

**TOWARDS A NEW NARRATIVE FOR MARKET RENEWAL**

This paper is a basis for discussion with the HCA around a refreshed role for market intervention in the future. It proposes an integrated, place-based programme providing interventions that deliver economic development at a sub-regional scale.

**1. INTRODUCTION**

Britain is facing a severe economic downturn. This is presenting serious challenges in terms of Government objectives around housing supply, economic development and community cohesion.

In the North and Midlands, based on a strong evidence base and integrated sub-regional strategies, HMR Partnerships are playing a key role in supporting the most vulnerable areas, stabilising the economy and maintaining the confidence of local communities and developer partners.

Originally established to address problems of housing market failure and working across administrative boundaries, HMR Partnerships have made significant progress in stimulating markets, assembling sites for development, getting new housing built, refurbishing existing stock and leveraging substantial amounts of private investment into areas starved of such resources for many decades. There is now a very substantial neighbourhood renewal programme underway with significant inroads being made into historic problems, starting to create neighbourhoods of choice and lay the foundations for sustainable communities.

The success of the programme to date and the need for ongoing investment at the sub-regional level have been independently verified and positively evaluated by the Audit Commission in their detailed assessments of each Pathfinder. Substantial community and delivery capacity has been built which has created momentum and is delivering change.

Transforming the housing market means Pathfinders are starting to build out new, high quality housing and improving the quality of existing homes and neighbourhoods in order to attract and retain people with choices. Working with partners, Pathfinders are finding ways of supporting builders, lenders and purchasers to get the supply and demand cycle moving again. Through innovative local arrangements, this activity is providing jobs and training opportunities for thousands of people in vulnerable communities. The Pathfinders are playing a vital role in tackling deprivation in some of Britain's poorest areas.

However, if the programme is not allowed to finish what it has started, we will have let down our communities, blighted neighbourhoods left with derelict sites and swathes of vacant properties, and left highly vulnerable areas to long term housing and economic recession.

The first six years of the programme have laid the foundations of the housing restructuring and renewal element of a more comprehensive approach to regeneration, and having achieved this the Partnerships are now refreshing responsibilities as the programme evolves to address economic and labour market issues and ensures approaches to economic, social and physical regeneration are integrated in the way originally envisaged.

## **2. PURPOSE OF THIS PAPER**

However, this is a long term process and there are now new challenges which the programme has to take into account.

The arrival of the HCA represents a new opportunity to join up various programmes into a coherent approach focused on the place, not the funding stream. Most of the HMR areas are now involved in discussions about, or are already part of, emerging sub-regional partnerships which are taking a much broader view around co-ordinating erstwhile disparate strategies at that level. This reflects the fact that housing markets transcend local authority boundaries.

The time is therefore right to consider now what the future role of the programme might be, at a time when public expenditure constraints are undoubtedly going to become much more severe.

The purpose of this paper is therefore to begin a dialogue with the Homes and Communities Agency (HCA) and Communities and Local Government (CLG) on the future role and purpose of HMR. This is in the context of the experience of the HMR Partnerships over the past six years, changing conditions locally, the housing market downturn and economic recession, and changing national and regional/sub-regional governance.

Whilst this is a joint paper from the HMR Partnership Chairs and there is much common ground between the Partnerships, each area is nonetheless very different with its own unique set of challenges and ways of responding to them. We have a shared desire to work with the HCA through the single conversation process to integrate investment programmes to deliver economic development and place-based strategies tailored to the specific circumstances facing each Pathfinder.

## **3. TOWARDS A REFRESHED SET OF RESPONSIBILITIES**

The original objective for the programme remains in place – ie to tackle housing market failure. However, market failure is a complex phenomenon and can also be taken to embrace other forms of housing market dysfunction, such as polarised communities, large swathes of monolithic house types/tenures, and in some cases, areas of acute overcrowding. In order to tackle market dysfunction or failure, HMR Partnerships are addressing an agenda that is much wider than housing – integrating with economic regeneration and successfully tackling issues of community cohesion, low educational and skills attainment, climate change and affordability. The contribution this work is making to the economy, as well as to the sustainable communities agenda, should now be acknowledged. More

specifically, a renewed set of responsibilities for HMR Partnerships should include the following, much of which is already happening in most of the HMR areas:

**Sustaining highly vulnerable markets** through the credit crunch and the recession. The HMR areas are amongst the most deprived in the country. Even before the credit crunch and the recession, their housing was in low demand and their housing markets are now particularly vulnerable to the effects of recession. And historically, housing market downturns last longer than the economic recessions with which they are associated. The fact that HMR is there is giving communities and partners the required confidence to ensure that these areas do not collapse, and that the good work which has started can be sustained. The activity is also providing jobs and training opportunities for local people in areas with high unemployment and low skill levels.

**Preparing these areas for the recovery** by getting them ripe for private sector investment and development: acquiring land, assembling sites, remediation, planning, consultation. It is vital that HMR areas are “de-risked” from the point of view of developers and private investors who will otherwise choose to invest in “easier” markets elsewhere when the recovery comes. A number of the Partnerships have also been selected as growth areas, this ensuring that growth and renewal are complementary and that investment in the local infrastructure serves both. Across the Partnerships, there is now a substantial potential for growth on sites that have been assembled. And whilst this will vary between Partnership areas, it will be possible to reduce public resources for economic and physical interventions as the private sector confidence returns, provided public support continues to be provided in the medium term.

**Innovation during the downturn**, eg getting new housing built through use of intermediate models and underwriting risk. Even in this recession, market intervention is succeeding in getting some new housing built, sold and occupied. This has required using innovative methods such as intermediate rent, rent to sale, equity share and underwriting developers’ risks. Innovative delivery models such as LABVs and affordable products are being developed. The provision of new and replacement housing will become an ever bigger feature of the programme. Unlike the mass social housing provision in the past, market intervention will ensure that these developments are mixed income (with longer term prospects of tenure mix) with a much better chance of sustainability. In terms of innovation, the Partnerships are well placed to develop new ways of working as the market continues to change, with the opportunity to reinvent how the housing market operates and to trial new ways of working across silos.

**Strengthening the integration of economic and housing interventions** building on the recommendations of the Sub National Review. HMR is becoming an extension of economic development in their areas, for example by an integrated approach to changing land use patterns, providing environments that attract and retain skilled people and focusing residential development around transport nodes. HMR interventions are increasingly designed to maximise the contribution of poorer areas of conurbations and be a key part of sub-regional economic and

growth strategies. The Northern Way “Quality of Place” research reinforced the link between housing and economic outcomes.

**Promoting community engagement and cohesion** at a fragile time for communities. The recession is likely to increase disengagement and community tensions, and market intervention will play a vital role in sustaining confidence in the future of neighbourhoods that offers hope to all sections of the community. In many cases, a consensus has been built around proposals involving substantial change and it is vital that these are enabled to be implemented.

**Strengthening sub-regional governance**, co-operation and co-ordination. The HMR Partnerships are increasingly supporting, and in some cases leading or merging with, the development of city regional and sub-regional structures such as MAAs that offer opportunities to devolve decision-making to lower levels. Again, the sub-regional level of intervention reflects the market.

**Increasing the integration of HMR plans and expenditure with those of other HCA programmes** into a single, place-based regeneration process. The plans for neighbourhoods will join up the various funding streams into a single, place based programme at the local level. This could mean for example that the former National Affordable Housing Programme (NAHP) and the English Partnerships (EP) programme for HMR areas are combined into one programme, preferably with regional development agency resources as well. This would also enable streamlined monitoring, appraisal and programme management arrangements. HMR Partnerships are already responsible for funding streams in addition to HMR, such as Growth Fund, Regional Housing Board investment and Community Infrastructure Fund. The place-based programme would align with other capital expenditure, such as on health, education and transport, in integrated neighbourhood plans for physical change.

**Provision of affordable housing.** The need for high quality, affordable housing will be met not only by new homes for social rent but also by supporting the private rented sector which has a great potential to provide for those unable or unwilling to move into owner-occupation or social rent. The key will be to ensure that these homes are well managed and maintained, as well as providing a reasonable rate of returns for investors disinclined to put their money into banks or the stock market.

**Quality of design.** HMR intervention will increasingly focus on the quality of design of the homes, the environment and the public realm. The Pathfinders have been at the forefront of raising standards because of the need for their areas to compete with other areas seen as more appealing, as evidenced by design awards and popularity of the new housing. The quality and appropriateness of the new housing, as well as the crude numbers, will be increasingly important in turning around these areas and creating a legacy for the programme.

**Climate change agenda.** HMR intervention in the future will produce exemplars of how to achieve high levels of the Code for Sustainable Homes in respect of new housing in a cost effective way, and of how to retrofit eco-measures to the existing stock. Initial successful work on this has already been carried out in

some Pathfinder areas and research is underway on the optimum means of dealing with the existing stock.

#### **4. THE OFFER**

The Pathfinders are mature organisations with demonstrable capacity to deliver and are ready to move to the next incarnation. We are offering a new role as broader vehicles for the delivery of new infrastructure to support and integrate economic and housing development. We can deliver economic and physical interventions that reshape places and provide sustainable housing, jobs and communities. We offer the following:

##### **Strategic**

- Integration of economic and housing agendas into “place-focused” strategies and investment programmes;
- Leadership;
- Strengthened sub-regional governance;
- Reducing public sector cost and increasing private investment.

##### **Operational**

- Effective partnership;
- Flexibility, innovative delivery models and high quality, affordable products;
- Sustainability and quality of place;
- Ready to go: established arrangements, track record of delivery of place-based, integrated programmes, ready supply of sites assembled;
- The skills, experience and development capacity;
- Value for money as demonstrated by positive Audit Commission assessments.

#### **5. DELIVERY OF FUTURE AMBITIONS.**

Building on experience to date, any new offers of funding could be conditioned on achieving outputs and outcomes which the Pathfinders would be able to demonstrate, covering a range of factors relating to the above, eg:

- evidence of community involvement and support;
- maximising private investment subject to the overall economy;
- participation by and resources from other agencies such as the local authorities, the RDA and the voluntary sector;

- evidence-based strategy that has clear strategic fit with sub-regional strategies and governance arrangements;
- number and quality, including eco-rating, of new homes;
- evidence that homes meet aspirations of new households;
- number and eco-rating of refurbished homes;
- positive assessment by the Audit Commission especially in respect of value for money;
- evidence of co-ordination of market intervention across housing and the local economy;
- evidence of complementary investment in, for example, health and training facilities provided by partners as outlined above;
- evidence of riding out the economic recession and maximising the recovery at local level;
- efficiency targets/productivity gains;
- land remediated or brought back into use.

## 6. THE ASK

The Pathfinder partnerships are in an excellent position to provide a structure for the delivery of key Government objectives around growth, renewal, affordability and sustainability. It is time to move from a pure housing market focus to place-based regeneration which also addresses worklessness and aligns different funding streams. This will require a new definition of eligible expenditure and may require greater flexibility in relation to geographic boundaries. We support the HCA's desire for a single conversation and its ambitions to simplify funding streams in order to focus on the place rather than the individual programme,

We therefore ask HCA to enter into a dialogue with the HMR Partnerships to develop an offer for the next spending round and a financial planning framework, embracing the appropriate balance of:

- growth and renewal;
- economic development and housing improvement/development; and
- physical, place-based intervention with support for people and communities.

## 7. RISKS

**Commitments to communities.** We have the support of our communities following the intensive and extensive community engagement and capacity building. There is a justified expectation that the plans delivered in these neighbourhood will be developed, and whole communities will be let down if the programme is not allowed to finish the job.

**Community cohesion.** Linked to this, there is a real risk in some areas that if promises are not delivered in the HMR neighbourhoods, tensions will increase between different communities, or between the communities and the establishment.. This is especially the case as the recession deepens and people start to find scapegoats amongst other sections of the community.

**Market collapse.** There is also a risk that those areas where the programme is not yet been fully implemented could face a collapsing market as the recession bites and be completely unable to benefit from the upturn.

**Blighted areas.** Failure to invest sufficiently in HMR areas would leave unfinished projects, derelict sites and high vacancy rates, partly caused by public sector intervention, which would discredit the concept of regeneration at a national and local level for a generation.

**Developer and partner confidence.** There will be little chance of attracting or retaining private sector investment or developer participation if the perception is that these areas have been left in the lurch by the public sector.

**Partially redeveloped areas** are likely to leak population, especially the economically active, and deteriorate rapidly.

**Waste of resources.** If funding were to be seriously reduced in the next spending review period, then the VFM of what we have delivered so far would be undermined as with unfinished programmes and areas failing to deliver the intended outcomes.

**Waste of research and planning.** The years of painstaking research and consensus building will have been wasted if the plans are not enabled to be delivered.

## 8. CONCLUSION

The programme has a strong track record of delivering on its targets and developing and implementing well-researched plans that are breathing new life into neglected neighbourhoods. However, there is a recognition that HMR should continue to adapt to changed circumstances and should evolve into broader, place-shaping vehicles that integrate housing and economic infrastructure investment. This will reinforce our ability to maintain a market presence in highly vulnerable neighbourhoods and equip them to recover. We are very keen to work with the HCA and regional/sub-regional structures to develop and refine our role, including changing our own governance arrangements as appropriate, and to evolve along the following lines:

- Being a key partner to the HCA in sustaining highly vulnerable neighbourhoods through the recession and preparing them to take full advantage of the recovery to become self-sustaining areas in the medium to long term;
- Continuing the evolution into sub-regional partnerships that reflect local circumstances in order to enable much more effective co-ordination of priorities across different functions and different local authority areas, and allow a devolution of responsibilities;

- Developing into a more comprehensive, place-based programme that draws together different funding streams from the HCA (including the former NAHP and EP programmes) and from the RDA, local authorities and the private sector into an integrated set of market interventions. This will give real expression to the idea of the “single conversation” and the integrated investment plan;
- Becoming an even more essential component of the economic development of the area.