

Housing

Annual review

December 2006



Housing market renewal

Annual review 2005/06

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Summary

- 1 The government's Housing Market Renewal Programme has now been in place for over four years, tackling the problem of declining demand for housing in the North and Midlands. The Audit Commission is closely involved in the programme as a critical friend to pathfinders and reviewer of their programmes.
- 2 Last year the Commission produced a Best Practice Handbook making practical recommendations for improving the programme as pathfinders went into a phase of strategy development and programme delivery. This year's publication reviews the progress pathfinders are making, explores some of the emerging issues and looks forward to the challenges and policy changes of a developing government agenda.
- 3 Pathfinders now have a clearer understanding of what drives their housing markets including the very strong relationship with the economic circumstances and projections for their areas. They have begun to refine their vision of the future of the places they are working in and have clarified how to deliver those futures.
- 4 Many have invested significantly in land assembly in order to create opportunities to replace and diversify the kind of housing available for the future. Most are able to demonstrate considerable support for their future plans and are working increasingly closely with their communities. Governance arrangements of the new bodies are improving.
- 5 The last 12 months has seen considerable negative and emotional publicity about the programme and, in particular, suggestions that its main focus was one of demolishing the country's heritage and destroying communities. The reality is that demolition proposals have reduced by almost 30 per cent to an estimated 64,000 since initial pathfinder thinking in 2003/04. Detailed consultation and masterplanning is ongoing and a balanced approach is being taken which sees clearance as but one policy option in a number of approaches.
- 6 House prices have increased in most pathfinder areas and there has been some closing of the percentage gap with regional prices, which some have seen as an indication that markets are recovering. However, headline statistics can mask complex dynamics such

as the impact of national factors on local prices, variable price shifts within pathfinder neighbourhoods and speculative purchasing by investors in the private rented market. A deeper understanding of the state of local markets is required before any informed decisions can be reached.

- 7 The Commission's ongoing work with pathfinders has identified good progress since last year's report with, in most cases, improved strategic alignment of policies at a sub-regional level and more thoughtful community engagement emerging as areas where others could learn from pathfinder experiences.
- 8 Value for money is the most underdeveloped area, which has changed little since the original Audit Commission scrutiny reports, although there is a better understanding of complimentary funding and the holistic approach towards market renewal.
- 9 The policy landscape in which market renewal sits is changing. The Local Government White Paper published in October 2006 talks about local government as a strategic leader and place-shaper and the need to align services provided by a number of agencies in council areas. A proposed new performance framework to tailor and streamline local priorities through local area agreements as well as the potential to develop multi-area agreements in city regions will be put in place in due course.
- 10 Still to report are the reviews of structures for the delivery of housing and regeneration, the Lyons Review of local government functions and finance, and the review of council housing. These, together with the government's comprehensive spending review to report in 2007, will potentially have far-reaching impacts for market renewal and pathfinders.
- 11 Although there will be arguments for and against the pathfinder concept and programmes, it remains the case that these areas are associated with substantial deprivation that will require intervention to achieve the government's goal of sustainable communities. The current pathfinder approach of dealing with areas across local authority boundaries and seeking strategic integration of policies and programmes at a regional and sub-regional level to achieve holistic regeneration remains sound. Much remains to be done but it was clear from the outset that transformational change on the scale projected was, and still is, a substantial and long-term task.

Summary of key recommendations

For pathfinders

- Focus on community cohesion. There are particular challenges to be faced in meeting the needs and aspirations of all sections of diverse communities, especially if there are underlying tensions between communities.
- Understand the needs and aspirations of those people who may wish to move into the area as well as those who wish to stay.
- Understand the relationship between affordable housing for rent and other tenures. The achievement of a balance between tenures and an appropriate supply of low-cost housing is particularly important given the presence of such low house values.
- Work to sustain marginal owner-occupation and to develop solutions, including appropriate alternatives for low-income homeowners, that are sustainable in the long term.
- Develop rigorous approaches to value for money, which include option appraisal and programme management to maximise the added value delivered by the programme.

For government

- As part of the comprehensive spending review, consider how to support longer-term planning by providing indicative longer-term financial allocations as has happened for other major regeneration programmes.
- Also as part of the comprehensive spending review, consider the balance of revenue-based programmes which support capital market renewal interventions and contribute towards sustainable communities.
- Continue to underline, where appropriate through advice and guidance, the role of market renewal in the regional and sub-regional strategic environment and the need for all bodies to work towards the alignment of both policy and programmes.
- Ensure that future guidance and direction to pathfinders are made available in a timescale that is consistent with good preparation and planning and follows consideration of the likely impact.

1

The context

General

- 12 Government announced a programme of housing market renewal in April 2002. Within less than a year of the announcement of the pathfinders, the market renewal initiative was identified as a strand of a wider approach. (*Sustainable Communities: Building for the Future*, previously the Office of the Deputy Prime Minister (ODPM), now known as the Department for Communities and Local Government (DCLG), 2003). This set out some of the important requirements that provided the context for a range of policy initiatives including market renewal.
- 13 The explicit policy vision is that places suffering low-demand housing will be transformed into places of real distinction, where diverse communities choose to live, work, visit and invest. The practical process to achieve that is envisaged as being one that integrates housing, planning and regeneration strategies to produce a process of renewal that reverses the negative socio-economic trends that cause the decline of housing markets within a sub-region.
- 14 The objectives and approach have recently been reiterated and further clarified. *Sustainable Communities: Homes for All* (ODPM, 2005) locates market renewal as a component of reviving communities and housing markets and identifies an approach based on the two themes of prevention and action on known problems:
 - more effective management of the replacement of housing stock – recognition of the impact of development planning policies on older housing areas and the need to take account of likely negative impacts; and
 - action to eradicate the problems caused by low-demand housing by 2020 with an intermediate target ‘to close the gap between those areas worst hit by low demand and the rest by one-third by 2010’.
- 15 In addition, the policy defines a vision of what the areas will be like in 2010 and, in doing so, partly defines the processes that will need to have been followed:
 - that the replacement of housing has been managed properly; and
 - that local people have been consulted about the future of their areas.

Low demand outside the pathfinders

- 16 *Homes for All* also gave a commitment to tackle low demand in additional areas outside the pathfinders. Some have argued that areas of relative market weakness are a feature of many housing areas rather than an issue that is tightly constrained geographically. As a corollary of this, it is argued, there is a need for a national strategy based around an approach of market renewal assessment with funding for priority areas. There are no indications that this is being taken up generally in public policy.
- 17 However, a specific allocation from the Housing Market Renewal Fund has been set aside for use outside the formal pathfinder areas and allocations have been announced for 2006-08:
- Tees Valley (Hartlepool, Middlesbrough, Redcar and Cleveland, Stockton on Tees) – £18.25 million.
 - West Cumbria (Allerdale, Barrow in Furness, Copeland) – £9 million.
 - West Yorkshire (Bradford, Kirklees, Leeds, Wakefield) – £18.25 million.
- 18 In addition, £500,000 has been allocated for 2006/07 to help fund research into weak housing markets outside pathfinder areas in Greater Manchester and Merseyside.
- 19 The government estimates that, as a result, around three-quarters of all low demand areas and all areas with concentrated severe need will either be covered by the pathfinders or by other significant funding streams administered through the regional housing boards. This compares with an estimate that around 50 per cent of low demand is covered by pathfinders. There is also an expectation that regional housing boards will continue to support other smaller areas of low demand.

The Select Committee

- 20 The ODPM: Housing, Planning, Local Government and the Regions Select Committee's report, *Empty Homes and Low-demand Pathfinders*, was published in April 2005 and the government's response to it in July 2005. The wide-ranging terms of reference of the Committee were largely concerned with the broad policy environment of market renewal and empty homes, covering issues such as resourcing, powers, the strategic commitment of government and other agencies and dissemination of good practice. A range of individuals and organisations gave evidence including representatives of the pathfinders and the Audit Commission.

- 21 There were, generally, three broad thrusts to the Committee's recommendations: the provision of guidance and support to the pathfinders, community involvement and support, and policy alignment and development.
- 22 The Committee perceived the need for a more definitive framework both to guide and measure the work of the pathfinders. This framework should include detailed objectives, an end view of what was to be achieved and measurement of success through market trends.
- 23 There was a clear view that the programme needed to have a strong community focus, particularly in respect of people who are living in the areas now. Recommendations covered issues such as community involvement, support for communities in transition, a ready supply of affordable housing, a focus on environmental and service issues, and the contribution of the heritage value of housing to the regeneration of neighbourhoods.
- 24 The Committee sought to ensure an effective holistic approach to market renewal by encouraging government to drive regional strategy alignment and reflecting the need for overarching economic strategies, such as the Northern Way, to recognise the need for investment in the broader city regions. In addition, they argued for low demand to be dealt with more widely on the basis of sub-regional appraisals and a long-term funding commitment to pathfinders consistent with the longevity of the necessary programmes.
- 25 The recommendations were broadly accepted by government while defending the unprescriptive approach to the projects and the timescales of financial allocations. Specific commitments were given to review the need for further advice around the time of submission of scheme updates.

Further guidance for pathfinders

- 26 Arguments have been advanced in the past about the need for further guidance to pathfinders on a range of issues. In particular, the Select Committee recommended guidance on consultation around clearance and how to support communities during the period of transition as neighbourhoods are refashioned.
- 27 Although not explicitly adopted, an iterative discussion with the pathfinders by the market renewal group in the DCLG has addressed these issues in the form of a protocol for the assessment of scheme updates. In essence, this amounts to direction.

- 28 This specifies in detail what is expected of the pathfinders and lays out a timetable within which specific objectives are to be achieved. The areas involved are economic strategy, community involvement, heritage and outcomes after demolition. Generally, these follow good practice already developed by pathfinders. However, in respect of housing demolition it requires that a master plan needs to be in place before decisions are made on demolition. This plan needs to have been fully consulted upon, with the views of residents influencing the decisions, and it needs to have clear outcomes. While ideal, it is important that it does not unduly constrain the pathfinders' response to changing circumstances.
- 29 There are also signs of a more rigorous approach to the provision of monitoring data on a more frequent basis than before, with the capacity to withhold funding if specified funding and outputs data are not delivered or monitoring data supplied on time. More important, however, is the proposed amendment of the funding agreement to allow annual allocations to be made: in the words of the discussion paper, 'opening up the opportunity to close down programmes'.
- 30 There are clear limitations on how pathfinders can use their allocations, with eligible expenditure being tightly defined within the implementation agreements between the DCLG and the local authorities within whose areas the pathfinders fall. The reasoning behind this was the need to integrate market renewal funding with other government-funded regeneration programmes and the main programmes, both capital and revenue, of local authorities. Essentially, the funding is for capital expenditure with some specific arrangements for other activity which specifically includes neighbourhood safety and security, scheme development and management.
- 31 There is an assumption by government that revenue expenditure by the pathfinders will not be more than 10 per cent of the total fund over the life of the programme. This is providing some difficulties for a number of pathfinders particularly in respect of neighbourhood management where the capacity to offer this support is constrained by available revenue and few matched funding opportunities. Projections by one of the pathfinders at the time of the scheme update, for example, showed that they wished to spend more than 14 per cent of their bid as revenue.
- 32 On the face of it, given the freedom of pathfinders to determine the priorities for their programmes and the acceptance of the importance of area safety and security as key issues, this revenue restraint appears unnecessary and inhibits pathfinders' ability to take forward softer elements of their work.

- 33 In this context there has been some comment on the contribution that the pathfinders are being asked to deliver to the government's Respect agenda. The Respect Action Plan made it plain that 'pathfinder funding (for 2006-08) will depend on plans being in place to tackle anti-social behaviour' and a draft Respect Action Plan protocol has been drawn up that includes the approaches that it is proposed that pathfinders should take.
- 34 The issue of crime, and fear of crime, figures strongly in residents' perceptions of areas. In one pathfinder area burglary rates are at twice the national average and treble the rate in adjacent areas. Resolving difficulties in this area will clearly be important in turning around pathfinder areas. As part of our scrutiny work we have made specific recommendations that reflect that – although not directing the use of pathfinder resources.
- 35 Pathfinders recognise the importance of contributing to the Respect agenda and creating safer communities in partnership with other organisations and agencies.
- 36 Whether these limited directions and the contribution to the Respect agenda represent a significant change in approach to the pathfinder projects, it is too early to say. It is certainly the case that these changes represent limitations to the freedoms of the pathfinders that were explicit at the time of their creation and were defended by the DCLG in its responses to the Select Committee. Cole and Nevin in their paper *Road to Renewal* (Joseph Rowntree Foundation, 2005) expressed concern that the new focus and ethos of the programme should not be lost over time by a reversion to another kind of physical regeneration programme.

Clearance

- 37 The pathfinder programme has been subject to considerable criticism, that it is promoting clearance, perceived as a discredited and blunt policy tool to deal with local market issues. This section considers in some detail the substance and articulation of public policy in this respect, since this is an issue that is highly relevant in the context of the public support for the partnerships and the sustainability of the programme. It also looks at how the pathfinders' views on the level of clearance have changed over time.
- 38 The areas involved were, unsurprisingly, initially known by many as low-demand pathfinders (and were referred to as such by the recent Select Committee), reflecting one of the principal symptoms that were characteristics of the areas and which had wide public visibility.

- 39 This initial focus on doing something about empty homes, by association, raised the spectre of the unpopular clearance policies of the post-war era. Despite the radically different context of the Market Renewal Programme, this association has been hard to displace.
- 40 This is, in part, a reflection of the articulation of what market renewal was seeking to achieve. For example, the stated expectation in 2003 that by 2005 'large-scale clearance, refurbishment and new-build work [would be] underway' may have reinforced a view that market renewal was essentially about clearance. In reality, the partnerships established to deal with market renewal faced a variety of market conditions. Comparatively few areas had experienced market collapse and its symptoms of abandonment, large numbers of empty homes and extremely low house prices. What was more widespread was a high degree of market fragility with the potential risk of failure and collapse.
- 41 However, an approach based on what for many residents is an intangible, market sustainability, was bound to give rise to tension. Cole and Nevin have described this tension as being 'between immediate community interest and the wider strategic imperative'. This was particularly likely to be the case at the inception of the pathfinders since many previous policy approaches had sought to place residents at the heart of regeneration with, as the authors have pointed out, 'the fundamental premise that the existing community is salvageable and sustainable'.
- 42 In retrospect, unsurprisingly, the clearance element of the programme has shaped views of market renewal and led to substantial criticism of the programme. Although on the basis of the original plans there will be a net loss of housing in only three of the pathfinder areas, public attention has been focused on this aspect.
- 43 In public policy terms, however, the approach has been rooted in one of creating sustainable communities, although this has not always been wholly clear.
- 44 While it is the case that *Sustainable Communities: Building for the Future* (ODPM, 2003) laid out a wide-ranging context for the associated policy initiatives including market renewal, the language in which the response to the challenge presented by market failure was laid out could be interpreted as implying that clearance would be a principal tool rather than a part of an integrated whole: 'Pathfinder strategic plans will entail radical and sustained action to replace obsolete housing with modern, sustainable accommodation

through demolition and new building and refurbishment. This will mean a better mix of homes, and sometimes fewer homes.’

- 45 The Select Committee drew attention to the risk that the initiative would be seen as a major demolition programme that ‘will repeat the mistakes of previous clearance programmes that destroyed the heritage of areas and failed to replace it with neighbourhoods of lasting value’.
- 46 In responding to the report of the Committee, government sought to clarify the diverse nature of market renewal while pointing out the need for clearance in appropriate circumstances. ‘Housing market renewal is about making balanced interventions which will restore normal housing markets to communities. Proposals that only focus 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.’
- 47 As to the way in which this is to be achieved, the articulated approach has changed from that of two years previously to a more measured and balanced approach dependent on local circumstances and with less emphasis on clearance.
- 48 It is also the case that pathfinders have radically revised their proposals during the life of the programme to date. This applies not only to clearance but also to the levels of new build and refurbishment. This has come about since the original proposals were indicative estimates which have subsequently been refined by master planning processes with the active involvement of local communities.
- 49 Comparisons of demolition proposals over the life of the pathfinders from the original prospectuses with those in the scheme update documents show a substantial decline. The original estimates indicated the need to demolish approximately 90,500 houses; the current estimate is approximately 64,000, a reduction of 29 per cent. All but one pathfinder are proposing lower levels of clearance, in some cases substantially less. Urban Living, the Birmingham/Sandwell partnership estimates a two-thirds reduction while New Heartlands and Hull and East Riding both project a 50 per cent reduction.
- 50 It is clear that from its inception the market renewal initiative sought a balanced approach in which clearance was only one policy tool in a number of approaches. Initial publicity, however, failed to underline this. This, together with voices raised for a variety of reasons,

led to the association of the initiative with historic large-scale clearance programmes. Public policy statements and those of the pathfinders now effectively demonstrate the balance of the various programmes. In this context it will be important for pathfinders to continue to work closely with their communities and to ensure that there is a full appreciation of all aspects of their work to minimise misunderstanding or misrepresentation of their local programme.

Case study 1

Community consultation

In **Elevate East Lancashire**, no project is approved until the pathfinder is satisfied that local people are being involved appropriately. A number of innovative approaches to consultation have been used including getting local school children to design their perfect place, holding young people's conferences to discuss the future of their areas and inviting residents to contribute to masterplanning.

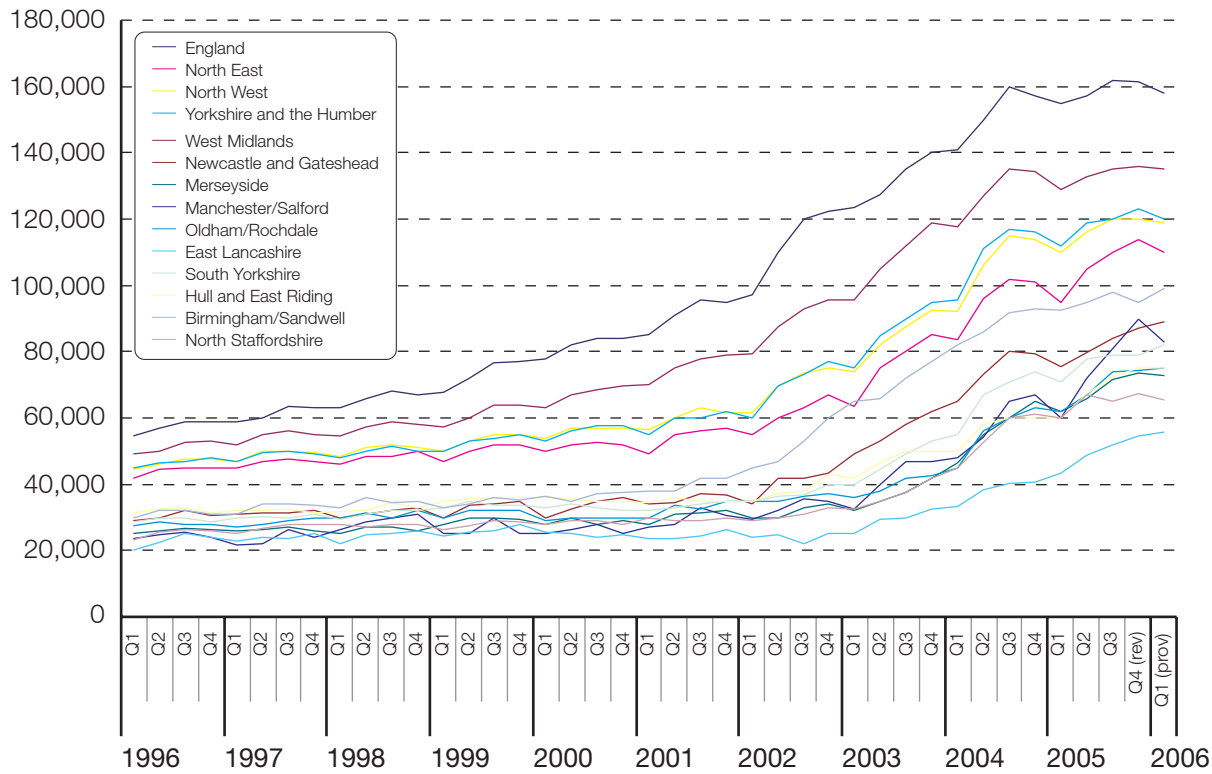
In **Gateway Hull and East Riding** there has been extensive community consultations on plans for the next four years and extensive coverage of the proposals in the local media. The consultation showed that nearly 80 per cent of people agreed with demolition plans.

House prices in the pathfinder areas

- 51 House prices in the pathfinder areas have attracted considerable critical interest. It has been argued by some that rising prices within the areas are a demonstration that the housing markets have recovered without the need for further intervention.
- 52 As a separate issue, from the pathfinders' points of view, rising prices have had two principal, and negative, effects on their planning and programmes: they increase the costs of intervention through property acquisition and make houses more unaffordable as price inflation exceeds the growth in incomes of potential purchasers.
- 53 In responding to the first point, the important issue is what these increases reflect. It is undoubtedly the case that property prices have risen across the pathfinders, particularly in the period between 2002 and 2004, a point shown clearly in **Figure 1**.

- 54 Local house prices need to be interpreted in a wider context that includes many of the factors that pathfinders have focused on to understand sub-regional and regional dynamics; for example, migration, changing demography, travel to work patterns, local affordability and employment opportunities. There are wider issues impacting too, those of the national economic situation and the investment potential of property. The pattern of price rises in the pathfinder areas clearly reflects a national trend indicating a more general impact on the market than something local to the pathfinders.
- 55 Whether price rises represent real transformational change in the markets or a general rise in prices driven by speculation and the acquisitions of landlords in the private rented sector are complex matters to disentangle.
- 56 A measure of this is whether there is any differential change between what is happening in the pathfinder area and that of the region in which it is situated. That is to say, is the pathfinder faring better than the region generally as a result of increased confidence?

Figure 1
House prices in England, pathfinder regions and pathfinder areas



- 57 **Table 1** shows that pathfinder prices are consistently below those of their respective regions. For seven of the pathfinders there has been some narrowing of the gap between pathfinder prices and those of the wider region. However, for Gateway Hull and East Riding and Elevate East Lancashire this is not the case. Birmingham/Sandwell shows a consistent gain against the regional average showing that prices are increasing faster than the regional average. Bridging Newcastle Gateshead shows a similar pattern but without the consistency.
- 58 With the exception of these two areas, the general prices within the pathfinder areas are still only around a half of the regional average. Within the broad boundaries of pathfinder areas there are variations between different local authorities, and data from the pathfinders indicate that for more local areas, prices are considerably lower than the pathfinder average and considerably below the regional average. Data from Renew North Staffordshire, for example, indicates that in two areas more than 83 per cent of properties are sold for less than the fifth percentile of the regional average.

Table 1
Pathfinder house prices as a percentage of regional figures

Pathfinder	Year 2001	2002	2003	2004	2005
Newcastle and Gateshead	70	62	77	78	80
Birmingham and Sandwell	54	57	68	70	72
South Yorkshire	58	58	53	58	64
Merseyside	50	49	43	51	57
Oldham and Rochdale	52	56	49	49	57
Manchester and Salford	48	48	44	52	56
Hull and East Riding	63	59	56	52	56
North Staffordshire	43	37	34	38	48
East Lancashire	42	39	34	36	41

- 59 There has been some independent, detailed analysis of the situation in one pathfinder area. This evaluation was carried out by the Centre for Regional Economic and Social Research at Sheffield Hallam University for Bridging Newcastle Gateshead.

- 60 The research included a house price analysis by postcode sector and highlighted large increases in average house prices in some areas between 2002 and 2004. The Gateshead area within the pathfinder boundary, for example, saw increases of 136 per cent compared to 104 per cent both in the wider pathfinder area and the rest of Gateshead, and 83 per cent in the North of England. (Some later data shows that while Gateshead prices remained stable, those in England and the North East fell by 3 per cent.) This buoyancy was also seen in some areas in the pathfinder locality that are receiving priority.
- 61 However, the findings of the evaluation support the pathfinder's assertion that rises in a few areas have accounted for much of the increase in average house prices, with overheating markets and speculation by investors and private landlords masking the difficulties still being experienced in many areas.
- 62 While prices in Gateshead have remained steady, prices in Newcastle have fallen by as much as 7 per cent since autumn 2004. Importantly, as an alternative measure of the nature of the market, the number of empty homes and turnover rates within the strategic commission areas remain high. In addition, the evaluation showed that Bridging Newcastle Gateshead still represents a concentration of low house prices, containing four of the lowest-priced postcode sectors in the North East.
- 63 Elsewhere, although the number of vacant homes in Gateway Hull and East Riding fell between 2002 and 2005, the number is now rising again and private sector vacancies are at their highest-ever level.
- 64 The issue of speculative purchasing driving up prices in the pathfinder areas is advanced by a number of the pathfinders although there is little hard evidence that this is the case as yet.
- 65 It is difficult to follow trends in the growth of private renting although this is sometimes possible through the use of council tax and housing benefit databases. Some pathfinders have obtained evidence in this way but not in a systematic way. Given the fact that the pathfinders identify the growth in private renting, in their specific contexts, as a negative driver of housing markets and, in some cases, the causality of the problems currently being experienced, this is a significant failing.

- 66 It is certainly the case that buy to let has historically been a significant market in all but two pathfinder areas. Data from the inception of the programme shows that overall private renting constituted 15 per cent of all dwellings in the areas compared with the national figure of 12 per cent. Between pathfinders there were, however, significant variations from 21 per cent in Manchester and Salford to 9 per cent in South Yorkshire. This in itself masks much higher percentages in some parts of the areas that reach levels of 30 per cent. The overall percentage within the inner core of Stoke on Trent is now estimated to be around 24 per cent.
- 67 Overall, the available data does not support the view that pathfinder intervention is no longer justified.
- 68 While average prices are increasing, differentials between pathfinder prices and regional average prices are still substantial. There is evidence that in two pathfinder areas this differential is narrowing, but in two others the price gap between the pathfinder area and the region has increased between 2001 and 2005.
- 69 The statistics themselves need to be viewed cautiously; for example, low volume market activity may give a false impression of the overall market. There is also a need to factor in other measurements of market dynamics including turnover rates and vacancy levels to better understand the operation of local markets.
- 70 The whole pathfinder approach is predicated by an analytical approach that seeks to understand the underlying issues and to act on these rather than respond to simple but potentially irrelevant indicators. In that context it will be necessary for pathfinders to continue to monitor carefully the movement of prices and to seek to understand the reasons for these changes to judge both success and the need for less, different, or further intervention.
- 71 On the basis of the available data it would be wrong at this time to conclude that further intervention is unnecessary to sustain pathfinder housing markets. Simple headline statistics on price rises without a deeper understanding of the state of local markets have limited value in informing decision making. The Audit Commission will turn its attention towards developing a better understanding of the impact of house price rises.

Case study 2

Monitoring house prices and property speculation

Bridging Newcastle Gateshead carries out regular estate agent surveys that support analysis of house price data. The most recent study shows that the market has cooled considerably over the last 12 months and that prices are masking instability in the market. Investors and private landlords are continuing to have a major impact on the pathfinder housing market.

Work carried out for **New Heartlands** by the district valuer has looked at the profile of those involved in the pathfinder property market. Early indications are of considerable speculation for investment – by both individuals and companies, rather than people buying to occupy the homes.

Displacement issues

- 72 Displacement is the potential for a programme of activity to have an impact on areas outside the main intervention area and this has been identified from the start in the initial scrutiny of pathfinder prospectuses. It remains an area where ongoing and intensive focus is required, largely as a result of the regional context in which the pathfinders operate, but also partly as a result of an inadequate focus on this issue.
- 73 Pathfinder boundaries have been deliberately drawn to reflect interacting housing markets rather than the administrative boundaries of local authorities. They are not, however, self-contained. They are affected by, and affect, wider markets.
- 74 Responding to these displacement/adjacency issues remains a central issue for pathfinders in a number of ways:
- the need to reflect on the historical operation of regional policies – particularly planning to inform intervention timetabling;
 - the need to achieve alignment between their work and regional strategies; and
 - to judge their proposals for a locality against what is happening or has been established in adjacent localities which could cause them to export a problem or fail.

- 75 In respect of the first two of these issues, they present a significant risk to four pathfinders. In Bridging Newcastle Gateshead, the principal issues relate to balancing housing development in the wider region and a substantial supply of new homes continuing to be built in Newcastle and the wider region that could continue to fuel out migration. This latter issue also affects Transform South Yorkshire and New Heartlands where the housing planned to be built within the wider area presents a major impediment to restructuring markets within the pathfinder area. There is some positive experience here, however, in that the planning control process (refusals by the planning inspectorate) is beginning to resist development outside of the pathfinder.
- 76 In North Staffordshire there is the potential for an uncontrolled housing surplus to put the whole programme at risk, of planning decisions not acting in favour of the pathfinder area and regional policies that could provide for more housing than is needed to meet local demand.
- 77 This unhelpful context is not universally the case. For Manchester/Salford, an analysis shows that the strategic approach is broadly helpful to the pathfinder. New homes that are already planned for the sub-region are substantially within the pathfinder areas. There are, however, some difficulties in that many planned developments relate to flats in the city centre.
- 78 In respect of the third issue, there are examples of a less than rigorous approach that may undermine the pathfinders' work. An argument advanced by one pathfinder was that attractive housing as a potential driver of improved economic performance could lead to the undermining of some areas if increased new supply was not supported by an improved economic position. The same pathfinder recognises the potential for negative adjacency issues and has studies that flag up such issues. However, it has no consistent approach to monitoring or managing such issues with a consequent danger of them damaging parts of the area.
- 79 In other instances, the impact of differential migration, the current development pipeline of housing schemes and the phased release of land to achieve sensitive sequencing have not been adequately considered, and the pathfinder is planning in a dynamic environment in relative ignorance of alternative and potentially attractive opportunities for residents to live elsewhere.

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Measuring progress

- 80 Measuring success at this stage in the pathfinders' development is a difficult process. Sustainability is intrinsically a long-term outcome measure and, unlike many earlier initiatives, the success of the projects cannot wholly be judged by relatively short-term outputs – although these will be important.
- 81 This part of the report draws heavily on the Commission's work. The Commission has, from 2002, been undertaking a number of roles. These have included acting as a critical friend and subsequently scrutinising prospectuses and providing recommendations. We have monitored the progress of pathfinders on a six-monthly basis and in the immediate past we have carried out strategic reviews of the scheme updates submitted by each pathfinder.
- 82 The experience gained as part of this work programme with the pathfinders has created a substantial body of knowledge on the progress of the partnerships. We have focused on three strands of this in charting progress to date:
- responses to the recommendations arising from the original scrutiny of pathfinder prospectuses;
 - the strategic review of scheme updates recently submitted by the pathfinders; and
 - responses against the recommendations contained within the Best Practice Handbook produced by the Commission in 2005.
- 83 In addition, we have reviewed elements of the core indicators that pathfinders submit to government on a regular basis.

Prospectus scrutiny and recommendations

- 84 Pathfinder prospectuses reflected the diversity not only of their geographical areas but also of a wide range of other factors. Despite these differences a number of common themes emerged from the scrutiny process as to where the partnerships needed to focus their energies. These formed the basis of the recommendations to pathfinders in our Best Practice Handbook. Recommendations specific to particular pathfinders following the scrutiny process were adopted by the government and have subsequently been considered as part of the recent independent reviews of the projects.

85 In overall numerical terms, there has been substantial progress against a demanding and diverse agenda. More than 80 per cent of the Commission's recommendations, of which there were between 10 and 20 for each pathfinder, have been judged as complete. However, this overall figure masks some variable progress.

Strategic reviews

86 As a result of the strategic reviews carried out at the time of each pathfinder's scheme update, a further series of recommendations have been drawn up reflecting the changing circumstances. These are generally a reflection of how far particular pathfinders have moved forward with specific recommendations reflecting the particular issues confronting each pathfinder.

87 There are substantial similarities in the broad classification of these recommendations to those that were outstanding. The most common are relating to the use of market intelligence, the strategic alignment of programmes and policies and value for money.

88 In addition to the overall review of progress including the progress on our previous recommendations, the strategic review considered the value added by the programme and the degree of risk in defined areas of work of the pathfinders. The Commission's judgements covered six key areas:

- influencing trends and meeting aspirations (the pathfinder's approach to understanding its housing market and the way that it has used this to shape the programme);
- strategic context (understanding and influencing the [sub] regional and local context to the pathfinder's proposals);
- implementation of the programme;
- governance (the performance of the pathfinder's governing body);
- value for money; and
- innovation and learning.

89 Analysis of the outcomes for all pathfinders across the classification of high to minimal shows that they are in general adding significant value through the work that they are doing.

- 90 However, this finding needs to be viewed in the context that there are still substantial areas of risk. Risk in this context does not relate solely to a judgement of how well the pathfinder is doing with things that it has control over and also needs to be seen in the context that pathfinders are seeking to break new ground and that influences beyond their control could impact on their programmes.
- 91 Considering the pathfinders as a whole, the risk distribution shows that high and significant risks outnumber moderate or minimal risks. As in the original scrutiny, risk areas were strongly focused on the central tasks of understanding the regional context, influencing and achieving strategic alignment with other policies and programmes and working towards sustainable markets in the context of supply and demand and their key drivers. However, it is important to recognise that the pathfinders are seeking to establish new, relevant and ambitious programmes in a complex environment and this process is, by definition, attended by significant risks.
- 92 A key issue in that respect is the state of the local economy and how that is projected to change over time. Pathfinder areas are characterised by long-term economic decline often associated with the demise of traditional industries, and alignment with economic strategies is a central requirement for pathfinders in planning effectively. However, the economic context for this planning is variable. Economic growth rates in some pathfinder areas are greater than the national average. At worst, the situation is one of uncertainty and limited restructuring of the local economy in which a housing renaissance relying on economic growth is unsustainable. Further decline in traditional industries without a parallel growth in alternative employment is a significant risk to reviving markets for a number of the pathfinders.
- 93 With the increasing focus on the delivery of the programme, implementation and value for money issues have become more apparent and governance continues to be an issue for a number of pathfinders. It is judged to present a high risk in one partnership and a significant risk in a further two.

Progress with the recommendations from the Best Practice Handbook

- 94 These specific areas are considered in some detail below as part of judgements about pathfinder progress in the light of the recommendations in the Best Practice Handbook – the last Audit Commission report on the performance of the pathfinder programme overall.

Governance

- 95 At the time when we reviewed the original prospectuses, the governance arrangements and the associated financial and operational management processes were at an early stage of development, although some significant issues were already emerging. Some tensions were evident between the strategic roles of councils and pathfinders and indicated the need for a review of governance arrangements and the clarification of roles and responsibilities.
- 96 Our recommendation in the Best Practice Handbook was to review the governance arrangements. There were two strands to this: the need to generate a culture that focuses on working in the interests of the pathfinder area as a whole, rather than solely representing the interests of its individual stakeholders; and seeking private sector representation to encourage a more commercial culture among the pathfinder board and staff.
- 97 In general, pathfinders have made good progress in clarifying roles and responsibilities, adopting effective delegation arrangements and diversifying the skill and experience base of boards. It is our experience that there is now a general recognition of the need to secure perspectives from the private sector and many pathfinders have made progress on this, which has enhanced both the quality and diversity of debate and greater objectivity in decision making. There is still a need to ensure that local authority representatives do not dominate the dynamic of boards and that a distinctive pathfinder perspective is developed to ensure effective intervention in markets.
- 98 There is an ongoing issue about the co-existence of two strategic roles and how a balance of those roles – on the one hand, the local authorities as bodies with statutory strategic and service delivery roles and a legitimacy about advocating for their communities; and on the other, the pathfinders with a legitimate strategic role in respect

of market renewal beyond local authority boundaries – is achieved. For a number of pathfinders this remains a significant issue.

- 99** Following our recommendation from the initial scrutiny, a number of the pathfinders have sought to clarify responsibilities, strengthen their decision-making arrangements and bring wider knowledge to bear through reorganisation of their governance arrangements. Typically, this has resulted in the separation of operational from strategic roles, broadening the skills base of the board and its sub-structures, codifying responsibilities and seeking greater coordination with other regeneration bodies. The most advanced approach has been in Elevate East Lancashire, which has become a company limited by guarantee. It is too early to judge the gains from this approach but it will be important to follow the progress of this initiative.

Market intelligence

- 100** Understanding the context of housing market dynamics is the base from which projects will deliver market restructuring and forms one of the cornerstones of our strategic reviews and ongoing work with the pathfinders. At the time of our initial scrutiny, all had shortfalls of evidence relating to market change.
- 101** Over the last year there has been substantial progress, with pathfinders both expanding their understanding and using this to inform interventions. However, there is still much work to do. Our judgement is that the area of market intelligence is still at least a significant risk for eight of the projects.
- 102** Pathfinders, as a result of their work, have access to an enormous range of housing market intelligence, both factual and perceptive. The collection of this data into one place is a valuable characteristic of the pathfinder approach. It is also likely that these databases will continue to grow over time as a greater understanding of the relevant issues continues to develop.
- 103** There is evident good practice in the area of collecting and analysing this data, but there are also some failures and difficulties. There is generally the need to move from analysis to action and to recognise the need for dynamic rather than snapshot data. This requires use rather than mere maintenance of the system.

- 104** In addition to the worth of the approach, the actual data collected by the pathfinders is of strategic value and there could be significant gains from making it available to others. It has the capacity to effectively inform other expenditure programmes of both central and local government. In that respect it is important that there is promotion of the availability of the data to wider agencies and that there is joint working with those agencies to maintain, develop and use it.
- 105** In our Best Practice Handbook we made specific recommendations about the need for developing in-house capacity for collecting and analysing market intelligence and to ensure that the use of consultants led to an increase in capacity of the teams. It remains the case that there is still added value to be gained in developing the skills and capacity of in-house staff.
- 106** The extent to which pathfinders use consultants is variable. In some cases it is to undertake specific work but in others there is a much greater reliance to the extent of almost total management of the market intelligence function.

Case study 3

Managing and using data

Manchester/Salford has in place a suite of analytical tools to monitor and understand housing markets at different geographical levels. The tracking Neighbourhood Change Model plots indicators of neighbourhood conditions using a geographical information system and is linked to another system, Mapping Neighbourhood Interventions, that plans and monitors investment in each area.

Collecting and analysing market intelligence

- 107** While there is, in general, recognition of the desirability of reducing support from consultants to areas of particular expertise, it is our experience that there has been insufficient change. The principal issue that creates the need for support from consultants is around the capacity of the core teams of the pathfinders. This is both from the point of view of skill and experience needed to undertake the specific work required, but also to deliver research and analysis alongside substantial intervention programmes and influencing work.

Vision

- 108** In our recommendations we said that pathfinders should articulate a strong vision for their area, which specifically sets out the types of housing markets they are aiming for and their relationship with other areas.
- 109** The vision is the first step in a complex cascade. Having generated the vision, the cascade is through strategic objectives that define what change is necessary to achieve the vision, aims that add specificity to what needs to be done, the definition of outcomes required to deliver the aims and interventions that deliver those outcomes.
- 110** Most projects are now plain about their vision, the future function of areas and strategic objectives, but how to deliver them is still in development. The most developed projects are those which build on plans that predate the pathfinders but there is now good work also in areas with no such history.
- 111** In general, it is clear that there have been substantial gains in the understanding of market drivers and the interrelationship with economic and demographic factors. In the light of that new information, many pathfinders have reshaped their strategic objectives and aims, building the changes into project commissioning and appraisal, and altered the focus of their programmes.
- 112** Progress through the cascade is, however, variable and there are still question marks around the fundamental underpinning assumptions of economic and household growth. Not all pathfinders have yet generated a vision for all the parts of their area, some strategic objectives are not sufficiently clear to be able to inform action and, more commonly, there is a need to further refine the definition of outcomes to inform interventions.
- 113** It is, however, clear that some projects are lagging behind the general level of progress. For one of these, while the objectives of the project are plain and there is recently a much-improved evidence base, this has not yet been translated into intervention. It is not currently clear what kind of housing is needed or in what numbers.
- 114** For another, there are still weaknesses in housing market intelligence and growth has been prioritised with inadequate thinking about the balance of what that growth should be. Overall, there is a lack of clarity of the present and potential target housing market functions and their relationship to wider markets.

115 In a further case, there is continuing uncertainty about the future levels of housing demand and inconsistency between the pathfinder's assumptions about this and its long-term strategy. In addition, the pathfinder is unclear about the scale of change it intends to achieve, master planning has not been carried out in priority areas and the long-term sustainability of council homes outside of priority areas is in doubt.

Project commissioning and appraisal systems

116 Our recommendation for ongoing work in this area followed our findings that there was an absence of clear links between market intelligence and interventions on the ground.

117 Considerable progress has been made and the process of appraisal and commissioning is becoming more sophisticated. Increasingly robust project appraisal processes are being applied at a number of different levels from programme development through to project appraisal.

118 A major step forward in these processes has been the introduction of a strategic approach to commissioning that has been adopted by a number of pathfinders. In this approach, the pathfinder sets out what needs to be achieved and commissions partners to deliver the required outcomes. This has major advantages in that it does not start with a series of potential projects put forward by partners with the attendant danger of substitution. The process is used not only to appraise particular project proposals but also to prioritise between projects on a local area basis – distinguishing between those areas that require major intervention and those that need a holding strategy pending further work in the future or to stave off deterioration.

119 However sophisticated the approach to project appraisal, there needs to be an overview. That is to say that individual projects need to hang together to produce coherence not only in the pathfinder area but also in a regional context. Similarly, the greater the precision of specification of what is needed, the more focused the outcomes will be.

Value for money

120 Overall, this is an area that is generally underdeveloped and where there is still a need for a high level of focus from the partnerships, a situation that is broadly unchanged from our initial scrutiny of the projects although there has been progress in a number of areas, particularly the strategic focus of projects.

- 121** To assist pathfinders, the Audit Commission, following the recommendation in the Best Practice Handbook, has produced a value for money toolkit. This is easy to use and aims to help pathfinders find answers to a range of value for money questions for themselves. Following trials with three pathfinders and a further low-demand area, the toolkit was issued to the pathfinders, the three other market renewal partnerships and other relevant organisations in April of this year.
- 122** At the strategic level, value for money will only be demonstrable if all of the following are in place:
- resources are focused on achieving market transformation without displacement effects;
 - there is active prioritisation of projects based on a view of impact and risk;
 - project appraisal is rigorous;
 - funding is not available in other streams to undertake the work;
 - maximum leverage from other sources is brought to bear; and
 - maximum use is made of available resources.
- 123** The first three of these have been considered in previous sections. This section examines the extent of non-pathfinder resources supporting the programme leverage, the maximisation of available resources, whether the long-term programme is sustainable and whether there continues to be action that is unfocused or inappropriate.

Leverage

- 124** Generally, the pathfinders' focus on the issue of complementary funding represents a clear understanding of the importance of the holistic approach implicit in market renewal.
- 125** Housing market renewal funding was not conceived as a freestanding budget that would on its own achieve market renewal. It is rather a housing element of funding that will contribute towards a holistic approach to achieving that objective. The extent to which other funding streams, both public and private, are integrated with market renewal funding is therefore an important measure of whether the funding is acting as a catalyst or a magnet for complementary funding.

- 126** Pathfinders' initial judgements of leverage before there was any real experience of delivering this new kind of approach varied from 10 per cent of total funding deriving from the housing market renewal fund to nearly 50 per cent. Current scheme updates project between £200 million and £500 million during the next two-year funding period. In one case, the estimate of public sector leverage has been downgraded from 45 per cent to 26 per cent of programme funding, with some risk to the overall programme given the focus of that expenditure on quality of life and service improvements.
- 127** The approach to leverage varies widely between pathfinders, in part reflecting what is possible within a wide range of pathfinder contexts but also indicating a greater or lesser understanding of the founding and fundamental philosophy behind market renewal.
- 128** In considering this potential leverage, we have identified a number of issues that throw some doubt on whether it will in all cases be delivered. These include outcomes being less than initial projections, the feasibility of the investment given past patterns of expenditure and total resource within regional budgets, and the extent to which the estimates represent secured or committed funding or merely aspiration. There are also questions as to whether there is real leverage or whether the projects would have happened anyway and the extent to which long-term projections are robust or merely speculative.
- 129** At best, there is a very tight focus on the pathfinder undertaking actions that are directly connected to private investment, with public funding carefully tailored to the availability of other funding sources. In these circumstances, housing market renewal funding is tapered out as market confidence is developed. In addition, there is good practice in demonstrating alignment of expenditure, where different funding streams provide complementary or supportive action.

Case study 4

Complementary action

In the Elswick New Deal for Communities (NDC) area of Bridging Newcastle Gateshead, the NDC project is focusing resources on neighbourhood management. Housing market renewal funding is being used to carry out larger-scale capital works linked to the work of the NDC.

- 130** At the other end of the scale, the issue of leverage receives scant attention and is dealt with in a generally ineffective way with no ongoing monitoring and a projection of insignificant returns in the future. In the most extreme case, the pathfinder did not actually know what level of complementary funding had been achieved, had not monitored or reported on it and did not have complete or accurate enough data to be able to do so.

Substitution

- 131** In our Best Practice Handbook, we identified the need for pathfinders to focus their activities more effectively on issues that directly affect the housing market. In the first phase of expenditure, too much funding had been directed to support projects of the kind that had been tried before and which had not prevented housing market decline. Many projects had reflected the existing priorities of local authorities rather than focusing on the new imperative, a point ceded in evidence to the Select Committee. However, the point was also made in evidence that there was a need for pathfinders to have better market intelligence before they were able to challenge traditional approaches.
- 132** In general, the programmes of pathfinders are now much more strongly aligned to dealing with market issues. Our ongoing work with the projects has identified few overt cases of inappropriate funding. We have, however, identified some well-received and well-targeted projects that it would have been more appropriate to fund through other agencies given the focus of pathfinder expenditure and the pressures on their budgets.
- 133** For some pathfinders, however, the situation is far from satisfactory. For one such pathfinder, there is an acknowledgement that substitution is an issue – both in respect of particular revenue-based projects and in staffing costs. Fortunately, many of these programmes will cease to be funded in 2006.

Maximisation of resources

- 134** Pathfinders have very substantial expenditure programmes. A significant proportion of this expenditure for many is concerned with land and property acquisitions for which traditional value for money maximisation mechanisms do not easily apply. This area still requires further development.

- 135 There are, however, individual examples where good value for money has been obtained although these tend to be *ad hoc* rather than a reflection of a strategic approach. A number of pathfinders are in the process of developing strategies, systems and processes that will allow a more systematic approach to be taken in the future, for example, the formulation of procurement strategies. However, these arrangements have, in general, yet to be finalised and formally adopted.
- 136 For many pathfinders their approach to value for money in procurement is dependent on their local authority partners who are their delivery agents and who have their own procurement strategies and processes. Many of these are well developed. Some, but not all, have recognised the important role that housing associations can play. There are examples where these collaborations bring benefits that might have been difficult for the pathfinder to generate alone.

Case study 5

Joint working with other agencies

Renew North Staffordshire is working jointly with the Regeneration Zone. They have established a Joint Commissioning Sub-Board with diverse membership to deliver joint procurement of a number of key projects, developing joint capacity, minimising duplication and bringing together housing and economic regeneration.

In Transform South Yorkshire, pathfinder expenditure is piggybacked with the arm's length management organisation contracting arrangement bringing additional gains including local employment.

Case study 6

Working with housing associations

In Manchester/Salford housing associations are allocated lead or support roles within area development frameworks. Lead associations contribute to the development and delivery of neighbourhood-based services, act as a catalyst of rationalised management of rented homes and develop new affordable homes for sale or rent. Support associations will not seek development funding and associations that have not shown an interest in developing their work in pathfinder areas will be consulted on their plans for disinvestments, encouraging the rationalisation of provision.

Case study 7

Pathfinder collaboration

Bridging Newcastle Gateshead, New Heartlands and Transform South Yorkshire have jointly commissioned a financial model that allows the testing of alternative scenarios as part of project appraisal. It can take account of the relationship between activities such as buying property, demolishing it and redeveloping the site – a capacity that other financial models do not have.

Programme continuity

- 137** In a number of revised scheme submissions by pathfinders there are business planning assumptions about the future availability of housing market renewal funding that may not be realised in practice. These relate particularly to future levels of government funding and the capacity to make use of capital receipts in the long term.
- 138** A number of the pathfinders are creating long-term resource allocation needs, potentially up to and beyond five years, for example, in pursuing clearance and redevelopment activity. In some cases this projection extends potentially beyond the end of housing market renewal funding and assumes the use of capital receipts. For one pathfinder projected funding requirements are for an annual sum far in excess of any that a pathfinder has received to date and ten times that of its first-year programme. These projections are inconsistent with commitments given by government.
- 139** It remains a serious concern to pathfinders that there is less clarity about the long-term financial commitment by government towards what is clearly a long-term programme, there is currently less.
- 140** It is clearly important for pathfinders to plan their programmes having regard to a robust view of the likely available resources. However, it is difficult to see how this can be done effectively without at least an indicative long-term view of government funding.
- 141** Generally, the pathfinders approach to generating efficiencies is underdeveloped. For example, for four pathfinders the situation is that they have indicated an approach to methodologies and timescales for the production of a plan rather than producing actions and targets. There is, however, some good practice being developed both as part of business planning and more generally.

Case study 8

Business planning and efficiencies

In **Renew North Staffordshire**, the business plan has a clear action plan with specific actions over specified timeframes and with target efficiency gains quantified for the next two years.

Partners in **Action Oldham and Rochdale** have conducted sensitivity analysis on the business plan that has identified key financial variables that could drive costs up if not actively dealt with.

Outputs from the work of pathfinders

- 142** In order to monitor progress, the DCLG specified a range of core indicators to be collected and reported on a regular basis. These are divided into three groups:
- **Inputs** that provide a measure of the costs associated with each pathfinder, leverage into the broader programme and average costs for specified activities.
 - **Outputs** that specify the level of refurbishment, demolition, acquisition of property and land and households receiving additional management intervention.
 - **Outcomes** that measure key issues so far as the projects are concerned – long-term empty homes, homes subject to low demand, low-value house price sales and tenure change.
- 143** A measure of the progress of the work that the pathfinder has done is reflected in these indicators. These are by no means comprehensive and it is expected that pathfinders will measure other indicators that are relevant to their specific programmes. A number of pathfinders report these as part of their annual report. Manchester/Salford, for example, reports on households assisted with relocation and private rented properties subject to intervention, and Birmingham/Sandwell on deconversion of flats and the number of commercial properties acquired.
- 144** These performance indicators are carefully specified in order that direct comparison is possible. However, the ongoing refinement of these indicators concerned to ensure clear and consistent definitions for their measurement has meant that they are not necessarily comparable with earlier measurements.

- 145** As would be expected, there are substantial differences between the pathfinders dependent both on their overall strategy and the stage they have reached in programmes. This is particularly apparent in the case of demolitions, properties acquired, households subject to additional management interventions and land acquired.
- 146** While the absolute numbers give a measure of activity, they are not necessarily a measure of success against the targets that had been set.
- 147** The majority of pathfinders spent their available budgets within the financial year although there was variance in the proposed targets which they achieved.
- 148** However, while prudent budget management requires a degree of over-programming, there is some evidence that opportunistic purchases played a part in the successful expenditure record together with house price increases that allowed the expenditure of budget with fewer numerical outcomes. Expenditure of substantial sums in the last accounting month, which was a characteristic of some pathfinder programmes, is an indicator of poor project management. The important issue is less about the expenditure of the budget and more about delivering planned outputs and outcomes.
- 149** The budget for Bridging Newcastle Gateshead for 2004/05 was £28 million: £11.6 million of this was spent in the last month on land acquisition which, while strategically important, was only possible because of slippage on other important programmed expenditure during the year. Valid reasons were advanced for this, but the formulation of budget profiles in achieving planned and balanced spends is an important function which should include an element of risk management.
- 150** The re-profiling of subsequent expenditure across pathfinder programmes will be important in maintaining programme balance where there has been over- or underachievement against targets. Pathfinder programmes need to be resilient to any suggestions of opportunistic rather than strategic expenditure.

3

Key challenges

Heritage

- 151** The Select Committee took evidence from a range of organisations concerned with the danger that, as a result of radical intervention, areas could lose their distinctive historical character and that this heritage should be seen as a positive asset in the successful regeneration of areas. The Committee accepted this view and included it in their recommendations.
- 152** This view is also supported by English Heritage who argued to the Select Committee that the character of an area is best understood by carrying out an assessment of the environment to inform decision making and that this takes into account the views of communities and professionals.
- 153** Some pathfinders are demonstrating considerable good practice in this area as part of their wider view of environments and quality. In general, pathfinders have made a creditable start, including collaboration with English Heritage, in building a heritage dimension into their programmes, although there is clearly some way to go before this is completely embedded.

Case study 9

Heritage assessments

Renew North Staffordshire has carried out research into the importance of heritage and design and the identification of buildings of historical significance. It is intended that this information will inform decision making in the urban core of the area and has plans to extend the approach to other areas as the programme develops.

Within **Bridging Newcastle Gateshead**, Gateshead Metropolitan Borough Council, working with English Heritage, has developed Urban Landscape and Townscape assessments as a way of providing a rapid view of the characteristics of each area. These so-called character assessments have been carried out by the North of England Civic Trust on behalf of the Council and provide a valuable planning context. Newcastle County Council has started work on similar assessments city-wide that will be developed into detailed heritage assessments as part of the preparation of area plans.

Manchester/Salford has been working with communities on neighbourhood planning which has identified and protected heritage features where these are identified as being important to local people. Future planning processes are to embrace characterisation studies.

- 154 Alongside this progress, the protocol for scheme updates drawn up by the government directs pathfinders on the subject of clearance and heritage issues.
- 155 The protocol reaffirms what most pathfinders were doing in taking into account the views of English Heritage where demolition has been proposed. The advice is that demolition proposals should be part of a wider study of landscape and townscape carried out by an independent body. Strict timetables are laid out for the completion of this work.

Environmental quality

- 156 This is a central issue in establishing areas where people will want to live and would be prepared to move to and figures strongly in residents' surveys. For example, a survey of around 3,000 people targeted at potential movers in the New Heartlands area showed that after crime the most important factor that caused people to move was the general appearance of the area.
- 157 By and large the pathfinders are committed to good-quality design, buildings and associated space in considering redevelopment. Many are working with the Commission for Architecture and the Built Environment (CABE). However, there is a need also to focus on retained environments, their quality, accessibility and safety. The presence of degraded environments with poor-quality local services was a characteristic of the pathfinders at the initiation of the programme and, for some, at least a part of the causality for market failure.
- 158 This issue is generally a problem and has been identified by a number of pathfinders as a market driver and dealing with it a key objective which can be particularly challenging in some inner-city areas. Here there are major problems with both the density of development and varied land uses that pose a significant problem in creating an environment that is acceptable by today's standards.

- 159 Environmental improvements and facelifts to improve the appearance of properties are common within pathfinder programmes but while there is some good practice in systematically reviewing environmental conditions and planning for action, this is not yet generally the case.

Case study 10

Research into local environmental quality

Transform South Yorkshire has commissioned research into environmental quality and has commissioned an audit of the environmental investment programme that includes establishing a baseline of environmental quality.

There is a clear understanding of the impact of good-quality green space on residential values and a strategic approach to green space improvement derived from extensive community consultation.

Renew North Staffordshire has recognised the importance of environments and with partners has carried out a green space audit and established a strategy. This provides an evaluation of nearly 1,000 sizeable sites and will be used to complement the Greening for Growth programme of environmental improvements being carried out by the partner local authorities.

- 160 More work is required to develop this area of intervention as an intrinsically important part of programmes.

Mixed and sustainable communities

- 161 There are emerging issues around attracting and retaining more affluent households to pathfinder areas. Government advocates the advantages of mixed and balanced communities and most pathfinders share that aspiration to achieve long-term sustainability for their housing markets. A number of pathfinders have identified the growth of owner-occupation to be a strategic objective but satisfying the aspirations of these higher-income groups will not be easy.
- 162 This will be the case particularly where neighbourhoods have long-term stigmatisation and with degraded environments, poor space standards and little housing choice. It will also be difficult to change the perception and demand for places that have been seen to have a particular housing function over a long period of time – an issue of social spacing.

- 163** There are also clear examples nationally of where mixed tenure communities have failed to be sustained, with falling house prices and a growth of private renting in place of owner-occupation. Critical issues here have been around environmental maintenance and neighbourhood management. These examples demonstrate the need not just to create such places but also to invest in their long-term sustainability.
- 164** This diversification agenda also challenges pathfinders to balance the need to satisfy existing residents and the needs and aspirations of new residents. Surveys have already shown the concern of existing residents about being priced out of the market by regeneration.
- 165** Pathfinders have undertaken a range of surveys that help to illustrate the difficulties. These have included existing residents, local people who may be attracted to the area, people who have moved and incomers. A number of conclusions can be drawn from these. There are consistently important findings about negative drivers that relate only partly to the nature and range of housing as such. They emphasise the importance of issues such as crime, environmental appearance and the blight of empty properties and therefore the need to consider the ‘whole offer’ rather than just housing. For pathfinders this means that to diversify the housing market, it will not be sufficient to make things better than they were, outcomes will need to satisfy well-developed aspirations.
- 166** For those pathfinders who seek to attract middle and higher-income groups arising from economic growth, this is a crucial issue. However, with a few notable exceptions, little real information has been collected about what drives the housing choice of those groups and there is a danger that without further research housing providers will fail to target the right groups. There is also the issue of competition from adjacent and more attractive locations providing a more certain offer. Niche market opportunities exist in some areas but this is not generally the case.
- 167** There needs to be much greater clarity about how pathfinders are going to achieve tenure diversity, the specific aspirations of particular incomers and the long-term sustainability of the areas.

Box A

Recent research on mixed communities

Recent research on mixed communities for the Joseph Rowntree Foundation (2006) has provided some insights into this, particularly in respect of families that may provide some assistance to pathfinders to consider alongside their own analysis of market drivers. The research concluded the following (among other things):

- Creating mixed-income, new communities as places of choice for families is challenging but possible.
- Such areas in existing low-income areas primarily drew local families with previous ties to the area.
- The main attracting factors were clean, safe and friendly neighbourhoods and good schools.
- Open spaces and an integrated appearance of social and market housing matter to an area's appeal.
- Community development was also a key issue.

Affordability – supporting marginal owner-occupation

168 Overall, owner-occupation in the pathfinders was at 40 per cent at the time when they were established, considerably below the national average. The overall figure masks substantial variation between individual projects, from 36 per cent in Manchester/Salford to 65 per cent in East Lancashire.

169 The overall housing dynamics of the areas have led to a situation where owner-occupation is associated not with relative or absolute wealth, which is more generally the case nationwide, but instead with low incomes. The impact of this is that people are unable to maintain their property to a reasonable standard. Historically, as is the case in many of the pathfinder areas, this has been addressed by private sector intervention programmes. Ultimately not funded to the scale necessary to deal with the problem, such programmes have also been criticised for not dealing with the underlying problems and creating a dependency culture on grant-aided regimes.

- 170** Many owner-occupiers within pathfinder areas are affected by clearance. Modern approaches to clearance involving owner-occupiers seek to retain people's equity in property if they wish to remain as owner-occupiers by providing financial support to allow them to acquire another property. In the novel Homeswap arrangement, a process that aims to be financially neutral to the owner, they exchange their property that is due for clearance for an improved one in an area that is secure. While innovative, the outputs are limited so far. Relocation grants or loans similarly provide financial support in addition to the statutory compensation received as a result of clearance to allow owner-occupiers to buy another property.
- 171** Homeowners also benefit from environment improvement schemes, including the provision of so-called 'curtilage works' including security improvements such as alley-gating and also facelifts entailing external improvements to their properties. Some pathfinders have also actively supported the development of home improvement agencies.
- 172** However, there is an ongoing issue about sustaining and improving the housing conditions of marginal owner-occupiers. Many of them are elderly and otherwise excluded from the benefits of economic development work. Without ongoing assistance they will not be able to live in decent conditions. Group repair improvement schemes are being carried out within some pathfinders but local authorities now have considerable discretion about their private sector renewal policies and many have chosen to proceed on the basis of loans rather than grants, although finance for this approach is limited. While the funding arrangements for pathfinders specifically allow for support for private sector renewal, there is an issue with the capital that is tied up in providing loan support that will only be paid back in the long term.
- 173** The provision of private finance is a potential way forward here. However, this is an area of lending which is not currently popular with the financial services industry and generally requires an intermediary agency of which the most developed is ART Homes. However, for that agency to be able to lend, it requires substantial capital input from the local authority or other organisation. While regional housing boards have assisted greatly in this respect, the current situation is unsustainable and cannot deal with the scale of the problem. It is incumbent on local authorities to meet decency standards for vulnerable people in the private sector but their capacity to do so is limited by the lack of appropriate financial arrangements.

- 174 Pathfinders working together have the capacity to develop appropriate financial models with the lending agencies that would improve conditions within their areas and develop a tool for national application.

Case study 11

Support for homeowners

In **New Heartlands**, the Homemovers service is a key intervention in supporting homeowners and others affected by demolition. A broad package of support has been developed that includes a panel of independent financial advisors, home ownership advisory officers, shared ownership schemes, Homeswap and equity loans for relocation.

Equity loans and private finance

A summit for pathfinders held in March 2006 had the aim of agreeing a collective way of progressing equity release. Two private sector banks were involved. A range of agreements were reached including the priority of maximising the proportion of private funding into equity loans and the establishment of an expert group to take the work forward.

The ongoing need for affordable housing

- 175 Planning for, establishing and sustaining an appropriate tenure mix for localities within pathfinder areas is a difficult process but one that is central to housing market restructuring.
- 176 There are inevitable tensions in the process, as discussed previously, and there is a need to:
- support existing owner-occupation;
 - provide aspirational housing for higher-income groups; and
 - provide subsidised housing for those unable to afford the market options.
- 177 As pathfinder and wider policies impact, house prices will rise. In the light of that desired outcome there is a need to make careful provision for low-cost housing that can be sustained as that in the long term and for an appropriate level of social housing.

- 178** Most pathfinders have yet to fully address the issue of the tenure mix within their areas. The potential problem has two manifestations: on the one hand, maintaining too high a level of social and affordable housing that is inconsistent with the needs of regeneration, and on the other, too little provision of such housing to satisfy the needs of a balanced community.
- 179** In attempting to rebalance the tenure mix there is a danger, and some evidence, of strategic approaches that involve the loss of social housing that may not be sustainable. In one pathfinder area, the location of some peripheral social housing estates makes them potentially attractive to the developers of aspirational market housing. However, the current and predicted demand for social housing remains strong. The need for retention, or re-provision of social housing if the existing stock were removed, is therefore likely to impinge on the deliverability of tenure diversification.
- 180** This pattern is repeated elsewhere. In one pathfinder where there are low rates of homeownership, there are current plans to increase homeownership through new builds. However, this is in tension with the assumption that tenure patterns will not change in any major way unless there are significant changes in employment and earnings. This, coupled with likely continuing out-migration and incoming international migrants, points to the need for an ongoing appropriate level of social renting and the maintenance of the existing tenure mix. These pressures represent a danger of reinforcing tenure segregation, not transforming the nature of the area and failing to create mixed and sustainable communities.
- 181** Conversely, there are dangers that where re-provision of social housing is possible elsewhere or vacant stock is available, the disruption to the residents of existing social housing may be substantial. In one pathfinder area where there is an expressed aim to stabilise vulnerable neighbourhoods, there are plans to create a very large development site through extensive acquisition and demolition of some 1,500 council houses within the next four years. This major disruption will see the dispersal of a substantial population and points to the potential tensions between tenure diversification and keeping a focus on the needs of existing residents.

182 What is needed, but is not yet generally available, are clear policies on how these balances are to be achieved. These should be concerned with establishing sustainable communities that balance requirements for social housing, owner-occupation and low-cost homeownership and take into account the needs of existing residents, those who will be attracted to the area and the needs of emerging households.

Responding to black and minority ethnic (BME) households

183 There are significant BME populations in some of the pathfinder areas but there is, in general, a limited response to this in policy terms.

184 For one pathfinder the vision is that of a sustainable housing market for a majority BME population. There is greater demographic and cultural change than in any other pathfinder area as a result of BME household growth. This is seen as a key market driver along with international migration. The area is characterised by a tightening spiral of deprivation driven by out-migration, including that of some BME groups.

185 However, despite the centrality of this issue for the pathfinder, it was only recently that the distinguishing features of BME household growth were described and that the housing needs and preferences of specific groups were identified. There is discussion at a conceptual level about housing pathways for BME and low-income communities but without clarity about what that means and without resources being allocated to it. There are few explicit plans and limited resources allocated to delivering the vision. This particular pathfinder is failing its BME communities.

186 Elsewhere the situation is not so polarised although there is limited progress. For a pathfinder some years into its activity to be still talking about developing an equalities strategy that sets out principles and particular issues that it needs to address is slow progress at best.

187 There is some good practice although much of that is work in progress, for example:

- funding to address overcrowding being experienced by a particular faith group;
- commissioning work to identify locations and specific design features that would respond to the needs of BME and faith groups;

- research to understand the differing housing aspirations within different generations of BME groups; and
- research in targeting hard-to-reach groups.

- 188** There are significant issues to be faced that have proved difficult to solve elsewhere. For example, how to establish locations to house or rehouse people from BME communities away from traditional areas, and the provision of support necessary to sustain this occupation.
- 189** Overcrowding is a particular difficulty for many of these communities, often associated with a preference for market housing but an inability to buy appropriate properties. Household growth projections indicate that where such populations exist they may increase substantially in the medium term. In Renew North Staffordshire, for example, BME households are likely to more than double in 20 years. International immigration and, in particular, migration from EU accession countries is a characteristic of some city areas and in Manchester/Salford is taken to be one of the drivers of repopulating the urban core. All of these point to the need for a clear focus on the specific issues for these communities.
- 190** It is to be expected that diversity should be a key consideration in publicly funded programmes. Although pathfinders operate within the context of the race equality strategies of their partner local authorities, there is a clear need for them to have a distinctive articulation of their contribution given the nature of the work they do and its significance to BME communities. Pathfinders have some way to go in delivering that obligation.
- 191** The Commission for Racial Equality has recently commissioned an investigation into whether, and how, physical regeneration schemes affect the social and economic circumstances of people residing and working in areas that are being regenerated. In particular, it will investigate the extent to which public organisations are complying with the duty to promote race equality as well as the economic and social effects of physical regeneration on different racial groups. It will not report on this until the autumn of 2007 but could well include some important messages for pathfinders and their partners.

4

The future

- 192** Since the inception of the programme, pathfinders have amassed a substantial body of information about their markets, worked to achieve integration with planning and economic development strategies and have begun to implement wide-ranging programmes in collaboration with a range of partners. Much remains to be done but it was clear from the outset that transformational change on the scale projected was a substantial and long-term task. It was also clear that many of the tools necessary to bring about those changes would need to be developed as the work progressed.
- 193** Since 2003 (the time of the first substantial allocation of resources to the pathfinders), significant challenges have been mounted to the programme. Some of these have projected the pathfinder programme as clearance-based rather than balanced between a range of interventions. Similarly the rise of house prices within the pathfinder areas has been advanced as a demonstration that such intervention was unnecessary.
- 194** In reality, the level of clearance proposed is substantially less than some have claimed and has declined further as the pathfinders have refined their programmes. Many pathfinders are able to demonstrate considerable support for their clearance plans and are working increasingly closely with their communities.
- 195** Rises in house prices showed no significant narrowing of the gap between prices in the pathfinder areas and those in the regions and nationally. While there is ongoing research into house price dynamics it seems likely that the rises that have been observed are at least partly the result of speculation and the purchases by private sector landlords. In some areas this has led to transient communities with tenancy turnovers of 30 per cent affecting the stability of these areas. These two issues are in any case only part of a multi-dimensional programme.
- 196** Commentators have expressed concern, however, that the support to the pathfinders in their current form is in doubt. At the fore of these arguments is the absence of indicative long-term funding allocations, and a move towards annualised funding. This undermines even medium-term financial planning and building relationships with private sector partners. The current lack of clarity on the use of capital receipts adds to these difficulties.

- 197** However, these concerns need to be balanced by the recent allocation of resources to the pathfinders. Very substantial allocations have been made throughout 2006. With the exception of Birmingham/Sandwell, where a provisional allocation has been made, these settlements have ranged from £106 million, awarded to the Manchester/Salford partnership, to £33 million, awarded to Gateway Hull and East Riding.
- 198** In addition to this is the further allocation of £46 million to the non-pathfinder, low-demand areas and the further investment in research on the issue in two major conurbations. It remains to be seen if these levels of ongoing financial commitment are sustained through the next major capital spending review.
- 199** It has been unhelpful to government that it does not yet have at its disposal an answer to the question 'Is the programme working?'. The national evaluation has so far produced no substantive outputs. The work of the Audit Commission in its role as scrutineer/monitor has involved commenting publicly in its reports on the progress pathfinders are making individually in delivering their strategic objectives. What is lacking, however, is an assessment of progress against the strategic aims of the programme and the impact and value for money of the budgets expended.
- 200** Very substantial investment has already been made by government and this will need to be sustained in the long term. This should be accompanied by thorough analysis of the outcomes. This is a significant weakness that needs to be remedied to ensure that decision making about the pathfinders is informed.
- 201** A founding principle of the market renewal programme and one of its key strengths has been the operation of the programme across the administrative boundaries of local government – a reflection of the reality of housing markets. This has allowed the integration of the market renewal process with regional and sub-regional approaches to planning and economic development – key elements in a holistic regeneration strategy.
- 202** This has not been achieved easily. The pathfinders are not statutory bodies, but rather strategic alliances and partnerships essentially between local authorities. In our work with the pathfinders we have observed a degree of tension as individual local authorities with clear visions for their area and strong voices have come to terms with the pathfinders' strategic and operational overview. It has been our finding that governance arrangements are generally, with exceptions, evolving positively and the voice for the market renewal perspective is increasingly being heard. There are, however, important lessons here about any potential changes in responsibility for the market renewal function.

- 203** The government's agenda for change is far-reaching and will impact significantly on local government and regeneration. The initiatives range widely including the Lyons Review of local government functions, the review of the structures for the delivery of the government's housing and regeneration programme, the review of council housing, the development of an approach based on city regions and the further extension of local area agreements – as well as the recent Local Government White Paper.
- 204** In progressing these initiatives it is important that sight is not lost of the importance of sustaining and developing the regional and sub-regional dimension to the pathfinders work. We would not be prescriptive about the nature of the arrangements but there would be gains in creating sub-regional structures to develop, monitor and commission programmes – perhaps through local area agreements with a regional rather than local authority focus or through an expanded role for regional housing boards.
- 205** There also needs to be a reflection that pathfinders are still learning and developing. In addition to specific recommendations coming about from our strategic reviews, we have as part of this report identified a range of areas where further work is needed. These reflect that the work of pathfinders and their programmes will need to evolve over time to reflect both greater understanding and changing circumstances – for example, immigration from EU accession states.
- 206** Pathfinders also have to face challenges in assembling their programmes that are significant national issues. These include, for example, how to create good-quality, sustainable accommodation for poor owner-occupiers and making quality housing affordable in the context of low-wage economies.
- 207** Pathfinders need support in addressing these issues. The provision of that support is, however, problematical. Partly the issue rests with pathfinders themselves. There is an ongoing need for pathfinders to share experience and work collaboratively on issues of joint concern using their individual skills to greater impact. There are some signs that this is beginning to develop (for example, the recent joint work on private finance) but more needs to be done.

- 208 As Cole and Nevin observed in *Road to Renewal*, 'The creation of a housing market renewal fund was an acknowledgement by central government of the coalescence between areas of weak housing markets and concentrations of severe deprivation.' At the core of the decision to proceed in this way was recognition that existing ways of reducing social exclusion and bringing about urban renewal were not working largely because of their unintegrated approach.
- 209 Despite the arguments of detractors of the pathfinder concept and programmes, it remains the case that these areas are associated with substantial deprivation that will require intervention to achieve the government's goal of sustainable communities. The current pathfinder approach of dealing with much larger areas crossing local authority boundaries and seeking strategic integration of policies and programmes at a regional and sub-regional level to achieve a holistic regeneration remains sound and with no viable alternative in view.

5

Learning

- 210** A review of this type identifies a range of issues, some practical, some organisational, and of use to not only pathfinders and other low-demand areas but also to organisations undertaking more general regeneration. In addition, it highlights concerns which may be affecting the progress pathfinders are making in delivering their challenge as well as those areas where the Audit Commission should be sharing the learning from this programme.
- 211** This section is in four parts, first, setting out some replicable attributes that remain relevant to pathfinders and others in respect of governance, capacity and systems. Second, areas where pathfinders need to develop their thinking to ensure future success. Third, areas where government could assist pathfinders and, finally, next steps for the Audit Commission.

Governance

- There needs to be recognition that effective governance arrangements are critical to the long-term success of projects.
- The strength that can be gained by bringing to bear a broad range of relevant skills will increase the level of challenge, add to the quality of debate and ensure independence, objectivity and credibility in the decision-making process..
- Practical arrangements need to ensure that strategic business is undertaken with clear decision making rather than open-ended discussion. Delegation to sub-groups, within a clear framework, allows a better differentiation between strategic and operational matters.
- The definition of roles, responsibilities, accountabilities and reporting arrangements should be defined.
- Strong links should be established with key partners, ideally through the development of shared aims and objectives, collaborative delivery and complementary targets.

Capacity

- Capacity and competency assessments should be closely matched to all the tasks to be undertaken.
- The intellectual capacity to translate analysis into action is critical.
- Co-location can improve collaboration and team dynamics.
- As some skills are scarce, and therefore expensive, consideration should be given to sharing or joint working with others.
- The role consultants are to play should be clarified. There should be capacity to specify work and critique the outcomes and use the process of engaging consultants as a long-term opportunity to build capacity within the partnership.

Systems

- An approach should be developed which promotes strategic commissioning based on strong internal analysis of information, a clearly articulated vision, and appropriate objectives to support the necessary interventions in the market place.
- Geographical information systems should be utilised to analyse the complicated data streams and to promote understanding.
- Tracking the sustainability of outcomes should be focused upon, including the maintenance of the built and natural environment, as well as inputs and outputs.
- Systems and processes should be codified, published and shared with all relevant partners.
- Systems should record the dynamics of the market. A robust risk analysis and management approach should be operated to inform action.
- Strategic review processes should be established from project inception.

Recommendations for pathfinders

212 In addition to the attributes above, and the specific recommendations made in each of the strategic reviews of pathfinders and the need to address areas of significant risk, pathfinders need to continue to develop the following:

- Focus on community cohesion. There are particular challenges to be faced in meeting the needs and aspirations of all sections of diverse communities, especially if there are underlying tensions between communities.
- Understand the needs and aspirations of those people who may wish to move into the area as well as those who wish to stay.
- Understand the relationship between affordable housing for rent and other tenures. The achievement of a balance between tenures and an appropriate supply of low-cost housing is particularly important given the presence of such low house values.
- Work to sustain marginal owner-occupation, and to develop solutions, including appropriate alternatives for low-income homeowners, that are sustainable in the long term.
- Develop strategies for understanding, and where appropriate dealing with, the private rented sector using the Housing Act 2004.
- Maintain a strategic focus on environmental quality issues in the widest sense, to include issues of heritage and design.
- Re-establish better knowledge sharing and greater collaboration between pathfinders to improve efficiency and effectiveness.
- Monitor market dynamics and understand the underlying factors that influence the market in each local area.
- Develop rigorous approaches to value for money, which include option appraisal and programme management to maximise the added value delivered by the programme.

Ways in which government can further assist pathfinders

221 This is an important area of public policy; its effective delivery would be assisted by government if there was full consideration of the following:

- As part of the comprehensive spending review, consider how to support longer-term planning by providing indicative longer-term financial allocations as has happened for other major regeneration programmes.

- Also as part of the comprehensive spending review, consider the balance of revenue-based programmes which support capital market renewal interventions and contribute towards sustainable communities.
- Continue to underline, where appropriate through advice and guidance, the role of market renewal in the regional and sub-regional strategic environments and the need for all bodies to work towards the alignment of both policies and programmes.
- Ensure that future guidance and direction to pathfinders are made available in a timescale that is consistent with good preparation and planning and follows consideration of the likely impact.

Next steps for the Audit Commission

- Provide ongoing support, challenge and scrutiny for the pathfinders consistent with the general principle of inputs proportionate to risk.
- Continue to ensure the active promotion of learning and good practice, not only to the pathfinders, but more broadly to other relevant agencies.
- Promote the strategic use of housing market intelligence by wider public programmes concerned with regeneration and sustainable communities.
- Gain a better understanding of the impact house price rises may be having within pathfinder areas.

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