

Market Renewal

**Gateway Hull and East Riding of Yorkshire
Pathfinder**

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This report was forwarded to the Department for Communities and Local Government on the 23rd June 2006. They have used it as part of their assessment of the pathfinder's performance leading to the allocation of resources for the years 2006/07 and 2007/08.

Copies of this report

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Market renewal pathfinders

Market Renewal Pathfinders are partnership led projects set up by the former Office of the Deputy Prime Minister (ODPM) in April 2002 to take forward new approaches to tackling low demand housing and abandonment in parts of the North and the West Midlands.

The areas cut across local authority administrative boundaries, with the expectation that the partnerships established to manage the pathfinders will involve all relevant stakeholders in developing strategic plans for their whole housing markets.

In addition to taking a market-focused approach, partnerships are expected to ensure that all the complementary requirements of sustainable communities, such as good quality public services, design, and community engagement are also addressed.

Submissions

Pathfinders were required to prepare an initial prospectus, setting out their strategy, for approval by the former ODPM. The Gateway Hull and East Riding prospectus was submitted in November 2004. Following independent scrutiny of the prospectus by the Audit Commission, funding was awarded to Gateway by ODPM in March 2005, with recommendations from the scrutiny report included in the final funding agreement. The first scrutiny report dated March 2005 can be downloaded from the housing section of the Audit Commission's website at www.audit-commission.gov.uk.

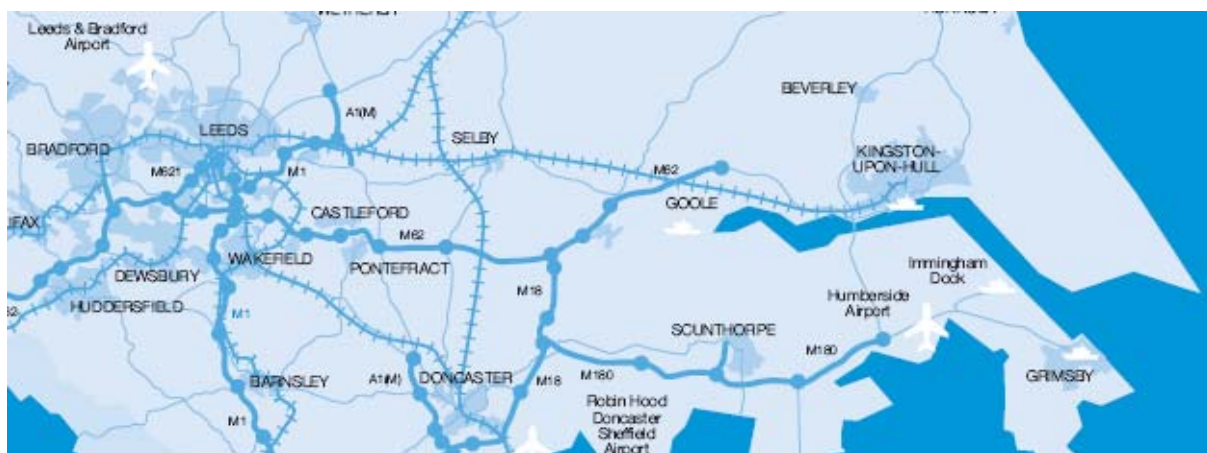
The initial funding awarded in March 2005 covered the period to March 2006. To access the next round of government funding up to March 2008, pathfinders were invited to produce an update to their original scheme, again subject to independent review by the Audit Commission. This strategic review report comments on the proposals set out in the pathfinder's scheme update and also refers to findings from the ongoing work undertaken by the Audit Commission with the pathfinder. In common with the pathfinder's update, this strategic review provides a more concise commentary than in the previous funding round and builds on existing knowledge. Accordingly, this second-round strategic review has been structured to focus on areas of risk and of added value, under six common headings.

The summary of the report includes the key recommendations for action by the pathfinder that are made to the Gateway partnership. The partnership has a collective responsibility to make a specific and effective response to these recommendations. The Audit Commission will formally measure progress through ongoing work with the pathfinder.

The Pathfinder area

There are nine housing market renewal pathfinders in total. The Gateway Hull and East Riding Market Renewal Pathfinder is situated on the Humber estuary, 55 miles east of Leeds. The pathfinder's intervention area – where it can potentially spend Housing Market Renewal (HMR) funding – is the whole of the city of Hull, which extends in an approximate four mile radius from the city centre. This area is surrounded on all sides by the East Riding of Yorkshire, with those parts of the East Riding situated within the Hull travel to work area known as the pathfinder's strategic area. As the boundaries of the city of Hull are drawn very tightly around the urban area of the city, the surrounding parts of East Riding play an important role in the economy and housing market of the city. The population of the East Riding strategic area has increased as quickly in the last three decades as the population of the city of Hull has declined, indicating a pattern of local migration from the city out to its suburban and rural hinterlands.

Hull within its regional context



The population within the City of Hull declined by 5.6 per cent between 1994 and 2004, although 2004 saw a small net increase in population. This was influenced by recent immigration from EU accession states. Overall, however, the city contains a very small proportion of people from ethnic minorities of around 3 per cent.

The city is characterised by low average incomes, with the average weekly wage of Hull residents £350 in 2005, compared with the regional and national averages of £400 and £438 respectively. Unemployment rates have been at around 8 per cent for the last five years, which is high relative to the regional average of around 4.5 per cent. There are concentrations of severe deprivation within the city, and in overall terms Hull is the ninth most deprived local authority area in England.

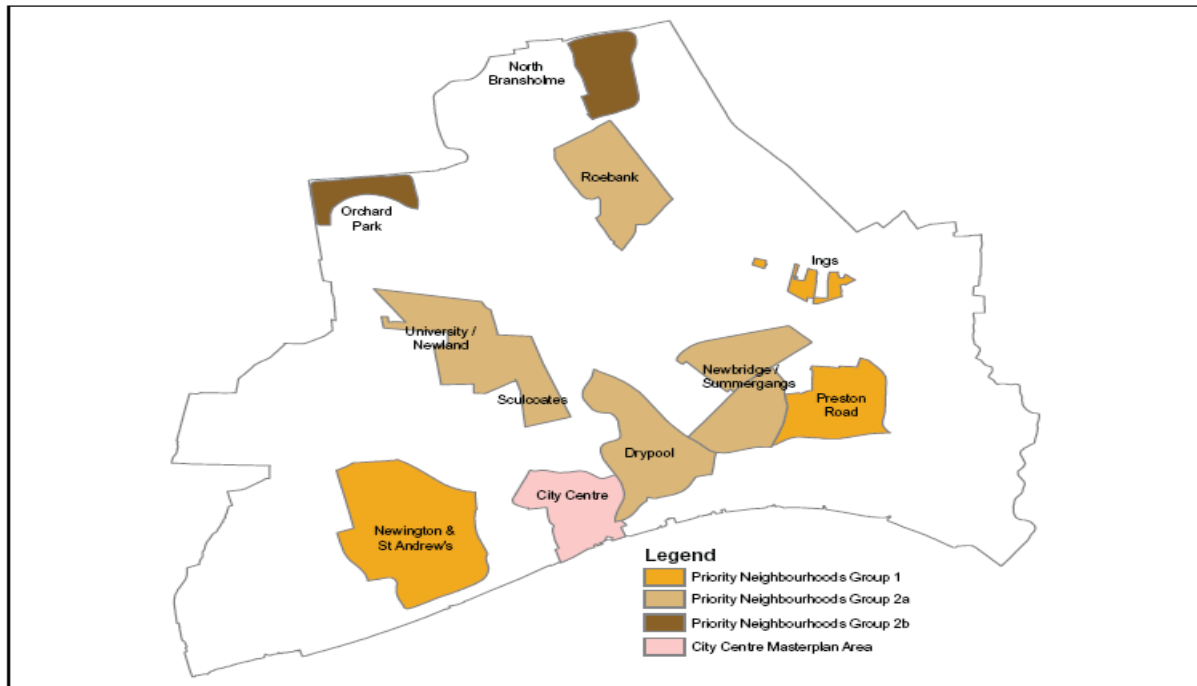
The housing stock within the city is characterised by a much higher proportion of terraced houses and far fewer detached houses than the national average. Over 27 per cent of residents rent their homes from Hull CC, compared with a national average of 13 per cent of homes rented from local authorities, and in Hull only 52 per cent of households are owner occupiers, compared with 69 per cent nationally.

Average house prices in Hull are very low compared with national averages, with the average price within the city around £80,000, rising from around £40,000 between 2001 and 2005. The average house price in England and Wales rose from £120,000 to £195,000 in the same period. Significantly, the average house price in the East Riding of Yorkshire in 2005 was around £155,000, nearly double the values within Hull. The number of vacant homes in the city has come down from 9,000 to 7,000 between 2002 and 2005, although numbers are rising slightly again. Importantly, the number of vacant public sector homes is down below 1998 rates, but private sector vacancies are at their highest ever rate with an especially high rise between 2004 and 2005.

A number of quality of life issues significantly affect the local housing market. In particular, the performance of local schools in Hull has been much worse than those in East Riding, although there have been recent improvements. In 2005, 44.1 per cent of Hull school children achieved five or more GCSE passes at Grade C or above, compared with 56.3 per cent nationally and 61.2 per cent in East Riding. There are also major variations within the city itself. Crime rates in Hull have also been improving, but remain high – for example burglary rates are at double national averages and treble the rates found in East Riding.

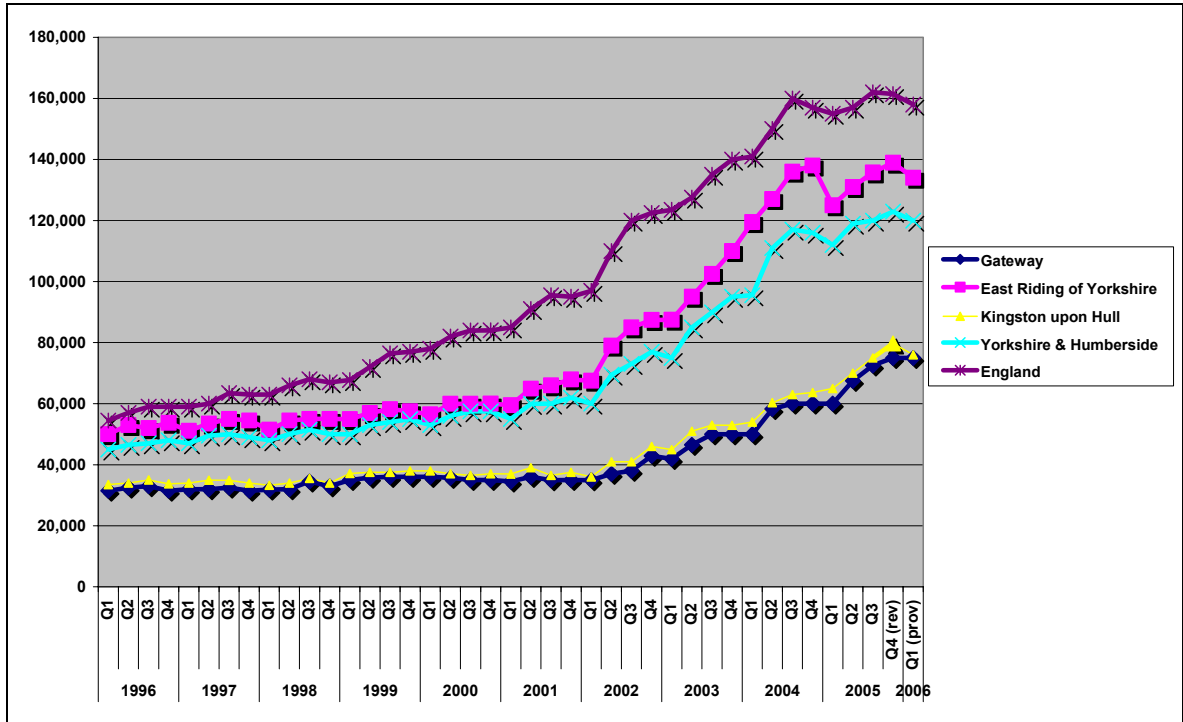
The pathfinder sees its task as transforming the local housing markets to create places of distinction with a greater diversity of residents and strengthened local economy. It has defined priority neighbourhoods within the city for phased planning and intervention over the next four years. The focus of most investment, especially in the next two years, is in the Priority Neighbourhoods Group 1.

The Hull City Council area and Gateway pathfinder priority neighbourhoods

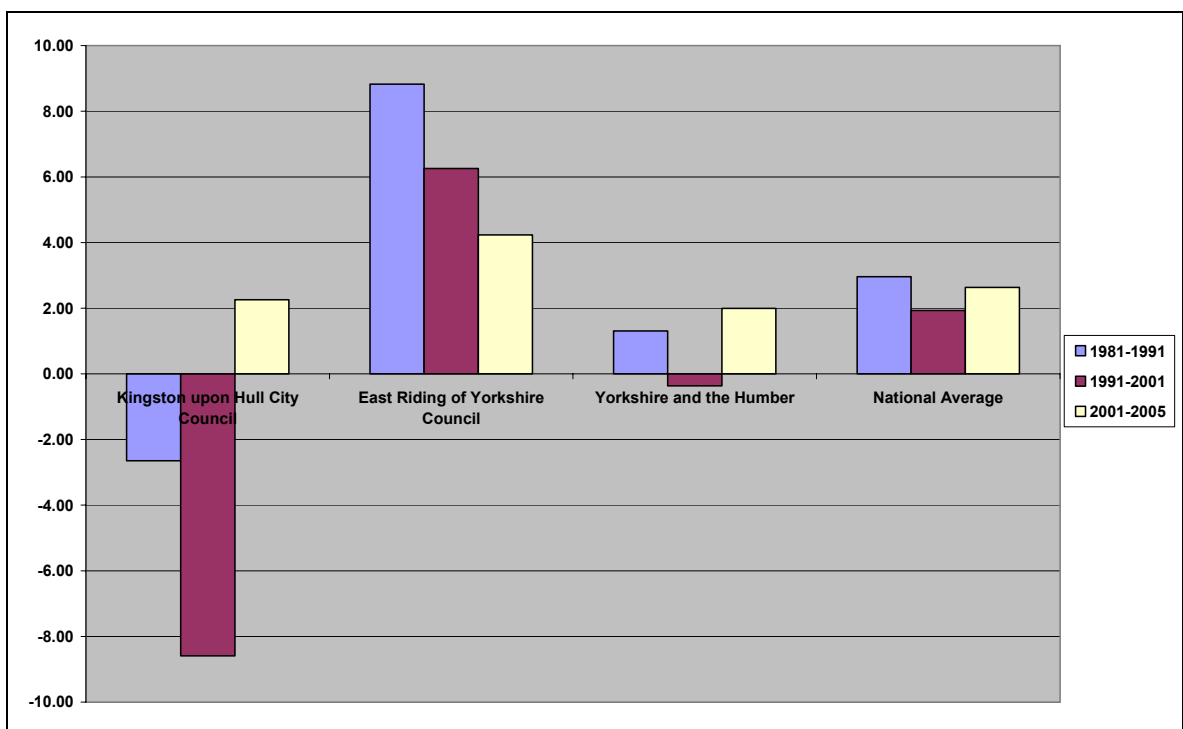


Some key statistics

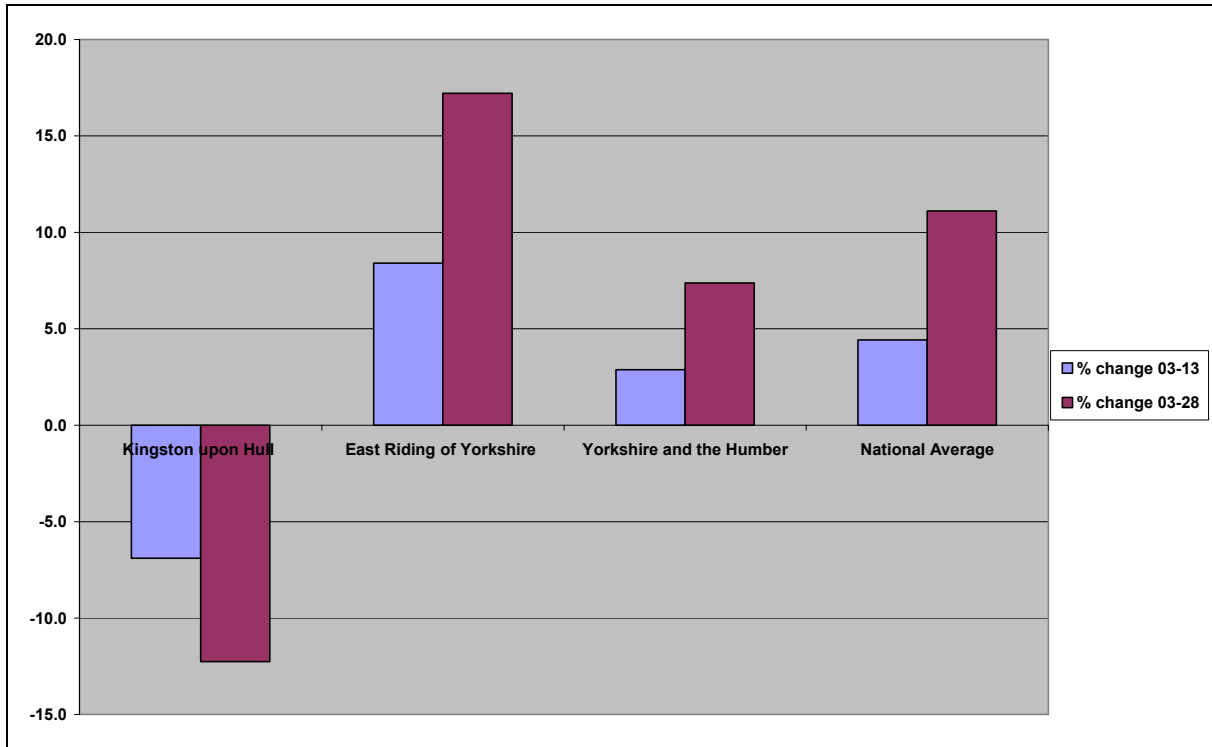
House Price Change 1996 – 2005



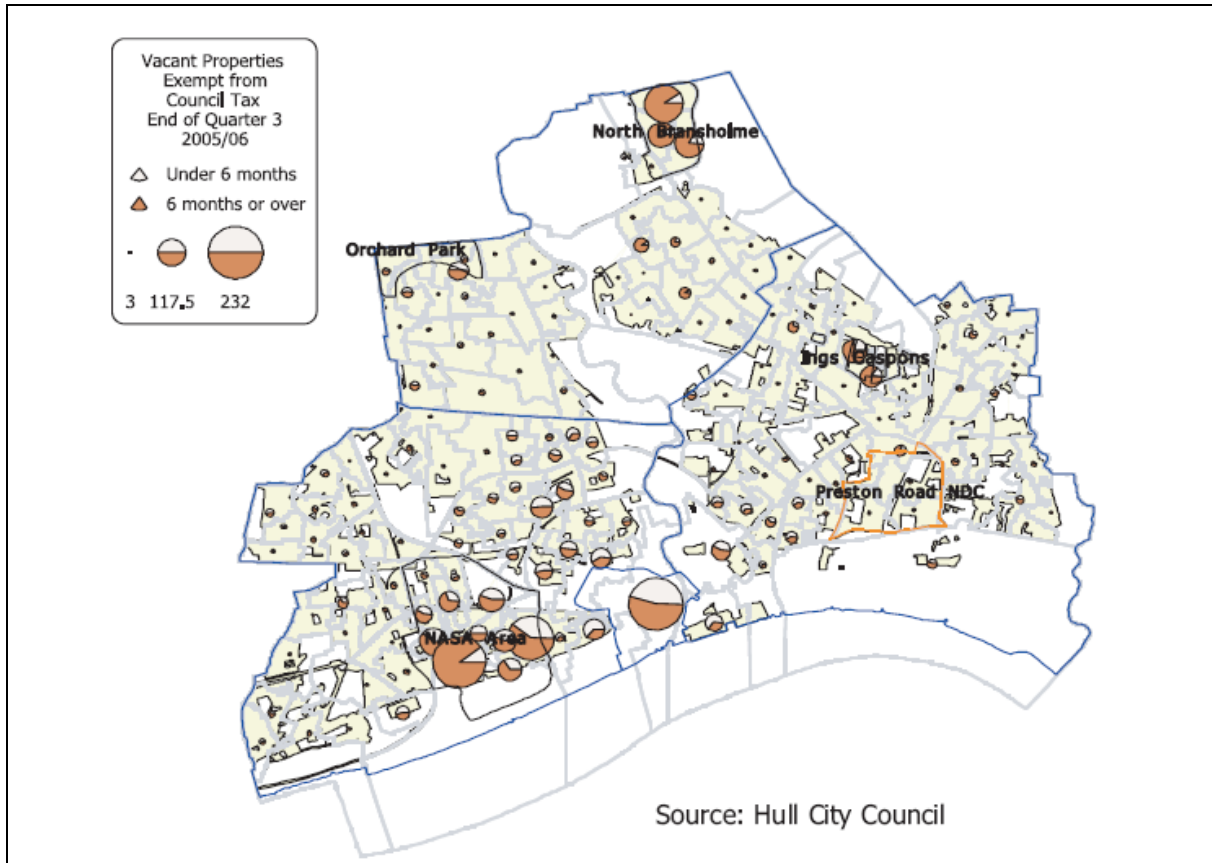
Population Change 1981 – 2005



Population Projections 2003 – 2028



Vacant properties December 2005



Summary

- 1 The pathfinder has added significant value through its work on market intelligence and its strategic responses. The drivers of the local housing market are well understood, with high quality information on the key factors influencing the market and how they have changed over time. The pathfinder's strategic objectives reflect this understanding, and the programme has been developed through a logical process of assessing a range of options for the shape of the programme. There is a spatial concentration of investment for the next four years that focuses HMR funding on areas where the need for intervention is well demonstrated.
- 2 There remain, however, significant risks because of continuing uncertainty about the future level of housing demand within the city. The pathfinder's assumption of static future household growth is not consistent with its long term strategy, although the short term programme should not pose a threat, and there are proposals for monitoring market changes. While there is a plan for the phasing of limited investment by Hull CC to achieve the Decent Homes Standard, there are no plans for how the long term sustainability of the majority of Council owned homes outside pathfinder priority areas will be understood and how any changes will be implemented. Gateway is unspecific on the general outcomes that the pathfinder intends to achieve as a direct result of its strategy and investment in the local housing market; there is an insufficiently clear view of the particular housing offers to be created within each part of the pathfinder area and how these combine to attract different target residents across the city. Detailed master planning is yet to be initiated in priority areas to provide a physical framework for action by the pathfinder and its partners, including an understanding of the housing densities required. The pathfinder is at an early stage of planning to ensure that new developments achieve high design quality.
- 3 The pathfinder has added significant value to the strategic alignment between its programme and policies of other regional and local agencies. It has influenced the development of the critical Regional Spatial Strategy so that it supports the pathfinder's strategy. It has played a significant role in developing local economic strategies, and its role in leading the formation of a spatial strategy for the city has been very valuable. The pathfinder has helped to establish confidence for the Housing Corporation to begin to invest in new affordable housing in the city. There has been close liaison with the Building Schools for the Future programme and the city's new Community Strategy sets out ambitious targets for the improvement of a number of aspects of quality of life that are critical to successful housing market renewal.

- 4 However, a high level of risk remains because an economic development strategy and action plan for the sub-regional economy that will clearly deliver improving economic performance is yet to be completed. The new Community Strategy's targets are yet to be backed up with action plans showing how the desired improvements will be achieved, and the role of Gateway in influencing the priorities for investment in complementary service improvements seems to be limited. The City Council's move to the delivery of substantially more local services through Area Partnerships is an opportunity for improvement but presents a short term risk of disruption of service provision and lack of co-ordination with the pathfinder. Some key planning strategies are still at an early stage of development, including a green space strategy that would guide Gateway's investments and provide a context for its master planning, and a policy on planning gain that would support the pathfinder's investment in new developments.
- 5 Gateway has added moderate value through implementation of its programme. Local people have been extensively consulted on the plans for the next four years set out in the scheme update submission, with clear support for proposals in each priority area from local residents. Despite problems in the early part of the 2005/06 financial year, expenditure and output targets were achieved. The pathfinder has also responded satisfactorily to Audit Commission recommendations. Basic procedures for project approval and financial management have been codified and risk management by Gateway has ensured that key delivery problems have been identified and addressed during the latter part of the financial year.
- 6 There remain, however, some high risks to implementation of the forthcoming pathfinder programme. The proposed programme for the next two years is double the size of that in the first year. There are currently no firm proposals for how delivery of the proposed programme will be structured and there is a need for new arrangements to have a clearer management structure and be better resourced than delivery to date. Project, programme, and risk management by delivery agents has been poor, relying on intervention by the Gateway team to deliver the initial programme. The delivery of some new interventions, such as neighbourhood management and equity loans, will come to the fore as the programme develops, but the pathfinder is yet to set up consistent delivery and performance management arrangements.
- 7 The pathfinder has added significant value through its governance arrangements. The Board has developed into a body that has been well engaged in determining strategic priorities and has been responsive in its oversight of the delivery of the pathfinder programme. Protocols have been established to define the roles and responsibilities of the pathfinder Board relative to those of Hull CC. The pathfinder is accountable to local people through Hull CC and locally through Area Partnership Boards.

- 8 High risks are associated with the pathfinder's governance because of the proposal to merge governance and delivery of the pathfinder programme with that of other capital regeneration programmes in the city. In principle, this may help to achieve better integration of investment, but because the detailed structure is yet to be determined, there is also a possibility that the focus of pathfinder investment will be dissipated, that the balance of representation of different partners will be lost, and that recent improvements in the pathfinder's governance and delivery performance will be undermined. Developing City Plus proposals must ensure that they address these potential risks.
- 9 Gateway has added moderate value through its approach to value for money. Robust processes have been used for the assessment of options for action in at least two of the priority areas, demonstrating that the preferred actions are the most cost effective for delivering pathfinder objectives. Gateway has used a sophisticated financial model to draw up its programme and has developed well informed assumptions on costs. Procurement processes have been developed, especially through the continuing process of selecting lead developer partners. The pathfinder is planning to reduce significantly the proportion of its funding that it spends on operating costs although the pathfinder's efficiency statement and capital receipts re-cycling policy both require further development.
- 10 There remain some significant risks associated with the pathfinder's approach to value for money. Assumptions of potential future pathfinder funding are unrealistic – the proposed long term programme would require a massive increase in funding which the pathfinder is very unlikely to receive. Current proposals for the use of HMR funding on neighbourhood management and refurbishment are undeveloped, with little demonstration of how they will offer value for money. There remain a number of key elements of the lead developer agreements that are still to be worked out. Levels of public sector leverage are quite limited and there is a risk of substitution of investment by Hull CC through the pathfinder meeting the cost of the demolition of defective homes for which the Council has held a long standing liability.
- 11 The pathfinder has added moderate value to its programme through the development of new learning and innovation. It is open to learning from the approaches taken in other cities, and has brought forward a number of ways of working that are new to Hull, even if not new in the national context. Aspects of innovation include the development of neighbourhood profiling, the ambitious approach to developer procurement, and the pathfinder's work on a spatial strategy for the city. The pathfinder has established a useful system for monitoring changes in the local housing market.
- 12 There remain some moderate risks, with the pathfinder and its partners inexperienced in some aspects of private sector renewal, such as determining the most cost effective approaches to refurbishment. Despite setting out sound principles for evaluating its programme, Gateway is yet to establish a mechanism for measuring the effectiveness and impact of projects and the programme as a whole. Although the programme is at an early stage, this will be critical for developing and refining the pathfinder's strategy and investment policies.

Recommendations

Recommendations	
<p><i>R1</i></p>	<p><i>The pathfinder should further develop its market renewal strategy by establishing:</i></p> <ul style="list-style-type: none"> • <i>arrangements for the ongoing monitoring of local economic performance and household change;</i> • <i>a better understanding of the residential density required to sustain local services;</i> • <i>the particular mix and features of new housing that will attract target markets within each of the priority areas;</i> • <i>a clear view of the structure of the private rented sector within the city, and the motivations and intentions of different types of landlord;</i> • <i>a better understanding of the likely future demand for affordable housing in the city, including existing rented homes, new affordable housing, and shared ownership; and</i> • <i>a programme and mechanism for determining the long term sustainability of local authority owned stock outside of initial pathfinder priority areas, in conjunction with Hull CC.</i> <p><i>These should be in place within 12 months.</i></p>
<p><i>R2</i></p>	<p><i>The pathfinder should formulate realistic outcome targets for its housing market renewal programme, and work to influence the action plans that will deliver key complementary targets within the Community Strategy that are critical to market renewal. The pathfinder should fully implement its evaluation framework, producing regular reports to board on performance against outcome targets.</i></p> <p><i>This should be in place within 12 months.</i></p>
<p><i>R3</i></p>	<p><i>The pathfinder should further develop its spatial planning framework by completing its work on a spatial strategy for the city, and working with Hull CC on the development of draft statutory plans for housing and employment land, and green spaces. The pathfinder should develop a clear view of the future for the inner core of the city and the potential interventions required there. It should establish a robust process for physical master planning in each of its priority areas that ensures that key principles for the future role and character of each area are agreed between stakeholders and local people.</i></p> <p><i>This should be in place within 12 months.</i></p>
<p><i>R4</i></p>	<p><i>Establish delivery structures for the priority neighbourhoods with clear points of responsibility, robust management, sufficient staff capacity, and sound risk management procedures.</i></p> <p><i>These should be in place within 6 months.</i></p>

Recommendations

R5 Ensure that governing arrangements maintain the independence and integrity of the pathfinder, particularly by ensuring:

- *effective leadership and responsibility for the market renewal programme;*
- *challenge is maintained to ensure that the nature of interventions is not compromised and that market renewal funding is directed only to interventions that have the most impact on improving the local housing market; and*
- *a wide range of local stakeholders is represented, incorporating the perspectives of the private sector and local residents.*

This should be in place within 12 months.

R6 The pathfinder should develop its approach to achieving value for money by re-considering the use of HMR funding for the demolition of homes owned by Hull City Council, implementing its proposals for improved project appraisal, and completing its efficiency plan and capital receipt re-cycling policies. Review assumptions on the extent of funding available in the long term and consider the potential impact on the pathfinder's programme of a range of future funding scenarios.

These should be in place within 12 months.

R7 The Pathfinder should complete all work outstanding from the previous Audit Commission Scrutiny Report recommendations.

This should be in place within 6 months.

Report

Influencing trends and meeting aspirations

- 13 This is a key section of the report because it deals with the pathfinder's ongoing approach to understanding its housing markets, and therefore also the justification for its strategy and the shape of the programme it has submitted to Government for funding.

Research and intelligence

- 14 Gateway's first submission to Government in November 2004 included a comprehensive range of data which forms the basis of the pathfinder's understanding of its housing market. Further work has been undertaken since, especially on the critical issue of the outlook for employment and population change. The pathfinder has also produced neighbourhood profiles that compile information on the sustainability of each neighbourhood in the city. The pathfinder has thereby established strong intelligence to inform its housing market renewal strategy, although there remain some areas of uncertainty where additional work would further strengthen the pathfinder's understanding of its local housing market.
- 15 The pathfinder has invested a great deal of effort in trying to obtain more certainty in its employment and household growth forecasts. This is complicated by the fact that the Hull travel to work area is split between the boroughs of Hull and East Riding, so that while there may be direct linkages between employment and population within the whole travel to work area, the distribution of population within the area - between Hull and East Riding - is based on more complex local factors. Several consultants and alternative methodologies have been used to try to arrive at reliable forecasts on which a housing market renewal strategy can be based. The original employment forecasts by Experian assumed that historic patterns of heavy population losses from Hull would continue across a range of economic scenarios. New studies by Volterra used updated Office of National Statistics (ONS) economic and population forecast data and a different methodology. The Volterra forecasts are far more optimistic than the very significant declines in population forecasted by Experian. Part of this difference is accounted for by revisions made by ONS to the base data between the two pieces of work, which showed a less steep decline in Hull's population than had been previously understood. There were also differences in methodology, with Experian projecting national changes in the performance of different economic sectors onto the Hull local economy, and Volterra projecting forward recent patterns of sectoral change in the local economy. These local patterns include a resilient manufacturing base, although there are warnings that this may not continue for ever and that there is a need to focus on sectors with better prospects for future growth.

- 16 Volterra also looked in more detail at the relationship between housing demand in Hull and East Riding, considering different scenarios of economic performance, relative house prices, and changing quality of life. One conclusion of the work was that the population in Hull would grow faster than that in East Riding if there is a significant improvement in the quality of life in Hull and house prices in Hull remain affordable relative to East Riding. The work suggests that a reversal of the net out-migration is possible, but only with significant improvements within Hull. The work is limited in not being specific about the scale of improvements in quality of life in Hull required, or suggesting the particular aspects of quality of life that are most important in increasing demand for Hull locations.
- 17 A further examination of economic and population forecasts by DTZ Pieda seeks to draw out the most likely scenarios from the preceding work, and to predict the impact on household change and the structure of housing demand. Household change is more positive than population change because of the long term trend of reducing average household sizes. The potential household change from the different studies ranges from a loss of 14,000 households by 2017 in Experian's worst scenario, to a gain of 9,000 households in the Regional Spatial Strategy's (RSS) most optimistic scenario. The pathfinder takes the view that the assumption of future household change that it ought to adopt should assume broadly static household change, in line with the latest ONS projections. The pathfinder emphasises the need to monitor the direction of travel very closely in the next few years, and to adapt its strategy accordingly. This monitoring and effective translation into strategy will, indeed, be critical.
- 18 The DTZ Pieda work includes an analysis of the attractiveness of the sub-region for different employment sectors and suggests where action needs to be taken to improve the local offer for different types of employers. The work stresses the continued uncertainty over future employment and population forecasts and raises challenges for action to improve economic prosperity. This uncertainty remains a significant risk for the pathfinder, although it has sought to mitigate the risk by studying the issues and putting in place plans for ongoing monitoring of change.
- 19 The assumption of static future household growth is the best view that the pathfinder can take at this stage, although there are a number of issues within the overall numbers that need especially careful observation. Greater international immigration, especially from EU accession states, appears to have been responsible for stemming population losses very recently, although it is not clear whether this will continue in future, and the pathfinder is reluctant to speculate on potential future levels of international immigration. Another demographic issue is the age structure of the population in Hull, with the highest levels of net out-migration observed in families with children. It is especially important to monitor the extent to which families with children continue to leave the city.

- 20 There is some agreement that Hull will continue to have a low wage economy in all future employment scenarios, although the pathfinder has been unable to say much about the link between the potential future employment structure and the structure of housing demand. Currently there is insufficient understanding of the particular types of housing and environment that would most effectively meet the aspirations of different target markets and encourage them to stay in the city.
- 21 Some survey work has been completed amongst migrant workers, students, and people living in some of the recent up-market developments within the city which help the pathfinder to understand the potential demand from different groups for housing in Hull, although for some groups it appears that there is little that the pathfinder can do to encourage them stay, especially graduates of Hull University. The quality of accommodation on offer seems to be marginal in influencing whether graduates and immigrants stay, with most having low expectations or being relatively unconcerned about the quality of their homes compared with other factors such as the availability of suitable employment. The survey work is still useful in helping to predict the future size of these populations, how they will use the city's existing housing stock, and issues to be taken into account in regeneration proposals.
- 22 In terms of the mix of new housing required in developments in pathfinder priority areas, the general demographic profile of the city and the mix of similar new developments that have been undertaken elsewhere have been used to underpin area planning. There is a need for a more considered view of how new developments fit within their local contexts, and how they will act to transform the nature of the housing on offer within those areas, rather than just reflecting the general demographic profile of the city and what the development industry is currently used to providing.
- 23 In order to understand the issues affecting different parts of the city, Gateway has developed neighbourhood profiles. These offer a comprehensive and easily understood view of the key issues within each area. Each of 38 neighbourhoods across the city is ranked to show its relative performance on a wide range of quality of life factors, including personal opportunities and the quality of the built environment. A summary of neighbourhood rankings suggests where action is required to address deprivation and make areas more sustainable, assisting with the spatial prioritisation of investment. The work is still at an early stage and there are opportunities for it to be developed further, and for a more direct link between this analysis and policy making across a range of services. While the analysis includes key factors that influence local housing markets, such as education and crime, it is not yet clear how the profiles will be used to help set targets for action and monitor progress. There is clearly the potential for them to inform public policy for a range of local services. There is also the need to expand the range of the profiles beyond the boundary of the city of Hull and into adjacent areas of East Riding that form part of the same housing market area.

- 24 One aspect of the quality of neighbourhoods that the pathfinder has not considered is residential density and its significance for the sustainability of local services, and quality of life for residents. This includes consideration of the overall densities across existing neighbourhoods, and the density requirements that ought to be found in new developments. It is not clear where there may need to be an increase in density to sustain and improve access to services, and where there may need to be reductions in density to provide a more attractive environment and increased living space. Provisional ideas on the density of new developments in pathfinder priority areas assume that new developments should be built to a level that is the minimum that is consistent with Government policy. This may result from a perception that people want as much space as possible, or that there is excess land in some areas that needs to be used, rather than well developed local policies.
- 25 The pathfinder has carried out analysis of the housing supply within Hull and East Riding, and will continue to monitor the levels, locations, and types of new housing being provided.
- 26 It is recognised that there is currently a weak understanding of the private rented sector, despite it forming a significant proportion of the housing stock in some parts of the pathfinder area. The nature of demand in this disparate sector is touched on in some of the pathfinder's survey work – it dominates the new city centre housing market, and is the housing tenure of most migrant workers and asylum seekers – but there is no comprehensive view of the future structure of demand for this tenure, although it is intended that the overall size of the sector will diminish slightly. There is also no view offered on the nature and motivations of private landlords in different parts of the pathfinder area, which would inform the development of new approaches to managing the sector and promoting good practice.
- 27 Current thinking on the requirements for new affordable housing within Gateway's re-development programme is based on the need to re-house existing tenants affected by clearance, while at the same time maximising owner occupation, and seeking to introduce more opportunities for shared ownership. Affordability statistics based on multiples of income to average prices are used to suggest implications for re-location policy, although people being re-located are likely to have existing equity. The approaches to both affordable housing to assist people being re-located, and understanding the wider demand for affordable housing within the city need to be further developed.
- 28 There has been some initial market research on the potential demand for tenures that are new to the city like shared ownership, but current proposals for over a thousand new shared ownership homes as a result of the long term pathfinder programme will clearly be subject to monitoring the popularity of the model as the market develops.

- 29 Gateway commissioned a service centre study which considered the viability of existing district centres, including surveys of residents and retailers, within the context of the development of the city's spatial strategy. It specifically sought to understand the importance of accessible local centres in people's housing market choices, finding access to high quality facilities to be important in market renewal. It examined the distribution of facilities and potential for strengthening the capacity of some centres, as suggested by the draft spatial strategy. This is a valuable piece of work to take forward thinking on how district centres ought to be planned and supported alongside regeneration investment, especially that from the pathfinder.
- 30 The key housing market drivers are well understood and expressed by the pathfinder, especially in terms of the relationship between Hull and East Riding. Neighbourhood profiles provide the intelligence to analyse the differences between neighbourhoods within Hull - why it is that some places within Hull are more popular and sustainable than others. This can then inform the development of appropriate responses to improve the popularity of the least popular neighbourhoods and at the same time maintain the popularity of others.

Strategic responses

- 31 Gateway looked at different options for its investment programme. It considered options to focus investment to varying degrees across the city, including a balance between investment in areas of lowest sustainability, compared with investing in areas of opportunity. Option appraisal also considered the balance between clearance and new build and other measures to support and enhance existing housing areas. The preferred option for the spatial focus of investment sees a significant degree of concentration in one area – Newington and St Andrews (NaSA) in west Hull, smaller programmes in Preston Road and Ings in east Hull, and developing programmes following on in other areas over time. Clearance and re-development will remain the principal emphasis of the programme, but complemented by other supporting measures, including the introduction of significant refurbishment.
- 32 The strategic objectives reflect the housing market issues raised by the pathfinder's evidence base. There is an explicit recognition of the links between the housing market and the economy, and the need for a housing market offer in Hull that is more attractive to retain its population. The imbalance between total numbers of homes and households, manifested in the high number of vacant properties in the city, is to be addressed. There is a focus on the city's inner city collar, which the neighbourhoods profile work shows to suffer from some of the worst deprivation, and also on some of the city's social housing estates that also suffer from severe deprivation and a concentration of people on low incomes. The last two strategic objectives set out how market renewal will be delivered by supporting people affected by change, being responsive to their requirements, and ensuring that overall quality of design is raised.

- 33** The strategic objectives suggest a spatial focus on the city's inner collar, and on achieving more mixed and sustainable communities in areas dominated by social rented housing, but the focus of investment for the first four years has had to be more specific. It makes sense to focus primarily on NaSA because of the extent of the problems there, evidenced by the neighbourhoods profiles work, and the existing commitments made, such as the programme of incremental clearance that has been taking place in the Woodcock Street area. There needs to be a greater level of investment to begin to see more positive progress. The investment in Ings and Preston Road also builds on existing activity, including promises made to residents of defective housing that has been shown not to have a sustainable future, and building on the foundations of work undertaken by Preston Road New Deal for Communities (NDC).
- 34** The pathfinder has defined a firm programme for the first four years, but intends that subject to the availability of funding, it will continue to invest to see through its plans in the three priority areas over the next ten years or so. The phasing of intervention in other parts of the city is still to be determined, but the business plan for the next 14 years suggests that the only way to meet market re-structuring needs across the city will be to greatly increase the size of the programme after 2010. This level of funding is unlikely, and the pathfinder needs to develop its thinking on medium and long term investment phasing so that it has a clearer view of when important investments in other parts of the city should be initiated, and how a corresponding balance of investment between early priority areas and other areas can be achieved.
- 35** Gateway has previously included the outer estates of North Bransholme and Orchard Park in its priority areas, and is continuing to take forward planning in these areas with a view to determining potential future investment requirements, for both HMR funding and other investment sources. While these areas show high levels of need in the neighbourhood profiles, investment by the pathfinder has sensibly been delayed to reflect the need for further planning, linked to potential investment by the City Council, and in the case of North Bransholme, the exploration of potential stock transfer to a community housing association.
- 36** The strategy emphasises linkages to the city centre and the work of Hull City Build Urban Regeneration Company (URC), and justifies the spatial priorities for investment in terms of regenerating areas close to the centre, but there are significant areas of deprivation and poor land uses between the city centre and Newington and St Andrews (NaSA) for which there are currently no plans. This part of the inner core is said to be the subject of long term aspirations for regeneration with higher value mixed uses 'grading out from the city centre'. This seems very hopeful and potentially very long term as parts of the city centre itself need the same improvements. In the meantime, the areas need to be well managed, and there need to be clear policies on how any planning applications for development in these areas will be determined.

- 37 Another spatial aspect of the pathfinder's strategy is the concept of a Humber 'axis of regeneration'. This seeks to establish that investment in housing should be related to where new employment is likely to be concentrated – the docks area along the Humber and the city centre. The pathfinder's programme focuses on areas that are reasonably close to these employment locations, but not necessarily areas that are immediately adjacent. The Humber axis of regeneration concept seeks to reinforce the planning of new employment sites within Hull rather than in areas peripheral to the city. There is a cultural and transportation divide in the city between east and west Hull and it is not clear if this separation in people's travel to work and living patterns needs to be reflected in employment and housing policies and if so, how it is being taken into account.
- 38 The programme proposed in the scheme update has been built up from area implementation plans commissioned by the pathfinder for Ings and Preston Road, and from the Neighbourhood Renewal Assessment (NRA) that has taken place in the NaSA area. The area implementation plans each assessed a number of options for intervention according to their fit with Gateway's revised objectives, their potential level of impact, value for money, deliverability, and community support. The options considered were an appropriate range of options for physical change and re-location requirements, backed up with technical and cost information, although they did not consider neighbourhood management.
- 39 It is stated that long term sustainable demand for social housing can only be created where there are mixed communities and a range of housing choices. As demand for social rented housing has hardened in the short term, a tension is created between the current experience of finding fewer problems in letting homes, and the recognition of the need for re-structuring of neighbourhoods that do not have this mix. Due to the uncertainty about the future of the city's economy and household growth, the potential level of long term demand for rented Council housing also remains unclear. Developing plans for the renewal of the outer estates that are dominated by local authority built and managed housing, while maintaining sufficient high quality affordable homes for rent, will be essential to changing the structure of the city's housing market so that it is sustainable in the long term. However, Hull CC currently has no plans for looking at diversification and rationalisation for the 85 per cent of the publicly owned housing stock that is beyond the pathfinder's priority areas.
- 40 Hull CC intends to achieve the Government defined Decent Homes Standard for all of its homes by 2010 by investing in limited improvements to the physical fabric of homes, but this will not be sufficient to transform the character of its estates to achieve long term sustainability. There are no other sources of investment beyond HMR funding to achieve this more radical restructuring of estates because Government has made access to additional funding conditional on arms length management or stock transfer and the Council has decided to retain its housing stock in direct ownership and management. HMR funding will not be sufficient to achieve transformation to Council estates across the city.

- 41 The pathfinder has set out complementary objectives that are to address the other improvements required to improve the quality of life in Hull and thereby support housing market renewal. These are taken from the new Community Strategy and represent ambitious targets for improvement across a range of public services, including some areas that are critical to the pathfinder. Work is still underway to determine how, and indeed if, the targets for improvement in the new Community Strategy will be achieved. Quality of life targets are largely based on measures of perception, such as 'The percentage of residents surveyed satisfied with their neighbourhood as a place to live.' The particular actions that will change perceptions for the better are yet to be defined. Gateway needs to further define its role in influencing other service providers, agreeing consistent targets for improvement, and co-ordinating its investments with them.

Aims and outcomes

- 42 The strategic objectives are backed up by appropriate outcome measures but many outcome targets are yet to be quantified, so it is hard to see the intended effect of the pathfinder programme on the local housing market. Most of the proposed outcome measures will be useful in setting targets and determining the success of the programme, although some refinement is required, such as the definition of a 'more effective private rented sector', and related indicator. A range of quality of life indicators are rolled up into the neighbourhood sustainability index which is a useful tool, but Gateway needs to define in more detail the particular aspects and targets that will be measured and will define success in achieving market renewal.
- 43 In the short term, the pathfinder's outputs for 2006 to 2010 are small compared with the size of the overall housing stock, reflecting the potential level of funding made available by the former ODPM. Indeed, the slow start to the programme means that the pathfinder predicts that there will be little impact on key outcome measures in the first four years. One such prediction is that house prices in Hull will fall further behind the regional average by 2008 before there is substantial improvement over the rest of the programme. In terms of planned demolitions, it is intended that 708 homes will be demolished over the next four years, which is only a small proportion of the homes that may need to be demolished in the following ten years from 2010 to 2020 according to current predictions of the long term programme required to achieve a sustainable housing market across the city. The speed of the delivery of the early programme is limited by the funding available and by staff resources, and the pathfinder has been careful to be realistic about what it can do in the next four years, not raising expectations beyond what can be delivered.

- 44 Gateway sets out what could happen without market renewal investment and, in broad terms, the impact that the proposed investment could have on the city. Housing market renewal investment is said to potentially help reduce out-migration and reduce the long term trend of population loss, supporting improvements in the economy within Hull by providing a more attractive housing offer within the city itself. The benefits of the programme are therefore said to be in improving the performance of the whole sub-regional economy and addressing the shift in where people want to live, minimising inequality between the prosperous areas mostly found in East Riding and the areas where people are left behind. Population, house price, and vacant property trends are set out, with lines extrapolating long term trends from the dynamics of recent years.
- 45 The proposed Gateway programme will undoubtedly have a direct impact on the city's housing stock. Demolition of the smallest homes in the worst condition will reduce vacancies. Replacement housing should be larger and better designed, and largely owner occupied, strengthening the city's housing offer and housing market, and diversifying the housing stock of council estates. Few of the proposed improvements are quantified, although the scale of the proposed long term programme in terms of clearance and new house building should be sufficient to achieve significant change in the quality of homes on offer and the desired shift towards owner occupation.
- 46 The expected fall in vacancy rates to the national average by 2020 is less easily demonstrated. The pattern of demolitions and new build is for there to be slightly more demolitions than new builds to 2010 through pathfinder activity, although if the whole development market is taken into account, the numbers of homes will rise from the start of the programme period through to the end. The assumption of near static household growth adopted by Gateway, based on the latest ONS projections, is not consistent with Gateway's current long term plans, which follow the RSS household growth figures. If ONS predictions prove to be correct, the long term Gateway programme would have to demolish 4,500 more homes than it builds, and have a very low rate of other development activity in the city to balance the housing market and achieve a reduction in vacancy rates to the national average. However, the current long term plans in the scheme update submission are based on outputs akin to the much higher RSS household growth scenario - 1,300 more demolitions than new homes arising from Gateway activity, and 500 new homes each year from other sources producing a net increase of 5,000 homes to 2020. There is a significant discrepancy here, and a risk that needs to be carefully managed through market monitoring, corresponding adjustments to Gateway's programme, and control of the supply of new homes.

- 47 The probable level of development activity in Hull outside Gateway's programme is likely to be at least 500 new homes each year, with 400 of these in Kingswood and the city centre. The pathfinder needs to have a clear view on the extent to which these different types of homes and locations outside pathfinder priority areas are competing for the same residents, and the extent to which the new residents of these developments are incomers to the city, or people that would otherwise not have stayed in Hull. Gateway is rightly focusing on the most deprived areas, but there is currently an insufficiently comprehensive view of the role of different parts of the city in providing different residential opportunities and how areas like Kingswood and the city centre, and other emerging new higher value developments, should complement the pathfinder's activities in an integrated market renewal strategy. Gateway can use the information from its recent survey of residents in Kingswood and the city centre to take a view on the relationship between these new developments, and use it to influence the phasing and design of its own programme.
- 48 While there is a requirement to ensure that the total balance of homes across the city is in line with the overall extent of demand, there are very different requirements and markets in each locality. The pathfinder has taken a position that the total number of new homes should not exceed the number demolished in each of its priority areas, regardless of the existing context. This position needs to be developed within each area through greater understanding of sustainable land uses and densities in each area, and the potential role that each area can play in the city's re-structured housing market.
- 49 The definition of the mix and character of new housing in the priority areas requires a great deal more development, defining more detail beyond the general principle that a broad mix of house types in each area will retain families in the city. The pathfinder intends to explore these issues with lead developer partners as it develops area master plans. This will need to go further than just looking at housing, exploring particular neighbourhood identities and distinctive environments to deliver one of the pathfinder's stated strategic outcomes - 'More popular neighbourhoods, with clear, improved identity'. Getting the mix and quality of new homes right will rely on the agreement of firm and ambitious principles for what new housing should offer, to reduce the risk of falling back onto what developers are most comfortable with marketing and what will potentially maximise values in the short term. It is not yet clear how the pathfinder will establish key principles to guide the master planning process led by developers, and how their interests will be reconciled with those of existing and future residents.
- 50 Gateway recognises that there is an urgent need for physical master plans to provide a framework for investment in the three priority areas, and intends to take these forward once lead developer partners have been selected. In the meantime, interventions are based on the need for poor quality and abandoned homes to be cleared, with re-developments largely focused on land that is already vacant, without a coherent plan for the future built form. It is intended that master plans will become statutory Area Action Plans. The process will need to agree key principles that can inform initial new developments as soon as possible, as it could take three years to complete the statutory planning process.

Quality and sustainability

- 51** The pathfinder has undertaken a heritage survey using an English Heritage model brief for extensive surveys. The report provides useful background on the history and character of districts of Hull, analysing the quality of the existing built form across the city. Poor quality areas tend to be concentrated in the outer estates of publicly owned housing built since the 1960s, and in industrial zones. There is a study of the distinctive Victorian courts terraced housing type, with some preliminary examination of ways of retaining and converting them, although it is determined that demolition is justified in some areas where they are currently dilapidated and often uninhabited. Intensive heritage assessments are recommended where heritage features overlap with Gateway priority areas.
- 52** The pathfinder has begun work to define the general level of design quality that it expects to see in new developments in its priority areas through the commissioning of a design guide and the establishment of a design review panel. This work is still at an early stage, and must be linked to the general approach to securing improved design quality through the Development Control system. Ongoing work with the pathfinder showed that the first design panel review of Ellerby Grove in the Preston Road area only took place after planning approval had already been granted, but the second phase of the Camberwell Way development at Ings should be considered earlier in the process.
- 53** There is an intention to produce design codes for specific new development areas within the pathfinder. Chevin HA has led work with Ings residents to consider design issues and look at examples of high quality developments and there are aspirations to develop this work and promote resident design champions. Gateway needs to develop further a consistent approach to ensuring high quality design in new developments across the pathfinder that is sufficiently well resourced and linked to clear standards. The proposed developer led master planning provides a key opportunity to establish sound principles. The Commission for Architecture and the Built Environment (CABE) has been involved in the selection process for lead developer partners, but the ongoing development of plans needs to ensure that quality of design is given a high priority.
- 54** There are some parts of the pathfinder's priority areas where land is likely to be vacant in anticipation of re-development for a number of years. There is an opportunity to devise short term uses and landscaping treatments so that these areas create confidence and provide amenity rather than blighting their neighbourhoods. The pathfinder intends to undertake a sustainability appraisal of its proposals to understand and mitigate the environmental impact of its work.

- 55 To summarise, the pathfinder has added significant value through its work on market intelligence and its strategic responses. The drivers of the local housing market are well understood, with high quality information on the key factors influencing the market and how they have changed over time. The pathfinder's strategic objectives reflect this understanding, and the programme has been developed through a logical process of assessing a range of options for the shape of the programme. There is a spatial concentration of investment for the next four years that focuses HMR funding on areas where the need for intervention is well demonstrated.
- 56 There remain, however, significant risks because of continuing uncertainty about the future level of housing demand within the city. The pathfinder's assumption of static future household growth is not consistent with its long term strategy, although the short term programme should not pose a threat, and there are proposals for monitoring market changes. While there is a plan for the phasing of limited investment by Hull CC to achieve the Decent Homes Standard, there are no plans for how the long term sustainability of the majority of Council owned homes outside pathfinder priority areas will be understood and how any changes will be implemented. Gateway is unspecific on the scale of change in the local housing market that the pathfinder intends to achieve as a direct result of its strategy and investment; there is an insufficiently clear view of the particular housing offers to be created within each part of the pathfinder area and how these combine to attract different target residents across the city. Detailed master planning is yet to be initiated in priority areas to provide a physical framework for action by the pathfinder and its partners, including an understanding of the housing densities required. The pathfinder is at an early stage of planning to ensure that new developments achieve high design quality.

Strategic context

- 57 It remains vital that pathfinders demonstrate a strong grasp of the regional, sub-regional and local context to their proposals, and take a proactive approach to influencing policy and securing practical benefits for their areas as a result of their own and their partners' efforts here. This section of the report looks at the record of Gateway Hull and East Riding to date.

Policy alignment and influence

- 58 Gateway has been well engaged in discussions with the Regional Assembly on the draft Regional Spatial Strategy and is broadly happy with the draft strategy and proposed allocations. The initial suggested allocations for Hull have been reduced in order to protect the fragile housing market from the over-supply of new housing, reflecting the reality of developers' relative lack of interest in the city. In particular, a review of the market and new development allocations every five years has been promoted by Gateway and supported by the Regional Assembly. Reviews are necessary due to the current uncertainty on the pattern of future changes in household numbers, and evolving demolition plans as the pathfinder takes forward its area planning with local people. The pathfinder will continue to work closely with the Regional Assembly on these issues.

- 59 The first two aims of the draft Regional Spatial Strategy are entirely supportive of the Gateway pathfinder, in seeking to reverse the long term trend of population and investment dispersal away from the region's cities, and to transform cities to make them attractive places in which people want to live, work and invest. The allocations of new housing for Hull and East Riding reflect the recent history of the Joint Structure Plan, with continuing restrictions on the level of new housing within East Riding despite strong market pressure to allow more development there. The allocations for Hull are slightly more than the development market is currently bringing forward, but are broadly consistent with Gateway's programme proposals, if not its household growth assumptions (see the earlier 'Influencing Trends and Meeting Aspirations' section of this report).
- 60 The Regional Housing Strategy strongly supports the region's two pathfinder areas as priorities for Regional Housing Board investment. The Housing Corporation is funding some initial new development to support the pathfinder programme in its priority areas, and has agreed a small scale two year programme. There has been little investment in new affordable housing developments in the city in recent years because of the weak housing market and the lack of a convincing strategy for new affordable housing, but this position is now changing. The pathfinder is working closely with the Corporation to understand better the potential demand for new forms of affordable housing, such as shared ownership, and the Housing Corporation was consulted on the process of choosing housing association partners to work with Gateway within each of three areas of the city.
- 61 The Regional Economic Strategy emphasises the quality of local environments and leisure opportunities in attracting and retaining high value employment and highly qualified workers, although there are no specific spatial priorities. It also lists transport improvement priorities, including the road and rail links to the port of Hull, but without specific investment proposals. The urban renaissance programme covers a large number of towns and cities across the region, including Hull, where the programme is focused on the city centre and delivered through the Hull City Build Urban Regeneration Company (URC). The Gateway programme focuses on deprived residential areas outside of the city centre, while recognising the city centre as a key area for higher value employment creation. A City Centre Area Action Plan is in the early stages of development to define how the city centre master plan will be taken forward. Gateway is involved in this process, but it is not clear what role the planned new city centre homes will have within the context of a whole city housing market and Gateway's own interventions and new development.

- 62 A second draft of the City Region Development Plan (CRDP) is being produced which will seek to better connect regeneration and economic development, with a more detailed action plan. The pathfinder's work on employment and household trends has informed this work and Gateway has facilitated discussions within Hull and East Riding to progress thinking on economic development activity, helping to develop a draft jobs and prosperity action plan within Hull's new Community Strategy. The latest work includes an analysis of the city's infrastructure for industrial and office uses, future requirements, and tools for monitoring the strength of the local economy. The successful completion of this work, and consequent strengthening of the local economy is, of course, critical to the successful achievement of market renewal, and current economic uncertainty remains a key risk for the pathfinder.
- 63 A new Community Strategy for Hull was agreed at the end of February 2006. Objectives include elements that support housing market renewal - new, high quality homes in areas where people want to live and reducing the over-supply of poor quality housing. Each section of the new Community Strategy is very clear about what it wants to achieve, with specific targets and an action plan. These targets are, however, exceedingly ambitious, based on a desire to reach national averages, or significantly close gaps by 2011, irrespective of how realistic it is to do so in the timescales. The action plans set out headline issues that need to be addressed, and the success of the strategy will be in how more detailed plans are drawn up to deliver these aspirations.
- 64 The role of Gateway in delivering the Community Strategy is not very explicit within the document, its associated outcome targets, and initial action plan. There are some actions around neighbourhood improvements that are the responsibility of Area Partnerships that will have a direct impact on market renewal, and it is important that the pathfinder is able to play a role in helping to define and deliver these changes, at least in its priority areas.
- 65 Plans are being developed to devolve a range of Hull City Council's services to seven Area Teams across the city, building on the existing Area Partnerships structure and providing an opportunity to develop locally responsive services to support housing market renewal. There is an associated risk that the delivery of services could be adversely affected in the short term by the re-organisation. It is not yet clear how Gateway's work in its priority areas will fit with the roles of Area Directors and Area Partnerships, especially in developing plans and co-ordinating community consultation. Area Partnerships are to develop Area Community Plans as local delivery plans for the Community Strategy by July 2006, and Gateway needs to ensure that it has a key input into these plans in its priority areas.
- 66 The pathfinder has developed close liaison with Building Schools for the Future on the location of capital investment, and should have a role in helping to define other service improvement priorities. However, it will need to rely on partner agencies for delivering improvements, within the context of a strong Local Strategic Partnership performance management framework. This is still in development.

- 67 The pathfinder has added considerable value by leading the development of a spatial strategy for the city of Hull under the city's new Community Strategy that will also inform the production of the Local Development Framework. It will help define the location of the pathfinder's actions as well as other public investment, defining key land uses, such as the fit between housing and employment land uses, the location of consolidated district centres, transport and green space requirements. A very clear action plan has been produced which emphasises the need for clarity on the nature and location of service centres, and the development of a green space strategy for the city. It is clear that there is a need for ongoing liaison with East Riding so that any opportunities for planning developments across the local authority boundary are realised.
- 68 The spatial strategy does not include an examination of existing densities, and how more sustainable and mixed communities can be delivered in areas that are currently dominated by low density socially rented housing, in a context of static household numbers and a lack of developer interest because of low values. This is a challenging agenda because the strengthening of some areas through in-fill developments and increased density raises questions about the long term future of other areas, unless Hull is successful in attracting a much greater proportion of the sub-regional demand for homes. It might be expected that these questions of the overall pattern of spatial development and density across the housing market area, including adjacent areas of East Riding, would be explored through the emerging spatial strategy. The pathfinder is intending to explore the linkages between dense older housing areas and adjacent low density areas of local authority built housing in some parts of the city, such as between Newbridge/ Summergangs and Preston Road as it starts to develop plans for inner east Hull.
- 69 There are gaps in the city's current suite of planning policies that are highlighted in the draft spatial strategy, but ongoing work with the pathfinder suggests that the Planning Department is well involved in the development of Gateway's strategy. It is committed to bringing forward new Housing and Employment Land Local Development Documents as early priorities to support the work of the pathfinder and develop key principles of the spatial strategy into a statutory framework. Staffing capacity within the Planning Department has been boosted considerably within the last year.
- 70 There is also a lack of a comprehensive green space strategy that considers the range, uses and quality of open spaces required within different parts of the city and plans investment over time. Again, this is recognised as a priority for development within the city's Local Development Framework. This is critical to Gateway's work, and there is an opportunity to use information on environmental conditions from Gateway's neighbourhood profiles.

- 71 Gateway suggests in its scheme update submission that there are opportunities for using planning gain from new developments to fund environmental works in pathfinder priority areas, but current policies do not support this. Policies on planning gain are being reviewed, and there is an opportunity for the pathfinder to influence the process so that the city's Section 106 policy facilitates the provision of new homes and facilities that are of a high quality within pathfinder priority neighbourhoods, yet does not place conditions on developers that cannot be sustained in a context of low market values.
- 72 In summary, the pathfinder has added significant value to the strategic alignment between its programme and policies of other regional and local agencies. It has influenced the development of the critical Regional Spatial Strategy so that it supports the pathfinder's strategy. It has played a significant role in developing local economic strategies, and its role in leading the formation of a spatial strategy for the city has been very valuable. The pathfinder has helped to establish confidence for the Housing Corporation to begin to invest in new affordable housing in the city. There has been close liaison with the Building Schools for the Future Programme and the city's new Community Strategy sets out ambitious targets for the improvement of a number of aspects of quality of life that are critical to successful housing market renewal.
- 73 However, a high level of risk remains because an economic development strategy and action plan for the sub-regional economy that will clearly deliver improving economic performance is yet to be completed. The new Community Strategy's targets are yet to be backed up with action plans showing how the desired improvements will be achieved, and the role of Gateway in influencing the priorities for investment in complementary service improvements seems to be marginal. The City Council's move to the delivery of substantially more local services through Area Partnerships is an opportunity for improvement but presents a short term risk of disruption of service provision and lack of co-ordination with the pathfinder. Some key planning strategies are still at an early stage of development, including a green space strategy that would guide Gateway's investments and provide a context for its master planning, and a policy on planning gain that would support the pathfinder's investment in new developments.

Implementation

- 74 This section of the report concentrates on the pathfinder's record of delivery, and the progress it has made in establishing robust systems to support effective implementation of its programmes. It includes consideration of how it has worked with local communities and other key groups of people.

Working with local communities

- 75 The pathfinder demonstrates support for its scheme update proposals from a majority of people living in the areas affected. There has been extensive community consultation on the plans for the next four years within each of the Gateway priority areas for intervention. Surveys were carried out by telephone and in person, and also of people attending public meetings where proposals were set out. These found that 79 per cent of people agreed with demolition plans, 88 per cent with plans for new housing, and 91 per cent with the pathfinder's plans for the improvement of some existing homes. It was discovered that a large majority of people found that public events, newsletters and individual discussions were helpful for them. There has also been extensive coverage of Gateway's proposals in the local media. The pathfinder's written communications provide clear explanations of market renewal and the help that is on offer to residents affected by clearance proposals. A residents' charter has been established that includes an undertaking that, 'Every effort will be made to enable residents to stay in their community if that is what they want'.
- 76 Gateway has also drawn up a consultation strategy that sets out a process for all consultation linked to pathfinder activity. It provides a useful checklist of issues to be considered and principles to be followed, and Gateway has to approve a plan for consultation before projects are implemented. A Citywide Communications and Consultation Steering Group with representatives from all involved in the delivery of consultation and engagement in the priority neighbourhoods has been established to share good practice. With the changed delivery arrangements for local services through Area Directors, enhanced roles for Area Partnerships, and development of Community Strategy delivery plans for each area, it is important that community consultation is well co-ordinated within each area, and that it is consistent and sustained. There is a particular challenge for the pathfinder to develop effective and inclusive ways of involving local people as it develops area master plans over the next few years.

Achievements

- 77 The pathfinder achieved the delivery of its expenditure target and its output targets for the 2005/06 year, despite expenditure being well behind target throughout the year. There were substantial improvements in delivery in the second half of the year following a review of all projects and the introduction of clearer delivery plans.

- 78** Ongoing work with the pathfinder shows that end of year expenditure was assisted by the acquisition of commercial properties within the NaSA area, together with an acceleration of the acquisition of residential properties. These properties are all within the agreed clearance area and demonstrate the maintenance of a focused approach. There was strong programme management in the second half of the year by the Gateway team, with appropriate responses to problems that were frustrating successful delivery of the year's programme. The acceleration of residential acquisitions was achieved by simplifying management structures, with Gateway and City Build staff directly involved in identifying properties and acquiring them, and the out-sourcing of conveyancing. Commercial properties were bought under delegated authority, whereby Board allowed the purchase of properties up to a value of £500,000. Gateway also introduced clearer targets for individual staff to achieve expenditure and outputs by the end of the year.
- 79** The first year's programme was concentrated on acquisitions and demolitions in the NaSA area, together with demolitions in North Bransholme, demolition and new development in Ings, new development in the Preston Road area, and neighbourhood management. The pathfinder also took forward area planning in its priority areas, together with North Bransholme and Orchard Park. There has been significant progress over the last year, although greater challenges lie ahead as the first year's programme was small, and the proposed programme for 2006 to 2008 is twice the size of that delivered in 2005/06. The procurement of lead developers and initiation of physical master plans are other key tasks.
- 80** The impact of the small programme in the first year is likely to have been limited, especially as the first new developments have only just started on site.
- 81** The pathfinder has responded to many of the requirements of Audit Commission recommendations from the first scrutiny report – see Appendix 2 for a summary. Of the fifteen recommendations to be completed within the year, the requirements of seven have been fully completed, there has been significant progress on a further four, and some progress on the remaining four. The pathfinder has taken the recommendations seriously and sought to develop responses that add value to its work.

Systems

- 82** Ongoing work by the Audit Commission with the pathfinder suggests that despite the achievement of delivery targets by the end of 2005/06, there remains a need for delivery arrangements within each of the priority areas to be re-structured, especially as the programme is likely to increase in size in future. Arrangements to date have been reliant on the expertise of individuals from different organisations. The pathfinder recognises that there is now a need to put in place clearer management arrangements for the delivery of the programme in both west Hull and east Hull and a review of capacity has recently been commissioned. Given the difficulties faced in delivering the programme in 2005/06 and the increasing size of the proposed programme, the lack of clear arrangements for delivering the new programme on the ground, sufficient staff resources, and robust management arrangements put in place, presents a major risk to the pathfinder's programme.

- 83** There appear to have been some weak project and programme management practices within Hull CC in the delivery of the first year's programme, linked to the complex or poorly defined management responsibilities in each of the priority areas. These led to poor delivery performance in the first half of the year and a requirement for Gateway to intervene strongly. New delivery structures need to include improved project and programme management systems.
- 84** Risk management is undertaken at the level of strategic risks that are compiled by the Gateway team and reported to Board on a regular basis, and project level risks that are identified as part of project appraisal. The Gateway strategic risk register identifies most of the key issues that could have a significant impact on the pathfinder's success, although the mitigating action is brief and goes into little detail. Where potentially significant risks are identified, a range of more detailed responses are required to sit behind the summary that appears in the risk management report to Board.
- 85** Project level risks are identified and assessed as part of project appraisals and are monitored by Gateway's programme officers, and managed by delivery agents. Further developing the systems for the monitoring and management of project related risks would be part of general improvements to project and programme management by delivery agents. In particular, project risk management systems need to include appropriate mechanisms for flagging up issues that are not being resolved, and exception reporting to higher levels of management and the Gateway core team.
- 86** Ongoing work with the pathfinder shows that Gateway has drawn up a procedures manual that clearly describes the arrangements for project applications and assessments, project funding agreements and requirements for submitting grant claims and information to Gateway. Claims are made to Gateway programme managers who control the authorisation of the payments. They remain in contact with the projects and are responsible for assessing that funding has been defrayed in accordance with project funding agreements. An agreement has been established that sets out the different roles of Hull CC and Gateway in financial management and accountability for grant funding.
- 87** Some new mechanisms have been introduced to assist the delivery of market renewal. Equity loans have been introduced to assist owner occupiers affected by clearance to buy new homes. These are loans with no ongoing repayments, where Hull CC, as accountable body for Gateway, takes a proportion of the equity in alternative homes to help people affected by clearance to afford them. There is a need to develop the way in which these loans are administered as the size of the programme increases, setting up more structured financial advice.

- 88** Gateway has also supported the development of neighbourhood management in pathfinder priority areas, and in particular, the provision of additional services to mitigate the effects of clearance activity, such as environmental management and work with young people. There is diversity in the approaches between areas, and Hull CC is also funding neighbourhood management pilot projects. While it makes sense to have autonomy and flexibility in delivery to fit local structures and priorities, Gateway needs to ensure that there is transparency and consistency in the quality of neighbourhood management services being provided through the use of HMR funding, clarity on the additional impact from this investment, and effective performance management.
- 89** In summary, the pathfinder has added moderate value through implementation of its programme. Local people have been extensively consulted on the plans for the next four years set out in the scheme update submission, with clear support for proposals in each priority area from local residents. Despite problems in the early part of the 2005/06 financial year, expenditure and output targets were achieved. The pathfinder has also responded satisfactorily to Audit Commission recommendations. Basic procedures for project approval and financial management have been codified and risk management has ensured that key delivery problems have been identified and addressed during the latter part of the last financial year.
- 90** There remain, however, some high risks to implementation of the pathfinder programme. The proposed programme for the next two years is double the size of that in the first year. There are currently no firm proposals for how delivery of the proposed programme will be structured and there is a need for new arrangements to have a clearer management structure and be better resourced than delivery to date. Project, programme, and risk management by delivery agents has been poor, relying on intervention by the Gateway team to deliver the initial programme. The delivery of some new interventions, such as neighbourhood management and equity loans, will come to the fore as the programme develops, but the pathfinder is yet to set up consistent delivery and performance management arrangements.

Governance

- 91** Pathfinders were established as strategic alliances and partnerships, working to achieve agreed agendas in a spirit of collective responsibility. It is essential that they operate fairly, transparently and effectively and this section of the report considers the performance of this pathfinder's governing body to date.

Roles and responsibilities

- 92** Currently the Gateway Board that is responsible for setting strategic priorities and overseeing delivery of the pathfinder programme includes an appropriate range of representation from pathfinder partners, although there is potential for strengthening the Board by getting direct input from private developers and property professionals. There is also the potential to understand better the perspectives of people living in some of the pathfinders' priority areas through community representation on the Board.

- 93** Hull City Council is a key partner, being the accountable body and the local authority for the whole of the pathfinder intervention area. Ongoing work with the pathfinder shows that new protocols have codified the roles of Board, the pathfinder Chief Executive, and the City Council, and should help to provide a common understanding of the responsibilities for different aspects of the pathfinder's work.
- 94** The East Riding of Yorkshire is represented on the Gateway Board and has a role in co-ordinating Gateway's work with its responsibilities within the wider housing market area. As governance develops, a more explicit statement of the role of the East Riding and the representatives of other organisations would help to provide clarity and transparency on relative responsibilities as well as encouraging individual Board members to contribute according to their areas of expertise.
- 95** Proposals have been put forward for a major change in governance arrangements, with all physical regeneration within the city to be overseen by a new organisation known as City Plus, linked to the local strategic partnership – Hull City vision. It is proposed that beneath the over-arching City Plus board there would be advisory boards responsible for different themes or streams of investment. One such advisory board could be very similar to the existing Gateway board and oversee pathfinder activity. It is hoped that these arrangements would assist with the integration of investment to achieve more effective regeneration. Delivery arrangements would also be brought together – it is hoped that there could be efficiencies achieved by combining some functions between capital programmes.
- 96** There are currently no details of how the new arrangements would be structured, and whether one of the advisory boards would continue to have a clear focus on market renewal. It is ironic that proposals for a major change in governance should come at a time when the existing Board is viewed by its members as being increasingly effective. One of the key risks of a major change in governance is disruption to the balance and consensus around the Gateway strategy, although there are indications that there is wide-ranging support for the Gateway strategy across political parties and among residents of each of the priority areas.
- 97** Another key risk is that there is insufficient focus and a clear point of responsibility for the market renewal programme. The new governance arrangements must ensure that Housing Market Renewal investment is used in accordance with evidence based strategic priorities that maximise the impact of funding in achieving market renewal, rather than any other priorities. This is likely to be achieved by the maintenance of strong representation of a range of partners on a board that has clear responsibility for the pathfinder strategy and programme.
- 98** In terms of delivery, there will still be a need for specialist housing skills, even if some functions can be shared with other capital programmes. There is a risk that scarce resources will be distracted by the need to establish new working arrangements rather than focus on programme development and delivery. The transition to new arrangements must not detract from ongoing delivery of the market renewal programme.

Dynamics and accountability

- 99 The Audit Commission's ongoing work with the pathfinder shows that the Gateway Board has been well involved in the process of drawing up new scheme update proposals, with views sought from all stakeholders, and a strong role in determining investment priorities.
- 100 Board has also been kept well informed of delivery progress through detailed reporting. Each monthly board meeting has focussed on delivery and Board has been actively involved in discussions with the former ODPM regarding expenditure and establishing systems to assist in delivery, such as delegated authority for commercial acquisitions. Clear action plan tables are produced following board meetings setting out who is responsible for all actions identified and timescales.
- 101 New quarterly monitoring reports to Board show trends across a wide range of indicators, with key issues drawn out. There remains the need to design a framework for ongoing evaluation and reporting of the effectiveness and impact of pathfinder interventions.
- 102 Accountability for the Gateway programme is achieved formally through Hull City Council, which is both the accountable body responsible for ensuring the proper use of HMR funding, and the local authority with significant representation on the Gateway Board. Hull CC's Cabinet considers key elements of pathfinder strategy and policy, and a Gateway Committee meets less frequently to shadow the work of the pathfinder. It is therefore clear that the pathfinder is accountable for its actions through the local democratic process.
- 103 The pathfinder is also directly accountable to local people through its community consultation, and has a high profile in the local media. The Area Partnership Boards in pathfinder priority areas provide another means by which local people can hold the pathfinder to account and influence local plans.

Capacity

- 104 The pathfinder core team capacity planned for the next programme period is essentially the same as that currently in place, with the addition of a dedicated finance manager and finance officer. This team will potentially be responsible for delivery of a programme that is twice the size of that delivered in 2005/06. This will only be possible if there is improved support from local delivery agents so that there is less need for direct intervention by the core team in the delivery of projects. There is a risk that the proposed move to City Plus will lead to changes in senior management if the core team is merged with teams responsible for other capital investment, potentially threatening the continuation of recent improvements in the pathfinder's performance.

- 105 Gateway has started to scope the delivery capacity required for the next two years, and is, with Hull CC, considering its preferred delivery structure. There is the potential for area teams to be managed from within Hull CC Housing Department, by Area Directors, or directly by Gateway. The chosen arrangements will need to be clear on the role of delivery teams relative to the Gateway core team. They will also need to be capable of adapting to the potential move of the Gateway core team to the City Plus structure.
- 106 The pathfinder has added significant value through its governance arrangements. The Board has developed into a body that has been well engaged in determining strategic priorities and has been responsive in its oversight of the delivery of the pathfinder programme. Protocols have been established to define the roles and responsibilities of the pathfinder Board relative to those of Hull CC. The pathfinder is accountable to local people through Hull CC and locally through Area Partnership Boards.
- 107 There remain high risks around the pathfinder's governance. A major risk is the proposal to merge governance and delivery of the pathfinder programme with that of other capital regeneration programmes in the city. In principle, this may help to achieve better integration of investment, but because the detailed structure is yet to be determined, there is also a possibility that the focus of pathfinder investment will be lost, that the balance of representation of different partners will be dissipated, and that recent improvements in the pathfinder's governance and delivery performance will be undermined. Developing City Plus proposals must ensure that they address these potential risks.

Value for money

- 108 As with all publicly-funded programmes, it is important for pathfinders to be able to demonstrate that they are achieving value for money both at the strategic and the operational level. Under some key headings this report now considers the clarity and success of Gateway Hull and East Riding's approach to date.

Processes

- 109 The programme has been built up from the area plans for the three pathfinder priority areas, informed by the total amount of HMR funding potentially available, and capacity constraints in the early years of the programme. Thematic interventions which operate across all of the pathfinder's priority areas have been added to these area plans to make up the programme.

- 110** The area plans have been built up in a way that clearly assesses value for money in establishing the principal actions required. Plans for Preston Road and Ings have been developed through the testing of options against Gateway's latest strategic objectives and more specific local objectives in a transparent manner. Each option has been assessed against objective fulfilment, public sector cost, public sector benefits, and the extent of replacement affordable housing provided. It is clear that the chosen interventions in these areas offer better value in terms of total grant funding requirements for the outcomes produced than alternative options, although there are still more detailed issues to be resolved around implementation and funding. The chosen options are likely to produce the best long term outcomes, but potentially limited availability of resources means that implementation is likely to be phased over a very long time – potentially ten years in each area at the current level of investment. This commits future resources, even if the annual costs are affordable in the context of the initial programme.
- 111** Area planning in the NaSA area has been undertaken using Neighbourhood Renewal Assessment methodology. In principle, this provides a logical and well informed process for determining and assessing options for change, although no information has been provided on the detail of the process followed.
- 112** Similar options appraisal processes have been used to inform the development of plans in North Bransholme, where a route map has been commissioned to examine and reconcile existing plans. No commitment will be made on the potential role of HMR funding in the area until there is a clearer way forward that meets the objectives of all stakeholders.
- 113** A new financial model has been used by Gateway in developing its programme for the next four years. It enables the pathfinder to understand the effects of current action on future value. It also enables the pathfinder to undertake sensitivity analysis for the programme and forecast the potential impact of house price inflation. The assumed costs used in the model for pathfinder interventions, such as acquisition costs, appear to be realistic and based on recent experience.
- 114** Assumptions about the costs and sales values of new development will need to be carefully monitored, as they are critical to the pathfinder's business plan and the level of cross subsidy that will be achieved from new developments. For example, ongoing work with the pathfinder shows that re-development costs at the first new development at Ings are currently higher than those assumed for future phases, questioning the value that can be generated to help pay for the costs of acquisition and clearance of existing homes, and provision of new affordable housing.
- 115** The business plan does not factor in inflationary increases. This approach has been taken following the modelling of three scenarios of future price and cost growth which showed that HMR grant funding requirements remain constant as long as house price inflation is off set by land price rises that enable additional costs to be met from land sale receipts. It is recognised that the differential between house and land prices will not remain constant and that most additional value is likely to be created later on in the programme. There is an inherent risk to the business plan here that the pathfinder will need to continue to monitor as the market develops in response to pathfinder intervention.

- 116 The business plan is based on firm proposals for years one to four – 2006 to 2010. New areas where planning has not started are assumed to have requirements for a balance of clearance, re-development, and refurbishment as found in similar areas in the early programme. This is a reasonable assumption in the absence of detailed planning in other areas but the extent of intervention required will be kept under review as the market develops over time, and the future availability of funding becomes clearer.
- 117 However, even at this point in time, the projected future HMR funding requirement seems unrealistic. The future grant funding profile shows an expectation of £85 million each year by 2014. This is far more than any other pathfinder has received to date and a ten fold increase on the 2005/06 programme in Hull. This is not realistic, either in terms of the availability of funding, or the capacity of the pathfinder and local construction industry to invest that much. A level of half this amount is probably the maximum achievable given steady improvements to delivery capacity.
- 118 The proportion of HMR funding that the pathfinder wishes to use for revenue investment is £5 million out of a total of the £35 million bid. At 14.3 per cent of the overall bid, the proposed revenue expenditure exceeds former ODPM guidance that revenue be limited to 10 per cent of the programme. Gateway is therefore likely to be required to revise both the level of proposed revenue funding and projected future HMR funding requirements, with consequent revisions to its programme or new plans to lever in alternative funding.
- 119 Project appraisals carried out early in the 2005/06 financial year were often based on poor quality information from project applicants, with a consequent lack of evidence that proposals offered good value for money. Future project appraisal processes will need to demonstrate stronger financial appraisal, and Gateway has set out principles to guide the development of a revised project appraisal system for the forthcoming programme. Key principles include developing projects under more direction from the pathfinder and first reviewing projects at an earlier point in their development so that it is clear from the outset that each project fits with Gateway's strategy and policies. Projects are to be commissioned from approved delivery agents. In principle this is a sound process, but yet to be implemented. The quality of information provided and level of challenge will be critical. The extent to which there is a well planned area context for individual project proposals is also important. The Area Implementation Plans help, but physical master plans are critical elements that are currently missing. There has been some initial thinking on how business plans for new development projects are assessed for gap funding.

- 120** Neighbourhood management is to be supported as a thematic intervention by the pathfinder. It is proposed that expenditure is stepped up from a level of around £200,000 in 2005/06 to £1 million in 2006/07 and £2 million each year thereafter, regardless of the size of the physical programme. Plans are still to be finalised for how this increased investment in neighbourhood management will be spent. The stated intention of this investment is that it will address additional pressures arising from the pathfinder's programme and will help to tackle crime and anti-social behaviour in its priority areas. Neighbourhood management was not considered within area plans as part of the whole programme of interventions within each priority area, which focused on physical interventions, and it is not clear how neighbourhood management will support other work by the pathfinder and its partners. There is likely to be a real need for investment in enhanced local services to support communities through change, but the pathfinder needs to demonstrate that it has built up robust plans for neighbourhood management, and that HMR funding is not substituting funding from other sources. This investment also raises the question of how neighbourhood management will be sustained in future.
- 121** Another intervention where there is no clarity within the pathfinder's submission on how funding will be spent, is environmental improvements. Again, it is likely that there are real needs for this investment, and the pathfinder has demonstrated that poor environmental conditions are prevalent in its priority areas. Plans for environmental improvements were not included in the scope of area planning, and the pathfinder must ensure that detailed proposals clearly support other interventions and fit within emerging master plans and the forthcoming green space strategy.
- 122** Proposals for HMR funded refurbishment work to existing private sector homes in the NaSA area have been included in the scheme update submission. The refurbishment requirements are based on broad assumptions that half of the refurbishments will be to a face lifting standard costing £10,000 per property, and half to a full external refurbishment standard costing £20,000 per property. While there may be a case for refurbishment work to support the other interventions in the NaSA area, the pathfinder needs to develop its understanding of current conditions of the stock in the area and the circumstances in which different levels of refurbishment offer the most cost effective approach to lifting the local market.
- 123** The pathfinder has been developing its approach to procurement and potentially adding value through improved procurement for both contactors and developers. Gateway is collating information on all of its unit costs in order to develop benchmarks and explore ways of reducing costs where they are high. Ongoing work with the pathfinder shows that the costs of demolition contracts in North Bransholme were reduced by using two demolition contractors in competition. An alternative contractor is being used in lngs on an open book basis, providing an opportunity to test costs between schemes and contractors.

- 124** Gateway is currently procuring lead developer partners for west and east Hull. The intention is that the establishment of long term partnerships will provide a context within which developers will contribute their skills to planning and project managing new developments, and there will be an incentive to maximise the value created through the re-development of pathfinder priority areas over the long term. This should reduce reliance on public funding and potentially enable the regeneration process to be speeded up.
- 125** Ongoing work with the pathfinder suggests that Gateway is ensuring that there is transparency and consistency in how potential developers present their proposals, and that the selection process has been suitably rigorous. Once lead developers have been chosen, it will be critical to establish the right partnership structures and systems that provide financial incentives for the developers while enabling Hull CC on behalf of the pathfinder to benefit from rising land values to reflect the level of pathfinder investment. The chosen model must also be complemented by clear delivery mechanisms that foster trust and efficient joint working between public agencies and the chosen developers and demonstrate public accountability.

Leverage

- 126** There is a heavy reliance on HMR funding compared with other pathfinders, especially in areas of social housing, because of the limited potential investment from Hull CC in its own stock. Hull CC has no resources to address fundamental problems in some of its homes because of its decision to retain its stock and thereby fail to access any potential new investment linked to the Decent Homes Standard.
- 127** The investment that is being made by Hull CC to achieve the Decent Homes Standard by 2010 is being prioritised in Gateway priority areas to support the pathfinder programme, with major contracts due to start on site late in 2006. This investment is limited and it is argued that it is worthwhile undertaking the investment to improve conditions in the short term, even in homes that could be demolished shortly after 2010, such as some of the defective Caspons properties at Ings. Potential investment in homes that have already been identified for clearance ought to be carefully assessed in each case.
- 128** In the delivery plans for Ings and Preston Road, the use of HMR funding to pay for acquisition and demolition removes a liability from Hull CC to pay for demolition or improvement. Some of these homes have been empty for several years and have been long term financial liabilities for Hull CC. Even though demolition of defective Council properties in places like Ings and Preston Road, and subsequent re-development, is in line with pathfinder objectives, there is a risk that the impact of HMR funding will be reduced because it is subsidising the clearance of homes owned by Hull CC that the Council would otherwise have had to demolish itself. The impact of HMR funding would be greater if the relatively small costs of compensation and demolition of Council owned properties were met by Hull CC rather than from HMR funding, which could be focussed on the larger costs associated with acquiring and demolishing homes that have been bought under the Right to Buy. Hull CC is considering funding the demolition of a number of long term empty properties in that part of Ings that is not within the pathfinder's first four years of activity.

- 129** The Regional Housing Board has agreed to provide funding which, along with match funding from Hull CC, will contribute over £4 million each year for improvement works to private sector homes to complement pathfinder investment. The Regional Housing Board also oversees allocations of investment for new affordable housing through the Housing Corporation. The pathfinder's business plan assumes that Housing Corporation grant funding support will subsidise the development of all new affordable housing planned for pathfinder priority areas, and the Housing Corporation has confirmed that this is in line with its investment priorities.
- 130** The pathfinder's submission is silent on any match funding support from English Partnerships and Yorkshire Forward. These agencies are investing in the city centre of Hull, which is part of the pathfinder intervention area and the city's housing market, even if responsibility for planning and delivery in the area is held by the URC. The pathfinder should consider the nature of this investment and how it can complement its own work.
- 131** The level of private sector funding leverage assumed in the early years of the programme is very small. This reflects the time that it will take before significant re-development is seen in the pathfinder area. The pathfinder is seeking to maximise investment by private developers in its priority areas through its partnering arrangements, but there may be scope for the encouragement of further investment in other sectors of the market elsewhere in the city.

Efficiencies

- 132** A brief Efficiency Statement sets out reductions in cost that the pathfinder expects to make from reducing core team costs. Anticipated delivery costs are low at 8 per cent of total programme costs for 2006 to 2008, compared with 18 per cent of the programme in 2005/06. While reduced operating costs are to be welcomed, it remains to be seen whether such a great reduction can be achieved and the programme delivered.
- 133** The expected reductions are considerable, to be achieved by reducing reliance on agency staff, and using consultants much less. The maintenance of the same size core team despite a large increase in the size of the anticipated programme suggests that robust delivery arrangements will need to be in place beneath the core team, with major improvements on past arrangements. The achievement of the intended reduction in the use of agency staff and consultants will also rely on the successful recruitment and retention of high quality permanent staff - most of the team is already in place, but there have been staff recruitment problems in the past. The proposed move to City Plus could create some uncertainty for staff - there needs to be an emphasis on ensuring that staff are kept well informed and feel secure.
- 134** The Efficiency Statement does not consider other potential efficiency gains, such as through procurement, although part of the expected reduction in consultants' costs is through the use of lead developers to take forward area planning. Developers will still incur costs that will need to be met, even if this is indirectly through value created from developments. Contractor procurement is not considered, and there is no consideration of non-cashable gains through improved effectiveness and quality of service.

Maximising assets

- 135** An asset management database of properties acquired using pathfinder funding has been established as a basic record, but an asset management and capital receipts recycling strategy needs to be developed. This means consideration of how land and buildings acquired by the pathfinder could be managed and sold to generate the best possible financial returns to help fund other elements of the pathfinder's programme.
- 136** The level of capital receipts that the pathfinder assumes will come back to it throughout the life of the programme is £66.7 million. This level of receipts is not impossible over 14 years from 2006 to 2020. Significant receipts are only expected from 2011 onwards.
- 137** In summary, the pathfinder has added moderate value through its approach to value for money. Robust processes have been used for the assessment of options for action in at least two of the priority areas, demonstrating that the preferred actions are the most cost effective for delivering pathfinder objectives. Gateway has used a sophisticated financial model to draw up its programme and has developed well informed assumptions on costs. Procurement processes have been developed, especially through the continuing process of selecting lead developer partners. The pathfinder is planning to reduce significantly the proportion of its funding that it spends on operating costs although the pathfinder's efficiency statement and capital receipts re-cycling policy both require further development.
- 138** There remain some significant risks associated with the pathfinder's approach to value for money. Assumptions of potential future pathfinder funding are unrealistic – the proposed long term programme would require a massive increase in funding which the pathfinder is very unlikely to receive. Current proposals for the use of HMR funding on neighbourhood management and refurbishment are undeveloped, with little demonstration of how they will offer value for money. There remain a number of key elements of the lead developer agreements that are still to be worked out. Levels of public sector leverage are quite limited and there is a risk of substitution of investment by Hull CC through the pathfinder meeting the cost of the demolition of defective homes for which the Council has held a long standing liability.

Learning and innovation

- 139** Pathfinders are expected to be learning organisations, and lead the thinking on dealing with fragile housing markets. There is a consequent obligation on them to be proactive in sharing their learning with others, and to participate in wider and collective pathfinder events and activity.
- 140** The Gateway pathfinder has been innovative, developing new approaches within its local context, although many of these follow approaches that had already been developed within the national context. There remain a number of areas where the pathfinder could learn from other cities and pathfinders. There is a willingness to learn from the approaches of others but this is limited by the resources available to take time to understand what others are doing and interpret this into the pathfinder's work.

- 141 An area where Gateway has been innovative in national terms is in its approach to neighbourhood profiling. One section of the neighbourhood profiles includes indicators that distinguish between different aspects of environmental quality within each neighbourhood of the city to provide new information on the nature of the environmental issues faced, help prioritise investment, and provide a baseline that can be used to track change over time.
- 142 There are also areas where the pathfinder has taken an ambitious approach that will potentially lead to significant change locally. The pathfinder's approach to developer procurement is an example of this in its selection of a single lead developer for each part of the city with joint venture arrangements to help capture increasing property values. The design of these arrangements is still at an early stage, both in terms of roles that the developer partners will take in area planning and the legal and financial arrangements.
- 143 The spatial strategy is another initiative that is bold and potentially far reaching in the local context. It seeks to bridge the city's Community Strategy and Local Development Framework in defining key land use patterns.
- 144 There are some areas of delivery where the pathfinder and Hull CC are behind approaches in other cities that face similar issues, such as in private sector housing renewal. The plans for refurbishment in the NaSA area are not well informed by experience of alternative approaches.
- 145 The pathfinder has establishment systems for monitoring changes in the local housing market, with regular high quality reports to the pathfinder Board. This can potentially be further developed through the use of the neighbourhood profiles.
- 146 However, there are currently no systems in place to understand the outcomes and impact of Gateway's actions at the programme level, and only limited evaluation at the project level, such as the evaluation of the effectiveness of community consultation on scheme update proposals. The pathfinder sets out principles that it intends to take forward as it designs its evaluation systems and links evaluation of impact to the shape of its programme and design of its projects. This includes a proposal for an annual summative evaluation report. The proposals for evaluation are sound in principle, but it is important that a range of evaluation at different levels of intervention is implemented as soon as possible so that the pathfinder can learn from the approaches that are new to the city, understand the combined effects of its programme in each area, and refine its future strategy and programme accordingly.
- 147 The pathfinder has added moderate value to its programme through the development of new learning and innovation. It is open to learning from the approaches taken in other cities, and has brought forward a number of ways of working that are new to Hull, even if not new in the national context. Aspects of innovation include the development of neighbourhood profiling, the ambitious approach to developer procurement, and the pathfinder's work on a spatial strategy for the city. The pathfinder has established a useful system for monitoring changes in the local housing market.

- 148** There remain some moderate risks, with the pathfinder and its partners inexperienced in some aspects of private sector renewal, such as determining the most cost effective approaches to refurbishment. Despite setting out sound principles for evaluating its programme, Gateway is yet to establish a mechanism for measuring the effectiveness and impact of projects and the programme as a whole. Although the programme is at an early stage, this will be critical for developing and refining the pathfinder's strategy and investment policies.

Appendix 1 - Summary of added value and risk by theme

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Influencing trends and meeting aspirations	Significant	<ul style="list-style-type: none"> • High quality information on the key factors influencing the local housing market • Strategic objectives and investment priorities reflect understanding of the local housing market • Clear focus of investment in three priority areas 	Significant	<ul style="list-style-type: none"> • Continuing uncertainty on the future level of housing demand within Hull • No plans for considering and securing the long term sustainability of the majority of Council-owned homes beyond the minimum investment to achieve the Decent Homes Standard • Limited outcome targets have been set to define the intended impact of the pathfinder • Detailed master planning is yet to be initiated in priority areas

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Strategic context	Significant	<ul style="list-style-type: none"> • Influence on the draft Regional Spatial Strategy to help ensure that it supports market renewal in Hull • Significant role in leading the progression of the local economic development strategy and a spatial strategy for the city • Close co-ordination with other regeneration investment 	High	<ul style="list-style-type: none"> • An economic development strategy to deliver improved local economic performance is yet to be completed • New Community Strategy targets for improvements in key service areas are yet to be supported by plans for how they will be achieved • Potential short term disruption to local service delivery in the devolution of services to Area Directors • Some local Planning policies require further development to support the pathfinder

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Implementation	Moderate	<ul style="list-style-type: none"> • Extensive consultation and clear support for proposals in each priority area from local residents • Expenditure and output targets for 2005/06 were achieved • Key pathfinder procedures have been established 	High	<ul style="list-style-type: none"> • No firm proposals for delivery of the new programme • Inadequate delivery capacity, systems, and management to ensure delivery of pathfinder projects in each area to date • Some types of intervention require more development before they can be implemented effectively

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Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Governance	Significant	<ul style="list-style-type: none"> • Board has been well engaged in determining strategic priorities • Board has received high quality information and been able to respond to delivery problems • Protocols have been established to define the role of Hull CC in relation to the role of the pathfinder Board • Gateway is accountable to local people through Hull CC and through local Area Partnership Boards 	High	<ul style="list-style-type: none"> • There is a proposal to merge the governance of the pathfinder with that of other capital regeneration programmes in the city, but there are currently no details of the new arrangements • New arrangements potentially risk dissipating pathfinder investment, upsetting the balance of representation, and disrupting the pathfinder’s recent progress

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Value for Money	Moderate	<ul style="list-style-type: none"> • Robust processes for assessing options for action have been used at the area level • Financial assumptions in the business plan are well informed • Procurement processes have been developed, especially the selection of lead developer partners • The pathfinder is planning to reduce significantly its operating costs 	Significant	<ul style="list-style-type: none"> • Assumptions of potential long term HMR funding are unrealistic • Proposals for the use of HMR funding in neighbourhood management and refurbishment are under developed • Key elements of the lead developer agreements are still to be worked out • Levels of public sector leverage are low and there is risk of substitution of investment by Hull CC through HMR funding the demolition of defective Council-owned homes • The capital receipts re-cycling policy requires further development

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Learning and Innovation	Moderate	<ul style="list-style-type: none"> • The pathfinder has introduced a number of ways of working that are new to Hull • A useful system for monitoring change in the local housing market has been established 	Moderate	<ul style="list-style-type: none"> • Inexperience in some aspects of private sector renewal • A mechanism for measuring the effectiveness and impact of the programme is yet to be implemented

Appendix 2 - Summary of progress against original Audit Commission Recommendations - March 2005

Recommendation	To be completed by:	Comment
<p>1. Strengthen the framework for further market analysis and for monitoring progress and market impact. Specific areas of focus should include:</p> <ul style="list-style-type: none"> • updated travel to work analysis using Census 2001 data; • a review of outstanding planning approvals and potential short term development completions in the Strategic Area; • developing the 'sustainability framework' to explain market dynamics in each neighbourhood and track change; • further analysis of population and household projections within the Intervention Area and Strategic Area, resolving the significant differences between the conclusions of existing research projects and population assumptions in the Joint Structure Plan. This should take into account a range of possible economic scenarios, and a range of housing supply scenarios. Re-examine the Housing Preference Model and establish an agreed methodology for assessing the impact on demand of residents realising their housing aspirations; • assessing the implications for demand for each housing tenure. Develop understanding of why there is changing demand for social housing; 	<p>September 2005</p> <p>September 2005</p> <p>September 2005</p> <p>September 2005</p> <p>September 2005</p>	<p>Completed but not within target</p> <p>Completed within target</p> <p>Completed but not within target</p> <p>Completed but not within target</p> <p>Completed but not within target</p>

Recommendation	To be completed by:	Comment
<ul style="list-style-type: none"> • market research on the aspirations of key target groups such as students and graduates; and • further analysis of the future viability of local shopping centres and the influence of local shops and leisure facilities on the housing market in different parts of the city. 	September 2005	Completed within target
	September 2005	Completed within target
<p>2. Refine the strategic objectives, better defining key priorities, particularly in relation to the balance of new build and demolition. Reconsider the balance of the early programme, ensuring that it does not add to the existing problem of over-supply. Develop a clear strategy for selecting areas for intervention. Consider how Gateway will support the successful delivery of the city centre master plan, with complementary plans for inner areas of the pathfinder and by phasing interventions from the inside out.</p>	December 2005	Not completed, but significant progress has been made
<p>3. Review the 15-year outcome targets, resolving inconsistencies, and showing how the strategic objectives will be achieved through the activities of the pathfinder and its partners. Demonstrate how the initial programme will lay the foundations for the achievement of the long term vision; establish three year outcome targets.</p>	September 2005	Not completed, but significant progress has been made
<p>4. Gateway and its regional, sub-regional and local partners should more clearly define plans for improving the economic future for the Humber sub-region, with clear principles for developing spatial plans for employment sites. This should provide greater clarity about how the economic and housing futures of the area will complement one another, and how the economic improvement required to support successful market renewal will be achieved.</p>	March 2006	Not completed, but significant progress has been made

Recommendation	To be completed by:	Comment
5. Ensure consistency in strategy and phasing between pathfinder proposals and the outcome of the Hull City Council stock options appraisal.	December 2005	Completed within target
6. Review unit cost benchmarks and develop systems for establishing value for money when procuring pathfinder interventions. Undertake value for money appraisals of fully developed projects prior to agreeing project funding. Ensure that environmental works and neighbourhood management proposals are strategically focused and complement the pathfinder's housing investment in priority neighbourhoods.	September 2005	Completed within target
7. Develop a detailed delivery plan, analysing where there are gaps in existing capacity and setting out how they will be filled. Review operating costs and demonstrate cost efficiency before delivery commences. Demonstrate that market renewal funding is to be used only for the delivery of projects and services additional to that provided by existing investment.	June 2005	Completed but not within target
8. Review pathfinder governance arrangements to ensure effectiveness in the delivery phase. Put in place delivery structures which establish clear points of responsibility for programme delivery in each area, and integrate pathfinder activity with other investment. Strengthen links with Hull Citybuild to ensure coordination of regeneration activity across the city of Hull.	March 2006	Not completed, but some progress has been made
9. Develop a comprehensive performance management framework, showing how ongoing market intelligence and evaluation will feed into decision making cycles.	March 2006	Not completed, but some progress has been made

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Recommendation	To be completed by:	Comment
10. Develop programme management systems and a pathfinder procedures manual, ensuring that the pathfinder can effectively control the delivery of the programme. This is to include details of how risk will be identified and managed. Clearly define the separate roles of the Accountable Body and the Gateway team in financial management.	December 2005	Completed within target
11. Develop and implement Pathfinder wide principles for community engagement.	December 2005	Completed within target
12. Develop arrangements to monitor the relationship between market renewal activities and market changes elsewhere within the Intervention area and the wider Strategic area.	March 2006	Not completed, but significant progress has been made
13. Develop a wider range of housing and relocation options designed to support residents to become and remain home owners in the pathfinder intervention area.	March 2006	Completed within target
14. Work with service providers such as the Police and LEA to agree targets, and where appropriate, joint initiatives to produce the improvements in community safety and schools' performance critical for achieving Gateway's market renewal objectives.	March 2006	Not completed, but some progress has been made
15. Produce a forward strategy for the Pathfinder area. This should include consideration of what will happen to proposed additional revenue funded services supported by market renewal funding when this is no longer available. It should also consider appropriate arrangements for ongoing maintenance in order to protect the considerable levels of investment proposed by the Pathfinder.	March 2006	Not completed, but some progress has been made