



The Government's Response to
the ODPM: Housing, Planning,
Local Government and the
Regions Select Committee's
Eighth Report on Empty Homes
and Low Demand Pathfinders



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Presented to Parliament by
the Deputy Prime Minister and First Secretary of State
by Command of Her Majesty
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THE GOVERNMENT'S RESPONSE TO THE ODPM: HOUSING, PLANNING, LOCAL GOVERNMENT AND THE REGIONS SELECT COMMITTEE'S EIGHTH REPORT ON EMPTY HOMES AND LOW DEMAND PATHFINDERS

INTRODUCTION

1. This paper sets out the Government's response to the ODPM: Housing, Planning, Local Government and the Regions Committee's report on **Empty Homes and Low Demand Pathfinders** (HC 295-I, published 5 April 2005).
2. The Government welcomes the Select Committee's Report. It is comprehensive and forms a valuable contribution to the debate on low demand housing, an issue which has a profound effect on the lives of hundreds of thousands of people.
3. The Government's response to individual recommendations is set out below. We accept the general thrust of many of the recommendations.

GENERAL REMARKS

4. In the closing years of the last century and the first few years of this one, the prices of houses in parts of some of our northern cities and towns fell to prices well below their apparent worth. Those who could do so moved out. Homes were abandoned and some of the most disadvantaged in our society became trapped in neighbourhoods characterised by dereliction, crime, antisocial behaviour and poor services. The Select Committee, academics, local authorities and the Government recognised that this complete market collapse is an extreme manifestation of a wider problem of low demand concentrated in parts of the North and Midlands, affecting both neighbourhoods of predominantly private housing and unpopular social housing estates.
5. The causes of low demand are complex and the balance between them varies from place to place. Economic restructuring has had a major impact. As traditional industries – textiles, coalmining, docks, shipbuilding and steelmaking – have modernised or declined, the jobs in the modern businesses which replace them have located in different places and people have moved with them. As aspirations have changed, in some areas people have not been satisfied with poor quality inner-city private housing or social housing in and around cities. Many have preferred to move to modern developments, often well outside the centres of cities and towns. The population of some cities and towns has been in decline since before World War II. For example, Liverpool's population fell from 852,000 in 1931 to 439,000 in 2001. While the populations of some major cities have started to stabilise or even grow modestly in the last few years, there have been sharp overall declines even over the last twenty years or so. The populations of Manchester and Newcastle dropped by around 7% between 1981 and 2001. Meanwhile, housebuilding has continued and, as a result, the housing stock in the three northern regions increased by over 350,000 between 1991 and 2001.

6. Changes in economic circumstances were not the only factor to influence housing markets in low demand areas. The quality and type of housing has been an important driver. Many low demand areas lack choice. They are dominated by a single type of housing, often unsuitable for present day living without considerable investment, and by a single form of tenure. Some areas can offer little opportunity for families wanting to move to a larger house, or to one with a garden, or from social renting into owner occupation. Areas of low demand housing are also often characterised by poor services and poor educational attainment – many have no easy access to post-16 education. Poor health, high perception of crime and antisocial behaviour and low quality public realm and open space are also commonly associated with low demand.

7. As demand for the least popular types of properties fell, the supply remained largely fixed. As a result prices stagnated or dropped relative to surrounding areas (and sometimes in absolute terms) Many homes in low demand areas simply stand empty. In Manchester, 5.7% of properties were empty for more than six months in 2004, while 4.8% of homes in Liverpool were long-term vacant, compared to a national average of around 2%. In some of the worst low demand areas, more than one home in ten is empty and the figure is higher still in some neighbourhoods.

8. Despite the recent strength of the housing market, many low demand areas remain vulnerable. House prices have risen, but the gap between these and surrounding areas has grown too, often by more. So the problems of disconnection and unpopularity remain. Houses are traded in the market place, but many remain empty. Increased demand for social housing has not filled all the voids in the sector. People who can afford to continue to move out, rather than finding a better home in the same area. It remains the case that considerable public investment is needed to turn round markets in the most vulnerable low demand areas and give the private sector the confidence to invest.

9. The Housing Market Renewal Fund will invest over £1.2bn between 2002 and March 2008 in the nine pathfinder areas, the Tees Valley, West Yorkshire, West Cumbria and some other areas of the North West. This investment is focussed on addressing the mismatch between demand and supply and improving the quality of housing. It complements investment to deliver decent homes throughout the social sector. The role of pathfinders, and their equivalents in other low demand areas, is not restricted to housing interventions. They are sub-regional partnerships of local authorities, the private sector, the community and other parts of the public sector brought together to address all of the factors which affect housing markets.

10. The Government looks to pathfinders to help transform their areas, working with others to improve economic and job prospects, to bring a better offer on education, crime and behaviour and health, tackle dereliction and provide high quality public space, and capitalise on the rich heritage of many areas as well as bringing a greater choice of better housing. The Government has asked them to be innovative – taking a strategic approach which will bring about lasting change, rather than tinkering at the edges as has happened with past programmes.

11. Each of the nine pathfinders established in 2002 faced different circumstances. In some, there were already well developed economic strategies and partnerships on which pathfinders could base their work. In others, pathfinders have acted as a catalyst to bring together other agencies and start development of an economic strategy for their sub-region. In some, there was well developed understanding of housing markets and programmes in place to start to address problems of low demand. In others, that analysis had to be developed almost from scratch. All of the nine pathfinders have now moved forward to delivery of their initial programme.

12. Because the causes and nature of low demand and the level of existing interventions varied across the pathfinders, their strategies and programmes also varied. All are designed to balance housing supply and demand within their sub-region (the pathfinder partnerships each cover two or more local authority areas because housing markets do not neatly fit with administrative boundaries). In each case, pathfinder strategies and programmes were independently scrutinised by the Audit Commission, which made clear recommendations that have subsequently been followed by individual pathfinders.

13. All pathfinders have identified the need to work on both sides of the demand and supply equation. Improving economic and employment prospects and education, reducing crime and creating a better local environment can all stimulate demand. But, to be fulfilled, that demand needs to be met by homes of the type and tenure to which potential residents aspire. With suitable investment, many homes in pathfinder areas have a sustainable future.

14. Before agreeing further funding for individual pathfinders, ODPM expects to see a robust analysis of proposed programmes, explaining how they will deliver substantial improvements to housing markets. We expect pathfinders to be able to respond to the changing market, including areas where prices have risen, and to ensure that their plans continue to offer value for money. We will examine critically the proposed balance between refurbishment, new build and demolition. We continue to expect proposals to include extensive community consultation, to be supported by a good majority of the community before implementation and to be accompanied by support for people and communities who are directly affected.

RESPONSE TO RECOMMENDATIONS

The Pathfinder Programme

(i) The target set in the ODPM's five year housing plan to reduce the gap between those areas with low demand and the rest by a third by 2010, and to eradicate the problems by 2020 is welcome. However, the programme requires a more detailed set of objectives and an endview by which progress can be measured.

(ii) Each Pathfinder initiative is developing its own strategy to meet the distinctive problems of its area. To assess the overall impact of the Housing Market Renewal Initiative, and whether the targets have been achieved, comparable data are required from each Pathfinder.

(iii) Pathfinder initiatives need to develop solid and comparable housing market data so that progress can be measured. At present they are using a range of different indicators, at different geographical levels and over different time frames. The Pathfinder programmes need a realistic view of the future market structure that should specify the range of property types and values envisaged to achieve sustainable neighbourhoods in healthy and thriving housing markets. All the Pathfinders need to develop robust indicators to measure changing levels of resident satisfaction with their area and the quality of services provided to assess whether more sustainable communities are being created.

15. The Government agrees that performance measurement and management is an important part of any regeneration programme, including the market renewal pathfinders. It helps to secure value for money and sustainable outcomes, while avoiding some of the mistakes of the past.

16. That is why, as the Committee notes, ODPM included two challenging new goals for pathfinders in *Homes for All*. It is appropriate to keep the number of high level objectives to a minimum, to provide the programme with a clear focus.

17. However, we also need a suite of key indicators that sit below the high-level goals and are consistent across the pathfinder programme. Core performance indicators are in place, covering key input, output and outcome measures. Individual pathfinders are also expected to set and monitor local indicators to reflect and respond to their particular context and challenges.

18. The pathfinders' scheme updates, due later this year, will provide them with an opportunity to set out an updated vision of the housing markets they are aiming to achieve, the steps they will take to deliver them and the means by which they will monitor their progress.

19. The Government believes that it is important not to constrain the pathfinders unduly with over-prescriptive indicators and targets. Although we will keep the scope of the core performance indicators under review, so that they continue to provide the most appropriate means of measuring pathfinders' performance, we will ensure that they do not stand in the way of effective delivery.

20. The pathfinders are undertaking excellent work to enhance their understanding of sub-regional housing markets and thus inform the development of their strategies. Given the diverse nature of the pathfinders, there needs to be some flexibility around their approach to housing market intelligence.

21. Each of the pathfinders has improved its market intelligence significantly and, in some cases, dramatically, since the start of the programme. Work undertaken to comply with the Audit Commission's scrutiny recommendations has played an important part in this achievement.

22. ODPM and the Audit Commission will expect to see evidence of good quality housing market intelligence in the pathfinders' scheme updates. Assistance will be made available to pathfinders who wish to further improve this aspect of their evidence base through the pathfinder programme evaluation consortium.

23. The pathfinders will use local monitoring and evaluation work to assess levels of resident satisfaction. Some satisfaction survey work is also likely to be conducted as part of the programme evaluation. However, surveys are very expensive and need to be used in a way that delivers good value. Resident satisfaction is a function of a wide range of factors and it would be very difficult to separate out those issues that can be directly affected by the pathfinders' activities. It may be better for pathfinder issues to be incorporated into wider satisfaction surveys undertaken by local authorities.

(iv) The Government acknowledges that it will take up to 15 years to tackle failing housing markets or undertake market restructuring and many of the mechanisms such as compulsory purchase orders have a long lead-in time before taking effect. The Government should make long term funding commitments to the Housing Market Renewal Initiatives to give them and their partners the confidence that they can enter into long-term agreements.

24. The Government has a long-term commitment to the pathfinder programme and is determined to meet the targets for 2020 set out in Homes for All. The pathfinders have told us that they would like the confidence to commit to compulsory acquisition of properties, even where the financial liability may arise some years hence, and we are prepared to look further into the question of making commitments to cover the costs of large-scale compulsory purchase orders beyond the current spending review period, where these are part of pathfinder schemes. In order to do this, the Government needs good quality evidence from the pathfinders about the likely level, costs and timing of compulsory purchase. We have already asked for this information, which should in any case emerge from the pathfinders' scheme updates.

25. The Committee has noted that the pathfinder programme is contending with the consequences of a dynamic market and that pathfinders need to react nimbly to changes in underlying market conditions. Priorities can clearly change within and between pathfinders. A balance needs to be struck between an approach that recognises this and longer-term certainty.

26. The pathfinders have funding agreements in place that extend to between 10 and 15 years. While these agreements do not commit to particular levels of funding beyond 2006, they should provide confidence in the Government's commitment to the programme. The pathfinders have also been given financial planning assumptions, as part of their scheme update invitations, which extend to March 2008.

27. Given the changing nature of housing markets, and the need to ensure that funding is distributed in the most effective manner, based on up to date evidence, the Government intends to broadly continue with the current arrangements, whereby funding for a three year period is considered and agreed at each spending review. However, as noted above, we will work with the pathfinders to explore the question of cover for planned compulsory purchase orders.

(v) Some demolition is required but there is a risk that this initiative will be seen as a major demolition programme, which will repeat the mistakes of previous clearance programmes that destroyed the heritage of areas and failed to replace it with neighbourhoods of lasting value. The Government needs to set out clear procedures for the Pathfinders to follow when deciding which housing should be demolished and how the various options for refurbishment and redevelopment should be considered. The potential heritage value of the housing and its contribution to regenerating neighbourhoods should be considered an important part of any appraisal but houses should not be preserved for the sake of heritage if there is not the demand for them. The differential level of VAT on new-build housing and refurbishment schemes makes demolition more commercially attractive. The ODPM should put pressure on the Treasury to harmonise VAT on new-build and refurbishment housing schemes.

Balance of the programme

28. The Government agrees that the housing market renewal programme has been wrongly portrayed in some quarters. It is a programme to restore sustainable communities to places which have an imbalance of housing demand and supply and which have seen abandonment, dereliction, poor services and poor social conditions as a result. Balancing demand and supply will help solve these problems, bringing the places into a more normal housing market. Achieving that balance requires a range of housing interventions. Many homes in the low demand areas are able, with suitable investment, to meet the demands of the 21st century market. Refurbishing these homes will play an important role in market renewal, improving conditions for the communities staying in the area and in maintaining heritage.

29. Housing market renewal is about making balanced interventions which will restore normal housing markets to communities. Proposals that focus only on demolition do not fit with the pathfinder approach and will not be funded by ODPM. We expect to see a proper balance between a range of interventions, including radical refurbishment in some areas, alongside economic and social measures.

30. Investment in the refurbishment of existing properties, where the resulting homes are sustainable in the modern market is a central part of tackling low demand. It enables existing residents to stay in their present homes and gives them the incentive to invest further in them. It gives residents whose homes may need to be demolished the opportunity to stay in a similar, improved house in the area. And it will help to change the image of the area to attract in new residents. But as the only housing action it is unlikely to rectify the more severe imbalances between supply and demand.

31. In many places, a wider choice of homes is needed in order to meet potential demand. Sometimes this can be achieved by radical refurbishment within the existing built form to give larger homes. We expect pathfinders to look seriously at all possibilities for refurbishment, including very substantial changes to houses – perhaps to create bigger homes or gardens. But, in some areas, the only option for providing a mix of housing meeting present day expectations is to replace less desirable homes with new ones.

32. Pathfinders also need to consider the overall level of demand and the population in the area and the relationship between supply and demand. In some areas a vicious circle is created where population decline leads to high levels of empty properties. However, economic regeneration strategies can fail to bring people back in because no-one wants to move into a neighbourhood with empty homes. Pathfinders should look at all options for refurbishment, but they also need to recognise that in some areas refurbishment has been tried many times before, often at very significant cost in terms of public investment, but it has not solved the problem of low demand.

33. The first round of pathfinder programmes, which run until March 2006, support communities by a mix of refurbishing existing homes and in some places, demolishing properties which are excess to demand, in order to prevent them falling into dereliction and attracting the sorts of behaviour which has already blighted other communities. Where demand exists for different types of properties to those that already exist, some new homes may be built to increase choice. In this first phase 20,000 homes are being refurbished, 3,000 new ones built and 10,000 demolished.

34. Where demolition is proposed, pathfinders should have clear policies in place to ensure that residents have the choice to move to another home in the neighbourhood that meets their needs, so that local communities are supported and sustained.

Heritage and market renewal

35. The Government agrees that heritage is a major asset. It has a key part to play not only in regenerating neighbourhoods, but also in revitalising towns and cities. The Government also agrees with the Select Committee that houses should not be maintained for heritage reasons if there is no demand for them. As English Heritage stated in its publication, *Low Demand Housing and the Historic Environment*, while some demolition is required, it is important that we learn from the past and do not sweep away places with real value.

36. The Government expects the pathfinders to work with English Heritage to make good use of high quality older buildings in developing their proposals. However, we believe that there is a distinction between heritage and age. While not all older houses are of good quality and worth keeping, the pathfinders are helping to secure a viable future for more recent buildings of note, such as the listed Park Hill flats in Sheffield and the Byker Wall in Newcastle.

Guidance on demolition

37. The Government agrees with the Committee that all the investment decisions of pathfinders should be preceded by a transparent consideration of options, taking account of the potential heritage value of housing and of the views of the affected communities. Pathfinders have in place project appraisal procedures which take into account these and other factors. These procedures have been scrutinised by the Audit Commission who have also helped pathfinders to make improvements. There is also existing guidance which covers much of the ground.

38. The Neighbourhood Renewal Assessment Guidance Manual (ODPM, 2004) provides a step-by-step approach for local authorities to follow when making neighbourhood renewal options which may include refurbishment, demolition, and new build.

39. The NRA guidance was first published in 1992 and is recognised as a robust and effective methodology helping Local Authorities make area based decisions. It was updated in 2004, in part to reflect the need to take into consideration housing demand issues when considering renewal activity at the neighbourhood level. The guidance makes clear the important role of community consultation in this regard. The updated 2004 guidance also identifies the need to consider heritage issues as part of the process.

40. Many of the pathfinders have undertaken and are undertaking Neighbourhood Renewal Assessments as an integral step in declaring local action areas and as a precursor to renewal activity.

41. It is clearly important that examples of good practice are shared between pathfinders and with other areas involved in market renewal. The current evaluation of the pathfinder programme as part of ODPM's research programme will facilitate this, as will the work of the Audit Commission.

42. ODPM is also working with the Chartered Institute of Housing to look at various options for promulgating good practice advice to pathfinders and other regeneration agencies.

43. As ODPM considers pathfinder proposals for the next phase of market renewal during the remainder of this year, we will examine carefully the processes which they have in place to decide between options and if necessary consider what further guidance might be helpful. Proposals for community engagement will be key to the assessment of pathfinders' scheme updates.

VAT rates on demolition and refurbishment

44. Our flexibility to introduce reduced or zero rates of VAT is constrained by long-standing agreements with our European partners. These agreements currently allow the UK to zero-rate the construction and sale of residential buildings and conversion of non-residential into residential buildings by housing associations. However, they do not allow us to extend them or introduce new ones.

45. European law currently allows Member States to apply a reduced rate of VAT of no lower than five per cent to some refurbishment services. The UK has already implemented a reduced rate for residential conversions that increase the number of homes in a building and the conversion of non-residential buildings to residential use. Additionally, where a home has been empty for at least three years, the reduced rate applies to renovation and alteration work.

46. Other work, including domestic repair and maintenance work is standard-rated for VAT purposes with no provision in European law to apply a reduced or zero-rate.

47. To harmonise the VAT rate for new build and repair work (and hence remove inequities) would require removing the zero-rate from the sale of new residential buildings. The Government has no plans to do this.

(vi) CPOs take a long time to process notwithstanding the recent Government reforms. Local authorities and the Planning Inspectorate need to prepare for the volume of CPOs, which the Pathfinders are preparing. There is currently a shortage of staff with experience of CPOs in local authorities. At the very least the ODPM should prepare basic good practice guidance, which is simpler than its current technical manual.

(vii) With CPOs taking several years to process, Pathfinders need to be established on a long-term basis with funding commitments to implement the orders when they have been confirmed. Current three-year funding allocations are insufficient. We recommend that the Government make indicative allocations to Pathfinders for at least six years.

48. Compulsory purchase has major implications for anyone whose property is being acquired in this way. It is therefore vital that the process contains sufficient legal safeguards to ensure that it is only used when appropriate and that those affected have ample opportunities to have their views taken into account.

49. The importance of ensuring that communities and individuals can make a meaningful contribution to the decision-making process necessitates a degree of complexity, despite the recent reforms. The Government therefore urges local authorities to make use of the thoroughly researched Compulsory Purchase Procedures Manual which is published by TSO. The subscription includes 6-monthly updates. The Manual supplements the guidance on the statutory procedures provided in ODPM Circular 06/2004 to which authorities need to have regard in preparing, making and submitting compulsory purchase orders.

50. The Manual has been designed to be as user-friendly as possible, especially in its electronic format, which provides direct hyperlinks to all the relevant legislation, forms, notices, etc. It thus provides all the information which inexperienced staff in local authorities might need to help them to prepare compulsory purchase orders.

51. There are serious implications for the property rights of those affected, if proper procedures are not adhered to. The Government does not, therefore, consider it advisable at this stage for ODPM to sponsor simplified guidance which does not give full details of the procedures to be followed and their context.

52. In addition to written guidance, ODPM sponsored two series of seminars during 2004 providing guidance to local authorities on the use of compulsory purchase powers. Similar events are also provided by private training companies on a commercial basis from time to time, often with inputs from ODPM and Government Office officials. A further seminar that focussed specifically on the use of CPOs in pathfinders was hosted by ODPM in January 2004.

53. The Planning Inspectorate has specialist CPO Inspectors, and is aiming to recruit and train additional Inspectors to cope with the expected increase in casework. However, if the Inspectorate is to process cases more quickly, it will be necessary for local authorities and Government Offices to keep it informed on the progress of, and objections to, pathfinder schemes, and to provide an overview of what is in the pipeline. ODPM will work with the pathfinders, local authorities and the Government Offices to ensure that this information is available to the Inspectorate, in order that it can plan its work more effectively.

(viii) There has been an overall drop in the number of empty homes in some of the areas which may be significant. The reasons are not clear and the scale and duration of the market upturn are not yet known. It is important that the Pathfinder programmes secure good housing market data and an understanding of the factors driving the market. Regional bodies and local authorities also need to have in place effective, accessible and up-to-date systems of monitoring market trends, so that changes in demand and in market ‘hot spots’ and ‘cold spots’ can be readily identified and programmes adjusted.

54. The Government is in full agreement with this recommendation. A strong evidence base, providing robust and comprehensive intelligence on housing markets, is an essential component of any successful housing market renewal strategy. However, it is important that pathfinders interpret the information obtained to separate out the underlying drivers from cyclical changes in markets.

55. As noted in our response to recommendation iii above, many of the pathfinders are already undertaking some excellent work to develop their understanding of housing markets. For example, Bridging Newcastle Gateshead has developed a comprehensive housing market intelligence model, using information from Hometrack and a range of other sources. The Manchester Salford pathfinder has also commissioned some highly informative work through their Research Foresight and Intelligence programme, led by Professor Brendan Nevin.

56. This body of work has been one of the most important gains from the early years of the pathfinder programme. The national evaluation team will facilitate the sharing of market intelligence information, methodology and research as well as providing feedback to support its development. Pathfinders in the same regions, for example, Manchester Salford and New Heartlands (Merseyside) are working together increasingly closely, recognising that evidence that is relevant to one may also be useful to another.

57. ODPM has commissioned Heriot Watt University to develop an accessible and user-friendly means of measuring and modelling demand. This work is now well underway and we expect to have a functioning product, which will be available to all pathfinders and others with an interest by the end of 2005. This tool should be of great help to policy makers and strategists at national, regional and local level. Similarly, the National Advisory Centre, to be set up in response to the Barker report, will be able to provide good quality consistent information on market trends.

(ix) If there is strong evidence that the rise in housing demand is sustained and not just the result of an artificial boost to the market due to speculative activity, the Pathfinders should review their demolition programmes as a matter of urgency and concentrate on neighbourhood management and housing refurbishment. Housing markets are dynamic, and the ODPM should allow the Pathfinders considerable flexibility to review their programmes as demand changes.

58. Housing markets have changed since the inception of the housing market renewal programme. Between the first quarter of 2002 and the first quarter of 2005, lower quartile house prices in pathfinder intervention areas rose, on average, by £27,000, from £22,000 to £49,000. But, while housing markets in some of these areas have shown signs of sustainable recovery, markets in other areas are still very weak. For example, in Burnley, the median house price rose from £34,000 to £39,950 between the first quarters of 2000 and 2005. Over the same period, the median house price for the North West almost doubled from £54,000 to £107,500.

59. Although the number of local authorities with 15th percentile prices that are less than 70% of the England figure has fallen from its peak of 61 in 2002, 30 local authority areas have been in that position for 30 or more quarters out of the last 37. Low demand is persistent in those places. Overall numbers of empty properties have been falling gradually over the same period, but they remain high in some areas.

60. It is premature to say what will be the long term impact of recent rise in house prices on low demand. While there are no longer places with the extremely low absolute house prices seen five years ago, prices remain low in relative terms in pathfinders generally and very low in some like East Lancashire. Pathfinders themselves have been gathering market intelligence which will give a better picture of the likely impact of changing house markets on low demand.

61. The Government agrees that pathfinders need to respond to changes in the housing market and we will be considering this closely as part of the review of the progress this autumn. While pathfinders should have clear strategies in place that are based on the best available current data, they should also be sufficiently flexible to respond quickly and appropriately to changes in their local housing markets. Indeed, this is one reason why we consider that long term funding commitments would not be entirely helpful. The ability of the pathfinders to react nimbly to their emerging market intelligence is a real strength of the programme.

62. Nevertheless, as the Committee implies, housing markets are subject to cycles and robust housing policy cannot be based simply on short-term price changes. As *Homes for All* makes clear, our aim is to eradicate the problems associated with low demand by 2020. This will require a long-term commitment to ensure that we deal with the fundamental causes of low demand in areas that have suffered from it or are at risk.

63. Pathfinders need to also look at relative prices. While house prices have almost universally risen in absolute terms, the gaps between prices in some pathfinder areas and their regions have also increased, in both absolute and relative terms. It is also too early to tell whether a significant part of the price rises in pathfinder areas has been due to speculative investment activity.

64. Where there is evidence of a structural shift in demand in any of the pathfinder areas, sustained beyond a short-term peak in the housing market cycle, we will expect the pathfinder to review its approach.

(x) Pathfinders need to ensure that there is a ready supply of affordable housing. The programme of demolition and redevelopment needs to be carefully planned to ensure that there are no interim shortages of affordable housing to the disadvantage of existing and incoming households.

65. The Government agrees that it is important that pathfinder programmes balance the demand for and supply of housing in all relevant sectors of the housing market, including affordable housing. Pathfinders need to plan carefully to avoid short term supply problems and anticipate the effect that their own programmes and wider changes in housing markets will have on affordability.

66. Achieving the right balance between delivering a greatly improved housing offer and maintaining affordability will be a major challenge for the pathfinders as they develop forward plans. They will also need to ensure that, where replacement homes are provided, a sufficient number of them are accessible to people presently living in the area, for example through shared equity schemes, while providing value for money.

67. The Government expects the pathfinders to monitor affordability closely and to respond to changes by taking an intelligent and informed view of likely longer-term trends. Where markets have changed sufficiently to make affordability a significant issue they need to ensure that a good supply of housing is maintained.

(xi) The Government has included the Pathfinder programme as part of its Sustainable Communities Plan. To demonstrate its commitment to creating sustainable communities, we recommend that the Government issue new guidance setting out how Pathfinder initiatives should consult with local communities to enable input at the earliest stages before any decisions are taken to demolish housing. Many of the areas need to increase their populations to make them viable. Pathfinders should consider how this is planned to ensure sustainable communities. Demolition and refurbishment plans should be part of an integrated regeneration strategy for an area agreed as widely as possible. The Enquiry by Design process used in Whitefield, Lancashire offers one model which could be widely replicated.

68. The Government agrees that community consultation is vital to the success of all regeneration activities, including the pathfinder programme. Extensive advice is available on best practice in community engagement and a useful consultation matters and the web site renewal.net provides a useful signposting resource. We will be considering closely the evidence of community consultation as part of the review of pathfinders in the autumn. We will consider at that point whether further guidance is needed.

69. ODPM will expect the pathfinders' new forward plans to set out clear and acceptable approaches to community engagement, tailored to their particular circumstances. If these are not satisfactory, funding will be withheld.

70. Where population densities must increase to achieve viability, pathfinders should work with the community to design revitalised, high quality neighbourhoods that can attract sufficient people from a mix of backgrounds to support strong local amenities. In doing so they must ensure that they take full account of the needs and wishes of the existing population.

71. The Government agrees that Enquiry by Design can be a useful tool for devising a way forward that has the ownership of a wide range of stakeholders. However, as the Committee notes, it is expensive and can most appropriately be employed in potentially challenging circumstances, including some encountered in pathfinder areas.

72. There are a range of potential mechanisms available for consultation with communities, involving people fully in decision making and resolving conflicts. The Government believes that a "toolkit" approach is better than a "one size fits all" approach and that decisions about which tools are most appropriate can best be taken at the local level.

(xii) We recommend that the Government issue guidance on how Pathfinders and local authorities support communities during the period of transition as neighbourhoods are refashioned, including examples of best practice. Many of the homes being compulsorily purchased and demolished are privately owned. Support should be offered in all Pathfinder areas to homeowners whose homes are compulsorily purchased so that they can get a new mortgage.

73. The Government argues that proper support is needed for residents directly affected by the proposal. Pathfinders should develop options for homeowners affected that best meet local circumstances including options to buy homes or shares of homes in the same area if they need to move. There is a clear case to share best practice and the different approaches being used by pathfinders to support communities.

74. ODPM will promote these aims as part of the national evaluation of the pathfinder programme. It will also ensure that experiences from other major regeneration schemes, where similar issues have arisen, are available and to pathfinders. ODPM and the Audit Commission will be looking for evidence that experiences are being reflected and the challenges identified by the Committee are being met as part of the scheme update process.

(xiii) The Pathfinder initiatives' ability to fund revenue projects is very restricted. The Government should allow Pathfinders to use a significant proportion of their funds for community support or provide funding through local authority grant mechanisms explicitly targeted at helping meet the community costs of market renewal.

75. The Housing Market Renewal Fund is a capital fund, the purpose of which is largely to support physical interventions to improve the housing stock through a mixture of refurbishment, demolition and new build.

76. The Government accepts that some revenue expenditure will be necessary to support capital interventions. A key part of the pathfinders' work is ensuring that its housing interventions are aligned with wider regeneration strategies and ensuring that housing market renewal plays an effective role in delivering them. We therefore expect local authorities that are in receipt of housing market renewal funding to ensure that other revenue streams, such as neighbourhood renewal funding, are aligned, and any other funding sources explored, as part of their strategy to support areas of low demand.

77. However, there is some scope for capitalising revenue expenditure that is directly associated with capital projects. ODPM is also providing capitalisation directions, on an exceptional basis, that allow some additional revenue expenditure to be treated as capital. The revenue need for the housing market renewal programme will be considered further in the context of the next spending review.

(xiv) Low demand affects many areas but part of the solution lies in creating sustainable neighbourhoods with high quality services. The problems in many of the neighbourhoods are caused by the poor quality of the environment and failing public services as much as the condition of the housing and economic collapse. As neighbourhoods are redeveloped, there will be variations in the level of population which could, due to the funding formula, affect the grants available. Rather than cutting funds to areas, additional transitional support is required in some areas to improve facilities and thereby create a more attractive and sustainable neighbourhood as an incentive for new residents to move in.

(xv) The ODPM needs to secure commitments from the Departments for Education and Skills, and Health, and the Home Office that the level of funding can be sustained as housing is redeveloped and population declines for a temporary period. Commitments are required to provide funds for facilities in advance of new populations moving in to the neighbourhoods.

78. While there will be some changes in population due to pathfinder activities, the Government expects these to be generally at the neighbourhood level, as people move from homes that are to be refurbished or demolished. We do not expect there to be significant migration between local authority areas.

79. The abandonment of properties in inner city areas has clearly been associated with loss of population in some local authorities. However, there is evidence to suggest that these losses are stabilising in many areas and that regeneration activities, including those led by pathfinders, are leading to increases in the population of some inner urban areas. On this basis, the Government does not agree that, at a local authority level, the levels of local authority grant or neighbourhood renewal funding will be reduced.

80. The local authority grant system does, in any case, take full account of deprivation. Many pathfinder authorities have therefore received above average grant increases over the last three years, with some near the very top of the range. Authorities such as Manchester and Blackburn have benefited from total increases of around 20% over this period.

81. Nevertheless, there will be circumstances where the redevelopment of neighbourhoods brings out a short-term dip in population, which will have an impact on the take-up of local services, notably schools, health care and public transport. It will be very important, in such cases, for local service providers to work together closely to manage these periods of transition.

82. For example, Sefton Council has provided a new school in the pathfinder area, which has the potential to be readily and flexibly expanded when the population of the area starts to increase. This sort of approach again demonstrates the benefits of locally-driven action, based on local knowledge and experience.

83. As the Committee suggests, it is also important that Government Departments that are responsible for sponsoring and funding local services are aware of the pathfinder programme, its aims and its consequences. In addition, the pathfinders raise cross-Departmental issues with ODPM when, exceptionally, they are unable to resolve them locally. This is an efficient and focussed way of local and central government working together to take the programme forward.

84. ODPM has therefore maintained a dialogue with the Department of Health, the Department for Education and Skills, the Department for Transport and the Home Office since the inception of the pathfinder programme.

85. Similar cross-Departmental issues arise in across the sustainable communities agenda and particularly in relation to the growth areas and the Thames Gateway. ODPM has therefore set up a Ministerial sub-group of the Central Local Partnership to deal with such matters.

(xvi) Regional strategies need to be aligned to ensure that efforts to revitalise failing housing markets are maximised rather than hindered by promoting competing developments in other areas. The Government needs to issue guidance to regional planning bodies and the RDAs, emphasising the importance of prioritising the needs of areas with low housing demand.

(xvii) Economic collapse is a major cause of low housing demand which will only improve if links to economic development are stronger than at present. Many of the areas with low demand will benefit only to a limited extent from the Northern Way initiative as they are on the fringes of the city regions where the RDAs are concentrating growth. The RDAs should consider how the needs of areas with low housing demand are addressed outside the core areas, particularly improved transport links to nearby cities.

86. The Government agrees that alignment of regional strategies to deliver regional prosperity will be vital to the success of the pathfinder programme and preventing the recurrence of past problems.

87. As the Committee suggests, Regional Planning Bodies need to take full account of low demand in developing their Regional Spatial Strategies (RSS). It is important that new housing allocations do not hinder the pathfinders' progress, and that the regeneration of the housing stock is supported by the development of infrastructure to provide jobs, services and good transport connections. ODPM has emphasised this point to the Regional Bodies and is continuing to work with them to ensure that these points are addressed.

88. The merger of Regional Planning Bodies with Regional Housing Boards, proposed by Kate Barker in her review of housing supply, should facilitate a better and more consistent fit between housing policy and RSS. The national advisory body, also proposed by Barker, will help understanding on the relationships between housing and planning. The new proposals that the Government has published for consultation on housing land supply also place a strong emphasis on local authorities working together within sub-regional housing markets and to take account of pressures in the housing market, both low demand and high demand.

89. RSS are already informed by Planning Policy Guidance note 3, which sets out our policy on guidance on housing provision. PPG3 consultation update 'Planning for Mixed Communities' proposes that local planning authorities should prepare local housing assessments that cover the need and demand across the whole housing market. The regional bodies should co-ordinate the preparation of the assessments to ensure a timely input into regional strategies and to ensure a consistency of approach.

90. In preparing policies and strategies, regional planning bodies and local planning authorities should have regard to policies in all other relevant regional and local strategies, as well as the RSS for each adjoining region. Much emphasis is placed in Planning Policy Statement 11 on the RSS both shaping and being shaped by, other regional strategies, with particular emphasis in this respect on the Regional Economic Strategies.

91. As the Government stated in *Homes for All*, the RDAs are providing vital support to the Housing Market Renewal pathfinders, through their expertise and through additional resources. To help inform the RDAs' review of Regional Economic Strategies, the Government has provided the RDAs with supplementary (non-statutory) guidance about ODPM's policies and priorities for areas of low housing demand.

92. The guidance also explains that the lessons learnt from the pathfinders need to be applied to other parts of the country affected by low demand. Several such areas are already receiving funding from the RDAs. Tees Valley Living, one of the partnerships likely to benefit from the £65 million for non-pathfinder areas announced in *Homes for All*, has already received significant funding from One North East.

93. The Regional financial planning proposals that were the subject of a recent Treasury consultation will go some way to ensuring still greater alignment between regional strategies, allowing the regions greater opportunity to determine investment priorities.

94. The Northern Way is an Inter-Regional Growth Strategy that builds on work already being done in the North by the three northern RDAs. It does not replace the RESs of the individual RDAs which will continue to look at economic development across individual regions. Instead, it looks to utilise investments and assets in a coherent way to create a step change in growth where collaboration and pan-regional working will bring added value. Despite its focus on eight city-regions, it recognises that all areas of the North contribute to the strength of the northern economy and all areas of the North will benefit from it.

Good Practice and Skills

(xviii) Government should produce an action programme to indicate how the emerging lessons of the Pathfinder programme, including examples of innovation and good practice, can be disseminated to a wide audience of public and private sector agencies, not least local authorities and Registered Social Landlords.

95. The Government accepts this recommendation. An important part of the pathfinders work is ensuring that an understanding of what has worked and what has not, and why, is shared with all who have an interest, resulting in more efficient delivery of future regeneration programmes.

96. The preparation of an outputs and dissemination strategy is an integral part of the national evaluation of the pathfinder programme. This will allow more effective sharing of lessons learned by the pathfinders with a wide range of public and private sector agencies. The action programme will focus upon the role of the programme as a 'pathfinder' programme, seeking to ensure maximum reach to all those with an interest in the success or otherwise of pathfinder projects.

97. ODPM and the Audit Commission have both hosted a number of events at which the work and experiences of the pathfinders have been disseminated throughout the pathfinder community and beyond. Government Offices, individual pathfinders and other stakeholders have supplemented these with more targeted work. These events will continue to take place as milestones are reached and new challenges are identified.

(xix) We welcome the recent announcement of the Academy for Sustainable Communities. It should give priority to training in the broad range of skills and expertise required to deliver housing market renewal. This should include immediate action to meet gaps in knowledge, analysis and implementation through short courses, networks and briefing notes. The Government should consider setting up new ways to develop regeneration skills. New pathways are needed to recruit graduates into regeneration programmes where they can get the necessary experience before taking on managerial roles, including graduate training schemes and work experience placements.

(xx) We welcome the Chartered Institute of Housing review of its professional qualification. We urge the other professional bodies including valuation, surveying, architecture and planning to review their qualifications and key areas of competence to reflect the demands of managing regeneration projects.

98. The Government agrees that the availability of suitably skilled staff represents a risk to the delivery of the pathfinders and other regeneration programmes.

99. One of the key messages from the Egan Review of Skills was the need for multi-disciplinary approaches to tackling regeneration and renewal issues. Based in Leeds, the Academy for Sustainable Communities is the Government's response to one of the key recommendations of the Egan Review. The Academy will not be a large learning institution. Rather it will look to influence the learning provided by others, lead the market where necessary and provide coherence to the sustainable communities skills agenda. The academy has a wide range of target audiences it is looking to influence, including housing professionals.

100. The Academy's objectives include: raising the profile of the 'core occupations' to attract new entrants; developing and improving access to best practice, knowledge and information; and increasing the availability of generic skills and cross-occupational learning opportunities. To achieve these objectives ASC will also facilitate secondments and mentoring, linking learning to live sustainable communities projects.

101. However, the Government is not attempting to resolve this problem alone. Local service providers often have a much better knowledge of the particular problems faced in their areas and are consequently better placed to deliver tailored services. A great deal of good work is being carried out at a local level. For example, in Liverpool, the Compass Regeneration Academy has recently completed its first course, with eighteen students graduating with skills including: project management, community consultation, youth engagement and masterplanning.

102. Most of the skills required by pathfinder staff are not unique to the programme. Skills developed by staff working on the pathfinders will have much broader application. Similarly, pathfinders should benefit from the experiences of people who have cut their teeth on other initiatives. Indeed, the interchange of ideas is crucial to efficient delivery, as techniques that have been successfully applied are transferred from one programme to another.

103. In developing the proposals for the Academy of Sustainable Communities, the Government has worked closely with built environment professional institutions and has taken forward Sir John Egan's recommendations for more inter-disciplinary learning. The Academy will work closely with professional institutions and organisations in the economic, social and community development sector to ensure this practice is further imbedded into undergraduate and continuing professional development training.

104. Like the Committee, the Government welcomes the review of the CIH's professional qualification. A number of other professional organisations have undertaken, or are going through similar reviews to help their members pay a full part in delivering major regeneration projects.

Areas outside the Pathfinders

(xxi) The additional funds targeted at Pathfinder areas are needed to tackle their low demand problems. The Pathfinders' success will not be emulated on the same scale in other areas unless additional funds are identified for them. The Government should consider allowing local authorities outside the Pathfinders with areas of low housing demand to recycle their capital receipts where they are selling housing sites for redevelopment. It is vital that regional allocations do not take funds away from other areas, by concentrating funds solely on Pathfinder areas. The Housing Corporation should review its allocations so that they address the housing needs equally and achieve a better balance of support across low demand areas.

105. The pathfinders were chosen on the basis of a worst first approach that recognised the intensity of the low demand issues in those locations. However, the Government agrees that additional funding is required to help areas with low demand housing that are not within pathfinder areas. ODPM announced in *Homes for All*, its five year housing plan, that £65 million would be made available to non-pathfinder areas in the three northern Regions between 2006 and 2008, to help tackle low demand and abandonment.

106. ODPM has subsequently announced that £24 million of this money will go to Yorkshire and the Humber, £23 million to the North East and £18 million to the North West. In order to ensure that this money is focussed on the areas with the most concentrated need, ODPM has specified that 90% of the money for Yorkshire and the Humber should go to West Yorkshire; that 80% of the money for the North East should go to the Tees Valley; and that 40% of the money for the North West should go to West Cumbria. We have asked candidate areas and Regional Housing Boards to develop full proposals by October 2005.

107. Through the measures described above, around three quarters of all low demand, and all areas with concentrated severe need, will be covered either by the pathfinders or by other significant funding streams administered through the Regional Housing Boards.

108. The recycling of housing capital receipts lies at the heart of the housing finance regime. The mechanism for recycling is pooling. On disposal of a housing asset, a proportion of the capital receipt arising from the disposal is pooled by the Secretary of State. This proportion is 75% for dwellings and 50% for bare land and other assets. The capital receipts so pooled are recycled for investment in housing. The local authority may use the remaining 25% and 50% respectively for any capital purpose they see fit. On disposal of certain housing assets, the local authority may retain up to 100% of the capital receipt, if the funds generated by that capital receipt are used for the provision of affordable housing or regeneration.

109. Each of the five Regional Housing Boards for the northern and midlands regions, has recognised the importance of supporting action to tackle low demand within and beyond the pathfinders. The 2003 Regional Housing Strategies backed this commitment with significant additional resources and ODPM expects that the emerging revised strategies will continue to do so, supported by substantially improved evidence.

110. The Housing Corporation has also worked closely with ODPM on strategies for both pathfinder and non-pathfinder areas. The Corporation is fully committed to helping to deliver an appropriately tailored affordable housing provision in all places where this is a necessary part of successful market restructuring.

(xxii) Measures to tackle low demand should not be confined to setting up the Pathfinder initiatives but should be part of a systematic sub-regional appraisal. The Government should also develop a coherent strategy for intervening in housing markets so that housing demand is better balanced between the parts of the greater South East with a severe supply shortage and the areas suffering from low demand and housing surpluses in the Midlands and the North. There should be a review of the extent to which infrastructure necessary to support growth in South East takes so many resources that it prevents necessary and similar expenditure in low demand and Pathfinder areas.

111. This is an important recommendation, which the Government broadly accepts. Through its PSA5 target, ODPM is committed to achieving a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities.

112. Nevertheless, the Government does not believe that part of our strategy should be to constrain supply in the south, in order to force people to move to other regions through price pressures. Neither can the north and the midlands be characterised as being regions of low demand in general. Rather, there are pockets of low demand housing in what are often relatively strong sub-regional housing markets.

113. Each of the Regional Housing Boards has assembled a comprehensive evidence base, at the Regional and Sub-Regional levels, to underpin its emerging Strategy. This work in the Regions is supported by evidence assembled centrally by ODPM. The work being carried out by Heriot Watt University (described in our response to Recommendation iii above) will strengthen this input further, as will the activities of the national advisory body proposed by Kate Barker. The work of the individual pathfinders will also add important local information to the overall knowledge base.

114. At a Regional level, the work being carried out jointly by ODPM and Treasury to improve Regional economic performance is a key part of our strategy. The two Departments have a shared PSA target relating to this work. The Lyons Review will also help in this respect by distributing more public sector jobs among the Regions.

115. At a sub-regional/local level, it will be vital that each area with low demand, whether or not it is a pathfinder, has a coherent overarching regeneration strategy in place, with clear and deliverable economic imperatives. These will need to be recognised in and supported by Regional economic and spatial strategies. The Northern Way will help this process by identifying complementary roles for city regions and helping them to realise their goals. It will also assist pathfinders and other towns and cities in considering their housing needs in a wider context.

116. Turning to the third part of this recommendation, there is a clear need for increased public expenditure in the south east and other high demand areas to respond to the need for more housing and particularly affordable housing. However, this will not be at the expense of the north and midlands. All regions have benefited from the significant additional resources for affordable housing made available since 1997, as well as for transport and infrastructure and economic investment through programmes such as the Coalfields Regeneration Taskforce as well as RDAs and other mainstream programmes.

117. We cannot succeed in revitalising the economies of the northern and midlands regions without major investment in these parts of the country. A greatly improved housing offer is a major component of our strategy for their revitalisation. The Government will monitor all the available evidence to ensure that the right balance of expenditure is achieved and maintained to deliver balanced housing markets in all regions.



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