



House of Commons  
Committee of Public Accounts

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# Housing Market Renewal: Pathfinders

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Thirty-fifth Report of  
Session 2007–08

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by The House of Commons  
to be printed 9 June 2008*

## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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### Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Emma Sawyer (Committee Assistant), Pam Morris (Committee Assistant) and Alex Paterson (Media Officer).

### Contacts

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## Summary

The Housing Market Renewal Programme ('the Programme') aims to tackle the problems of neighbourhoods with acute low housing demand in the North of England and Midlands. In such neighbourhoods, the high concentrations of difficult to let or sell properties ("low demand" properties), the loss of population and the inability to attract new households had created neighbourhood decline and deprivation. Launched in 2002 by the Department for Transport, Local Government and the Regions, now the Department for Communities and Local Government, the Programme established sub-regional partnerships or 'pathfinders' covering nine areas.<sup>1</sup> The Housing Market Renewal Programme is expected to last from 10 to 15 years and, to March 2008, has cost £1.2 billion, with a further £1 billion committed up to 2011.

The Programme aims to improve the quality of the physical infrastructure of the neighbourhoods concerned. So far, over 40,000 houses have been refurbished. The Programme also aims to acquire and demolish homes and replace them with newly built homes. However, more homes have been demolished than built and without longer term support, demolition sites, rather than refurbished and improved housing stock, may be the Programme's legacy.

In some areas, communities have opposed plans to demolish and rebuild homes. Regeneration of neighbourhoods is more likely to be sustained if local communities are actively engaged. In many neighbourhoods pathfinders aim to rebalance the mix of tenure, attract higher-income groups and develop more sustainable communities, with the risk that existing home-owners will be priced out of the market.

Pathfinders do not have statutory powers to enforce the implementation of their strategies. Instead they must influence a large number of local and regional regeneration agencies to achieve their plans.

It is too early to judge the overall success of the Programme as it is expected to run for a further ten years. The number of "low demand" properties in pathfinder areas has fallen, but by some measures it has fallen less than in England as a whole. The extent to which improvements in the housing market are the result of pathfinders' interventions, rather than broader economic factors, is also difficult to determine. The Department has measured the Programme's progress and impact by monitoring changes in the gap between house prices and vacancy rates in pathfinder areas and their respective regions. Sustained regeneration will require improvements in other areas which go beyond the regeneration of the physical infrastructure, such as local economic performance, employment opportunities, community safety and access to high quality public amenities and transport.

<sup>1</sup> The neighbourhoods were Newcastle and Gateshead; Oldham and Rochdale; East Lancashire; Hull and East Riding; South Yorkshire; North Staffordshire; Merseyside; Manchester and Salford; and Birmingham and Sandwell.

On the basis of a Report by the Comptroller and Auditor General,<sup>2</sup> we examined the Department for Communities and Local Government and representatives of two pathfinders<sup>3</sup> on sustainable regeneration of the pathfinder neighbourhoods, community engagement and support, and the Department's oversight of the Programme.

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2 C&AG's Report, *Department for Communities and Local Government: Housing Market Renewal*, HC (Session 2007–08) 20

3 Transform South Yorkshire and NewHeartlands Merseyside

## Conclusions and recommendations

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- 1. The overall success of the Housing Market Renewal Programme in addressing the problems of low housing demand in the North of England and the Midlands will depend on local economic performance, employment opportunities, community safety, access to public amenities and transport being addressed alongside improving housing stock.** In transferring oversight of the Programme to the proposed new Homes and Communities Agency, the Department should require that pathfinders' physical regeneration plans align with broader plans to address the vitality and sustainability of neighbourhoods.
- 2. The Programme has refurbished over 40,000 homes, acquired and demolished 10,000, yet built only 1,000 new homes, creating a risk that demolition sites, rather than newly built houses, will be the Programme's legacy.** Revitalising pathfinder neighbourhoods is a long-term project, with the acquisition of properties under Compulsory Purchase Order, for example, typically taking five to six years. The Department should provide greater certainty and clarity over the future objectives, funding and governance of the Programme in order to foster confidence amongst local communities and developers.
- 3. After five years and an investment commitment of some £2.2 billion, the gap in demand in housing between pathfinder neighbourhoods and surrounding regions has started to close but the Department is unable to assess whether this is due to pathfinder-led interventions or wider market factors.** The Department should enhance its performance measurement framework to draw on the wider range of socio-economic indicators already being developed by a number of individual pathfinders. These include indicators relating to, for example: residents' satisfaction, levels of crime and social disorder, residents' investment in properties, educational facilities and attainment, rates of employment and worklessness, and income rates.
- 4. The success of the efforts by pathfinders to restructure housing markets in their areas depends on a co-ordinated regional approach to planning housing growth.** Plans to increase the targets for numbers of new homes in the North and the Midlands could fuel the migration of people out of pathfinder areas, hindering the impact of pathfinder interventions. The Department should clarify how the Housing Market Renewal Programme is expected to align with regional housing strategies.
- 5. Neighbourhood regeneration is more likely to be sustained if local communities are actively engaged in the decision-making.** Pathfinders' intervention proposals should take account of the views of existing residents of an area's problems. Proposed interventions should be clearly explained to local communities, and community support reappraised regularly as plans develop and change.
- 6. The needs of those who wish to remain in an area should not be overlooked in developing more mixed and sustainable communities.** The Department should require pathfinders to monitor existing residents' housing options and demonstrate that those who wish to remain are offered appropriate options.

7. **The average shortfall between the compensation received by existing residents under a Compulsory Purchase Order and the cost of a suitable alternative property is £35,000, with the risk that existing residents are priced out of the housing market altogether.** The Department should work with pathfinders, developers and private sector financial institutions to identify ways in which the affordability gap might be bridged, for example, through encouraging shared ownership and equity loan schemes.
8. **The application of existing rules for Value Added Tax may encourage developers in pathfinder areas to demolish and rebuild rather than refurbish.** Much of the cost of new construction is zero-rated whilst most refurbishment work is standard-rated at 17.5%. The Department should explore with the Treasury whether there is a case to utilise any scope within the European Union Value Added Tax Directive to apply a lower rate of Value Added Tax for the provision, construction, renovation and alteration of housing where part of a funded social policy.
9. **Pathfinders should ensure their plans do not threaten the distinctive historical character of neighbourhoods.** It is important that heritage is seen as a positive asset in regenerating many of these areas. Pathfinders, with English Heritage's help, are now required to make assessments of the housing heritage in their areas. The Department should not approve demolition proposals that are not part of a wider study of landscape and townscape.

# 1 Achieving sustainable regeneration

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1. The Housing Market Renewal Programme (the Programme) is attempting to transform neighbourhoods in the North and the Midlands where high concentrations of difficult to let or sell properties have led to neighbourhood decline and deprivation. Unlike many previous regeneration interventions, the Programme aims to change the housing market by altering the housing stock to encourage people and businesses to return to the areas involved. Intervention includes refurbishing property, acquiring surplus and obsolete property, demolishing and replacing property with new buildings, and environmental improvements. Over 40,000 homes have been refurbished under the Programme, and 10,000 have been demolished and replaced by over 1,000 new ones.<sup>4</sup>

2. The neighbourhoods within the Programme are characterised by a long legacy of decline and de-industrialisation which has weakened local economies and led to high levels of deprivation, anti-social behaviour and poor public and private facilities (**Figure 1**). The Department believed new administrative structures and funding streams were needed to achieve the scale of change required and helped to establish nine new sub-regional partnerships or 'pathfinders'.<sup>5</sup>

3. Each pathfinder comprises a partnership of between two and five local authorities, working with partners in the public and private sector including the Government Office, Regional Development Agency, Local Strategic Partnerships, the Housing Corporation, Police Authority, Strategic Health Authority, and lead developers.<sup>6</sup> The number and range of partners and the fact that pathfinders do not have planning powers to enforce the implementation of their strategies means there has to be effective co-ordination to avoid unnecessary bureaucracy and achieve alignment between plans.<sup>7</sup> The Government has also recently announced plans to increase the targets for new homes built in the North and Midlands. This could fuel migration of people out of pathfinder areas, potentially threatening pathfinders' efforts to achieve a sustainable housing market revival.<sup>8</sup>

4. The Department for Communities and Local Government and its predecessor, the Department for Transport, Local Government and the Regions, committed £1.2 billion to the Programme between 2002 and March 2008, and a further £1 billion has been allocated to March 2011.<sup>9</sup> In the first phase of the Programme, pressure to spend funds while pathfinders were being established, led to many projects being 'off the shelf' schemes which local authorities had not previously been able to implement due to a lack of resources.<sup>10</sup> Many of these early interventions included double glazing, external cladding, roof-work

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4 C&AG's Report, Figure 13

5 The neighbourhoods were Newcastle and Gateshead; Oldham and Rochdale; East Lancashire; Hull and East Riding; South Yorkshire; North Staffordshire; Merseyside; Manchester and Salford; and Birmingham and Sandwell.

6 Q 8; C&AG's Report, paras 2.1; Figure 7

7 Q 9

8 Q 78; C&AG's Report, para 2.1

9 C&AG's Report, Figure 17

10 Q 86; C&AG's Report, paras 2.9, 2.10

and insulation and did not benefit from detailed master-planning, heritage assessments or engagement with communities.<sup>11</sup>

**Figure 1: Many different factors affect the demand for housing**

<p><b>Local economic performance</b></p> <ul style="list-style-type: none"> <li>Income and earnings levels</li> <li>Employment rates</li> <li>Occupation structure</li> </ul> <p><b>Demographic trends</b></p> <ul style="list-style-type: none"> <li>Population growth/decline</li> <li>Age profile</li> <li>Household formation rates</li> <li>Migration</li> </ul> <p><b>Interest rates</b></p> <p><b>Investor confidence</b></p>	<p><b>Housing supply and availability</b></p> <ul style="list-style-type: none"> <li>Tenure, size and type, location</li> <li>Quality</li> <li>Price</li> <li>Stocks and flows</li> </ul> <p><b>Attractiveness of a neighbourhood</b></p> <ul style="list-style-type: none"> <li>Quality and availability of local public services, such as schools and leisure facilities</li> <li>Quality of the built environment, including parks and public spaces and cleanliness</li> <li>Fear of crime</li> </ul> <p><b>Stock management by local authorities and Registered Social Landlords</b></p>
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Source: C&AG's Report, Figure 17

5. There is a risk that interventions have a depressing effect on neighbouring areas due to the regeneration and investment in pathfinder areas, housing restraint policies in neighbouring authorities, and displacement, effectively shifting problems of low demand into these neighbouring areas. In the Department's view collaboration between local authorities in the affected areas is the solution.<sup>12</sup>

6. Revitalising neighbourhoods is a long-term project and the Programme was envisaged to last between 10 and 15 years. The acquisition of properties for demolition and rebuilding by Compulsory Purchase Order takes around five to six years, for example. Until recently, the Department had committed funding in two year tranches for each pathfinder. Longer term funding was uncertain, creating a challenge for pathfinders as they attempted to match funding with overall Programme goals, and potentially impacting adversely on investor and community confidence.<sup>13</sup> In October 2007, the Department announced the commitment of a further £1 billion to the Programme for the three year period 2008–2011.

7. The Value Added Tax regime may impact on decisions about whether to demolish and rebuild or refurbish properties.<sup>14</sup> Most reconstruction work, excluding fees to architects and other consultants, is zero-rated. Some renovation and refurbishment (for example, converting a non-residential building to residential use), and renovation or alteration of housing that has been empty for three years or more is charged at 5%. Most other work to housing is charged at the standard 17.5%. In the case of the Chimney Pots project in Salford, for example, the decision was taken to demolish more of the structure of the

11 C&AG's Report, paras 2.11, 2.12

12 Qq 19, 44

13 C&AG's Report, para 2.19

14 C&AG's Report, para 2.14; Figure 10

original properties than had been planned in order to reduce the Value Added Tax liability by £2.8 million. Under the European Union Value Added Tax Directive, there might be scope to apply a reduced rate, which must be at least 5%, to “provision, construction, renovation and alternation of housing, as part of a social policy” but changes to the Value Added Tax regime are a matter for the Chancellor of the Exchequer.<sup>15</sup>

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15 Qq 10–11, 83, 106, 112; Ev 32

## 2 Enhancing community engagement and support

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8. There are over one million residents living in pathfinder areas. Once completed, pathfinder projects should benefit residents by improving the condition and value of homes, and by making neighbourhoods more attractive places to live. Where major intervention and demolition of occupied properties is proposed, however, there is a high risk of imposing negative impacts and community stress.<sup>16</sup>

9. Pathfinder plans based primarily on analyses of housing markets and demographic, social and economic developments could undervalue the strength of existing communities and restrict the scope for residents to influence neighbourhood plans.<sup>17</sup> Residents do not sit on pathfinder Boards and so are less involved at a strategic level.

10. Pathfinders have developed community engagement strategies and established a variety of mechanisms for resident participation and community consultation. They aim to engage with residents, regardless of whether they support or challenge plans.<sup>18</sup> The way the programme is conducted is crucial in maintaining community trust and support for the plans. Existing guidance is not specific, for example, on deciding whether the community supports demolition. The National Audit Office has identified some key principles of successful community engagement (**Figure 2**).<sup>19</sup>

11. In many neighbourhoods pathfinders aim to rebalance the mix of tenure, attract higher-income groups and develop more sustainable communities. The needs of those who wish to remain should not, however, be overlooked by this approach. The average gap between the amount of compensation existing homeowners receive for their home when subject to a Compulsory Purchase Order and the cost of buying a suitable alternative is £35,000. The Department had no data on the numbers of residents displaced from areas because their homes were demolished who were subsequently re-housed in the newly built or newly refurbished homes. The Department recognised that affordability is a growing problem for those wishing to live in pathfinder areas, particularly as lenders tighten credit requirements for potential customers.<sup>20</sup> Pathfinders have found it difficult to raise additional funding for assistance packages from private sector financial institutions.<sup>21</sup>

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16 Qq 13, 27–28, 72–77; C&AG’s Report, para 4.1; Figure 18

17 Q5; C&AG’s Report, para 4.2

18 Q 93 ; C&AG’s Report, para 4.7

19 Q 79; C&AG’s Report, para 8, 4.1, 4.5

20 Qq 7, 45

21 Qq 6–7, 45, 62, 84–85; C&AG’s Report, paras 4.9, 4.10

**Figure 2: Key principles that should underlie engagement with communities in Housing Market Renewal neighbourhoods**

The pathfinder and its partners should:

1. Ensure proposals and plans for intervention are based on detailed independent assessments of:
  - the structural condition and heritage value of the housing targeted for demolition;
  - the residents' own assessment of the problems that face them; and
  - the 'vibrancy' of the community, for example, by a systematic measurement of its social capital.
2. Ensure the community fully understands what the proposals are and why they have been drawn up, by ensuring that:
  - independent reports are open and available for examination by the community for some weeks before formal consultation begins;
  - a residents' representative group is established for the targeted demolition zone, with a committee comprising representatives from each street in the zone, with a clear remit to enable a change in proposals if necessary;
  - all minutes, reports and surveys during the consultation process should be made available in easily accessible formats: for example, on a newly established website, in an office on site, or by post;
  - public meetings are run by an external facilitator, with sessions held covering the same agenda at different times for maximum accessibility—for example, during the day, in the evening and at weekends;
  - there is active and visible presence of neighbourhood officers from the pathfinder and its partners; and
  - clear feedback channels, with response from the pathfinder and its partner to all feedback is established.
3. Gauge community support at all stages as plans develop or change. In particular:
  - surveys should be undertaken of residents in demolition zones and should be carried out by independent consultants;
  - survey questions should be:
    - open—using terms that are clear (avoiding euphemisms such as 'redevelopment' when what is meant is demolition); and
    - specific—explaining what is being referred to, for example when asking about 'the proposals'.

Source: C&AG's Report, Figure 2

### 3 Improving the Department's oversight

12. Pathfinders have been given the freedom to explore new approaches to housing market renewal, but Departmental oversight of the Programme provides limited assurance over value for money. Recognising that each pathfinder area had local challenges, the Department took a non-prescriptive, 'enabling' role towards the Programme. This gives individual pathfinders the scope to develop their strategies, policy and governance arrangements.<sup>22</sup> In the early years, pathfinders were required to provide updates on monthly expenditure, quarterly commentaries on progress and published annual reports. In response to criticisms from the Select Committee on the Office of the Deputy Prime Minister in its March 2005 report *Empty Homes and Low-demand Pathfinders*,<sup>23</sup> the Department took a more hands-on approach, requiring Pathfinders to report against an increased number of indicators covering inputs, outputs and outcomes.<sup>24</sup>

13. More recently, however, the Department has transferred responsibility for day-to-day liaison with pathfinders to Government Offices and it planned to transfer strategic oversight of the Programme to the new Homes and Communities Agency from 2009. Some Government Offices had attempted to align area-based initiatives funded by central Government at a regional level, while others have been much less involved. The Department considered that these different approaches reflect the scale and need for Pathfinder intervention in the different regions.<sup>25</sup>

14. Substantial differences exist between Pathfinders' achievements. These differences are dependent on their overall strategy and the stage reached in the Programme, particularly in regard to demolitions, properties acquired and refurbished, and new homes built. **Figure 3** demonstrates the range of expenditure and activity.<sup>26</sup>

**Figure 3: The level of spend and activity varies considerably between pathfinders**

	MINIMUM	MAXIMUM
Expenditure 2003–07 (£ million)	27.6	169.9
Number of homes acquired	226	2,655
Number of homes demolished	239	2,655
Number of homes refurbished	20	10,434
Number of new homes built	0	338

22 C&AG's Report, para 1.7

23 Committee on the Office of the Deputy Prime Minister, Eighth Report of Session 2004–05, *Empty Homes and Low-demand Pathfinders*, HC 295-I

24 C&AG's Report, paras 2.21, 2.25

25 Q 19

26 C&AG's Report, paras 3.6–3.10

15. To measure the overall success of the Programme the Department tracks the number of low demand and vacant dwellings in pathfinder areas. This allows it to assess progress against its target to close the gaps in vacancy rates and house prices between pathfinder areas and their respective regions by one third by 2010. Performance against these targets has varied considerably between pathfinders. For example, although the gap in house prices between regional and pathfinder areas has reduced in all pathfinder areas, in some, house prices were still less than two thirds of the regional equivalent. Overall, between 2002 and 2006 low demand for properties fell in pathfinder areas (by 42%) but it fell less than in England as a whole (44%).

16. It is also unclear whether the changes in housing markets in pathfinder areas are due to pathfinder intervention or to wider economic and demographic factors.<sup>27</sup> Increases in house prices might reflect general trends in housing markets nationally and the increasing Buy-To-Let market. Speculative investment has also added an average of £10,000 to the cost of acquiring properties for clearance. Improvements in vacancy rates might also reflect demographic changes such as increased migration from within the European Union.

17. The Department does not routinely collect information from comparable low demand neighbourhoods outside the Programme. The National Audit Office found that housing markets in local authorities chosen for pathfinder intervention have, on the whole, performed slightly better than those in local authorities without pathfinder intervention. The Department considered that the Programme was making a positive contribution.<sup>28</sup> Pathfinders have developed wider frameworks to monitor and report on their effectiveness using indicators such as reducing the number of properties in the lower Council Tax bands; reducing the number of homes in unfit condition; increasing resident satisfaction with their neighbourhood; increasing rates of owner occupation; and increasing average household incomes.<sup>29</sup> Other initiatives include a 'vitality index' which measures and monitors a set of socio-economic indicators, including house prices, vacancy rates, educational attainment, income and morbidity; and a 'sustainability index' covering the housing market, the local economy, crime and the local environment, to measure improvements in the area.<sup>30</sup>

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27 C&AG's Report, paras 3.14–3.17

28 Qq 2, 24, 47, 51, 92; C&AG's Report, paras 3.2–3.5

29 C&AG's Report, para 3.3

30 Qq 24, 103; C&AG's Report, para 3.4

# Formal Minutes

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**Monday 9 June 2008**

Members present:

Mr Edward Leigh, in the Chair.

Mr Richard Bacon

Geraldine Smith

Mr Ian Davidson

Mr Don Touhig

Mr Austin Mitchell

Mr Alan Williams

Draft Report (*Housing Market Renewal: Pathfinders*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

*Resolved*, That the Report be the Thirty-fifth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 11 June at 3.30 pm.]

## Witnesses

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### Monday 19 November 2007

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**Peter Housden**, Permanent Secretary, and **Richard McCarthy**, Director General of Programmes, Policy and Innovation, Department for Communities and Local Government; **Michael Gahagan CB**, Chair, Transform South Yorkshire; and **Siobhan McCoy**, Divisional Manager, Housing Market Renewal Initiative, Liverpool City Council

Ev 1

## List of written evidence

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1	Memorandum submitted by Jerker Community Action Group	Ev 20
2	Memorandum submitted by Des McConaghy	Ev 20
3	Memorandum submitted by Neighbours Against Demolition	Ev 23
4	Memorandum submitted by Cllr Steve Radford, Leader Liberal party Group Member of the Liverpool Housing Scrutiny Committee	Ev 25
5	Memorandum submitted by WDC Residents Association	Ev 26
6	Newheartlands' comments on memoranda submitted to the Committee	Ev 27
7	Supplementary memorandum submitted by the Department for Communities and Local Government	Ev 32
8	Letter from Treasury Officer of Accounts to Committee Clerk	Ev 32

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Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300 (Cm 7365)
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85 (Cm 7365)
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122 (Cm 7365)
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143
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Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157
Twenty-second Report	Improving the efficiency of central government's use of office property	HC 229
Twenty-third Report	Report on the NHS Summarised Accounts, 2006–07: Achieving financial balance	HC 267
Twenty-fourth Report	The privatisation of QinetiQ	HC 151
Twenty-fifth Report	The cancellation of Bicester Accommodation Centre	HC 316
Twenty-sixth Report	Caring for Vulnerable Babies: The reorganisation of neonatal services in England	HC 390
Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395
Twenty-eighth Report	Government preparations for digital switchover	HC 416
Twenty-ninth Report	A progress update in resolving the difficulties in administering the single payment scheme in England	HC 285
Thirtieth Report	Management of large business Corporation Tax	HC 302
Thirty-first Report	Progress in Tackling Benefit Fraud	HC 323
Thirty-second Report	Reducing the cost of complying with regulations: The delivery of the Administrative Burdens Reduction Programme, 2007	HC 363
Thirty-third Report	Ministry of Defence: Major Projects Report 2007	HC 433
Thirty-fourth Report	Increasing employment rates for ethnic minorities	HC 472
Thirty-fifth Report	Housing Market Renewal: Pathfinders	HC 106
First Special Report	The BBC's management of risk	HC 518
Second Special Report	Evasion of Vehicle Excise Duty	HC 557

# Oral evidence

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## Taken before the Public Accounts Committee

on Monday 19 November 2007

Members present:

Mr Edward Leigh (Chairman)

Mr Richard Bacon  
Angela Browning  
Mr David Curry  
Nigel Griffiths  
Keith Hill  
Mr Austin Mitchell

Dr John Pugh  
Geraldine Smith  
Mr Don Touhig  
Mr Alan Williams  
Phil Wilson

**Sir John Bourn KCB**, Comptroller and Auditor General, and **Tim Burr**, Deputy Comptroller and Auditor General, and **David Corner**, Director, National Audit Office, were in attendance and gave oral evidence.

**Paula Diggle**, Treasury Officer of Accounts, was in attendance and gave oral evidence.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### Housing Market Renewal: Pathfinders (HC 20)

*Witnesses:* **Peter Housden**, Permanent Secretary, and **Richard McCarthy**, Director General of Programmes, Policy and Innovation, Department for Communities and Local Government; **Michael Gahagan CB**, Chair, Transform South Yorkshire; and **Siobhan McCoy**, Divisional Manager, Housing Market Renewal Initiative, Liverpool City Council, gave evidence.

**Chairman:** Good afternoon and welcome to the Public Accounts Committee where we are today considering the Comptroller and Auditor General's Report on housing market renewal. We welcome Peter Housden from the Department for Communities and Local Government, who will introduce his team.

**Peter Housden:** Good afternoon. On my right is Mike Gahagan, who is the Chair of the Transform South Yorkshire housing market renewal pathfinder. On his right is Siobhan McCoy, who is the housing market renewal initiative manager in Liverpool city council. On my left is Richard McCarthy, Director General for housing and planning in the Department for Communities and Local Government.

**Q1 Chairman:** Mr Housden, you will see that we have quite a large Committee. My colleagues' time for questions is limited, so I hope that you and your colleagues can keep your answers brief and to the point, so that Members of the Committee do not feel that their time is being eaten into.

As you know, the Report on the Thames Gateway programme was published last week. It was quite a critical Report, and many of the features that we saw there are replicated in this National Audit Office Report: lack of leadership, uncertainty about responsibility in Government and uncertainty over funding. Reading the Report before us, frankly, it does not seem that you have any more of a grip on the housing renewal programme. Is your Department just not fit for purpose, like the Home Office?

**Peter Housden:** Chairman, I am happy to talk about the Thames Gateway—

**Chairman:** No, you do not need to. I am just using it as an example.

**Peter Housden:** It is worth bearing in mind that the field work on which the Thames Gateway Report was based was done in 2005–06. As we had the opportunity to discuss with your Committee earlier in the year, we were and remain on course to undertake the transformation that the Report referred to. In terms of housing market renewal, our sense is of a radical and innovative programme that is on course to meet its targets. That, in one sentence, is my conclusion.

**Q2 Chairman:** All right. That is a very clear answer. Let me put an alternative point of view to you and you can answer. You have committed £2.2 billion of taxpayers' money and demolished 10,000 houses, but you are apparently unable to measure what impact that programme is having on housing markets. Do you think that stacks up to a good programme?

**Peter Housden:** We are able to measure its impact on housing markets. On its two key indicators—vacancy rates and the relation to regional house prices—the pathfinder areas are demonstrably succeeding in their objectives. One would preface all that by saying this is a long-term programme. Right at the outset, I think everybody accepted that you could not reach short-term judgments, but in terms of a programme this far into its 15-year life, those are positive indications.

**Q3 Chairman:** Yes, but as paragraph 3.14 makes clear, there are so many factors that can influence demand for housing. There is no clear evidence that the £2.2 billion that you have spent has made a significant difference. I am not denying that house prices may have increased, but that may be due to many other factors.

**Peter Housden:** If I may say so, I think you have gone right to the heart of the issue for us here. In regeneration schemes in general, where you are involving markets—here, the housing market—it is methodologically possible only in the most rarefied circumstances to identify a direct relationship between a cause and an outcome, and the separation of this range of factors is a key thing. What struck me as really important, however, was that if you look at the key indicators of vacancy levels and prices in the areas of low demand that were not selected for housing market renewal intervention—they were not selected because the position there was less severe than in the nine areas that were originally chosen—those areas have performed less well than the housing market renewals areas. Intuition would take you to the opposite conclusion—that areas that were more advantaged in a rising market, with advantageous demographics, would accelerate more quickly than areas of acute need. So, for us, there is a strong correlation between housing market renewal intervention *per se* and rising relative house prices and reductions in vacancy levels.

**Q4 Chairman:** Other colleagues can pursue that point. I just note what you have agreed in the Report. In paragraph 3.15, you agreed with the Comptroller that: “it is difficult to identify the extent to which the increases in house prices in pathfinder areas since the establishment of the programme have been due to intervention by the pathfinders themselves or due to general trends in the housing market”. However, others can come in on that point if they wish to.

The problem of speculators cashing in at taxpayers’ expense is mentioned in paragraph 3.16. The figure mentioned is an average of £10,000 per house. Could you not have done more tackle that?

**Peter Housden:** Speculation is an emotive term. All the transactions are private sales between residents or landlords and other third parties; they are not regulated by the Government. That is the obvious point. The second point is that increasing land and property values are a feature of regeneration schemes, and the more successful the schemes are, the stronger a feature they will be, so as confidence increases, those purchases look more and more like rational investments. My last point is that in relation to the compensation terms, there is, as you will know, a code of practice, which dictates effectively what local authorities are obliged to give in compensation to both residents and landlords. That has a minimum stipulation of at least a year’s occupancy, which is relevant to this issue.

**Q5 Chairman:** I again quote from paragraph 3.16: “Pathfinders estimate that this form of speculation has added an average of £10,000 to the cost of

acquiring a property,” and that is on relatively low-value houses. Again, other colleagues can come into the debate if they wish.

Your action is based on theoretical analysis. We have so much experience of house clearance since the second world war. Is basing your action on theoretical analysis the best way of proceeding, or would you have been better to have involved local communities more in what you were doing? That would have saved a lot of anxiety and stress, would it not?

**Peter Housden:** I do not believe that what the programme has done is based on theoretical analysis. It is worth reminding the Committee that the genesis of the programme was not in a ministerial office, but based on a range of practitioners on the ground identifying a striking and socially really significant issue in areas of low demand. That led the Government, backed by the Select Committee of the day, to move into a careful exploration, in the most severe areas of low demand, of what range of strategies would work, and it was very clear from the beginning, as had been learned from all previous programmes, that engagement with local communities was crucial.

We will no doubt talk more this afternoon about how that has been undertaken in different contexts. The key thing, however, is that the locality-based neighbourhood is where the problems are experienced; it is not where they are resolved. The basic design of the pathfinders, as you will recall, was across local authority areas to correspond with housing markets. That was the focal point of the programme and is why the governance arrangements are as they are, but there is no trade-off between that and community consultation and engagement. We have had a range of positive affirmations from the Audit Commission and others as to how that is proceeding.

**Q6 Chairman:** May I introduce the subject of affordability? That is mentioned in paragraph 4.9, which says that: “on average, there is a gap of £35,000 between the amount of compensation existing homeowners receive for their home when subject to a Compulsory Purchase Order and the cost of buying a suitable alternative property.” That is what worries me. You are supposed to be helping those communities, but there is that gap of £35,000. People may find their house is demolished and they cannot afford to move back to the area.

**Peter Housden:** Mike Gahagan may want to talk about specific examples relating to this issue in Yorkshire. It is a consequence of rising values, and the programme has always been mindful of the need to provide careful and individually tailored support to people in those circumstances. Whether to move into a new home with finance or to move into a socially rented tenancy has been the stuff of individual tenant care in these programmes.

**Q7 Chairman:** Are you worried about the sub-prime crisis in America? What work has your Department done in that regard? The situation in America is

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about dodgy mortgages, giving credit to people who perhaps have limited creditworthiness. Will that impact on people's ability to afford these houses?

**Peter Housden:** We had the opportunity a few months ago to discuss the low-cost home ownership programme in the round and, as I said then, we are always very careful in those circumstances to ensure that the individuals are being offered loan products that they can afford on a sustainable basis.

**Q8 Chairman:** But you take my point that with the crisis in sub-prime mortgages, it might be more difficult for people to obtain mortgages.

We shall move on. You were going to build 60,000 houses a year in the north and the midlands; you are now going to build 70,000 houses a year. Will not that impact on the scheme? It might make a lot of these schemes redundant, because you are building so many more houses.

**Peter Housden:** This is a very important point. The context is changing significantly, in that many areas in the north and the midlands are experiencing a rising demand for growth and form an important part of the Government's overall housing strategy. In terms of the way this programme moves forward, that linkage into the broader growth agenda will be critical. The Report properly picks that up—for example, in the way in which the planning system and regional spatial strategies will need to accommodate housing market renewal, and there are already some good examples of the way in which housing market renewal objectives are being taken into account properly as regions debate how to move forward. We are confident that that risk is acknowledged and will be managed.

**Q9 Chairman:** Okay. Look at figure 7 on page 14, which sets out the hugely complex system. Some people argue that this is once again a step from letting local government get on with it—yet another tier of unnecessary bureaucracy in an already crowded field of regional and local regeneration. Is that a fair criticism?

**Peter Housden:** No, but there is a real issue at the bottom of what you say, in the sense that the co-ordination of those programmes is fundamental. Housing market renewal sought to bring to local regeneration strategies an added dimension that had been absent, and because housing markets do not respect local authority boundaries, it was important to be able to draw in the local authorities, which retain statutory and important functions, and to connect them to the wider regeneration strategies. In housing market renewal, we have seen good governance at the level of the nine pathfinders, and good integration, and as we go forward the department will look for still stronger aspects of that in terms of knitting this with the regeneration effort.

**Q10 Chairman:** Perhaps if you just let them get on with it in the first place, we might have avoided some of that duplication. In any event, let us ask the last question to the Treasury.

In order to get around the VAT problem, pathfinders schemes are demolishing perfectly good houses rather than refurbishing them. Is that a good idea? Is this value for taxpayers?

**Paula Diggle:** There is a policy choice for the Chancellor to make. We have limited room for policy manoeuvre on VAT rates: we cannot broaden any zero rating of VAT, and there is a limit to what we can do about 5% VAT. The only way we could equalise the rates of VAT would be to equalise upwards.

**Q11 Chairman:** Is that right, National Audit Office? I thought that in the briefing just given to me, it said that it is possible to vary VAT.

**David Corner:** We were told that it was possible and that certainly European legislation was not a barrier.

**Chairman:** Right. We will have to investigate that further, because it seems that the taxpayer is not getting good value if we are demolishing rather than refurbishing perfectly good homes. Thank you very much.

**Q12 Keith Hill:** Perhaps I ought to declare a sort of interest. When I was a Minister in the former Office of the Deputy Prime Minister, although I did not have direct responsibility for the pathfinder programme, I was nevertheless the sponsor of the Merseyside pathfinder that features quite heavily in the NAO Report, which, by the way, Chairman, seems to me relatively benign as NAO Reports go, though I am very new at this business.

Mr Housden, the NAO concludes that: "low demand is now less severe in pathfinder areas, the gaps in the housing market between these and their surrounding areas have started to close, and there are clear physical improvements in many neighbourhoods." Is that not a presumption that the pathfinder programme seems to be working pretty well?

**Peter Housden:** Yes, the vital signs are essentially positive. Again, I repeat the caveat about early days, but essentially, there is good progress.

**Q13 Keith Hill:** The NAO makes a certain amount in its Report about relationships with local communities. It calls them "vibrant", although when I was touring Anfield in Liverpool and Bootle in Sefton, I observed miles and miles of abandonment and not much by way of vibrant communities where the pathfinder programme was in place. But the NAO says at the beginning of part 4 of the Report that: "The risks of increasing community stress can be high", and it draws attention to the Pendle case, which is extremely well known. Other than Pendle, is there any evidence that the pathfinder process has increased community stress?

**Michael Gahagan:** You have to accept that when you are going through the demolition process there is, for a while, an increase in community stress. There is no doubt about that, because it is quite a stressful process. You have to make the judgment that, at the end of the day, it is worth doing—and, of course, not

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doing anything, over time, will lead to considerable stress in those communities, as you have said, with a lot of vacant houses.

Can I just correct something on the Pendle case? Although it concerns my colleagues in East Lancashire, I do not think that that was the pathfinder scheme. I think that the pathfinder helped to sort that out.

**Q14 Keith Hill:** It is cited in the NAO Report as an example of a failure in terms of pathfinders, so if you are correct in saying that, it is a helpful correction. I note that the Audit Commission, which, in my experience, is never entirely easy to please, has praised the progress made by pathfinders on, precisely, community engagement, but what do you make of the criticisms by the Empty Homes Agency and the Sustainable Development Commission, which are cited in the NAO Report?

**Peter Housden:** There will always be, as Mike indicates, some short-term issues. The thing that struck me in visiting, as you have done, the Liverpool pathfinder was that people—residents—in those areas are in very different situations. They have different interests and wishes, and they can change over time. We have all come across, I suppose, people who have been vehemently opposed to demolition and to being rehoused, who, once in a new home in Liverpool, often with people they have lived with for many years, have become strong supporters of the programme. They can change over time. People have different interests and it is clearly the role of local government to reconcile those interests to the long-term advantage of the communities. I hope that the pathfinders add value by giving that housing market connection, but at the end of the day those issues have to be reconciled.

One of the other things that strikes anyone who looks at this seriously is that a citizen or resident with fundamental concerns has not only the ballot box, if you like, in their local area, for taking a view about things, but also a series of statutory protections. If you take, for example, compulsory purchase orders and the public inquiries that those result in if they are contested, citizens have the opportunity for the case to be heard, and are protected against irrational or unfounded decisions being made in their community. There is an array of mechanisms that provide protection for individual citizens in these difficult areas.

**Richard McCarthy:** Can I briefly add, Mr Hill, that both the Sustainable Development Commission and the Empty Homes Agency are national agencies? The Empty Homes Agency is seeking to minimise the level of properties left empty, and we agree with that. The Sustainable Development Commission is seeking to ensure that we retain those properties, wherever possible, for the environmental benefits that that brings.

As a starting position, we would agree with that, and it is noticeable that the level of demolitions identified by the pathfinders has fallen as different technical solutions have been identified and people have responded to residents' concerns, and as the economics have changed, but it is worth noting that

other national agencies like English Heritage also recognise—as does the Commission for Architecture and the Built Environment—that in some areas it is appropriate to demolish homes that are no longer useable. It does not make environmental sense to sustain those properties, and it is better to replace them with properties of much higher environmental performance, mixing tenures and size of homes.

**Michael Gahagan:** Can I add one thing?

**Chairman:** I am not in favour of this adding, adding; it is not fair on the Member concerned. It is his time.

**Keith Hill:** But I am very happy to allow it, Chairman.

**Michael Gahagan:** I just want to say that the issue of demolition or improvement is very difficult and I do not think that we have quite bottomed it out fully yet. The Building Research Establishment and the pathfinders are all together looking at precisely this and the carbon footprint. We also have the Sheffield competition for designers to try to tackle terraced houses: what can you do for £50,000? There is still a lot going on, on this front.

**Q15 Keith Hill:** Okay, fine. Let me just ask one final question then: what I found really interesting in the NAO Report—I think that you have already alluded to this, Chairman—is that there will be a net reduction in housing in only three of the pathfinder areas, which was, I think, absolutely contrary to our initial expectation. Why the change?

**Richard McCarthy:** We have rising household numbers, which we have identified only this year, within the areas. So what you have is quite a dramatic change going on. There are changes in household numbers and populations in the northern and west midlands regions, to an extent that was not recognised at the beginning of the programme. By improving those areas, the housing offer and the environment, we can bend in and encourage private sector developers to invest in new housing and properties and in converting and improving properties in those areas, so that they are part of the offer to meet the needs of our rising population and the rise in households, rather than being part of the problem. That process is in transition, but it is happening.

**Q16 Mr Curry:** I am sorry that you are going to get a procession of former Housing Ministers, Mr Housden.

Have you read Jane Jacobs?

**Peter Housden:** Jane Jacobs?

**Q17 Mr Curry:** Are you aware that “The Death and Life of Great American Cities” is the most important book on regeneration ever written?

**Peter Housden:** I have not read it.

**Q18 Mr Curry:** I am almost inclined to say that the fact that you have not read it makes you unsuitable for the job. Jane Jacobs said that what makes communities work are mixed functions and neighbourhoods—I think that Mr McCarthy

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probably has read it, because he is nodding. She talked about having informal surveillance, such as elderly people living in the street who can keep an eye on the children playing there, and about having employment, residential and retail areas together, so that mixed functions are operating. One thing wrong with regeneration was that we tore all of that up and made people live in one place and go somewhere else to work and somewhere else to shop, thereby destroying all the informal communities and socialising that made places work. That is a summary of the book; do you not think that it should be the bible for the regeneration programme?

**Peter Housden:** That is absolutely at the heart of the mixed community strategies that have formed part of the Government's approach for a considerable while, yes.

**Q19 Mr Curry:** Let us hope that that is the case. I recommend the book to you; it is quite short and very well written.

You said that areas next to pathfinders have not performed so well. Could that be because of the pathfinders? Is it possible that pathfinders have a depressing effect on neighbouring areas? Mike Gahagan might want to say something on this. If you are pouring money into one area, people are likely to say, "I'm not going to live there, because it is a much better bet to live somewhere else instead, as there is much more aid going into that area." Is not it possible that the reason why they are being outperformed is that there is a perverse, depressive effect on the neighbours? Do we have any work on that? If that is the case, what do we do about it, short of making everywhere a pathfinder area, which defeats the object of the exercise?

**Peter Housden:** Two quick points before passing over to Mike: my point was not about neighbouring areas, but about what would be shown if you drew a table of the areas of the most acute low demand in England. The housing market renewal pathfinder initial challenge cut off at nine; I was making the comparison that the ones that followed were not necessarily geographically proximate, and in many cases were not.

Your second point precisely illustrates the importance of having local authorities concerned with the governance arrangements of pathfinders, so that, across the housing market as a whole, they can take those balances into account in shaping the housing market renewal programme.

**Q20 Mr Curry:** But, by definition, you have to have a boundary, otherwise the thing does not work, and there are people living on the other side of that boundary. I am just concerned that, with the best will in the world, the benefit achieved inside the relevant area might bring a disbenefit outside it.

**Michael Gahagan:** Yes, that is a real point, and the reverse also applies: things done outside the pathfinder area can have a knock-on effect on that area. Part of the answer is that we have local authorities very much on the case. Another part is that every pathfinder has done something, because they are all concerned about displacement. We have

the Centre for Urban and Regional Studies doing analyses all the time of what is going on in pathfinder areas and in their wider areas. We have not seen evidence of that yet, but that does not mean that it is not an issue.

**Q21 Mr Curry:** You said, Mr Housden, that the programme had to be married to the wider strategic housing programme of 3 million by 2020. Of course, the construction industry has the prospect of a great deal of work in the next few years. What assumptions have you made, over the life of your programme, about inflation in relation to construction industry costs, such as labour and the cost of getting the job done? Have the assumptions that you have made up to now been borne out, or have cost increases outrun them?

**Richard McCarthy:** We have not underpinned the specific numbers going into the 2007 Comprehensive Spending Review by a specific percentage of construction inflation. However, I can tell you that we review the costs from the pathfinders on a regular basis. We now have business plans for the next three years that we and Government offices are analysing, with assistance from the Audit Commission. We will look at those in the context of house price, building and land inflation to ensure that they are sustainable and that efforts are focused on the areas requiring our greatest attention.

**Q22 Mr Curry:** How frequently do you re-tender? If you have a programme of, say, demolition or refurbishment, does one contractor do the whole extensive programme, or do you constantly re-tender to try and get the best price?

**Richard McCarthy:** Central Government have been running on a two-year funding basis, and we are now moving to a three-year funding regime, in line with other movements in the funding of local government and local partnerships, and we are considering bids on that basis. Perhaps either Mike or Siobhan would like to comment on what happens within the pathfinders, which have to go through a process of tendering and of testing individual projects.

**Siobhan McCoy:** I would like to speak about the Liverpool experience of engaging private sector developers. Liverpool went out through an OJEC procurement process and procured four lead partners as developer partners for the next seven years, so that we can get long-term benefits and added value from long-term partnerships. On refurbishment schemes, we tend to bid on a scheme-by-scheme basis, so that we can get the best possible price for individual schemes.

**Q23 Mr Curry:** Sorry to ask if you have read all of these things, but you might be aware, Mr Housden, that in the past few days the Policy Exchange has produced an analysis of the regeneration programmes—and just as Mr Hill confessed over the pathfinders, I must confess over the city challenge initiative and single regeneration budgets; we are all implicated in this. The Policy Exchange argues that there are huge question marks over whether regeneration programmes work at all and says that

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the wealth gap between 18 regeneration areas and the rest of the country has doubled—from 7 to 14%—over the lifetime of the programme. If regeneration programmes work, are we simply trying to mitigate the effects of general economic trends by working more effectively and making some regions richer than others? After all, since we have had regional development areas, the wealth gap between regions has actually increased, not decreased.

**Peter Housden:** There are some very powerful factors at work here. The labour market, which, of course, has shifted importantly in recent decades, is one factor, but that which I think is most relevant to housing market renewal is asset wealth—in the jargon—and the accumulation of capital that particular families can secure in the housing market. That is a very important factor in social mobility and chances for wealth across generations. So regeneration schemes that do not address property values seem to be vulnerable to your charge. One thing that strikes any visitor to a housing market renewal pathfinder is this: they were designed to solve the problem of the fact that many people, including the weakest and most vulnerable, were trapped in properties that, increasingly, were becoming disconnected from regional house prices and that, in practice, they could not sell those houses—negative equity and all those issues came up. I think, therefore, that there is a very powerful moral case for doing something here. However, on the specifics of regeneration strategies, one that addresses property values, asset transfer and other such issues would be a really important arrow.

**Q24 Mr Curry:** Do you think that we should look hard at how we measure things? I remember city challenge and SRBs. We talked about the number of jobs safeguarded and created. However, it is actually very difficult to measure outcomes and to be certain about what has delivered, is it not? How do you measure them? After all, this is very ambitious—it is called a housing market renewal. It is quite ambitious of the Government to decide to change the market. They usually do it by accident through mistakes, rather than through positive action. How do you judge whether you have changed the market? Can we judge that this side of a generation?

**Peter Housden:** I have indicated that I think that we are looking at correlations. As we stand, the correlation between the housing market renewal activity and the sorts of changes in market relativities that we were seeking to produce look positive. The housing market, of course, is not a static entity and is driven by a range of factors. The Chairman mentioned the price of credit and Richard mentioned the change in demographics. All those things will mean that the context of housing market renewal will continue to change. We need to have a management structure, from ministerial offices through pathfinders into local areas, that can respond effectively to those changing circumstances to maintain good outcomes for people in communities and value for money from public investment.

**Q25 Mr Curry:** Coming back to my original question, if a market is to be sustained, other factors will make it sustainable, will they not? First, people have to have jobs, because they have to be able to pay their mortgage or whatever. Secondly, we have to have schools to which people want to send their children. Thirdly, people have to be able to park their car in the street without it being vandalised. Okay, there is Richard Rogers and all the business about density, but that is what people actually want. What elements in the pathfinders add to trying to give people homes that they will want to live in? We all talk about sustainability of the community when the programme is finished.

**Richard McCarthy:** This is absolutely essential, if I may say so, Mr Curry. What is important is that, first, there is economic underpinning to the programme, but our direct investment through the pathfinder programme has included investment in the environment as well as individual buildings. Revenue funding connects with neighbourhood management schemes and management initiatives. Indeed, the Report illustrates that the local police are often involved alongside neighbourhood management bodies and the regional development agency as well, because the programme is about understanding how markets operate, understanding the influences that make a place attractive or unattractive and connecting our investment streams, whether they are mainstream such as the schools programme—building schools for the future, for example—or specialist and regenerative.

We have been clear from the start, and we have reinforced this more recently in our bidding rounds, in asking pathfinders to ensure that there is a clear economic narrative, that we understand the local social programmes and that money is connected with those other initiatives. Individual pathfinders could be used to illustrate that. I am sure that Mr Gahagan could give examples from South Yorkshire, if he has time and if you are willing to accept them.

**Chairman:** Time marches on. Thank you very much.

**Q26 Nigel Griffiths:** I am a former Construction Minister, and I am reading “Cranford” at the moment, but I am also reading a memorandum that has been submitted by the WDC residents association.<sup>1</sup> It seems to paint a picture that is different from the one that has been construed from the annual report. It is one of a great deal of co-operation, consultation and the positive. At the same time, the association is rather critical of groups and individuals whom it says are not representative, lobbying against the proposal. Ms McCoy, you presumably have direct experience of that. Have you seen the memorandum?

**Siobhan McCoy:** No, I am afraid that I have not.

**Q27 Nigel Griffiths:** Right. The association is saying that, in 2005, there was a demonstration in favour of the demolition to counter some of the negative

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attitudes that had sprung up three years into the project. What is your assessment of how well relations with local people have been handled?

**Siobhan McCoy:** From our perspective, we have engaged with residents of the Welsh Streets area for a long period of time. The NAO Report recognises that we have been engaging since 1998 or thereabouts. When the pathfinder programme became operational in the early 2000s, it enabled us to move forward with consultation, and we stepped things up somewhat. We engaged outside consultants to assist us in the process, to go through a neighbourhood renewal assessment process and look at options for housing in the Welsh Streets area. We feel that we have been engaging with the residents of the wider Welsh Streets area for a number of years. That said, it is not always possible to engage with every single resident of an area. We have used many methods to try to engage with them. It is also not possible to ensure that every single resident is onboard with our proposals, but we always strive to ensure that the majority of residents are in favour of the interventions that are proposed for a neighbourhood. The NAO Report demonstrates that the majority of residents of the Welsh Streets were in favour of the demolition proposals.

**Q28 Nigel Griffiths:** Mr Housden, what has been the best lesson learned concerning consultation and the involvement of local people in the five years that the projects have been under way?

**Peter Housden:** It is important that lessons were learned about early engagement and transparent provision of information, so that people were treated as adults who may make up their own minds on the basis of the facts. The importance of consulting businesses as well as individuals was recognised, as was the need to ensure that residents are provided with the opportunity to be consulted and involved for a considerable period. On visits, we found that the trust factor came through strongly. When residents trusted the local council and regeneration partners to fulfil their word, there were high levels of support. When circumstances weakened trust, people were more difficult. The Audit Commission's work is critical. The programme is innovative, and we wanted to ensure that the nine pathfinders, in their own difficult areas, were able to learn from one another. Knowledge sharing among the pathfinders was an important theme of the Audit Commission's evaluation.

**Q29 Nigel Griffiths:** You have answered a question that I have not yet put. I believe in looking at opportunity cost. I should be interested to know what you believe would be the next best option if it had not been a political issue—I believe that you said that it was demand-led by Ministers and outsiders.

**Peter Housden:** The case was compelling in terms of the range of new circumstances at the end of the 1990s. I am not aware that any Government had faced such a combination of circumstances or the need to act on them. The most telling indicators for me relate to the simple, straightforward housing

interventions in areas of low demand. Scotswood in Newcastle—an area of great disadvantage—is a famous example of a place where the Housing Corporation undertook a perfectly good refurbishment of some social properties using public money, only to find that factors, such as those mentioned by Mr Curry, meant that nobody wanted to live in the area anyway, regardless of how good individual houses were. There was an issue with those particular circumstances. I can claim no credit—I was doing something else at the time—for recognising that you cannot legislate to solve the problem or deal with it in Whitehall; it is about getting stuck in and ensuring that you learn quickly and effectively as you go along.

**Q30 Nigel Griffiths:** I used to chair a housing committee. When you are refurbishing houses en masse, the people who move out are quite often satisfied with the house that they move to and do not want to move back. You must be aware that the vacated houses must be such that folk will want to move to them. I am glad you have got that in the frame.

Which of the Report's criticisms concerns you most and how will you address it?

**Chairman:** They are always the difficult questions, are they not?

**Peter Housden:** The basic design of the programme, as I have outlined, means that there is an urgent need to tackle some new issues in a number of different contexts, and it lays us open, as the Report says, to the charge of a lack of consistency. I cannot judge now whether those inconsistencies were resolved as quickly as possible, or whether the rate of learning among pathfinders was quick enough. I am satisfied, however, that all the headline indicators of value for money and other such essentials were maintained throughout the programme. When examining the Report, I dwelt most on the early years of the programme, when we were learning and developing a rigorous framework.

**Q31 Nigel Griffiths:** So do you now have a toolkit that allows new people and groups interested in pathfinders to absorb those lessons, and do you run training seminars?

**Peter Housden:** Yes. The Audit Commission work has been very important for us, but the most powerful learning tool is the pathfinder networks—Mike is the chair of that partnership—and they have a vibrant programme to help them learn from each other. The Audit Commission inputs are important, and what we get from the National Audit Office Report, your conclusions and so forth will all be grist to the mill. There is a great appetite to recognise that this is not straightforward, but new and difficult, and therefore to learn as we go along.

**Michael Gahagan:** The chairs and directors get together. A big conference was organised by the chairs and directors in Sheffield a few weeks ago. That was precisely to look at transferring good practice, and we have done quite a bit of that. We now need to build up that programme and home in

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on particular issues, not just for the pathfinders and for the other three areas, but more widely. I think that we are now in a position to start to do that.

**Q32 Dr Pugh:** If I were to say to you that the pathfinder projects have knocked down some nasty old houses and built some bright new ones, but broadly failed on their major objectives, would you agree?

**Peter Housden:** Personally, I would not.

**Q33 Dr Pugh:** I would not expect you to, but the social rented sector in the north-west has shrunk by about 50,000 properties. Would you have expected the waiting list for socially rented housing in the north-west to have gone down or up?

**Peter Housden:** There is always buoyant demand for socially rented housing.

**Q34 Dr Pugh:** Well, the waiting list has gone up by 93%, has it not? That is not a particularly good signal.

**Peter Housden:** The numbers are hard to measure, but they do not surprise me.

**Q35 Dr Pugh:** But it is not a good signal, is it?

**Peter Housden:** Well, it depends on what you think it is measuring. The demand is always buoyant, and many people from a range of different circumstances are seeking social housing.

**Q36 Dr Pugh:** Okay. Let us look at Merseyside. Has the socially rented stock there gone up or down?

**Siobhan McCoy:** Overall, levels of social rented stock in Merseyside have been reducing. I do not have the exact figures to hand—

**Dr Pugh:** By about 10% actually.

**Siobhan McCoy:** What we have seen in Merseyside is an historic pattern of an oversupply of social rented housing, and that was one of the issues that was identified.

**Q37 Dr Pugh:** If that was the case, you would expect the waiting list to go down again, would you not?

**Siobhan McCoy:** Not necessarily. A number of other factors have impacted on social housing waiting lists over recent years. There have been wider issues of affordability, and there have been changes to the definitions of homeless people and other people who can seek accommodation on the waiting list. There have also been impacts as a result of clearance schemes—that has been recognised—and issues with properties being lost to the right to buy.

**Q38 Dr Pugh:** Absolutely, but on a day-to-day basis, if you are looking for a house, you do not want to see an increased waiting list, and the waiting list on Merseyside has gone up by 126%.

**Siobhan McCoy:** The key issue for us would be the quality of social rented accommodation and making sure that it is the right quality accommodation in the right areas to meet need.

**Q39 Dr Pugh:** But some accommodation is probably preferable to no accommodation at all.

**Siobhan McCoy:** If it is well-managed, good-quality accommodation—that is important for us.

**Q40 Dr Pugh:** Does it surprise you that house prices in Bootle are up by 118%, which is more than in the surrounding area? There is currently a crisis of affordability in areas such as Bootle, which was supposed to be an area of market failure.

**Siobhan McCoy:** We have seen house price rises across the NewHeartlands pathfinder and across Merseyside, and that has been one of the elements of the programme to date where we are starting to see some success. Having said that, we were starting from very low base values, so any increase represents a significant increase in percentage terms.

**Q41 Dr Pugh:** I do recognise that, and it was not complete hyperbole when it was said earlier that there were miles of abandonment. I do not think that that is quite the right term, but I certainly visited streets when I served on the Select Committee on the Office of the Deputy Prime Minister that looked like they were not occupied at all. None the less, the situation has changed quite radically, has it not? From the point of view of people looking for houses, pathfinders have not worked, have they?

**Siobhan McCoy:** I think that we would disagree with that. The pathfinder programme is still at an early stage—

**Q42 Dr Pugh:** Who would disagree with it? For someone on a waiting list struggling to get a house, the net effect of NewHeartlands across Liverpool is 412 houses less—they are not particularly enabled by that.

**Siobhan McCoy:** No, each of the Merseyside authorities maintains a waiting list, and people are rehoused and dealt with through that waiting list. I do not have detailed information about that to hand today, but for residents who are affected by the pathfinder programme, we are successful at rehousing them and dealing with their accommodation needs. Indeed, one success of pathfinder is that we have enabled people to move into much more appropriate tenures as a result of our actions.

**Q43 Dr Pugh:** I do not deny that some people are better off than they were; I am just saying that the general problem is, if anything, aggravated. May I ask the NAO whether it studied the effects of pathfinders on rental values and the availability of socially rented housing?

**David Corner:** We specifically measured against the two targets that the Department had set, which are private and public sector vacancy rates generally, and house prices.

**Q44 Dr Pugh:** Okay. Just talking about surrounding effects, one thing that you get with pathfinders in a local authority is housing restraint policies elsewhere—planning guidance and limits put on house building elsewhere. Does it surprise you to know that I represent a constituency that is adversely affected in that way? I have a chronic

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problem of affordability, and when my residents ask what they can do to get themselves housed, they are told, “There’s the pathfinders.” As we have just established, however, there is a very limited supply of housing there, and it is going up in price all the time. Given that, is it worth studying the knock-on effects of pathfinders in greater depth than hitherto? I put that question to Mr Housden.

**Peter Housden:** You are absolutely right to say that those effects, which we have been debating this afternoon, go beyond the pathfinder areas. One purpose of local authorities being in a powerful position is precisely to enable them to do that. I do think that—

**Q45 Dr Pugh:** It is possible, and you would concede, that you could aggravate housing affordability problems elsewhere by having a pathfinder scheme?

**Peter Housden:** There is clearly a theoretical possibility, but I was going on to say that the challenge of affordability, which has been growing more acute in recent years, is not caused by housing market renewal but by a wider range of very powerful factors in the economy as a whole.

**Q46 Dr Pugh:** May I just interrupt you there? What it is caused by is that there are not enough houses. In a constituency such as mine, we would welcome some more houses, because lower down in the borough there is a pathfinder area.

**Richard McCarthy:** I must answer this, because we are in a fast-moving situation. I referred earlier to changes in household numbers and in population. It is also important to recognise that when the pathfinder investment programme started, there was a significant surplus of housing schemes with planning approval which had yet to be built, and for that reason and for the need to try to shake and influence the market, decisions were taken, which I understand, correctly, restricted housing growth. We are now responding rapidly to the changing circumstances to which I referred, so we are now releasing other money to support housing growth in the north—

**Dr Pugh:** I am glad—

**Richard McCarthy:** And, we are making it clear—I have made it clear to every local authority personally in the north-west, because I am currently embarked on a tour of all regions to explain the housing Green Paper—that the regional spatial strategy numbers are no longer ceilings; they are now floors. But we asked people to do two things: to properly analyse their markets, rather than just simply let rip; and to recognise the benefit, with a country that is comparatively highly urbanised, of using our land well and effectively. So if we can influence private sector and public sector spend into those areas of housing market difficulties, we use our brownfield land well while not seeking to restrain areas elsewhere.

**Q47 Dr Pugh:** I accept the point. If you will not agree with me that pathfinders does not work, do you agree that we do not know whether it is value for money?

**Peter Housden:** The signs on value for money are all positive. The range of checks that is present—

**Q48 Dr Pugh:** But that is not what the NAO Report says. It says that you cannot tell whether it is value for money.

**Peter Housden:** Well, I think—

**Q49 Dr Pugh:** You have agreed this Report.

**Peter Housden:** Over the time scale of the 15-year programme, you would not declare victory too early. It is my responsibility to ensure that the programme can demonstrate value for money at the level of individual schemes. We have a number of mechanisms to do that, and a rigorous regime at pathfinder level to ensure that that works. The governance of pathfinder arrangements, anchored through local authorities as accountable bodies, is strong and rigorous. We use Green Book appraisals, and all those sort of issues apply.

I think that the difficulty that the NAO, correctly, in my view, points to, is that quite a number of the desired and, some people would say, most important, outcomes are not straightforwardly measurable in value-for-money terms. Some of the more traditional types of regeneration schemes would give you a neat and sealed system in terms of value for money, but, in terms of quality of life and such indicators in these communities, they pose challenges as to value for money. In terms of the tighter investment of public money, we have got a significant range of measures in place to make sure that it is delivered.

**Q50 Mr Mitchell:** Mr Housden, this Report says to me that the programme is not value for money. I do not ask you put your hand on your heart and say, “Yes, it is value for money,” but can you tell me that in your view this programme is better value for money than, say, using the same £2.1 billion over the period to build public housing for rental?

**Peter Housden:** The indications are that yes is the answer to that question, because of the evidence from the past that simply building more social housing on its own would not resolve the issues that these communities were presenting.

**Q51 Mr Mitchell:** Let me stop you there. If you are going to pull down, as you have, 10,600 houses and build only 1,200 more to replace them, and if you are going to refurbish 46,000 houses, and if the housing market all round is improving drastically so that all boats are raised—even in areas with pathfinder projects—can you say that that improvement is due to the pathfinder programme?

**Peter Housden:** Yes, I think it is, because if you look at the position of these areas when the housing market was starting to recover in the early ‘90s, it was precisely then they were losing ground. You could not sell these properties. They were passing between people for penny numbers, with all the negative consequences that that brought. One of the key tasks of housing market renewal, in the jargon, was to reconnect these housing markets with the

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boats that were rising elsewhere. I think the signs are that that is improving, and I think that has benefited not just socially renting tenants—

**Q52 Mr Mitchell:** Let me put another point to you: this is a plan, conceived as a bright idea by a Department that basically does not trust local government and therefore is prepared to impose yet another set of top-down arrangements to run and control local government and do the job that local government should be doing. Surely it is in the interests of the area that local government should handle these kinds of schemes, because it is not just a question of building new houses or refurbishing existing ones; it is a question of regenerating areas, as the Hills Report on social housing suggests. You can do that only if the local authority is essentially in charge.

**Peter Housden:** I used to run a local authority, so I know what central Government interference looks like.

**Q53 Mr Mitchell:** I know what it feels like, but is it useful compared with giving the money to local government?

**Peter Housden:** I think the key thing here is that the housing markets span local authority areas, so the programme needed to bring together the two or three local authorities in the area. Also, local authorities have important statutory functions in terms of compulsory purchase orders and a range of other issues, which are recognised and are sovereign within the area. That provides not only a value-for-money assurance but a very important channel of democratic accountability—

**Q54 Mr Mitchell:** We shall come to that, because I want to move on to it, but can you tell me that this regeneration programme has sucked in enough local authority money and other investment to make for a drastic improvement in the whole area?

**Peter Housden:** We are certainly seeing—Siobhan talked about this—significant levels of private investment and partnering arrangements with developers now, who are attracted by the greater confidence in these areas.

**Q55 Mr Mitchell:** Let me turn to the National Audit Office Report. Table 9 on page 16 is about the Benwell and Scotswood regeneration. The table lists all sorts of benefits that are coming into that area, some of which are extraordinary. One, listed under building schools for the future, is the establishment of an academy with expenditure of £38 million. Another is the Scotswood road dualling, which has been in Newcastle City Council's box now for 20 years, but which is included in the benefits of the programme. Newcastle city council mainstream education funding would have increased anyway, and Sure Start Capital would have come anyway, so are you not just lumping in benefits that would have come anyway, and is this amount of money typical? Why did you pick Benwell and Scotswood in Newcastle?

**David Corner:** The reason for choosing Benwell and Scotswood was partly because we were able to obtain the figures for those areas, whereas it proved quite difficult in some other areas—although we approached the Government office to get the information. The purpose of the information in the table was merely to demonstrate the different streams of regeneration money going into this pathfinder area.

**Q56 Mr Mitchell:** You cannot say that the academy school and the road dualling are due to the regeneration of the housing.

**David Corner:** No, they are part of the wider regeneration.

**Q57 Mr Mitchell:** Okay. You say that you want the figures on Newcastle to be published, but page 34 tells us that you have done a report on the acquisition of part of the Newcastle brewery site. You do not give any report on that report. I have estimates that say that the money spent there by the pathfinder was a total of £11.5 million: £10 million on acquisition, £1 million on clearance, and £500,000 on consultants. How many affordable homes will be built on that brewery site as a result of all that expenditure, and why do you not give a Report?<sup>2</sup>

**David Corner:** I am sorry, I cannot say how many buildings will be built on that site; it was not a project that we followed through in detail.

**Q58 Mr Mitchell:** I hope that we can have the information on the report generally and on the costs of the project.

Let me turn to Liverpool—a place where my heart always seems to want to go. Why have we had two, directly contradictory reports from people who claim to be residents of the improvement area? One is from the WDC residents association, which looks to me like a stooge organisation, because, as Mr Griffiths said, it is full of praise for the project. The other chimes in more with the kind of argument in Trevor McDonald's devastating report today on the Liverpool housing scrutiny committee. Which is representative, and why are they so different?

**Siobhan McCoy:** I am sorry, but I am not familiar with the detail of those reports.

**Q59 Mr Mitchell:** Should you not be familiar?

**Siobhan McCoy:** Only if they are shared with me, and neither has been, so I am unable to comment on the detail without seeing it.

**Q60 Mr Mitchell:** Can you not tell us what the Liverpool housing scrutiny committee is?

**Siobhan McCoy:** If it is the housing market renewal initiative scrutiny committee that has been established by the City Council, it consists of a number of elected members from each political party, and it looks at the rationale for the housing market renewal.

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**Q61 Mr Mitchell:** So it is party political.

**Siobhan McCoy:** Yes, the scrutiny panel has representation from each of the political parties. It is part of the council's governance structures.

**Q62 Mr Mitchell:** Let us take up some of its points—I shall put them to Mr Housden in a moment. It says that the demolition is reducing the supply of affordable housing and pushing thousands on to the public authorities waiting lists. Older people who own their own houses are being turned out and do not have the money to buy another house. Effectively, elderly home owners who may have paid off their mortgages are being put on the housing benefit list.

**Siobhan McCoy:** We engage very early in the process with every single person who is affected by any demolition proposals, so that we understand their rehousing needs—that is after determining that demolition will proceed for that area. We fund a home owners support package, so we have officers who engage with those residents on a one-to-one basis.

**Q63 Mr Mitchell:** Yes, but whatever engagement those officers made—I am sure that it is nice and obliging, and interesting—you cannot fill the gap between the £35,000 that would be obtained if the house were the subject of a compulsory clearance order and the cost of buying a new property. That is an enormous gap.

**Siobhan McCoy:** Let me clarify. An owner occupier receives the market value of their property. That is not necessarily £35,000. That is whatever the market value of the property is. If they have been in the property for more than a year, they also receive a statutory home loss payment which is equivalent to 10% of the property value, plus a disturbance payment to cover their removal costs. They are also eligible to receive a relocation equity share loan of up to £35,000 to bridge any affordability gap between the value of their existing property and a replacement property.

**Michael Gahagan:** I think that £35,000 is for a new house and an awful lot of people move to another house in the neighbourhood. We have certainly found that the vast majority of people have sorted themselves out with our help. By “our help” I mean our advice.

**Q64 Mr Mitchell:** The Report says in paragraph 4.9 that there is a gap of £35,000 in the compensation scheme. Let me turn to Mr Housden on this point. Are not you really converting old owner-occupiers into recipients of housing benefit, because with that degree of compensation they cannot afford to buy again?

**Peter Housden:** As colleagues have been indicating, a range of support measures are available to people who are affected by demolition in the way we have described.

**Q65 Mr Mitchell:** I have to rush through my remaining questions. What is the degree of refurbishment that is necessary? I have had

comments from some of the pathfinder areas that all that has been done is to put in new windows and doors. That is counted as refurbishment. When houses are refurbished are they being brought up to the decent homes standard that applies to rented accommodation?

**Michael Gahagan:** On private housing, no. On the whole, we do external works on private housing because we are trying to improve the value of the whole neighbourhood. We provide equity loans for people to improve their own housing, but generally we do not give grants to people who own their own home or to private landlords.

**Q66 Mr Mitchell:** In other words, they are being tarted up.

I have a couple of final questions. I see that two of the chairs of the pathfinders are from the Audit Commission. That is extraordinary, is it not? Is that a good principle? This is Newcastle and Birmingham.

**Michael Gahagan:** No, they are not. Newcastle is chaired by Jim Coulter, who is an ex-chief executive of the National Housing Federation. He is on the board of the Audit Commission. The other one is Peter Latchford in Birmingham-Sandwell. He has only recently joined. I do not know what his background is, to be honest.

**Q67 Mr Mitchell:** My information was that the two chairs were members of the Audit Commission.

**Peter Housden:** They are not employees. They are members of the board.

**Q68 Mr Touhig:** Mr Housden, you have a budget of £2.2 billion. You have demolished 10,000 houses. You have managed in five years to build just 1,000 houses to replace them. You have put at risk some of Britain's housing heritage. You have ignored the views of local people. You have provided a bonanza for property speculators and left the people you are supposed to help unable to buy houses because of rising prices. Did your department deliberately plan a cock-up on this scale or are you just incompetent?

**Peter Housden:** The Report indicates that the problems that housing market renewal was designed to solve are being addressed in a positive fashion. You exemplify all the key elements of a successful approach. You do need to engage residents. You do need to assess heritage implications and so on and so forth. The Report indicates on each of the points that you touched on that we are making appropriate progress, moving in the right direction and learning the right lessons.

**Q69 Mr Touhig:** Your objective is to provide is to provide new homes? Yes?

**Peter Housden:** It is a broader question. There is a crying need for new homes in the country as a whole. Our specific objectives here were to take the nine most severe areas of low demand in England and to reconnect the families and the assets that they bought with regional housing markets, and to do something about empty and derelict properties, which we have not talked about.

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**Q70 Mr Touhig:** But you are driving up house prices and reducing the supply. How on earth does that help anyone?

**Peter Housden:** If the price of your house has become completely disconnected from the rising tide of house prices in the local authority area in the region then you are into the consequences of negative equity. You are effectively trapped in those areas. That looks to me like a good objective for a Government to pursue.

**Q71 Mr Touhig:** But you have demolished 10,000 houses. There are fewer houses now than when you started, and the prices are rising. I just do not understand how that helps anyone trying to get a house. Okay, you have a view on that. Your Department's website, under the heading "What we do", says, "Communities should be able to influence and protect their own future. Communities and Local Government has a vision of confident, vibrant, sustainable communities where everyone has a say in shaping their environment." However, the Report, which you have signed up to, says your approach compromises the scope for local people to have their say about the changes which affect them. You have tried to drive all this from the centre, with insufficient engagement and support of local people. This is on a par with one of Joe Stalin's five-year plans, whereby hundreds of thousands of tractors were built to help to overcome the agricultural crisis, but there were no ploughs to go behind them.

**Peter Housden:** I have not had the benefit of reading the notes that you have had from Liverpool residents, but I have visited them.

**Mr Touhig:** I do not have any notes from Liverpool residents.

**Peter Housden:** Sorry, I thought they had submitted a note to the Committee. It was clear that these were individuals and groups of people who were organised and motivated and took completely different views about the merits of the scheme in their area, which they could argue and evidence. That is the nature of the beast. It is what will happen in any of the areas.

**Q72 Mr Touhig:** I have been a councillor myself for 20 years and I understand the difficulties. However, you signed up to the Report, and the Report says that your approach compromises the scope for local people to have a say in matters that affect their lives.

**Peter Housden:** The evidence from the Audit Commission—independent of the Department—is that the strategies to engage local people have always been a key part of the programme and are improving in their effectiveness. To me, the involvement of local authorities, which are democratically accountable, and the way in which individual residents' rights are protected through a number of statutory procedures add up to something that does not compromise—

**Q73 Mr Touhig:** I am looking only at the diagram on page 12, which shows the representatives of a number of stakeholders that are on pathfinder boards, and I cannot see very much local

involvement there. The local authority is represented, as are the Housing Corporation and the private sector. The Department, the Government office and the Audit Commission have an observer each. The police are members, as are strategic health authorities, the National Housing Federation, new deal for communities, the regional development agency and local strategic partnerships. I do not see very many local people whose homes are affected represented on your pathfinder boards.

**Michael Gahagan:** On my board, we cover 140,000 houses. Now, who are local people there?

**Q74 Mr Touhig:** Housing associations, community groups?

**Michael Gahagan:** The housing association is represented.

**Q75 Mr Touhig:** Neighbourhood associations?

**Michael Gahagan:** When we identify our priority areas, there is a lot of local involvement, but at the broad strategic level of the board, no, there is not.

**Q76 Mr Touhig:** This is a throwback. We are surely now in a time when we strive to empower people by getting them involved and they take the decisions for themselves. You are driving all this from the centre. Indeed, the Report also says that your approach is driven by theoretical analysis of wider housing markets rather than consultation with local people in localities affected. Do you think that theoretical analysis is more important than the wishes of people in the community, who you are trying to sort some problems out with?

**Peter Housden:** The Audit Commission is quite clear that the quality of analysis of housing markets that the pathfinders are undertaking in the regions is very powerful, very effective and increasingly sophisticated, so I do not think it deserves the epithet "theoretical". Again, the evidence is that consultation strategies have always been a key part of the programme and are effective.

You make some important points about the governance of the programmes. It is clearly important that decisions are not being made by people who have significant vested interests.

**Q77 Mr Touhig:** Like the people who live there? We want to keep those out, for God's sake. We must not let people have a say in their own lives. Comrade Stalin would turn in his grave at that, would he not?

**Peter Housden:** That is why the consultation strategies with all the people affected at local level are powerful and effective and feed into decisions. They do, of course, have different perspectives.

**Q78 Mr Touhig:** Your website also says, about housing, "Everyone should have the opportunity to rent or buy a decent home at a price they can afford, in a place where they want to live and work. But more homes are needed to meet the rising demands of a population that is both increasing and ageing. The Government has set a target to provide three million more homes in England by 2020 which will include more affordable homes to rent or buy."

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However, as the Report points out, whereas you have refurbished 40,000 homes—good; I am sure that is a very important step to take—you have demolished 10,600 homes and replaced them with 1,122. How are you trying to ensure that people get a home? Your Department has some responsibility for housing in Britain, does it not?

**Peter Housden:** It is important to recognise that these areas of low demand were places where the existing housing stock did not meet people's needs. They were voting with their feet and buying properties in other parts of their region. That is what was causing large-scale abandonment and then dereliction. The people who were least able to move out were then faced with the unenviable circumstance of being forced to live in the area.

Housing market renewal has in many cases enabled people who have a devotion to the area to continue to live in it, but this time in a more modern, appropriate house and in an area with less antisocial behaviour, rising house prices and all the benefits that other communities take for granted. That is the position.

**Q79 Mr Touhig:** Your pathfinders have central, regional and local stakeholders involved. Where are the local stakeholders? Where are the local community association and the local neighbourhood watch—the people who live in the communities? I understand your point about the need for refurbishment and people voting with their feet and so on, but when do the local people get a chance to express their views? Who consults them?

**Richard McCarthy:** They are consulted at the local level and they have a significant influence. The programme has many examples now; we are talking about its early years. The involvement of community groups and individuals has changed.

**Q80 Mr Touhig:** You are a third of the way through the programme, Mr McCarthy. It is a 15-year programme; you are five years in.

**Richard McCarthy:** The figures you are quoting are our figures to the end of 2006–07.

**Q81 Mr Touhig:** I am quoting the figures provided in the Report, which your Department signed up to.

**Richard McCarthy:** Well, actually, the Report also makes it clear that we have not even concluded the programme that takes us to £1.2 billion. The £1.2 billion allocation ends in March next year. The next £1 billion allocation commences in April next year. So that we are clear, the outputs that you referred to have been delivered for less than £1.2 billion to date. The next £1 billion will take us into the next phase and we are trying to connect opportunity, which includes the opportunity for housing growth, into the areas where the market was dysfunctional and did not work. Helping those places to become more attractive means they become places that represent an opportunity for people who live there now and for those who may want to live there in the future.

**Q82 Mr Touhig:** Your Department says on its website, “Everyone should have the opportunity to rent or buy a decent home at a price they can afford, in a place where they want to live and work.” Yet you have reduced the housing stock by 9,500 and pushed up prices. I do not see who you are helping.

**Michael Gahagan:** May I take the point about reducing the housing stock, as I think my area is probably quite relevant in this respect? To date, we have reduced the housing stock because it takes three to four years lead time to go through the process and to get developers involved. Our full programme over the next three years shows that there will be a net increase in houses. It is the lead times that lead to that sort of figure.

**Q83 Mr Touhig:** It seems to me that you have a good record on refurbishing houses—40,000 and so on—but you have not managed to sort out the VAT issue, so your pathfinders prefer to pull down houses rather than refurbishing them. You are demolishing housing stock and that comes from a Department that says, “We have a shortage of houses in Britain and we need to build more.”

**Michael Gahagan:** Well, look, I do not look after VAT. I look after South Yorkshire.

**Mr Touhig:** That is big enough, I am sure.

**Michael Gahagan:** Yes. In one case it has been quite an issue and the chairs have certainly said that they would prefer it if there were equality in VAT.

**Q84 Angela Browning:** I should declare an interest, although not as a former housing Minister, you will be relieved to hear, Chairman. I recall that at the time the Government introduced this scheme, they also introduced another scheme whereby they penalised local authorities that were debt-free—as in the district of East Devon, in which I am a council tax payer, as are many of my constituents—with the purpose of recirculating, or sequestering, assets to help to fund these very projects. East Devon was a debt-free authority. I therefore have a personal interest in how the scheme is doing, as do most of my constituents.

I have heard your counter-arguments and the idea that somehow you have demolished more than 10,000 houses and created just over 1,000 more. Can you say how many people from the demolished houses now occupy the new houses?

**Michael Gahagan:** The new houses—

**Angela Browning:** Those people whose houses have been demolished have presumably been temporarily rehoused elsewhere while that process goes on. How many of them have moved back?

**Michael Gahagan:** The figure will vary enormously. It will vary according to social—

**Q85 Angela Browning:** As a percentage?

**Michael Gahagan:** I do not know, to be honest. All I will say is this. I shall take one scheme, which is fairly typical. I happen to know that of 37 houses, 10 people have gone into social housing, and seven have taken loans to help them to buy new housing elsewhere. All of them have found houses in the neighbourhood. We try not necessarily to give an

undertaking but to say that anyone who wants to be rehoused in the neighbourhood will be rehoused there. I do not know whether Liverpool does the same, but we try to give that assurance.

**Siobhan McCoy:** We have examples, with some new-build schemes, in which 105 of 107 new-build properties have gone to rehouse residents from a nearby clearance area. In general, our approach is that residents need to move only once, into their new replacement properties. Other schemes will be quite different, and we will see fewer people from clearance areas moving in; we will see a new population coming in and taking up the housing in those new-build developments. It depends on the individual development.

**Chairman:** Mrs Browning, you might want to ask for a note—further and better particulars.<sup>3</sup>

**Q86 Angela Browning:** I would, Chairman, thank you. It would be useful to know how many of those residents were able to avail themselves of what I am sure are the very good houses that have been built there, but they are disproportionate in number to the ones that have been demolished. Perhaps we could find out.

I ask you to turn to paragraphs 2.9 and 2.10 on page 17 of the NAO Report, which seem to indicate one of the reasons why the scheme did not get off to such a good start. Basically, it is suggested that at the beginning the strategy was for off-the-shelf schemes, which councils previously would have used if they had had the finance. When the money came along from this scheme, it was put into those off-the-shelf schemes.

That seems to have produced many quite useful improvements to properties—face-lifting social housing and former council housing. However, paragraph 2.10 states: “This investment contributed more towards meeting the Decent Homes target than to addressing the causes of low demand on a permanent basis.” In other words, not the strategic objective for which your scheme was set up. How did you deal with that, and how much damage did that lack of focus cause at the start of the scheme?

**Peter Housden:** If I may say so, you put that very fairly. That is exactly our reading of the position. The schemes that were brought forward by local authorities in that way each had to pass rigorous tests. They would not simply say, “Well it’s available, we’ll do it.” It had to be part of a broader approach. We were quite right to say that if that was all that the pathfinders were going to add to the party, it would have been a much weaker programme.

As those programmes have continued, there has been a rigorous process of assessing their quality, and the range and impact of the proposed schemes. In a couple of cases, the pathfinder schemes have had their proposals held up or knocked back because of

the lack of strategic approach that you describe. The management of their performance was rigorous to ensure that they took that broad view.

My sense is that, as the programme has developed, those learning mechanisms have had an increasing impact, and we now have a much stronger set. However, I would not want the Committee to take the view that those initial projects were somehow not worth while or not subject to the right type of scrutiny. They were.

**Q87 Angela Browning:** Have you learned from that initial exercise?

**Peter Housden:** The whole programme has resulted in learnings throughout.

**Q88 Angela Browning:** Thank you. I turn to something that the Chairman raised in his initial questions, but which I wish to pursue a little further. I refer to paragraph 3.16, on page 24, and the question of external purchases and speculation, and their impact.

The NAO Report suggests that the pathfinder scheme has been reduced by approximately £10,000 a property as a result of advance speculation on housing that is to be demolished. We heard a very detailed account from Ms McCoy about the process you follow. There is local dialogue about where you might decide to demolish. Perhaps you might tell us on what scale that is—so many roads, a whole estate or whatever. There is an initial consultation with residents and it is after the decision has been made to demolish that you enter into one-to-one negotiations about the value of people’s property, compensation and so on.

It seems pretty obvious to me that once a particular area or group of streets has been identified in the public domain—which it would have been—it is pretty easy for speculators to see where they might leap in. I put this question broadly to the whole panel: does it not occur to you that, having gone through the public consultation, there is an opportunity for the speculators to get in before you do, in terms of your negotiation? Have you not been alert to that in the past?

**Siobhan McCoy:** First, on the question about the scale of demolition, in Liverpool we are dealing with a great range of different-sized schemes from those affecting just one or two blocks of properties up to the Anfield and Breckfield clearance, for example, which affects about 1,700 properties. In those areas, we have done initial consultations, and it is correct that that raises awareness and perception of the potential outcomes from that process. People in the wider area will become aware that there is the potential for those houses to be acquired as part of a clearance programme.

The issue of speculators is something that we are only too alive to. Unfortunately, it is not particularly easy to tackle. One potential way of tackling it would be to move in first and acquire any properties that were available on the open market. However, with resident involvement, we have agreed on a phasing programme so that they know roughly when we will be able to buy their properties. If we started

<sup>3</sup> *Note by witness:* Between 2002 and 2007, the housing market renewal programme has directly provided 1078 new homes. Of these, 366 have gone to residents affected by the programme.

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acquiring properties in other phases, it would be unfair to them and would affect the speed with which we could move through the area and buy their properties.

**Q89 Angela Browning:** Roughly what percentage of those properties is in private ownership?

**Siobhan McCoy:** The majority of these properties are in private ownership or have been long-term vacant and may have been acquired by the public sector. In many areas in Liverpool, the social rented sector has propped up the housing market for a number of years—perhaps since the '70s or '80s. It depends on the individual area. Across Merseyside, there is lower than average owner-occupation. That is part of the reason why we are intervening in some of these areas.

**Q90 Angela Browning:** It seems to me that, knowing that this pattern is clearly established and knowing the amount of money involved, you should be concentrating on what you might do to mitigate some of that money that is going to speculators. I hope that Mr Housden will not take this too adversely, but I thought that he was a little flippant in replying to the Chairman that it was because of the market and that nothing could be done. I hoped that, between you, there would have been some ideas as to how you might do something about this issue.

**Michael Gahagan:** This is a very real issue that does concern us, but I echo what Siobhan said. We are trying to think of options, but it is sometimes easier to postulate the problem than the solution. We have to go through the public consultation process. We must discuss such things as persuading the Government to freeze values at a point in time before a scheme is declared. However, that would hit the owner-occupiers as well. This matter is something that we are discussing, but it is not easy.

**Q91 Angela Browning:** I hope so, but it is something that you need to look at.

Finally, I was concerned to read in paragraph 2.6 of the Report of the rather patchy involvement of Government offices. I wonder how your Department views that, Mr Housden. We see in paragraph 2.6 that some Government offices have been very involved and up to speed on this, but it has almost been an optional extra for others. Why should that be? I would have thought that they had a real interest in seeing how things were going and, if necessary, offering the expert advice that a Government office might offer.

**Peter Housden:** I do not think that there is any lack of clarity on our side of the table about what we expect of Government offices, now and going forward, on housing market renewal. They provide a critical link to the planning system. They also provide some important links to regeneration. Of course, they are also represented on the pathfinder boards. However, I guess that one of the things that would point you towards difference would be the scale of the pathfinders.

In the north-west, for example, there are very large-scale schemes compared to other areas, where the schemes are much smaller. So, the involvement of the Government office for the north-west in housing market renewal will be proportionally much larger. We are quite clear, particularly within the housing growth context in which renewal will take place, that the involvement of the Government offices will be of continuing importance.

**Angela Browning:** My time is up, although the Chairman asked me to come back. I would like to know about the Homes and Communities Agency, which you will hand over to in 2009.

**Chairman:** You can always address that issue at the end, if you wish to.

**Q92 Phil Wilson:** According to the National Audit Office Report, there has been improvement in pathfinder areas: low demand is less severe, there have been a lot of physical improvements, and the local housing market has improved and is working better. However, the Report goes on to say that the NAO cannot put its finger on whether the pathfinder projects themselves have achieved those improvements, although it seems to me that the improvement is in the pathfinder areas. Where would you say that the projects have added value, to make that difference?

**Peter Housden:** You are on to a really important point. Whenever the Committee and other bodies are considering regeneration schemes, what you are identifying there would be a case to consider. Particularly where markets are involved, there is not just a one-to-one correspondence, which means that we do this and that is the outcome.

What gives us confidence that this programme is moving in the right direction is what one finds if one examines those areas of low demand where pathfinder interventions were not made. They were not made in those areas because the problems were less severe. Therefore, in a rising housing market, with more favourable demographics, you would expect that those less severely affected areas to see more rapid rises in house prices and more rapid reductions in vacancy rates, but that has not happened. The pathfinder areas have done better on both those scores. From a lower base, they have done better.

I cannot demonstrate to you in a theory or a theorem that that improvement is the result of housing market renewal, but there is a pretty strong correlation between pathfinder interventions and those types of outcome. Again, it is a long-term programme; this is a fairly early stage. However, those outcomes lead me to think that these are promising signs that the pathfinder style of intervention works. It obviously needs to reflect changing circumstances.

We are now in a quite different circumstance, where markets are rising, demographics have shifted significantly and the context is one of growth, so we need to keep moving the focus of the programme. However, regarding the history of the programme

that this Report is examining, those outcomes give me confidence that we are delivering value for money.

**Q93 Phil Wilson:** The Audit Commission is quoted in the Report and it has a lot of praise for the way that you communicate and relate to community groups. Can you give us an example of how you would conduct a survey in a local community? How is that survey modelled and put into action, because customer satisfaction is high, according to the Report. Can you give us an example of how you would launch one of those surveys?

**Michael Gahagan:** I am sure that both Siobhan and I can give you examples. I think that there is a table at the end of the conclusions. I would have certain differences with that table, but overall that is the type of thing that we do. There is usually a raft of things that we do. There are public meetings, which are not the most important avenue, because people are often very cautious about, or even afraid of, asking questions in a public meeting and the meeting can be captured by the most vocal. There is always a lot of one-to-one communication, such as visits. There are also drop-in centres and drop-in arrangements, which are very important, particularly for some groups. Where there are ethnic minority communities, you have to work through particular groups. For example, there is usually an Asian women's centre in the area, which you work through.

Therefore, you will always have that type of assessment and you will always start with a range of options that you gradually narrow down. Right through the process, you will use those different vehicles. I think that that is true for almost everywhere now. In fact, I do not know anywhere where that type of approach has not been adopted.

**Siobhan McCoy:** To add to that, wherever possible we also try to link in with existing local government structures, so that we do not try to replicate things that are already happening on the ground that have well-established ways of engaging with local communities. We also do things such as sending out newsletters, and we have specific studies that are undertaken to help us to engage with communities. We also involve residents through things such as design working groups, so that they can get involved with looking at the design of new-build properties. We have some examples of those on the ground.

**Richard McCarthy:** May I add something briefly? There is some real innovation here. For example, in east Lancashire, the mediation service from Northern Ireland has been involved in building more cohesive communities, so that we can do something to bring real benefits to the community as a whole, not just to individual parts. That brought the community closer together.

In Gateshead, for example, the development of street committees within the pathfinder has led to a resident requirement and request for demolition that was not originally planned. We are going to see that through because it is what residents wanted and helped to shape through their street committees and the pathfinder.

**Q94 Phil Wilson:** You mentioned the table on page 39 and said that there are some differences. Are they just technical differences?

**Michael Gahagan:** They are fairly minor differences. I think that the table probably gives a bit too much emphasis to public meetings, which I would not regard as the most important, for the reasons that I explained. Furthermore, from memory, it talks about an external facilitator chairing. That is quite useful sometimes, but we have found across the pathfinder—four local authorities are involved, and the chairs of housing and regeneration sit on my board—that it is better that they be chaired by ward councillors, rather than a facilitator, to be honest.

**Q95 Phil Wilson:** You mean local authority councillors?

**Michael Gahagan:** Yes. The third difference, where I would be a bit concerned, is where the table talks about street representatives with a: "clear remit to change proposals if necessary". Although I think that no one would ever go ahead without majority support, if that implies a power of veto on the details, I would have a slight problem with it for two reasons.

First, you can have very transient communities. For example, in the Welsh Streets area, 50% of the community has left, and in another of my areas we have 100 different private landlords for 800 houses. Secondly, some of these areas are extremely important from the point of view of the city, and I think that it is key that the properly-elected city fathers have the important say in what happens in them. I do not think that in all cases that can be left exclusively to the local community. Communities have to be consulted, but I do not think that they should always have a complete power of veto on everything.

**Q96 Phil Wilson:** These initiatives are outside the statutory planning system. Is that a good or bad thing? Would you rather be in or out?

**Michael Gahagan:** I am quite happy with the way that this works. I am happy being out. I think that we will have an issue over the next three years in that we have to work very closely with the planners. For example, we have made representations on the regional spatial strategy that the regional assembly has taken on board. The Secretary of State then made a response. All I can say is that it seems to work—if it ain't broke, don't mend it.

Over the next few years, I think that increasingly we will have to adopt the Barker "plan, monitor, manage" approach, because we could get into a position where we over-release land. We must build up our intelligence systems to be better than they are now.

**Q97 Phil Wilson:** Does being outside the system create problems with duplication?

**Michael Gahagan:** No, I think that there would be problems with duplications if we were inside.

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**Q98 Phil Wilson:** Page 44 of the Report mentions an: “interest-free relocation equity loan of up to £35,000”. That seems to be a really generous and good initiative. Is that how you could have a real effect in these communities?

**Siobhan McCoy:** Certainly, from the Liverpool perspective, that equity loan is needed and is helping residents—who might not otherwise be able to relocate and purchase their own property outright—because no ongoing repayments are required during the term of the loan. They repay when the property is sold. It is very beneficial to residents we deal with.

**Q99 Phil Wilson:** So it can loosen up the housing market, so to speak.

**Siobhan McCoy:** It is there specifically to assist displaced residents.

**Richard McCarthy:** It also represents excellent value for money, because the equity growth returns to the pathfinder and local authority. So you help someone upfront and then the equity return is held back, which is available for more investment in an area or where considered appropriate.

**Q100 Geraldine Smith:** May I finish on a high? I am a real fan of pathfinders, and my major criticism is that we do not have one in Morecambe. You need to do more for housing in coastal resorts, which sometimes have similar problems with redundant guest houses. I do, however, have concerns about accountability—you cannot get complacent. I am sure that there are some really good pathfinder schemes, and that there are some equally terrible ones, but the question is how you hold people accountable. You have boards, but I would be interested to hear how they are made up and who sits on them.

**Michael Gahagan:** On my board—remember I have four authorities, so we had to be careful not to make it too big—we have the chairs of housing regeneration in the four authorities, coupled with the officials at that level. It is very important to make sure that the local authorities are fully involved, which comes back to an earlier question. We also have a couple of private sector representatives, a housing association representative and a couple of others whom I cannot remember. But to come to your point about accountability, the NAO Report rather undervalues the role of the Audit Commission. They crawl all over us periodically. They come in and look at our overall scheme. In our case, they then picked a couple of neighbourhoods at random and went in to examine in detail what we had done and whether we had properly assessed the schemes and looked at the options. The Audit Commission is very challenging, and that is a very good guarantee of value for money in many ways. Do not get me wrong—it is not all sweetness and light, and we have big differences of opinion, but they keep us on our toes.

**Siobhan McCoy:** Perhaps I can add to that from a local authority perspective, in terms of how we are accountable. First, I am accountable to the residents and the communities out there on the

ground, and they are very good at holding you to account on certain things. Then, obviously, I am accountable to the pathfinder, and we have things such as project appraisal processes. I am also accountable to the board and so on. Then, as has been mentioned, we have our HMRI scrutiny panel in Liverpool, which is made up of elected members, and I am accountable to them. People like the Audit Commission also come in and inspect us, and we also have internal audit. There are also people like the CLG. So, from our perspective, we think that we are held accountable in quite a number of ways.

**Q101 Geraldine Smith:** I guess that I am concerned about people who are elected being involved. At the end of the day, you may feel that you are accountable, but residents will feel that they cannot sack you if you do a bad job. You may be accountable indirectly, but they want to see the people they can get rid of if they think that things are not working in their neighbourhood. I am concerned about quango-type organisations running some of the pathfinders, as they appear to be.

On Saturday night, a local councillor from Burnley told me that he felt that he had no involvement with the pathfinders. He had a number of concerns, and it might be possible to resolve some of them quite easily, but it is important that there is community engagement and accountability. I know that that is difficult. When you talk about demolition, some people will think, “Great. We want out of here, and this is an opportunity. We’ve got a bit of extra money to do it.” Equally, you will get people who say, “I’ve lived here for 50 years and I don’t want to move.” I can quite understand why you get two very different sides. Quite often, however, with the right information, people come round to a scheme. Do you make sure that there is consultation not only at the beginning, but as things change? These schemes must change so many times as you go along. Do you make sure that you really keep the public—particularly those who are directly affected—up to date with what is happening?

**Michael Gahagan:** Absolutely—we have to. If demolition is involved and there is a compulsory purchase order, there will be a public inquiry, so you will be held to account for how you have consulted people at every stage. We, like almost every pathfinder, have committees—in my case, it is chaired by the ward councillor—in all the priority areas, and they meet regularly to chase up progress. That sort of thing is endemic now.

**Richard McCarthy:** You referred to Burnley, which is in East Lancashire. There, the partnership company, Elevate, is owned by the six local authorities. As you may have noticed in the Report, they are thinking of converting it into a city development corporation owned exclusively by them. So what you have there is a partnership between local government. I am not quite sure who

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the representative is, and the council might want to contact them, but it is owned by Burnley with the other five authorities.

**Q102 Geraldine Smith:** Thank you. I regard the increase in house prices in pathfinder areas as a measure of success. I should be really worried if they were falling or not rising pretty quickly, but I can understand the impact that it has on people whose house is being demolished but who want to remain in the area. Do you not have schemes where you refurbish other similar houses that are left and offer such people a choice of moving to them at no cost?

**Michael Gahagan:** Yes, they are called home swaps. You should not think that all people whose houses are demolished move into a new house, because they do not. They can take up the equity loan, but quite often they move into a nearby area in which there are home swaps. Quite a high proportion—up to 20%—just move elsewhere. They have wanted to leave the area; they go and live with relations; or they want to move to the seaside or something. So there is a whole raft of things going on. Increasing unaffordability can be a problem. I do not know about Liverpool, but so far, in my area, people have found good alternative accommodation, but it could well be an issue in the future.

**Q103 Geraldine Smith:** May we go back to measuring the outcomes? I find this really difficult, because if you put down too many measures that people have to comply with, they just find ways of getting around them. You are into ticking boxes, and it all becomes a bit meaningless. The best measure is probably how people feel in the area and what the area looks like at the end, but are there other ways of measuring the success or lack of it in pathfinder areas?

**Michael Gahagan:** I do not think you can use any one measure, and in ours and the Department's evaluations, we use a raft of things: satisfaction with the area, certainly, and people's investment—what are the owner-occupiers doing with their houses? Someone said, "Count the conservatories," which never happened in a neighbourhood that we dealt with before. People are now investing in those areas, and the vacancy rate is an other measure. You must take the whole range of things, which is what we use in the Centre for Regional and Urban Studies. I think that the Department is doing the same thing nationally.

**Richard McCarthy:** Yes, correct. We commissioned some research, which we are analysing with the researchers to work out how we develop our database without overloading people and finding ourselves stuck with too much detail. It is about building on that experience in the pathfinders.

**Q104 Geraldine Smith:** A couple of quick points, because I am running out of time. When you started looking at the properties, did you find, particularly where they were privately rented, people sometimes living in them with all sorts of problems, such as alcohol problems, or perhaps a host of social

problems that required further intervention? Did the support services exist, or did it put an enormous strain on social services?

**Michael Gahagan:** Everybody can give examples of that, especially at the bottom end of the private rented sector. You have got to remember that some of those houses are dreadful, and sometimes, one-to-one, we have found people who have been missed by other safety nets, and you can put them in touch. That is sometimes an issue. Conversely, sometimes you get antisocial behaviour, which creates all sorts of problems in the area.

**Siobhan McCoy:** Similarly, in Liverpool, we are developing a joint project with our *Supporting People* service, so that when we identify vulnerable members of the community who may be in need of additional services, we can offer them support. We are working on that, and we predict that it will be much needed and a big success.

**Q105 Geraldine Smith:** Finally, may I ask about the impact on other, non-pathfinder areas? It concerns me, because my constituency has housing problems, and we find that, in the north-west, a lot of the money goes to the pathfinders and the regional housing boards. So what about the impact of pathfinders on outside areas? That is a real concern.

**Richard McCarthy:** We explicitly targeted the areas that experienced the greatest need. Indeed, we then rolled out the programme at a more modest level into places, such as Tees Valley, which asked for additional resources. Local authorities receive resources at regional level not only for new house building and investment in their stock, but some money for investment in private sector stock. It is down to local government and regional housing boards to decide how to invest that money.

We have focused on the most severe areas, and we are looking at how we can begin to connect to not only other regeneration programmes, but our investment in growth in some parts of the north. We are looking at how we can do that together, and we leave some resources with regional housing bodies to invest in private sector stock.

**Q106 Geraldine Smith:** This really will be my final question. We have mentioned VAT. Do you think that there should be a differential between demolition and refurbishment—yes or no? It seems to me to be extremely unfair.

**Michael Gahagan:** No, if you want an answer from me.

**Chairman:** You have been very patient, gentlemen. There will be a couple of quick supplementary questions arising from the evidence given to Mrs Browning and Mr Mitchell.

**Q107 Angela Browning:** Mr Housden, in 2009, the Department will hand responsibility for the scheme to the Homes and Communities Agency, so it is now effectively two years before you have to meet your targets. What would be the cost savings of handing over to the agency?

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**Richard McCarthy:** It is more about the benefits of bringing our investment streams together. We are not handing over the strategic responsibility of the Department or taking it away from Ministers. The agency will bring together the investment functions of English Partnerships and the Housing Corporation, both of which are involved in our pathfinder areas. We want to invest in the pathfinders through those bodies and take it to local government, and to connect it to investments made by English Partnerships and the Housing Corporation. We will look at local areas across the piece through one agency, rather, as can sometimes happen, three agencies turning up with different pots of money. We want to drive greater value for money from our investment and to see whether we can increase outputs and outcomes through the better co-ordination of our activities.

**Q108 Angela Browning:** So what will be the cost saving of the change in structure?

**Richard McCarthy:** I cannot give you the cost saving. We have developed a model that would show a £1 billion cost saving overall from our investment programmes for the first initial period, but I cannot translate that into a number for housing market renewal.

**Q109 Angela Browning:** I wonder whether we could have a note, because the Committee may well wish to talk to the Homes and Communities Agency.<sup>4</sup>

**Richard McCarthy:** It does not yet exist—the Bill was introduced only last week.

**Q110 Mr Mitchell:** By hook or by crook, I am the last in this book. Mr Housden, I have two points to make from the Report that I should like you to answer. Paragraph 4.8 states: “In some pathfinder areas speculative purchases by private sector landlords have contributed to the transient nature of communities with tenancy turnover of 30% in some cases”. Before that, paragraph 3.17 states: “a significant but unknown number of citizens from other European Union countries have moved into some pathfinder areas, such as Birmingham and Manchester, attracted by the relatively cheap housing. Such in-migration was not envisaged at the time of the programme’s establishment.” There we have two developments. Can you quantify the results of either or both of them and what contribution they make to social stability in those areas?

**Peter Housden:** In terms of migration, pathfinders keep a close eye on demographics of their areas as a whole. There are a range of factors, but increased household formation is one of the biggest single drivers of growth strategies and is important. One of the difficulties with the pathfinder areas is that they are relatively small and certainly smaller than the size at which official statistics are collected. Nevertheless, demographics are important.

I take the significance of Mrs Browning’s point in relation to speculation, and we take it seriously. It is difficult, however, to find mechanisms that will damp down speculation without harming the prospects of people who have owned property in an area on an individual basis for a long period. Both are caught in the same net, as it were, but we shall continue to explore ways in which to find such mechanisms. One of the ways, as Siobhan McCoy talked about, is to get the most appropriate time window, so that you are being clear about your intentions and moving forward on them as swiftly as you can to minimise the period of uncertainty. Both of those are important issues for us.

**Q111 Mr Mitchell:** Okay, but could you give us a note on the figures, or any figures that you have?<sup>5</sup> The second question was: what contribution do both developments make to social stability?

**Peter Housden:** Social stability is a key outcome for housing market renewal. One of the characteristics of the areas prior to housing market renewal intervention was very high levels of instability, with high numbers of people leaving the area and a high degree of unhappiness among those people in the area.

Mr Curry made a point about mixed communities. We very much embody that point as an aspiration for this investment and others. You pointed out the chart of the range of things going into Newcastle—there are plentiful opportunities to use public money to establish a sustainable community of people with decent employment prospects and decent transport, alongside decent housing.

**Chairman:** Thank you. I think we have been through this. Mr Williams has the last question about VAT.

**Q112 Mr Williams:** The same question to each of you, starting with Mr McCarthy: do you not think it utterly ludicrous that the correct structural decision might not be taken just because of the arbitrariness of the VAT system?

**Richard McCarthy:** I would welcome the freedom of a system that was more consistent in its approach.

**Peter Housden:** VAT is a matter for the Chancellor.

**Q113 Mr Williams:** That is not what I asked you. Would it have altered your decisions if VAT had not been operated as it has been by the Department?

**Peter Housden:** That is a different question. It is very hard to answer hypothetical questions.

**Mr Williams:** We have a would-be politician here.

**Michael Gahagan:** On the question of whether I would like to see a level playing field, I have already said yes.

**Siobhan McCoy:** We do not make decisions based on VAT; we make decisions based on what is appropriate for a particular neighbourhood.

**Q114 Mr Curry:** It is not a decision just for the Chancellor. Are you aware, Mr Housden, of any approach by the Government to Brussels to seek

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<sup>4</sup> Ev 32

<sup>5</sup> Ev 32

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more flexibility in reapplication of VAT to these projects, and what is the procedure in Holland or other countries with proven regeneration projects?

**Peter Housden:** I am not.

**Chairman:** You are aware now.

That concludes our hearing, and I am sure that that we will want to come back to the VAT point in our Report. I am grateful to Mr Williams for highlighting the point. Mr Wilson put his finger on it: obviously, matters have improved considerably in

pathfinder areas, but the evidence is not entirely clear how much of that is due to the work of the pathfinders. For instance, low demand for properties has fallen in the pathfinder areas, but not as quickly as it has in the rest of the country. Equally, you, Mr Housden, would no doubt argue that, but for your efforts, it would not have fallen at all. It is clearly a difficult Report that we have to grapple with.

Thank you very much.

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 Memorandum submitted by Jerker Community Action Group

I am a victim of the Pathfinder plan. I provided the NAO with evidence requested during the summer. I am part of an action group that has been fighting this vicious unfair plan from the start and this letter is on behalf of all within the Group.

Among our numbers are a couple well into their eighties, one partner has dementia and his wife does the caring, another is a war veteran aged 88 and another a widow aged 82. My husband and myself are 70 and 68 respectively, most of the people left fighting are well above pension or some are still in the process of paying off a mortgage.

I received and read the findings of the NAO and also the uncorrected transcript of the Committee meeting that took place on 19 November, I was pretty disappointed that the financial implication we face ie £35,000 shortfall didn't take more precedence in the debate. Were people at our time of life with no debt and on limited incomes discussed in all this and what is the real answer to people who have worked all their lives to buy their property, only to have it stolen from over our heads. We feel that we should have a voice alongside you and your colleagues and government ministers involved, we also feel that if we have to be rehoused it should be within our own community and at no cost to ourselves in any way.

3 December 2007

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 Memorandum submitted by Des McConaghy

This note refers to the NAO's Housing Market Renewal Report (HC 20). The C&AG has said it is unclear whether intervention has led to the improvement in the problems of low demand. But it is also important that the main deficiencies of the programme are fully understood in a historical setting since they point to Whitehall's perennial difficulties in organising a reasonably comprehensive response to urban and regional tasks.

The persistence of Whitehall's fragmentary approach to inner city tasks is amazing. For over 30 years their inability to take a holistic approach has added to management confusion especially in inner city areas where "across-the-board intervention" is obviously required. And this failure is absurd in any attempt at "housing market renewal". My criticism is no reflection on HMRA officials dealing with clients at the coal face—where haphazard arrangements and inappropriate and often uncertain funding just cannot provide a sensible interface with the market issues identified in the NAO report. Moreover the need to meet relatively arbitrary central targets within a bureaucratic mechanical ethos can throw local teams into conflict with their client groups: the balance between renewal and rehabilitation is just one factor which requires a very finely tuned local approach. But the blame for the persistent "bad copy" in the press lies with Ministers and with their senior staff.

So as a practical matter the focus must remain on Whitehall management. I refer to my letter of 20 March 2004 to the NAO at the time of the earlier Report on the "New Deal for Communities" programme (Annex A). Those same NDC failures now undermine the "Housing Market Renewal" programme (and Liverpool Kensington NDC is also a market renewal area). So my NAO meeting and correspondence deliberately focused on Whitehall's inability to fashion a cross departmental strategic response ("supply chain") for any such concentrated problems or indeed exceptional tasks such as the exemplified "Thames Gateway Project". And my analysis of this abiding Whitehall inability to fashion a "strategic" approach (and remedy!) was set down in February's issue of "Public Money & Management".

But it must also be said that few if any NAO reports on these matters have prompted any great improvement in the DCLG or its predecessors—or across Whitehall. And within the inner city areas Departments carry on as usual as they leap from one separate initiative to another. I believe this lack of response to the NAO and PAC is partly due to a familiar weakness in our public audit system itself since there is no systematic read across to our parliamentary supply procedure (itself a notoriously unsystematic and incoherent procedure). In any event the problem of fragmented action has continued—over three decades—and gets steadily worse!

The “Housing Market Renewal” Report is especially interesting by demonstrating how the DCLG pursues the physical or architectural tasks of urban renewal quite separately from any effective corresponding effort to improve the local economic environment. This is exactly why the C&AG cannot find “a direct correlation with low demand”. In the early 1969–72 Shelter Neighbourhood Action Project (SNAP) we saw how local housing markets relied very heavily on the local economic environment’s ability to improve real incomes. In this important respect there was little real success then—or indeed ever since then! But in the meantime the same equation was perversely reversed at Treasury and national policy levels; the “management of the economy” came to rely on debt financed personal consumption secured on the inflated value of existing and otherwise unproductive housing stock. This inevitably led to the present economic crisis.

Anecdotally it may be interesting to note that back in 1971 I was warned by Housing Minister Paul Channon that our pilot work in helping low income Toxteth clients to buy improved houses was in danger of encouraging them to assume responsibilities beyond their circumstances. This sub-programme was then just part of our multi-programme attempt “to arrange the rungs of the (betterment) ladder closer together”. And that particular programme was encouraged by a visiting young building society official with an interest in “market succession”. He later did well, and as the society’s general manager led its conversion to a limited public company: “Northern Rock”!

One important lesson is that housing real estate viability depends less on any physical characteristics of the housing stock and more on its occupiers. More specifically what counts is whether those occupants are succeeding or failing in terms of economic prosperity. For example if one took a “magic shovel” to any inner city block (even one condemned as unfit for habitation!) and lifted it, without disturbing a single brick, and placed it carefully down in Chelsea and Kensington, precisely the same block would immediately attract an astronomical market value. Conversely we can also create brand new housing areas but if the local economic base is deteriorating (and if the occupants are becoming more dependent) then that new housing and that physical fabric will also begin to deteriorate. Then, too, a local environment which loses its ability to satisfy even modest aspiration can face “abandonment”; an embarrassing phenomenon given a national housing shortage!

It was this same fear of “abandonment” (and dread of “municipalisation”) which frightened government and triggered the 1974 Housing Act’s reliance on housing associations—while ignoring the more basic need for comprehensive and integrated public action. Thirty three years later the HMRA were triggered by similar fears of abandonment but again without providing a coordinated response.

Back in “the sixties”, we often used local housing employment models to keep abreast of population characteristics in travel to work areas, and these included industry and employment profiles. Such exercises informed housing capital programmes along with industrial training and much else. We were lucky if they could project within plus or minus 12% margins of error in normal economic circumstances. But the sums were routinely done and so a certain rationality was brought to bear across both private and public sectors. Nothing similar seems to occur now in Liverpool. Vastly speculative (“hot money”) multi-storey housing continues to rise around the city centre right beside the inner city HMRA’s. They remain about 34% empty, seem very speculative and may rely on the continuation of rapid capital appreciation.

The adjacent HMRA’s remain relatively economically depressed, and often compete with other new publicly sponsored housing areas within the same travel to work area. There is a large question mark over the local economic environment. The Department of Work and Pension’s “City Strategy Pathfinder” has outsourced contractors’ work and this is really only a token gesture among the many competing public agencies. Indeed there are no less than 30 separate urban funding streams in Liverpool sponsored by no less than nine separate Whitehall departments. Government Office coordination at regional level is simply “tokenism”.

So the familiar criticisms of the DCLG and its predecessors still apply. And such problems could now be exacerbated by Whitehall pressures to outsource (or even offshore) many “shared services” across the country—which, whatever other benefits, can have a progressively adverse effect on the actual interface between many public services and local clients—as well as reducing the amount of control that should be rightly exercised by local elected members. Then again, certain plans to outsource the human resource management of the Whitehall home civil service itself could progressively discourage aspiring entrants at all levels. In any event, set against all this the DCLG’s recent announcements about “passing more power to town halls” must now be rigorously tested!

Specifically we must now see what is actually proposed for the new “Local Area Agreements”. As a civil servant in 1973 I personally arranged the first English “Area Management” experiment to be commissioned by Whitehall. This was known as “Liverpool District D” and it comprised 9.2% of the City’s then population. That effort was accompanied by trials less formally arranged throughout the country. In Liverpool the “Area Executive” and his team reported directly to the City Chief Executive. But it was doomed from the start because Whitehall would not agree (and Liverpool would not agree) to any Area Management control over public spending. The key task of budgetary co-ordination is now vastly more demanding given the proliferation of agencies involved and the still unresolved state of local government finance.

Finally we have an economy where massively inflated and otherwise unproductive housing stock has been used to secure unprecedented levels of personal debt and personal consumption. The folly of this (and with it the whole present sub-prime mortgage crisis) may now lead to a recession affecting all parts of the country. And in the meantime the “real level” of unemployment in Britain could be three times the official figure (Centre for Regional Economic & Social Research 2007) and we still face that same ever widening “North-South Divide” (IPPR 2007). Here in Liverpool we are still losing population—and the latest Rowntree Foundation Report shows us moving towards levels of inequality last seen back in the 1960s. The NAO’s Report correctly calls for better delivery systems and I hope the Public Accounts Committee will prompt a very firm Executive commitment to adequately conceived and adequately financed cross departmental delivery systems.

## Annex A

### LETTER FROM DES MCCONAGHY TO NATIONAL AUDIT OFFICE

We met on 17 March to discuss the need to relate NDCs to mainstream programmes and to the co-ordination of mainstream programmes at regional and national levels. This very brief aide m€moire simply lists the main items raised.

**Endemic Fragmentation.** Any 30 year review finds that the fragmented nature of government action in deprived areas is endemic; an inability to “contextualise” and effectively relate action to main programmes creates misunderstanding and friction and it impedes effective delivery. The NDC programme is no different.

**Absence of Strategic Funding.** The general ability to co-ordinate (wherever and whenever co-ordination is required) needs a clear definition of multi-level and interdepartmental strategic funding. Its absence handicaps every attempt at co-ordination by projects, councils, strategic partnerships, ROs and RDAs.

**Recent Reports.** NAO’s “Success in the Regions” Report provides the context for your NDC Report. But the RDAs and ROs exhibit the same absence of co-ordination and strategic funding. The ODPM Committee’s April 2003 Report on “Regeneration Initiatives” (which included NDCs) reiterated this perennial concern about fragmentation and lack of co-ordination. (The ODPM’s “ABI Guidance to Departments” is just exhortation without clear funding principles).

**Related Exceptional Tasks.** The “Thames Gateway” and “Northern Way” were noted as other exceptional development proposals—and with potential positive and negative impacts on deprived areas of “parent cities”. But we can be sure of little in the absence of a clear inter-departmental strategic funding definition. The creation of many ad hoc new agencies cannot address this strategy gap.

**Wider C&AG Implications.** The government’s recent welcome change of emphasis from central command and control to decentralised decision making may also encourage further fragmentation in the above absence of clear rules for the operation and control of strategic funding. Clearly this can also limit post hoc (and ad hoc) public audit to equally fragmented and partial reporting—especially if “strategic” aspects may be regarded as matters of “policy” beyond the ambit of strict financial audit.

This problem finds its mirror in the absence of any clear definition of strategic funding within the Parliamentary Supply procedure. It suggests that Parliament could ask the C&AG to improve his Comptroller function in this respect as an alternative to the present notoriously unsystematic and incoherent procedure.

In conclusion I think I was able to give you an accurate description of the persistent obstacles to real progress over three decades and indeed why our most deprived areas always point to the above general deficiencies in our overall governmental apparatus.

20 March 2004

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### Memorandum submitted by Neighbours Against Demolition

*What has been the effect of Housing Market Renewal Initiative (HMRI) on levels of supply, demand and availability of social rented housing (SRH) in Pathfinder (PF) participating local authorities?*

NAO/HMR 9-11-07 at para 6/p31 states, "HMR/PF's, have a higher concentration of social (& private) rented housing." The report makes no further reference to the issue. Social rented housing lies within the multi-level, multi-factor complex dynamics of housing market analysis, but nevertheless should be identified as a separate issue for investigation.

*What studies has DCLG commissioned to monitor and evaluate the continuing effects of HMR programme on SRH?*

#### BACKGROUND

1. PAT 7 Unpopular Housing 1999, reported low demand with prevalence in private sector and significant levels in LA and RSL stock in the North West Region.

2. CURS Report M62 Corridor Study/February 2001 was commissioned by social rented housing providers on the basis of increasing vacancies and high turnover of some stock in the sector. CURS found patterns of changing demand for housing from inner urban to suburban and from SRH to owner occupation, leaving areas characterised by predominance of one tenure, large scale provision of a single dwelling type, together with socio-economic and demographic factors.

3. CURS concluded that "neighbourhoods at risk (of changing demand) are predominantly social housing areas." Their analysis also demonstrated "an almost perfect statistical relationship between fall in male unemployment and the fall in waiting lists for social housing 1992-99." Their main recommendation was a "strategic restructuring of housing markets."

4. ODPM/April 2002 announcement on creation of HMRI Pathfinders, expressly included the need to address long term voids and low demand in social rented housing stock within the programme for restructuring housing markets. ODPM had published the Decent Homes Standard by 2010 for all SRH stock.

#### CURRENT PATTERNS OF CHANGE

5. The North West Region contains 4 x HMR PF's. Regional Policy documents from 2000 onwards incorporated issues of changing demand, low demand, obsolescence, unfitness and disrepair.

6. North West Regional Housing Strategy 2003 (NWRHS) showed the Region contained the highest proportion of empty property in England at 4.5% of the stock across all tenures, with low demand affecting 14.7% of the Regions homes. The NWRHS 2003 & 2005 prioritised the HMR restructuring programme.

7. The DCLG statistics for the NW Region show:

- In 1999 total social rented housing stock was 666,818, contained 25,700 voids with a waiting list 118,829 (households).
- In 2001 the social rented housing stock was 640,606, voids were 28,651 and the waiting list was 112,405 (households). 2001 had the lowest waiting lists figure.
- By 2006 the stock had reduced to 590,756, the voids reduced to 16,764; the waiting list had increased to 217,397 (households).
- Between 2001 and 2006 the social rented housing stock has reduced by 49,850 (7.8%), voids have reduced by 11,887 (41.5% of voids) and the waiting list has increased by 104,992 households (93%).

8. The NewHeartlands (NH) Pathfinder/Prospectus/October 2003/Executive Summary employing the CURS indicators stated that "significant parts of Merseyside have seen a collapse in their local housing markets". These areas are "characterised by low value, monolithic terraced housing with a low level of owner occupation housing with higher levels of social housing and generally high levels of private rented stock . . . (with) symptoms of high vacancy levels, abandonment, sluggish market conditions and physical and environmental decay linked with wider economic malaise."

9. NewHeartlands Scheme Update 2005, shows the tenure profile in the local authorities HMRI Intervention areas 2004;

- Liverpool CC- Private 51,358 (62.1%), Social 31,343 (37.9%), total households at 82,701.
- Sefton MBC- Private 14,626 (63.6%), Social 8,376 (36.4%), total households at 23,002.
- Wirral MBC- Private 14,460 (61.1%), Social 9,187 (38.9%), total households at 23,647.

Total stock tenure profile; Private is 80,444 (62.2%), Social is 48,906 (37.9%).

10. NH Prospectus 2003 p.51, HMRI intervention in these areas through new housing was to achieve a restructuring 70% owner occupation and 30% affordable housing.

11. In 2001 NH total social rented housing stocks in Liverpool, Sefton & Wirral was 114,528, with a waiting list 17,172. By 2006 social rented housing stock had reduced by 11,936 to 102,592 (– 10.4%) and the waiting list had increase by 21,708 to 38,870 (126%).

12. Sefton MBC HMRI in NH Prospectus 2003, “displays many of the characteristics of low demand—supply is dominated in places by monolithic provision of pre 1919 terraced housing—market decline is evident in increasing vacancies, high RSL ownership and private landlord activity: local neighbourhood markets are sustained by an overwhelming local population.”

13. Sefton MBC appointed consultants in April 2001 and, using the CURS indicators, identified seven areas of pre 1919 terraced housing. Sefton Appendix to NH Prospectus 2003 showed overall dwelling vacancy levels was 7.6%. Long term voids were 4.1% LA stock and 3.3% in RSL stock. of 3.3%. However “low demand” extended to 60% private dwellings, 18.5% LA dwellings and 54.6% in the RSL dwellings.

14. Whilst PF house price analyses remains focused on comparisons to and differentials with external Regional/ National indices (NAO /table 14–15 page 22–23/GONW August 2004), house price inflation within Sefton is significant and is sustained so far. Sefton MBC Housing Needs Surveys 2003 & 2005 clearly demonstrated the impact on affordability and increasing need for “affordable housing” ie social rented housing.

15. The HNS April 2003 for Sefton MBC including HMRI area, at p. 62 showed 38.9% of households in existing need and 49.6% of newly arising need, were unable to afford to buy or rent in the market. P. 64 showed a shortfall of 986 pa social rented housing units in the middle and north of the borough (from Waterloo to Southport), with a surplus in Bootle HMRI area of 120 units pa and a surplus of 244 units pa in the pre/post WW2 suburban estates to the east of the borough. The overall net need of 622 pa social rented housing units.

16. By HNS August 2005 minimum house prices in Bootle had increased by 118%, compared with 68% across the rest of the Borough. Affordable housing needs had doubled to 1,261 pa for the whole Borough because of price rises and also because of the decrease in availability of social rented housing stock taken out of letting by RSL’s in HMRI programme (HSSA shows a net loss of 844 SRH units from April 2002 to April 2004).

17. The HNS 2005 survey at p. 23 (Affordability & Tenure) showed households unable to afford market housing: 24.5% of all Sefton households, 84% of all SRH households, 73% of all private rented sector households and also 11.3% of all households with a mortgage. The figures for Bootle HMRI shows 39% of all households, 82% of SRH households, 76.7% of PRS households & 7.9% of all households with a mortgage were unable to afford market housing.

18. The Sefton MBC HNS 2005 used the ODPM March 2005 draft guidance on mortgage affordability test of 3.5/2.9 (single/dual income respectively) to assess affordability of access to market housing. NHF/ Home Truths/ November 2007 shows that the Sefton ratio in 2006 is now 10.

19. A core outcome in the Sefton MBC Appendix to the NH Prospectus 2003 approved ODPM February 2004, was to restructure the tenure profile of the 22,090 properties in the HMRI area from 47% owner occupation, 16% private rented sector, 37% social rented housing, to 70% private dwellings and 30% social rented. The Scheme Update 2005 (schedules A & E), confirmed this tenure restructuring by a net increase of 18,117 (30%) in private sector dwellings and by a net reduction of 767 (9.4%) in social rented sector for the whole life programme.

20. The Regional/National tenure profile is claimed to be 70:20:10. Sefton MBC’s tenure profile at 2005 was 76:15.7:7.9 ie An oversupply of OO, an undersupply of SRH. The SRH stock of 37% in the HMRI area contributes 45% of boroughs total SRH stock comprising the 15.7% tenure of SRH. Reducing that SRH to 30% in the HMRI area will have a substantial impact on the overall supply of SRH in the borough. There are, of course off HMRI plan developments.

21. Sefton MBC/Interim Planning Guidance Committee Report May 2007, acknowledges that the amount of affordable housing in the HNS 2005 survey cannot be met as the 1,261 units pa exceeds the annual average of new dwellings permitted by RPG13. This is a function of the housing restraint policy and it is to focus development in urban priority areas and to aid the HMRI implementation.

22. Sefton MBC/Interim Planning Guidance June 2007 at Appendix 2, “the key issues in South Sefton are not so much to do with low demand and the abandonment of the existing housing stock . . . but . . . an unbalanced housing market with a very low proportion of owner occupied properties and a very high proportion of social rented properties compared with the rest of Sefton and regional and national averages.”

## APPENDIX 1

## SOCIAL RENTED HOUSING STOCK &amp; WAITING LIST IN NEWHEARTLANDS LOCAL AUTHORITIES

## SOCIAL RENTED HOUSING STOCK

<i>Local Authority Area</i>	<i>2001</i>	<i>2006</i>	<i>% Difference</i>
Liverpool			
Social Rented	32,259	43,799	36%
Local Authority	35,859	17,379	- 52%
Total	68,118	61,178	- 10%
Sefton			
Social Rented	6,866	7,466	8.7%
Local Authority	15,087	11,472	- 24%
Total	21,953	18,938	- 14%
Wirral			
Social Rented	8,150	22,476	176%
Local Authority	16,237	0	0%
Total	24,387	22,476	- 8%
Total	114,528	102,592	- 10.4%
HOUSING WAITING LIST			
Liverpool	4,696	12,924	175%
Sefton	4,605	12,694	176%
Wirral	7,861	13,252	69%
Total	17,162	38,870	126%

19 November 2007

**Memorandum submitted by Cllr Steve Radford, Leader Liberal party Group  
Member of the Liverpool Housing Scrutiny Committee**

May I express our thanks for your recent report and investigations into the Pathfinder project.

I would like you to explore the following key concerns that have troubled myself and others in Liverpool, which are in our view, dysfunctional impacts of the way pathfinder is being rolled out in Liverpool:

The demolitions are reducing the supply of affordable housing and pushing thousands onto the waiting lists for public authorities. In Liverpool I believe our property pool lists has grown from 7,500 to 18,500 in three years. By the rules of market supply and demand pathfinder, better to be named housecrusher, reduces the supply of homes and increases demand. The conclusion must be rising prices. however in a low wage economy like Merseyside this puts houses out of the reach of many local residents.

In the demolitions areas with an average wage of £10,000 how many people can afford the new homes at £120,000. The real problems of the area are a reflection of a low wage economy not a reflection of the Housing Stock. Demolishing the housing of the poor does not remove poverty.

Housecrusher is penalising the working class owner occupiers, who after being forced out by blight, and few of CPO are often £30,000–35,000 worse off after being moved into like houses in neighbouring areas.

As a member of the housing committee I have been led to believe the current three year programme of demolitions will add 3000 people to be displaced into other social housing.

The unique level of 9% city wide vacancies is not being assisted by pathfinder but aggravated by pathfinder. The blighting of areas targeted for demolition creates an area of long term vacants which them immediately deflates normal market interest in adjoining streets in densely populated working class terraced districts.

As a consequence of population decline with clearance community facilities are undermined. school rolls drop and mergers are forced, local small businesses go bust.

To use the phrase is “the medicine worse than the illness its supposed to cure”?

All my efforts to encourage alternative programmes in renovation as a cheaper and less divisive policy approach appear to have fallen on deaf ears.

Lastly I would challenge the genuine nature of the consultations in Liverpool.

To use an example Prescot Road and Prescot Drive, Fairfield, previously in my ward, where targeted for decanting. At no time were we as ward councillors or local residents immediately effected consulted over the decanting policy. This programme became self evident by its destructive influence, the housing associations and council then discovered they had insufficient monies to progress this area which was by now utterly blighted.

I appreciate your report is not just focussed on Liverpool, however I as a tax payer find it unbelievable that so much money is being poured into destroying houses and communities. In particular when six out of seven of these houses are structurally sound according to evidence given at recent Inquiries.

If Liverpool Pathfinder and City Council do not readjust their policies of whole scale demolition and instead cater for the needs of a low paid economy where people should be able to afford to remain in their communities, then I urge that the moneys given to Liverpool New Heartlands should be dramatically reduced.

The only clear beneficiaries now are the four national house builders who have an effective monopoly over their sector of the inner city for the purchase development of significant land sites, this restrictive practice being at the exclusion of local building companies.

19 November 2007

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#### **Memorandum submitted by WDC Residents Association**

What a shame you had to cancel your visit to Liverpool to meet residents of the Welsh Streets.

You would have seen for yourself how many have already moved out and into better housing be it new-build at Clevedon Park, just a few hundred yards from former homes in the Welsh Streets or into refurbished properties, still within the community but in surrounding streets. No doubt you and others have been swayed by the vociferous anti-demolition group's plethora of misinformation published by the various media, about this area.

The opposition to the Pathfinder programme for this area only became involved at the end of 2004, when the instigator of their campaign realised that her Kelvin Grove property was in the demolition zone. The main focus of their group throughout their continuing campaign is only concerned with Kelvin Grove properties, they do NOT represent the wider community. In fact the community is very angry that their group has spread vicious rumours to further their cause and solicited support for their campaign throughout the country, by intimating that they represent the wider community and delaying the process. It is not happening fast enough for this community and you would find the same view expressed in other area of Merseyside, particularly Liverpool.

One ploy they used being to call themselves the "Welsh Streets Home Group", causing confusion by circulating flawed information, which residents believed to come from us, the Welsh Streets Steering Group.

Our group have worked, as volunteer Street Representatives, with the Pathfinder, for the past five years, to ensure that the Community understood all that regeneration of the area entailed, including demolition and by regular newsletters informing all residents of progress of the proposals, together with holding regular monthly forums & five Vision Events. Poor attendance at meetings being that residents were apathetic or didn't think it would happen, as these properties were due for demolition in the 1970's, which didn't happen, many thought this programme just another rumour.

However in the last couple of years the community realised it could happen and the area could be revived, this was shown in 2005 by over 250 residents taking placards to the Town Hall, to demonstrate to Liverpool City Council Select Committee that we are all in favour of demolition.

The Princes Park Pathfinder covers a large area and only 11 streets are due for demolition, the surrounding streets will be refurbishment. These houses were unable to be sold a few years back, as no one wanted to live here, though many current residents have lived here all their lives from when it was a decent place to live. The Pathfinder programme gave those few long term residents, who aspired to move to other areas of Merseyside, the opportunity & means to fulfil their dreams.

The majority of residents wish to stay in the area, as we have always had a very good community spirit here and hope for it to continue, one of our stipulations to the Pathfinder & Associates being that the community be kept together. This is happening, as the 100 of us who have moved into the new properties at Clevedon Park are all former neighbours from the Welsh Streets.

We just wish the media would take a more balanced view of the programme by interviewing & publishing the views of those residents in favour of the programme.

Politicians say they listen to the people, they may listen but don't listen properly to what people need.

19 November 2007

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**Newheartlands' comments on memoranda submitted to the Committee**

**WDC RESIDENTS ASSOCIATION**

No comments.

**LIVERPOOL HOUSING SCRUTINY COMMITTEE**

The comments put forward in the written submission have not been discussed by Liverpool City Council's HMRI Scrutiny Panel and there was no sign up to such a submission at the last meeting of the panel.

- Property pool lists grown from 7,500 to 18,500 in three years.

The Council and the RSLs in the City have been amalgamating their housing waiting lists through PropertyPool, and are working to adopt a common list. This work is ongoing, and as RSLs have joined the list, the gross number of households on the waiting list has grown as each RSL has brought their own list. Before the move towards a single list, applicants could be registered on a number of waiting lists, giving an inaccurate picture of housing need and demand across the City. However, throughout this process, the number of people on the Council's waiting list has remained relatively constant, and the increased numbers of people on the PeopertyPool list reflect the addition of the RSL waiting lists. Work is ongoing to review these registers with a view to eliminating double or even multiple counting.

- Demolitions areas—average wage £10,000?

In 2006, the average household income for Liverpool HMR (excluding city centre) £22,467.

In 2006, average household income for NewHeartlands (excluding city centre) £22,810.

In the financial year 2006–07, the average cost of a new home across Pathfinder was £117,017.

- Those affected by CPO £30,000 to £35,000 worse off after being moved into houses in neighbouring areas.

To date there have been few problems re-housing residents affected by clearance with 50% able to access a high street mortgage product and shared ownership being very popular. NewHeartlands continues to pursue a range of measures to ensure as many residents as possible can access the housing market. These include:

- National Affordable Housing Programme.
- Recycled Capital Grant Fund.
- Section 106 agreements where appropriate.
- Planning policies and individual development agreements.
- Empty Dwelling Management Orders.
- Intermediate/shared ownership products.
- 9% city wide vacancies?

Liverpool's HMR Area shows an average of 9%, city wide vacancy rate is 7%.

- Current three year programme of demolitions will add 3,000 people to be displaced into other social housing.

We are unclear where these figures have come from. Our records show that the majority of owner occupiers displaced by clearance remain in owner occupation.

- Liverpool consultation issues.

With regards to consultation in general, the NAO case study on the Welsh Streets clearly demonstrates the extensive and long-term nature of how the City Council and its partners undertake community consultation and engagement on schemes.

- Final para re: only clear beneficiaries are the four national housebuilders.

NewHeartlands' constituent local authorities have entered into long term agreements with national housebuilders for each of their priority intervention areas. Their appointment as lead developers followed a competitive process and this approach has been adopted to ensure that developments would be brought forward in areas in which there had been little or no private

housebuilding over the last 30 years. These agreements can last up to seven years subject to performance (and may be automatically renewed). These agreements commit the lead partners to develop new housing on packages of sites which are put to them by the local authority.

An increasing number of sites are being brought forward by private developers, which would not have been viable without the confidence created by the areas' Housing Market Renewal status and on some occasions where the Pathfinder has played an enabling rather than a direct funding or land assembly role.

Whilst lead developers are in place, this does not prevent other housebuilders from investing and developing within the Pathfinder. The development under construction of Bootle's first ever high rise apartments for sale block, Stella Nova, by developers Dreaming Spires is one such example. Each local authority has adopted planning policies which direct new development to the HMR areas, and which are helping to bring in additional investment eg Wimpey, which is not a lead developer, is looking to build in the Wirral HMR area.

## NEIGHBOURS AGAINST DEMOLITION

### 1. *The Status of Neighbours Against Demolition (NAD)*

1.1 The status of "Neighbours Against Demolition" (NAD) was discussed during the Public Inquiry held during July 2006 into the Bedford Road and Queens Road (No 1) Compulsory Purchase Order 2005, which has subsequently been confirmed by the Secretary of State for Communities and Local Government, following a High Court Challenge to its validity. NAD was a small group of no more than 20 like-minded people who opposed Housing Market Renewal activity in south Sefton generally and the Priority Intervention Area of Bedford / Queens specifically. The group has no formal membership, never became constituted nor held regular meetings. The number of people "affiliated" to NAD has decreased rapidly over the past two years. It is thought that NAD now comprises of three people, none of whom have ever lived within the areas subject to HMRI intervention in south Sefton.

### 2. *Impact on Social Rented Accommodation*

2.1 In terms of analysis of the provision of social rented accommodation, the presence of the Pathfinder assists to provide a comprehensive statistical data-base on all aspects of housing supply, via the GIS based Asset Management Projects that operate across the Pathfinder area. Newheartlands are in the process of commissioning research to enhance the range and quality of housing market data in south Sefton and Wirral in order to bring it to the detailed and comprehensive standard of Liverpool and thus further enhance knowledge and understanding of housing markets across the Pathfinder area. During 2006, the Pathfinder commissioned further research to analyse housing market demand across the area in order to further understand the requirements for future housing supply.

2.2 The primary responsibility for ensuring that an adequate supply of appropriate housing is delivered lies with the Local Authority. Sefton Council has recently refreshed its housing needs analysis and has identified an increasing requirement for affordable housing. The Borough's housing strategy is currently being re-written and its policies and priorities will reflect the need to meet the demand for affordable housing. Interim Planning policies already reflect the requirement for affordable housing and the forthcoming Local Development Framework (LDF) will reflect identified need within the borough as well as reflecting new and emerging national policy, as outlined within the recent Housing Green Paper.

2.3 Therefore, the presence of the Pathfinder has assisted in developing a complex and sophisticated knowledge of housing markets, including the supply of and demand for social rented accommodation. This knowledge, together with commissioned research has assisted to develop an extremely effective, proactive approach to cross tenure housing provision.

2.4 Furthermore, the Pathfinder's aim is to reduce the requirement for social rented /affordable accommodation by improving the economic situation of local people, thus reducing reliance on public subsidy in terms of benefits and housing. This point is reflected in the submission by Mr McConaghy to the Committee.

### 3. *CURS Report*

3.1 The CURS report was commissioned by a wide range of housing related organisations including Local Authorities, Registered Social Landlords, Government Agencies, Housing Corporation, National House Builders Federation to seek reasons for and solutions to extreme low demand and not, as NAD contend, by social housing providers.

3.2 The report identified a number of criteria linked to low demand that affect both private and social rented housing.

3.3 The creation of Pathfinders sought to address extreme low demand across all tenures. It is no coincidence in south Sefton that areas of high RSL ownership—where low demand properties were acquired and refurbished by Housing Associations in order to extend their life in the 1980's—are now the same areas suffering market failure. The absence of a “re-development” centred tool due to negative connotations associated with “clearance” during the 1960's, led to refurbishment being utilised as the key tool for tackling low demand. Housing Associations provided an important element of this solution, by accessing 100% grant funding via the housing Corporation to acquire significant numbers of low demand dwellings in both of Sefton's key intervention areas, where RSL ownership exceeded 50% of all stock at the commencement of HMRI. Put simply, policies focussed upon refurbishment during the 1970's and 1980's used RSL ownership as a key funding source for refurbishment, whether or not there was ever demand for 50% owner occupation in such areas. Indeed, for most of the past 30 years, RSL's have been forced to relax their lettings policies in order to sustain these properties, despite refurbishment. By “relaxing” policies, it is meant that RSL's allowed under occupation and not, as it is sometimes suggested, allowing “anti-social” or undesirable tenants to occupy property without appropriate references and checks).

3.4 It is common to find areas now subject to HMRI re-development have previously been the focus for three or more refurbishment initiatives since the 1980's that have achieved their ultimate aim of extending the life of such property but have clearly failed to deliver sustained regeneration.

#### 4. *Current Patterns of Change*

4.1 The statistics provided by NAD reflect the excellent work that has been achieved by the Pathfinders to reduce the proportion of low demand and vacant stock across the north-west. The increase in demand for affordable housing in latter years—reflected by an apparent increase in “Need” (not all Local Authorities, Sefton included, any longer operate a formal waiting list)—reflects the significant increases in house prices that have made owner occupation increasingly difficult to achieve, thus increasing the need for affordable housing.

4.2 As identified in 3.3 (above) The provision of such a high proportion of social rented accommodation in both intervention areas in Sefton does not reflect demand for social rented accommodation in those areas either at the time it was acquired by RSL's or indeed now.

4.3 The key objective of HMRI is to provide balanced housing markets and this is the rationale for targeting clearly identified areas of housing that is subject to market failure, often with more than 50% rented accommodation and seek to re-develop on the basis of a balanced tenure mix which, is identified as 70% owner occupation and 30% social rented within confined geographical areas. This will reduce the overall proportion of social rented housing in south Sefton overall by a very small amount but will not skew supply so as to fail to meet demand.

4.4 For instance, in the Bedford / Queens neighbourhood, re-development of circa 250 units, of which 55% are rented accommodation, will facilitate their replacement with a similar number of new homes, comprising 70% of units for sale and 30% for social rent, thus reducing the raw number of rented units by circa 62 units in a neighbourhood of over 3,500 dwellings.

4.5 Furthermore, the retention of obsolete, low demand social rented accommodation in areas such as Bedford / Queens would have done nothing more than create areas of housing of “last resort” that are occupied for no other reason than a lack of an affordable alternative. This indeed was the situation prior to HMRI intervention, evidenced by low demand and high turnover and the need for RSL's to relax lettings policies to allow under-occupation in order to artificially sustain demand. Sefton's HMRI strategy is about providing quality and choice and is not about retaining stock that is not wanted in order to force those without choice to occupy property they do not wish to occupy in areas that they do not wish to live in. Indeed, Sefton's Choice Based Lettings approach no doubt emphasised the undesirability of accommodation in our key intervention areas since it was introduced.

4.6 The numbers and tenure of new-build units in south Sefton, together with identification of areas for refurbishment have been carefully assessed to ensure that they not only meet the requirements of all households requiring re-housing as part of HMRI proposals but which will provide sustainable, high quality and desirable neighbourhoods, meeting the needs of future communities.

4.7 HMRI Pathfinder authorities are tasked with constantly reviewing their proposals to ensure they remain relevant. In the areas where re-development intervention is taking place, the proposals were reviewed as part of the development of the 2007 Business Plan and remain relevant. Indeed, HMRI has done much to replace outdated obsolete and low demand social housing with high quality accommodation, both refurbished and new build. For example, during the 2006–08 Housing Corporation programme £12.9 million that delivered a total of 227 units of affordable accommodation, exceeding by far previous allocations to Sefton.

4.8 It is of course, natural that Sefton's policies will continue to evolve as circumstances change and new policy arises. However, the rationale behind the creation of the Pathfinders remains robust and is work in progress. Pathfinder activity seeks not only to address housing market imbalances but assists in the essential renewal of the housing stock as well as developing new and innovative means of improving the condition and popularity of the retained Victorian housing stock, the vast majority of which does and will continue to, provide a key element of local housing markets.

4.9 Pathfinder activity is also assisting to diversify the social structure of an area, thus reducing overall deprivation and reliance on state benefits, increasing affluence and disposable income, sustaining local businesses, reducing the reliance on greenfield development and the private motor vehicle as main mode of transport whilst assisting to provide housing for the employees who will be needed to meet the increasing need of employers to fill new jobs that will be available within the Liverpool City Region.

4.10 In conclusion, it is acknowledged that "stress" will be created by the necessary activity of the Pathfinder. However, it is significantly less than the stress that would have occurred if intervention had not taken place and the decline that had taken firmly hold in areas such as Bedford / Queens had been allowed to continue. Appended to this note is a summary of the activities undertaken by one of our lead RSL partners in one of our key intervention areas, to minimise "stress" on local communities. This would not have occurred but for the activity of the Pathfinder.

#### LIVING THROUGH CHANGE: THE KLONDYKE COMMUNITY: TACKLING STRESS THROUGH COMMUNITY SAFETY AND VULNERABILITY INITIATIVES

Breathe + is South Sefton HMRI's partner RSL for the Klondyke Estate, and area of around 800 "2-up-2 down" back-of-pavement terraced houses which are to be demolished and redeveloped in phases over a period of 10 years. The first new homes have been completed, and residents are moving to their new homes.

As well as providing new social rented and affordable shared ownership homes for households displaced by redevelopment, Breathe + also has a base in one of the vacant houses in the middle of the area, staffed full time, from where they provide support and advice on rehousing and other matters, as well as working with the community, with financial support from the HMRI programme, in tackling residents' issues, and working to mitigate the adverse effects of change on the community.

These examples—amongst many—demonstrate the kind of small-scale street level work being done throughout NewHeartlands to respond to the pressures on residents, and to mitigate stress. This was recently identified by the National Audit Office as an issue to be tackled. We are doing so!

#### STREET LIGHTING

Street lighting in the Klondyke Estate is rudimentary, and consists in the main of wall mounted lamps, there being no room within the narrow Victorian streets for more traditional lamp posts. As a result, without light spillage from the living rooms of houses in the street, lighting levels are inadequate. As properties have become void, there is less of this incidental lighting. Residents expressed concern about the levels of the street lighting and their consequent fear of crime. So, in March 2007 additional lighting was installed to the fronts of the properties in Staley, Humphrey, Willard and Glynne Street within the redevelopment area. The additional lighting operates using a system that provides additional lighting between dusk and dawn. This will be re-used on later phases in due course.

#### LIFELINE PHONES

In April 2007 BReathe + undertook a survey of residents to identify those who are vulnerable. From these surveys, the most isolated and vulnerable residents were offered a lifeline phone. So far 10 lifelines have been installed and a further 2 are planned. The cost of the phones and the monitoring charge is being met through the Living Through Change budget.

#### REDUCING FIRE RISK

BReathe+ commissioned a School Fire Liaison Officer to be based in St George of England's school during the academic year 06/07. The Fire Officer spends one day per week at the school mentoring young people and building relationships between the Fire Service and young people. It is hoped this increased relationship will reduce the chance of arson attacks on void properties being started by young people.

## RESPECT ACTION WEEK

During the week beginning 17 September 2007 BReathe+ organised a Respect Action Week involving a number of agencies. During the week the following was achieved:

- 1 arrest for intent to supply controlled drugs.
- 1 arrest for possession of a controlled drug.
- 3 on the spot fines issued.
- 8 vehicles seized.
- 8 requests to produce driving documentation.
- 14 truants stopped, seven returned to their schools.
- £75,000 of council tax arrears pursued.
- 127 Housing Benefit verifications.
- Graffiti removed from 15 telecom boxes, one sub station and the gable ends of five properties.
- Every property in the core demolition area was visited by the Fire Service.
- Every property in the core demolition area was visited by Merseyside Energy Advice Service.
- 43 young people were engaged with by Youth Services.

## MINIBUS

As part of a Post Office review of sub-post office provision, and despite opposition from HMRI, the local post office was closed. This has resulted in older residents having to travel further to collect their pensions. Due to this extra distance older residents had not been collecting their pensions on a weekly basis. Instead they were visiting the post office on a 2/3 weekly cycle and are collecting larger sums. This makes them more vulnerable to robbery. Following two distraction burglaries, a number of older residents informed BReathe+ that they were uncomfortable about carrying large sums of money back from the post office. In response BReathe+ organised a free bus service to the local post office to coincide with a local church coffee morning. Residents are able to socialise before taking a bus to the post office and being dropped home. For added security the Police Community Support Office has accompanied the residents on this journey.

## ANTI SOCIAL BEHAVIOUR

On 19 October 2007 Merseyside Police's dedicated Anti Social Behaviour Team, Axis, carried out a day-long operation in the Klondyke neighbourhood. This was the first time the Axis team had been deployed in Sefton and the only the fifth time such an operation has been carried out in Merseyside. In addition to high profile policing 20 offenders were targeted and arrested. A quantity of drugs, weapons and stolen goods were seized. Whilst partner agencies such as Sefton's ASB team, DVLA, Customs and Excise, Benefits Agency, Court Service, Fire Service, Utility Companies and TV Licensing also took to the streets. The message from the day was unanimous that any form of Anti-Social Behaviour would not be tolerated. The operation has restored the confidence of local people in these agencies.

## VOLUNTEER VISITORS

BReathe+ have been working with a number of local churches to establish a volunteer based visiting service for the most vulnerable residents living in the Klondyke neighbourhood. CRB checks are being carried and the volunteers are to undergo training in December 2007 before the scheme goes live.

## INTRUDER DETERRENDS

BReathe+ are also currently working with the Police and Sefton ASB team to install a Smart Water sprinkler system to vacant properties in the Klondyke to deter, and catch those responsible for thefts from vacant properties. This is the first time Smart Water will have been installed in this manner by Merseyside Police.

## *Des McConaghy*

The only inaccuracy we would like to amend is:

- P2 4th para, last sentence, “. . . multi-storey housing . . . around the city centre . . . remain about 34% empty”. The City Centre vacancy rate at March 2007 was 17.7%

30 November 2007

**Supplementary memorandum submitted by the Department for Communities and Local Government**

Question 57 (Mr Austin Mitchell): *ow many affordable homes will be built on the Newcastle brewery site*

Bridging Newcastle Gateshead acquired part of the brewery site to provide family housing as part of a wider mixed use scheme of development with Science City at its heart. Following acquisition of the remainder of the site by the Regional Development Agency, Newcastle City Council and Newcastle University, it was agreed that a comprehensive masterplan would be needed to provide the framework for this area of major change and subsequent regeneration. The masterplan would effectively achieve mixed use development, building on the strength of the City Centre (to the east) and providing social and economic benefits for the residents of neighbouring areas (to the west) receiving housing investment from BNG and the Arms Length Management Organisation (ALMO).

The masterplanning work began in early 2007 and will be completed in February/March 2008.

The latest proposals emerging from the masterplanning work suggest that there will be approximately 450–500 homes included in the redevelopment. The mix and level of affordability has yet to be set, but will be determined by Newcastle City Council's Housing Strategy, its emerging Core Strategy and the funding plan for the overall scheme.

Question 109 (Angela Browning): *What cost savings might be realised from changes in structure with the creation of the Homes and Communities Agency*

Details about the future role of the Homes and Communities Agency (HCA) in relation to the housing market renewal programme have yet to be finalised.

However, the option appraisal by the department into the creation of the HCA sets out the costs and benefits of both modernising existing structures and of moving delivery functions into the new body.

In terms of the work in relation to mixed use regeneration, which includes Housing Market Renewal, the largest benefits would come from allowing all the programmes within the workstream to invest in the early stages of a project, allowing a single project appraisal approach.

Other benefits would include bringing together land and grant streams more efficiently, and creating a single point of contact for partners. This would also enable better information sharing.

At present, it is not possible, however, to quantify the level of savings these efficiencies might bring.

Question 111 (Mr Mitchell): *What data is available about either (i) speculative activity and its contribution to high turnover, or (ii) immigration, particularly from EU Accession states*

All pathfinders are aware of some speculative activity in their areas, but believe this to be of a fairly limited extent. Some speculation may have traditionally taken place in these areas before the housing market renewal programme began, because of the low price of the houses, and particularly when properties were exchanging hands for a few hundred pounds. Equally, any area earmarked for regeneration—whether through Government programmes or not—might be expected to see some speculative activity.

However, although there is some anecdotal evidence of speculation, it is not possible to provide detailed, validated data to show categorically what the level of speculation has been, chiefly because of the difficulty in defining what is pure speculation and what is longer-term investment.

Similarly, it is difficult to provide any consistent or validated data about the amount of immigration into market renewal areas or the number of migrants from EU Accession states. All the pathfinders are aware of some, although it is often on different scales, depending on the size of the pathfinder area and the economic opportunities available—some are estimating the levels to be around 1–2,000 over the last two to three years. Many of the newer EU migrants stay for a very short time, move around within the private sector and are therefore not picked up in local authority data collection. The pathfinders are continuing to make efforts to monitor this, but at present information is very sketchy.

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**Letter from Treasury Office of Accounts to Committee Clerk**

HOUSING RENEWAL: VAT

After the hearing 19 November, I thought it might be helpful to the Committee to clarify the VAT treatment of construction and repairs.

1. As the NAO Report says, the rules are as follows:
  - Much of the cost of new construction is zero rated though fees paid to architects, surveyors, supervisors or other consultants are charged at the standard rate.

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- Some renovation and refurbishment (for example, to convert a non-residential building to residential use, or to convert a care home to a group of single housing units) is charged at 5%.
  - A 5% rate also applies to the renovation and alteration of housing left empty for three years or more (two from 2008).
  - Most other work on housing is standard rated, ie charged at 17.5%.
2. As Peter Housden said, decisions on VAT and other taxes are policy matters for the Chancellor. Any change would require changes in the VAT Act 1994. Perhaps this is what David Curry had in mind when he referred to the scope for renegotiation in Brussels.
3. In fact the Chancellor's room for manoeuvre is fairly limited under the present European VAT Directive:
- It is not possible to extend any existing zero rating.
  - A reduced rate (which must be at least 5%) may only be applied to: "provision, construction, renovation and alteration of housing, as part of a social policy", ie it could not be applied to all repairs or refurbishment, still less to fees for consultants.
4. Thus under our current European VAT agreements, the only way in which VAT rates could be equalised for new build housing and renovation projects would be to remove the zero rate and apply VAT to new build projects. Further, under these same agreements, the only way in which the VAT rates could be equalised for all work to housing would be set a common rate of 17.5%. Presumably this must be why the NAO advised the Committee that there might be some scope for action on rates.
5. While the NAO Report does mention a case in which the difference in VAT rates apparently affected the choice of action, the Committee will also recall Siobhan McCoy's evidence. She said that her experience in Liverpool was that it was best to choose the appropriate route of housing renewal by reference to the needs of the area. She was no doubt reflecting that a whole range of issues need to be taken into account in determining the right course, so that VAT treatment may not be the crucial factor.

*Paula Diggle*  
Treasury Officer of Accounts

29 November 2007

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