn, both house prices and volumes of sales have reduced in all pathfinder areas (Figure 13). However, there has been no overall widening of the gap between prices in HMR areas and the regions in which they are located.
Findings

Figure 12
Nine pathfinder areas as a percentage of respective regional low value sales (15th percentile) 2000-08

Source: HM Land Registry
Figure 13
Volumes of sales 2000-08

Source: HM Land Registry
Pathfinders are tackling far more than housing market failure. Nearly half of the top 1 per cent most deprived areas nationally are located in the HMR areas.\(^1\) Figure 14 uses the same data from the most recent index of multiple deprivation (2007) viewed from a different perspective. This takes the total population of each pathfinder area and shows the degree of deprivation within it. A range of deprivation is shown with the Merseyside pathfinder, NewHeartlands, having the biggest concentration, with nearly one in three of its population living in the top 1 per cent most deprived areas nationally.

### Figure 14
**Deprivation in pathfinder areas 2007**

<table>
<thead>
<tr>
<th>Pathfinder</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>
</tr>
<tr>
<td>Elevate</td>
<td>14.1</td>
<td>36.4</td>
<td>60.6</td>
</tr>
<tr>
<td>Gateway</td>
<td>7.4</td>
<td>23.9</td>
<td>44.2</td>
</tr>
<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>
<td>25.3</td>
<td>47.4</td>
</tr>
<tr>
<td>Transform</td>
<td>3.0</td>
<td>29.4</td>
<td>46.3</td>
</tr>
<tr>
<td>Urban Living</td>
<td>5.9</td>
<td>56.4</td>
<td>74.3</td>
</tr>
<tr>
<td>All pathfinders</td>
<td>11.5</td>
<td>39.3</td>
<td>58.6</td>
</tr>
</tbody>
</table>

*Source: CLG 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. Three hundred and twenty-five of these small areas form the top 1 per cent most deprived from this index nationally. Of these, 153 or 47 per cent are in the ten pathfinder areas.
Despite close proximity to some thriving cities, high levels of deprivation are clearly apparent in HMR areas. This indicates a lack of connectivity between pathfinder populations and economic success and provides an ongoing regeneration challenge which is unlikely to improve in times of economic recession.

Overall, while there are some positive signs and trajectories in respect of key outcomes, it would be naïve to describe any of these areas as sustainable communities. There are certainly neighbourhoods within them that show clear signs of changed physical appearance, reduced numbers of vacant properties and other neighbourhood improvements due to HMR activity. However, at the wider market level, some HMR areas are still facing particularly severe conditions, despite the many positive trends generally since the start of the programme. In addition, the fact that many of the drivers and structural issues that pathfinders are continuing to address are still strongly in evidence, and given the next two years will be particularly difficult, the sustainable market change that is hoped for is still some way off.
The HMR programme is now at a key point in its development. It has steadily built momentum over the last six years and is now maturing in terms of programme structure, delivery and management. It has developed real expertise in its focus on vulnerable neighbourhoods and markets and the ways urban change can be managed, and is reporting important progress on key objectives. The programme does not have all the answers or indeed all the understanding but it certainly has a great deal to offer in these areas.

Expectations remain very high and there has been frustration expressed by some commentators with the time taken to deliver real outcomes on the ground in the form of new homes and re-worked neighbourhoods. None of this should be surprising given the task before each pathfinder. They have had to develop master plans and build alliances as well as homes and both take time. The evidence is that the former is now in place in most but not all pathfinders and that the flow of new and refurbished homes has been gathering pace. It is against that backcloth of emerging success and the arrival of the market downturn and recession that a number of conclusions are drawn.

Much of the early work in HMR pathfinders has been focused on the essential task of building organisational arrangements and sound processes. This includes governance structures, consultation arrangements, establishing trust and confidence in local communities, developing market intelligence to inform strategy and creating partnerships with the private sector. In complex and long-term programmes such as these, success should not be measured only in the number of houses built or refurbished but by progress on all these essential dimensions. However the consequence of this early focus is that there has been slower progress as measured by the core indicators used so far. As a consequence we can observe the following:

- The pathfinders have had to deal with somewhat unrealistic expectations from some commentators as to what might be delivered and when. It has created a degree of negativity around the programme. More should have been made of the success in the HMR pathfinders in building effective multi-agency partnerships in both public and private sectors. Issues around heritage, the scale of demolition and community engagement are also now being effectively tackled.

- Pathfinders have proved themselves adept at adapting and changing the programme and organisational arrangements to reflect the changing policy context. The change in market conditions will be an even bigger test.
Regular reporting and sharing good practice has done much to build competence and higher standards in the programme as a whole, and it will be important to maintain a balance between micro-management and the bigger strategic picture of what the programme is achieving, particularly during the market downturn and recession.

Changes in the ways that programmes are funded or organised are inevitable in what might be a 15 year programme. The government has sought to move forward on both housing and economy agendas with a strong drive towards better regional and local coordination. In response, there has been a reshaping around the pathfinders’ core regeneration activity to encompass wider agendas around growth and economic development. Broadly it has been for the best, although it has stretched the capacity of the pathfinders and partner authorities, and may change in the light of current circumstances.

Related to this, the pathfinders have been creative in terms of their engagement with a complicated set of changing local conditions and issues. A great deal of very good work and ideas have emanated from them and good practice has been exchanged across pathfinders. It has also spilled over to other programmes including, at a local level, influencing Building Schools for the Future and the NHS One Stop facilities.

However HMR is something of a closed world and more should be done to promote what has been done and how. In many respects, the HMR programme is a forerunner of the place shaping and collaborative agendas now emerging, which aim to align physical, social and economic regeneration activity. The new agendas could gain much from pathfinders but, given current pressures, there is a danger that HCA might overlook the strengths and importance of the HMR programme.

Although real progress has been made in terms of market intelligence and understanding area change, there are still unresolved questions as to how different factors interrelate and what impact specific interventions might have. There is a strong case for more stringent testing of what is being achieved by pathfinders and not least through the use of non-pathfinder areas as comparators. Although already six years into the programme, there is still a case for doing this given what might be learned from the effect of sustained interventions in local markets – an issue which will not go away and will have long-term value.

While there are agreed measures around which to report pathfinder progress, it is clear that they capture only a sense of the reality. The work now being undertaken by HCA on agreeing new measures is important, but it is vital that any proposals are fully exposed to careful assessment and examination.
Conclusions

Though annual reporting on measures is quite correct, the reality is that much change will only be evident over the long term. In addition, short-term changes in some measures may in reality be explained by a range of factors and not necessarily the pathfinder interventions. There is a case for exploring the value of some ‘softer’ measures of progress although this needs to weigh up the costs and benefits of adding to the overall burden of reporting.

135 The fact that most measures of HMR progress are problematic in one sense or another has meant that the programme is constantly engaged in what seems like a defensive commentary. Changing policy agendas and environment outlined earlier in this report may provide an opportunity to refocus. It is important this is done so that the programme can move on beyond the advocacy that has characterised some of the past.

136 Pathfinders are now into their second phase of development. Stage one – really a set-up phase – is now over. Systems, governance arrangements, staff, understanding, plans and programmes are now in place and sites have been cleared. New build is being delivered, expectations heightened and community and other capacity built.

137 Going forward, the focus will be on maintaining all that has been done so far but also on securing rapidly growing material outputs and outcomes. This makes settling the discussions on measures and reporting very important.

138 The work to date by most pathfinders on the credit crunch impact has been limited and potential solutions are still being worked through. It is important now to set up a clearer monitoring framework to take account of credit crunch impacts and mitigating strategies. More work also needs to be done with developers and lenders on a national basis to ensure HMR remains firmly on the agenda. Thought also needs to be given to the post recession world, where a degree of growth will re-emerge on the agenda. The fact that seven of the areas have received growth point status marks a new chapter in many ways. And it is essential that growth is closely coordinated with HMR so as not to undermine efforts to boost subregional economies through the renewal achieved in pathfinder areas.

139 The HMR programme needs to have a more clearly articulated view of what it is achieving and what it aims to do. More thought needs to be given to the overall promotion of the programme both to other agencies and organisations and in terms of public profile. Alongside this it would make sense to coordinate outputs and to have a clearer picture of milestones, so that the programme generates less noise and more substance.
There is a need for all parties to reassert a clearer collective vision of where they want to get to. The focus on process has overshadowed this so far but a big picture for the programme is now needed. This will be central to taking forward the agenda inside HCA. CLG’s increasingly limited central role should not be replaced by a more directive HCA role, although there are important strategic and representational issues where further clarification in the overall programme might be useful. The new agency will inevitably bring new dimensions to the HMR programme. The clear commitment to the ‘single conversation’ will be recognised and welcome in pathfinder areas. A new central agency is bound to make new demands and these must be carefully weighed against the need for pathfinders to continue to operate locally and with considerable freedom to move forward over the next year to become more confident and outward facing.
Appendix 1
The pathfinder areas

In April 2002, nine pathfinders were announced to take forward new approaches to tackling the most acute areas of low demand and abandonment in parts of the Midlands and the North of England. The areas cut across local authority boundaries with the expectation that partnerships be established to involve all stakeholders in developing strategic plans for whole housing markets. Pathfinders now work closely with a range of public and private sector partners, with the constituent local authorities having a key role in the partnership.

About 700,000 homes are included in the nine pathfinder areas and a further 90,000 in Tees Valley which gained formal pathfinder status in April 2008. Their locations are shown on Figure 15.

Tees Valley, along with two other subregional areas, West Cumbria and West Yorkshire, has received HMR funding since 2006. Overall, pathfinder areas encompass parts of 25 local authority areas, while a further 13 make up the three additional partnerships.

Between 2003 and 2011, some £2.2 billion of HMR funding will have been invested in the programme which has also attracted a range of other public and private sector resources. The partnerships are to ensure that all the essential requirements of sustainable communities, especially good quality, customer focused public services and a pride in the community and cohesion within it, are addressed, in line with the wider National Strategy for Neighbourhood Renewal.

The pathfinder areas

The pathfinders cover subregional housing markets that straddle parts of 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)
Figure 15
The location of market renewal pathfinder areas

Government office region
HMR pathfinder
Built up area
Local authority district

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Source: Audit Commission
References


9 National Audit Office and Department for Communities and Local Government, Housing Market Renewal, National Audit Office and Department for Communities and Local Government, November 2007.


