

# Market Renewal

Urban Living

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local and national services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we monitor spending to ensure public services are good value for money.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Market renewal pathfinders</b>	<b>4</b>
Submissions	4
The Pathfinder area	5
<b>Some key statistics</b>	<b>8</b>
House price change 1996 to 2005	8
BME population 2001	8
Population change 1981 to 2003	9
Population projections 2003 to 2028	9
<b>Summary</b>	<b>10</b>
<b>Recommendations</b>	<b>16</b>
<b>Report</b>	<b>18</b>
Influencing trends and meeting aspirations	18
Strategic context	32
Implementation	39
Governance	47
Value for money	52
Learning and innovation	59
<b>Appendix 1 - Summary of added value and risk</b>	<b>62</b>
<b>Appendix 2 - Summary of progress against original Audit Commission Recommendations - February 2004</b>	<b>70</b>

## Market renewal pathfinders

Market Renewal Pathfinders are partnership led projects set up by the Office of the Deputy Prime Minister (ODPM) in April 2002 to take forward new approaches to tackling low demand 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

Urban Living (UL) the Birmingham and Sandwell pathfinder along with the other pathfinders, was asked to prepare an initial bid for funding which explained their proposed activity for approval by ODPM. This was called a Prospectus. An Executive Summary of the original Prospectus, submitted in 2004 is available from the UL website at [www.urbanliving.org.uk](http://www.urbanliving.org.uk) Following an independent assessment of the prospectus by the Audit Commission, funding was awarded to UL provided it complied with certain key recommendations. A summary of the Audit Commission's main recommendations from that report is attached to this report at Appendix 2. They were also included in the funding agreements between the pathfinder and ODPM. The Audit Commission's assessment of the original UL Prospectus, called a Scrutiny Report, can be downloaded from the housing section of the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

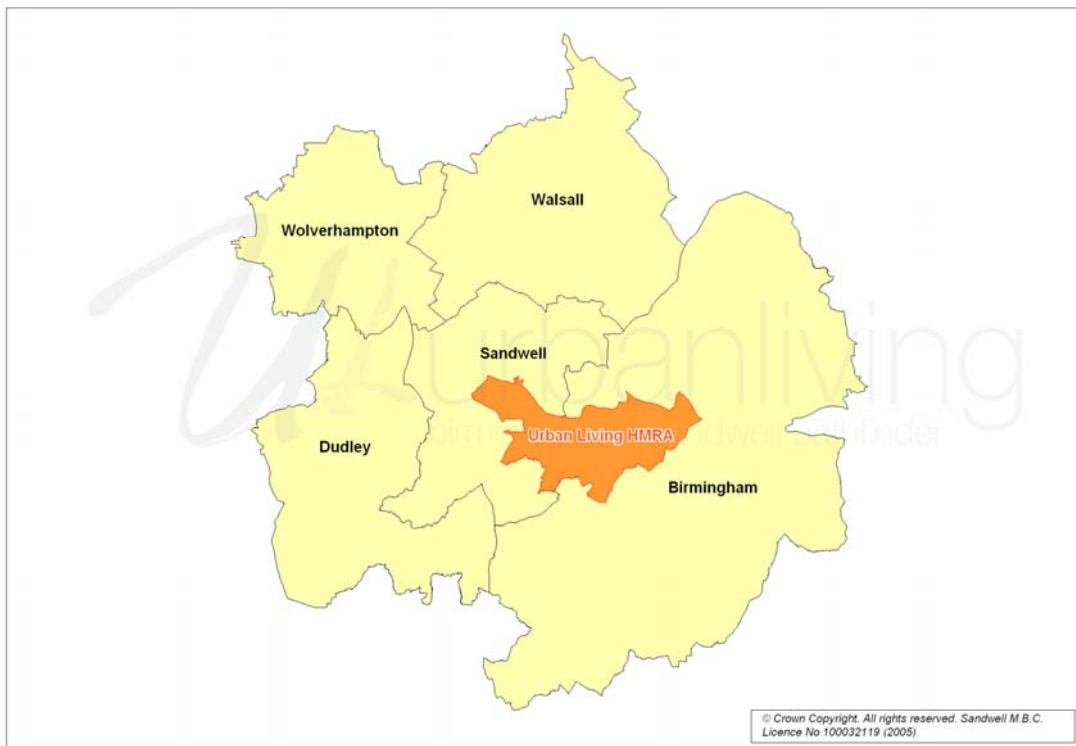
To access the next round of government spending, UL has been invited to produce an update to its original prospectus, again subject to independent assessment by the Audit Commission. Once again a copy of this full Scheme Update 2005 can be downloaded from the UL website at [www.urbanliving.org.uk](http://www.urbanliving.org.uk). It is intended that strategic reviews will this time, like pathfinder updates, provide a more concise commentary that builds on existing knowledge. This current strategic review is therefore based on an assessment of areas of risk and of added value. It looks at these under six headings - influencing trends and meeting aspirations, strategic context, implementation, governance, value for money and learning and innovation. The report also makes reference to findings from the ongoing work to assess the pathfinder's progress carried out by the Audit Commission. This has therefore been used to inform the current scrutiny process.

The summary of the report includes the key recommendations for action by the pathfinder. It is the collective responsibility of the partnership to ensure these recommendations are responded to specifically and effectively. Progress will be formally assessed at key intervals.

## The Pathfinder area

There are nine housing market renewal pathfinders in total. Urban Living covers parts of Birmingham and Sandwell, two of the constituent local authorities in the West Midlands conurbation.

### Urban Living: Local Context



The Urban Living (UL) Housing Market Renewal Area is located two miles north west of Birmingham City Centre and extends a further three miles west to West Bromwich in the Borough of Sandwell. The area includes Handsworth, Aston, Lozells, Winson Green, Smethwick, and West Bromwich. The Urban Living area contains over 60,000 houses and had a population of 152,000 in 2001, a figure which has fallen by 5.5 per cent since 1991. This fall in population was the fourth highest of the nine Market Renewal Pathfinders. The UL area has been further subdivided into four broad geographical areas upon which the investment framework within the scheme update is based.



Birmingham and Sandwell councils have consistently intervened in their respective housing markets, but historically taking very different approaches. Birmingham carried out significant urban renewal work in the 1970s and 1980s, improving the urban form and extending the life of inner city terraced stock, while Sandwell removed much its surplus and obsolete housing stock through successive clearance programmes - between 1991 and 2005 recording a net reduction of around 8 per cent.

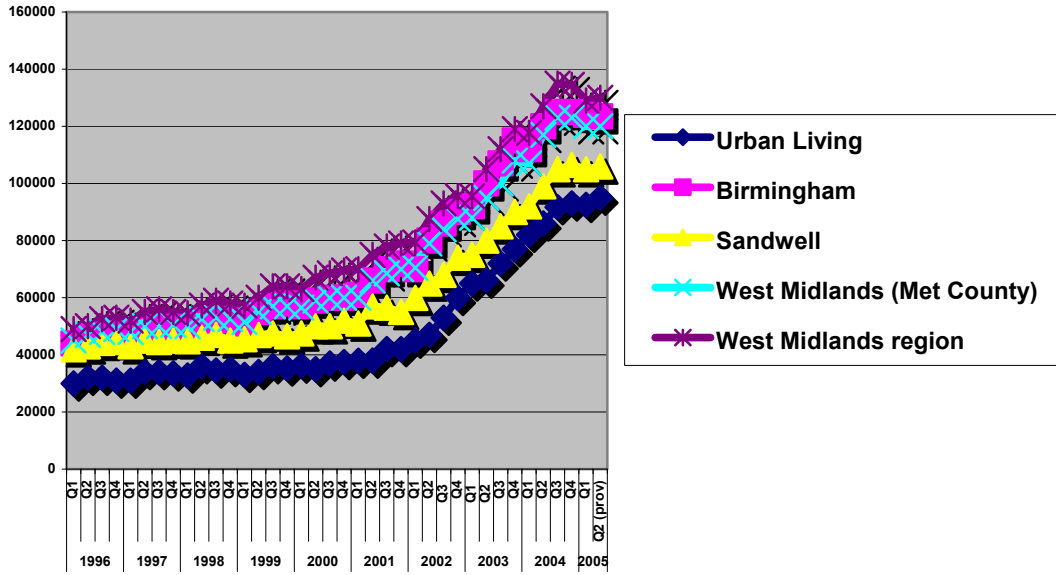
Much of the concentrated obsolescence that characterises the other pathfinders has therefore, already been addressed, so the symptoms of a failing market in terms of problems of oversupply, high voids, falling house prices and a weak regional economy are less apparent. It is nevertheless, a market at risk, with an imbalance between housing need and supply, coupled with complex physical and social characteristics. It also has a unique potential to develop policies that can be applied more generally to a number of cities with a large black and minority ethnic (BME) population.

The area provides a gateway into the West Midlands for people who originate from all over the world. A defining feature of this Pathfinder is its large and rapidly growing BME community, which is estimated to be over 70 per cent of the resident population in 2005, an increase from 65 per cent in 2001. The Birmingham part of the pathfinder provides an important housing market function for the entire West Midlands region, traditionally providing homes for economic migrants, including asylum seekers and refugees, and is prone to high residential turnover and problems of social cohesion. In Sandwell, large scale closure of heavy industry has combined with population loss and neighbourhood abandonment to produce an environment which is exceptionally poor even by the standards which prevail in the Black Country.

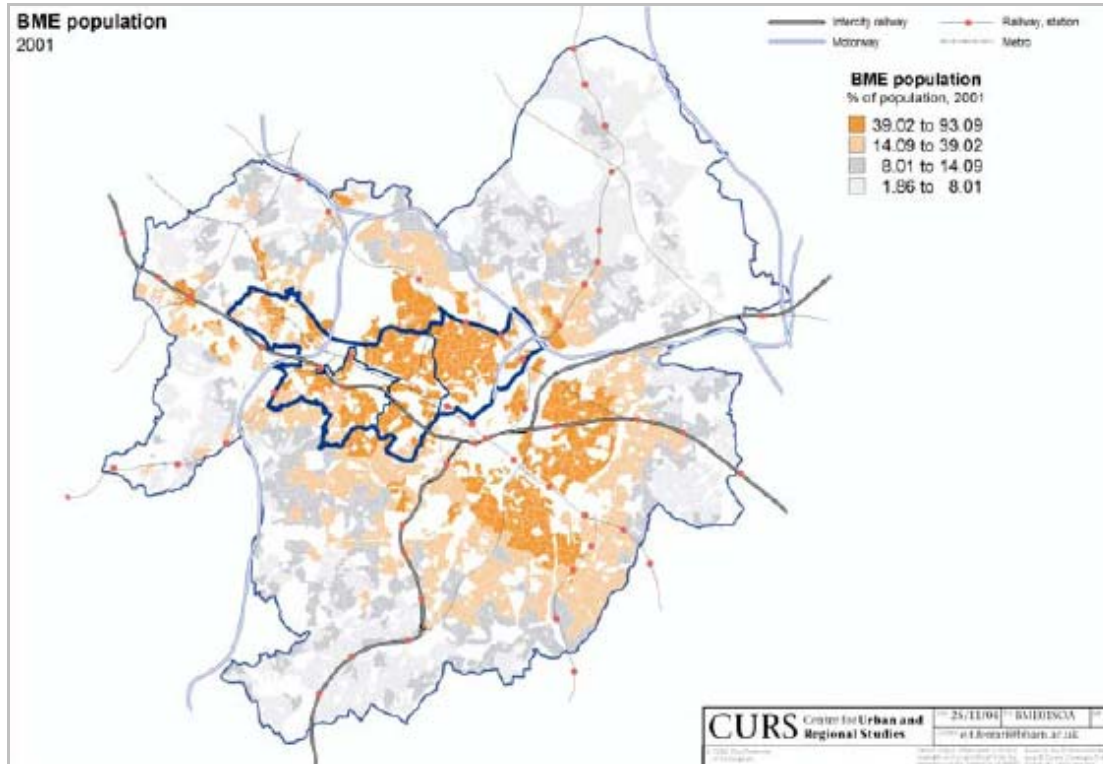
In many respects the pathfinder area is a typical inner city area with large areas of older terraced housing, and local authority accommodation adjacent to traditional industrial areas. Generally, the area is characterised by its outdated urban form, poor environment, a fear of crime, high levels of deprivation, as well as pockets of poor quality housing, all of which serves to undermine efforts to re-engage many excluded groups.

# Some key statistics

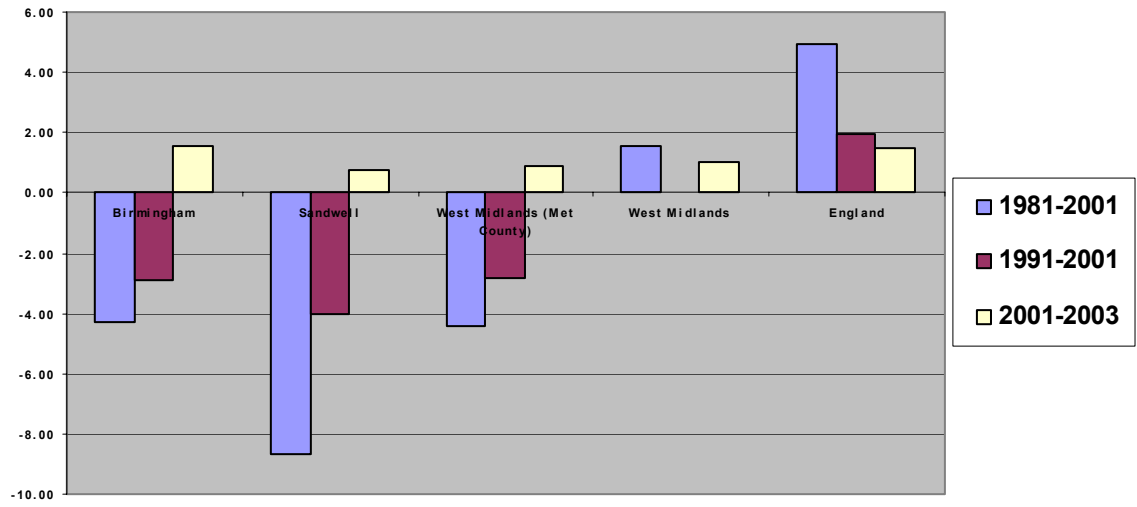
**Figure 1 House price change 1996 to 2005**



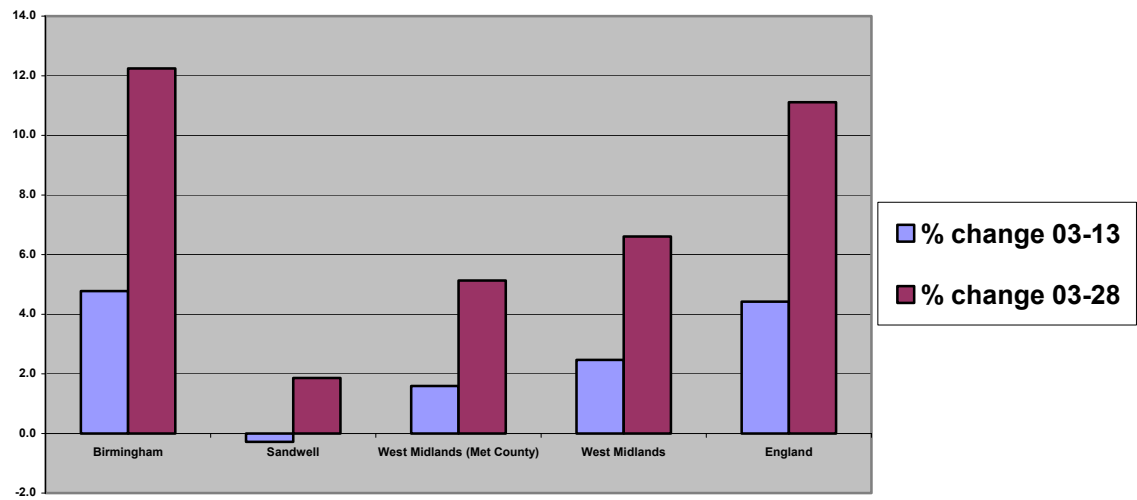
**Figure 2 BME population 2001**



**Figure 3 Population change 1981 to 2003**



**Figure 4 Population projections 2003 to 2028**



## Summary

- 1 The Housing Market Renewal (HMR) pathfinder programme should be regarded as a national exemplar, of strategic importance in terms of housing and regeneration policy and programmes, helping to tackle the Government's wider Sustainable Communities agenda. This strategic review records a whole range of ongoing concerns about the delivery of the market renewal agenda, many of which have been previously highlighted in both our initial scrutiny report and our ongoing work with the pathfinder. The fact that most of these issues still remain of concern and more have come to the fore, result in UL significantly underperforming in comparison to other pathfinders.
- 2 The pathfinder has added value through the research it has carried out. UL now has a range of information about the opinions and perceptions of people who live and invest in the area and much better empirical evidence of how different neighbourhoods work. Its expanded evidence base has already been instrumental in raising the awareness and knowledge on the dynamics of the housing market, and its interrelationship with the economy and local communities. This has enabled the pathfinder to identify drivers of change, defined as the social, economic and housing factors that determine both the current position of the area and its future progress. It has highlighted, for the first time, the distinguishing feature of BME household growth and international migration as a key market driver and captured some useful information on BME housing needs and aspirations.
- 3 However, there is a lack of connection between the evidence base, strategic objectives and proposed interventions. The programme is not strategically driven. Proposals are more focused on progressing the councils pre-existing plans than responding to the complex agenda identified in the latest research. HMR funding appears little more than an add-on to council activities. More work needs to be undertaken to further develop the understanding of BME housing needs, to refine population projections and to more fully consider the impact of development outside UL to more accurately judge how much and what type of housing is required, as well as the sequencing of activity and prioritisation between pathfinder localities. There are no specific plans which indicate how catalytic sites will link with other sites and projects and insufficient engagement with the private sector with the risk that cleared sites could be left undeveloped or tackled in an ad-hoc manner that would do little to promote or contribute to wider regeneration.
- 4 The pathfinder needs to adopt a more focused approach to delivering its objectives with better balance and prioritisation between different types of intervention. In particular to bring forward specific programmes to deliver housing pathways for BME and low income households which address the nature, segmentation, polarisation and dynamics that currently exist within the local community. Otherwise, there is a risk that the programme could further exacerbate the fragility of some neighbourhoods, and further polarise or displace existing communities.

- 5 The key risk is that the pathfinder will continue to lack influence with the councils, a position that may be exacerbated by the new governance and management arrangements, the focus therefore likely to remain on projects planned or instigated before the pathfinder was established. There are also huge challenges crucial to the pathfinder's success but outside its direct control, such as raising skills and income levels, reducing crime and improving education. Yet there are no clear plans regards how connectivity will be achieved between spatial and thematic interventions and across sectors; crime, education, transport, employment and economic development.
- 6 Added value is evident in the general alignment of aims within the key regional strategies and UL revised objectives. Despite limited direct representation, positive reference to the pathfinder is usually explicit and the strategic context is generally supportive. There is a particular emphasis on housing market restructuring to support economic growth. Crucially, both the Regional Spatial Strategy (RSS) and Regional Economic Strategy (RES) focus the redistribution of housing provision and economic activity at the major urban areas. However, it is currently unclear to what extent UL will be competing with other areas for housing allocations under the RSS, or where the sizeable growth afforded by RSS targets is likely to occur, or indeed what the impact will be on the pathfinder. There is insufficient consideration given to the effect of changing characteristics of market balance in upgrading areas and attracting higher income earners against the historical role of catering for low income migrant communities, often referred to as displacement.
- 7 At a local level, work is ongoing to ensure strategic alignment with Sandwell ALMO and major housing associations. The positive impact of alignment between key organisations within the Greets Green NDC provides an early example of success. A joint strategy to improve homes and the local environment is being developed, and having already gained broad community support for the sensitive replacement of existing dwellings, the NDC were able to access HMR funding to begin demolition. There are many references within the scheme update regards potential opportunities for improved joint working and closer alignment with the many other organisations active in the pathfinder area. The work on Sustainable Home Ownership has identified a means of progressing this which UL is to take forward. However, detail is currently lacking and firm proposals still appear some way off. The risk remains that without clear integration between plans and activities for education, crime, transport and local service centres, the impact of HMR investment will remain limited.
- 8 There is still much to do to better align policies and approaches across the two councils, although a commitment to tackle this has been identified. There is also a threat that lack of complementary investment could undermine the pathfinder programme, or potentially divert resources to ineligible activities. There is limited evidence that the pathfinder is being prioritised within Birmingham, with the HMR programme appearing more dependant on the direction of other strategies. The risk is that it will be competing against other areas locally and regionally for status and resources, with no guarantee that the pathfinder will be prioritised.

- 9 The pathfinder has managed to deliver some successful projects in challenging circumstances. It has helped to kick start some major projects and provided some gap funding to enhance design. However, much of the early activity has been centred on the councils' statutory and strategic housing roles, and on continuing existing programmes. There is little evidence that the pathfinder is essentially adding much value with many interventions merely bringing forward pre-existing plans or providing substitute funding. Most key outputs are under target and there are wide variations in outputs with no clear strategic justification evident for changing the balance of expenditure. There is a risk of continuing to spend more on opportunistic projects than on strategic interventions and ultimately failing to achieve the transformational change required.
- 10 Some agencies have worked very effectively with local communities to involve them in initiatives part funded by HMR. Consultants appointed by the pathfinder have also engaged a broad range of stakeholders and communities in surveys and focus groups undertaken over the last year. However, the pathfinder has not yet put in place an effective strategic approach to consultation. There has been a lack of timely and inclusive engagement with the private sector and housing associations at a strategic level, although this is now being proactively addressed.
- 11 The pathfinder is not adequately monitoring and evaluating the effectiveness of consultation and needs to facilitate wider understanding and generate more ground level support. It remains unclear how community consultation has informed the pathfinder's strategy, priorities or proposals. There was no meaningful input into the development of Area Investment Plans, and some serious concerns expressed regards potential clearance and displacement which need to be sensitively addressed. There is little emphasis on what will happen to existing communities and a risk that the proposals could impact on integration.
- 12 Limited progress has been made against previous Audit Commission recommendations with only eleven of the twenty completed and most of these outside the original timescales set. There has been a lack of thorough, accurate and timely performance information, coupled with a weak appraisal process and ineffective challenge, which has presented difficulties in monitoring and managing the programme to date. However, UL and the councils' have been proactively reviewing systems and processes and aim to introduce a much more rigorous performance management framework, with input at Board level, from April 2006. Risk management processes have already been embedded into routine practices and risk is explicitly outlined within each Area Investment Plan (AIP). However, there is no clear identification of strategic risks or how they will be managed pathfinder wide within the scheme update. There is also little evidence of consistent policies and processes being applied pathfinder wide, with the risk of polarising relations between different residents.

- 13** In response to ongoing concerns, the councils' have recently finalised the structure for the pathfinder's new governance arrangements, which indicate a renewed high level commitment from the councils. The councils' have shown strong leadership in progressing these changes, members and officers at the highest level agreeing to work together cooperatively and build consensus for joint planning. Both councils have strong lead officers who are trying to embed UL within their own corporate structures and are now seeking to engage a wide range of stakeholders and influence key players via the new governance arrangements. However, the tiered governance structure may place too much faith in the ability of the pathfinder to influence and feed off strategic decisions at the Collaboration Board level. This creates a risk that operational co-ordination of wider agendas so crucial to the pathfinders overall success will not happen as effectively as they should.
- 14** The balance of power is already clearly with the councils' and there is a risk that latest proposals in terms of both governance and staffing arrangements will tip the balance still further. UL core team and Delivery Board role within the new structure is focused on compliance with strategy disseminated from the council led Collaboration Board and operational delivery. There is little independence for the pathfinder, limited strategic capacity bolstered by consultants and an ongoing risk that it will be little more than an additional resource for council activities and agendas sooner than, as originally intended, a key voice and influence in its own right driving wider housing market renewal strategy.
- 15** The distractions, uncertainty and unsettling influence of protracted delays in developing new governance arrangements and staffing structures has undoubtedly adversely affected both morale and programme delivery. There are some key elements, such as clarifying roles and responsibilities and developing structures for community representation, which need immediate attention. However, taking a pragmatic approach, the new governance arrangements need to be given time to operate. Early signs appear promising, but close monitoring is needed to ensure that decisions taken by the council led Collaboration Board are in the best interests of the pathfinder and will allow it to carry out its strategic role in terms of delivering HMR.
- 16** Consultants have supported the pathfinder in undertaking an independent assessment of plans, developing a flexible financial model and producing a business plan used to inform the scheme update. Capital receipts to be recycled from the sale of land and buildings have been estimated and brought into the financial investment framework. A number of strategy frameworks have also recently been drafted, including procurement, asset management and efficiency, although detail is lacking and implementation is still some way off. At an operational level a number of strategies and processes have also recently been developed which should ensure a more systematic approach to value for money in the future.

- 17 However, currently, value for money is not well evidenced in the scheme update or the Audit Commissions ongoing work with the pathfinder. Unit costs are high, the extent of matched funding is unclear and HMR resources continue to be used to stretch existing budgets, instead of working as a lever to bend funds and programmes towards securing transformational market impact over time. The high level of HMR spend on land acquisition is of concern and there is a risk that projects may lead to long term funding commitments which cannot be supported.
- 18 There is evidence to indicate that some HMR funding is being used in place of other resources, often referred to as substitution. This could mean that resources will be wasted by not being strategically focused on projects which will deliver housing market transformation. There is also a relatively low level of leverage anticipated and the pathfinder has not yet sufficiently engaged with private developers to gauge the level of likely interest. A fundamental risk is that the private sector may not invest to the extent anticipated, because of potential high risk and low return on investment.
- 19 The pathfinder has gained some value through sharing and learning from others. It is continuing to develop its approach and actively participates in Pathfinder Projects Working Groups and has been developing links with other pathfinders to secure mutual benefits. Some evaluation of projects and programmes has already been carried out and an evaluation framework is being developed to ensure a more systematic approach. However, there are a number of barriers to overcome before it can begin to be effectively implemented. The risk is that the pathfinder will not deliver exemplar projects or effectively apply what it has learnt. Ultimately, the risk is that a lack of learning and innovation will mean the pathfinder is unable to adequately respond to the serious concerns expressed within this report.
- 20 The ODPM will wish to consider its response to the findings within this report, particularly regards whether the proposals outlined within the scheme update present a convincing case for further investment. They will need to be fully satisfied, backed by evidence, that the pathfinder has:
  - reviewed its vision and objectives so that they are realistic and achievable;
  - developed interventions which are connected to the evidence base and will deliver the vision and objectives;
  - developed interventions which deliver additionality rather than support mainstream programmes;
  - engaged the community effectively; and
  - made sufficient progress to demonstrate that the programme will deliver housing market change and value for money rather than delivering other pre-existing priorities of the Councils'.

- 21 Ultimately, UL has a job to do that is different from anywhere else. The challenge of assisting low-income communities in poor housing within blighted neighbourhoods is one which the market alone will not address. However, the focus and balance of interventions currently proposed is unproven and disconnected from the evidence assembled. It needs to fundamentally review its approach, involving key partners and communities in the process and finally ensure it is a programme predicated on restructuring the housing market, rather than advancing the councils' pre-existing priorities.
- 22 The workings of pathfinders are dynamic and the Audit Commission are conscious that changes have taken place since the scheme update submission. These will be examined in detail and progress formally assessed at the next performance review visit.

## Recommendations

### **Recommendations**

*R1 Completely revisit projected outputs and outcomes. Ensure they more accurately reflect the type, level and extent of intervention required to significantly and strategically impact on the housing market. In particular, clearly define how much and what type of housing is required based on:*

- *better understanding of BME housing needs;*
- *detailed population and income projections;*
- *analysis of existing approvals and future allocations for new homes locally and regionally; and*
- *clarifying the rationale between demolition and refurbishment decisions.*

*(To be completed within six months.)*

*R2 Fundamentally revisit the programme to ensure a more appropriate balance of interventions and more effectively link clearance, new build and remodelling of housing stock to the needs of residents. In particular:*

- *accelerate delivery of housing pathways for BME and low income households;*
- *prioritise and sequence acquisition and release of sites for redevelopment;*
- *demonstrate connectivity between spatial and thematic interventions and across sectors; crime, education, transport, employment and economic development; and*
- *take account of capacity of private sector developers and seek to influence future development decisions to benefit target communities.*

*(To be completed within six months.)*

*R3 Rigorously analyse issues of displacement; using findings to inform the nature and scale of interventions and the development of strategies and procedures to manage and mitigate risks, particularly in terms of:*

- *impact of potential change to market balance and function from historical role of catering for low income, migrant and transient population to upgrading areas and attracting mix of more affluent and settled communities; and*
- *impact and management of proposed clearance programmes.*

*(To be completed within six months.)*

### **Recommendations**

*R4 Work much more effectively with local communities, and revise and implement an enhanced strategic approach to consultation that:*

- *is inclusive and actively seeks to engage disengaged groups;*
- *takes account of different needs and overcomes language barriers;*
- *ensures community input and representation in governance arrangements;*
- *uses consultation to inform strategic decisions and operational priorities; and*
- *monitors performance and evaluates the impact and effectiveness of arrangements.*

*(To be completed within six months.)*

*R5 Significantly enhance the pathfinder's strategic capacity and independence and clearly define individual and collective roles and responsibilities. Keep the new governance arrangements under constant review and urgently finalise staffing arrangements in order to help achieve this.*

*(To be completed within six months.)*

*R6 Continue to develop the pathfinders approach to value for money ensuing a more strategic and rigorous approach is developed which includes:*

- *finalising and effectively implementing new strategies, systems and policies, including procurement, recycling of capital receipts, and performance management;*
- *clarifying and monitoring the extent of matched and complementary funding; and*
- *evidencing that HMR is attracting investment, adding value and not substituting other funding.*

*(To be completed within six months.)*

*R7 The Pathfinder needs to complete any work outstanding from the previous Audit Commission Scrutiny Report recommendations.*

*(To be completed within six months.)*

## Report

### Influencing trends and meeting aspirations

- 23 This section of the report explains the pathfinder's approach to understanding its housing markets and the way it has used this to shape the programme it has submitted to Government for funding.
- 24 It is essential that the pathfinder is making good use of the information it has gathered to better understand local housing markets and the factors which affect them. The pathfinder also needs to show a clear relationship between this understanding and the activity being delivered or planned. It also needs to explain its approach to improving quality and environmental sustainability.

### Research and intelligence

- 25 The Audit Commission assessed the first UL prospectus in June 2004. Since then the pathfinder has commissioned a wide range of research, the purpose of which is to add value by informing and helping to re-focus the programme. The research undertaken provides valuable insights into the complexity of the local housing market. It further develops the evidence base highlighting key dynamics and major dysfunctions and drivers. In particular the distinguishing feature of BME household growth and international migration is now added as one of the key factors affecting the housing market, often referred to as market drivers.
- 26 ECOTEC Research and Consulting Limited as the pathfinder's main consultant has played a key role in contributing to the overall collection, co-ordination, evaluation and dissemination of research and intelligence, managing other specialist consultancies and working alongside UL and partners in preparation for the scheme update. Work undertaken by ECOTEC on behalf of UL includes commissioning and managing the Centre for Urban and Regional Studies (CURS), EKOS Consulting and CSR Partnership in undertaking a wide range of research. This includes work on adjacency analysis, neighbourhood typologies and trajectories, community engagement and wide ranging opinion and perception testing using surveys, focus groups and interviews.
- 27 Further work has also been done by UL and partners to develop their approach and understanding regards communications, land supply and sequencing and town centre living in West Bromwich.

- 28** Drawing from this wide evidence base, valuable findings regards the housing needs and aspirations of BME communities have been captured. This outlines characteristics of the pathfinder population, indicates the changes that have occurred over time and records the housing needs and preferences of different BME groups. Findings show that between 1991 and 2001, 24 per cent of the white population and 10 per cent of the Indian population left the pathfinder area. Poor quality housing and education service being cited as the main reasons for aspirational BME groups leaving the area. Over the same time, other BME groups increased significantly, with Pakistani and Bangladeshi households in particular becoming increasingly concentrated in poor quality housing, unsuitable for their needs. The age profile of the BME community within the pathfinder area is also noticeably young, with 58 per cent under 29 years, a figure that increases to 71 per cent of the Bangladeshi population, compared to 36 per cent of the white population.
- 29** Birmingham in particular has seen high BME household growth that is highly segregated and a mismatch of supply and demand of affordable housing that is reflected in high levels of housing stress. Overcrowding in the pathfinder at 14 per cent is more than double the Birmingham Sandwell average of 6 per cent, with highest concentrations to be found in Aston, Lozells and Handsworth. The findings suggest an opportunity to increase levels of owner occupation for some BME groups with particular emphasis on the development and marketing of shared ownership and shared equity schemes. For other groups, the sustainability of current levels of owner occupation is questioned, and a continued demand for social rented accommodation is identified.
- 30** The need for affordable housing is also supported by the Regional Housing Strategy which records that 'If deprivation levels continue to be high in the Major Urban Areas (MUAs) and overrepresented in sections of the BME communities, the higher rate of BME household growth above the Regional average will lead to a continuing need for affordable housing to address those newly merging needs of BME low-income households'.
- 31** Work on affordability managed by ECOTEC uses local ratios between house sale prices and incomes to demonstrate very little ability for those in the pathfinder to buy in the wider Birmingham Sandwell market. Survey responses reveal a fairly insular market within UL. Most inward migration being from areas immediately adjacent to the pathfinder to be closer to family, friends or work. The new build buyers' survey found that 76 per cent of purchasers came from Birmingham and Sandwell, 73 per cent from BME communities and 59 per cent had never lived outside the pathfinder area.

- 32 Land Registry data records a significant uplift in Urban Living house prices and an upward movement in prices regionally since around 2001. The scheme update outlines that average house prices in the pathfinder area have generally been increasing over the last ten years. Between 1996 and 2002, prices rose slowly in the UL area and the gap quadrupled between UL prices and the West Midlands and England, but between 2002 and 2005 median prices rose much more sharply in UL from £43,000 to £95,000 and a fairly consistent gap has been maintained, around 30 per cent (£40,000) below West Midland and 40 per cent (£60,000) below England median prices. This means that local properties have become un-affordable for an even larger proportion of the resident population while conversely, developers get lower value and lower profit market within UL than can be obtained in other areas in the Region.
- 33 There are different affordability issues within pathfinder neighbourhoods; relatively high prices matched by relatively high incomes in Smethwick, Soho and Handsworth make it hard for people in other parts of the pathfinder to afford to move there. West Bromwich has low prices and low incomes, so affordability is not such a problem there as it is in Aston, Lozells and Newtown, where relatively high prices and low incomes are prevalent, and where satisfaction levels with the neighbourhood are lowest. An increase in private landlords is also reported, in part a result of Asian buying to let, though there is also some evidence of recent disposals with landlords not achieving the desired return on investment.
- 34 Relatively low levels of household income and home ownership compared to the rest of Birmingham Sandwell, and a fragile economy with economic disadvantage generally impacting more severely on the BME communities were key findings in the study produced by ECOTEC and EKOS badged as Sustainable Home Ownership. Reporting just prior to the scheme update, the study focused on the links between economic change and the ability to maintain viable home ownership.
- 35 The report makes national, regional and local comparisons outlining, between 1998 and 2003, a 4 per cent decline in businesses within the pathfinder area generally, and more marked 19 per cent decline in the manufacturing sector which represents 23 per cent of the local business base. This is against a general trend of growth of more than 5 per cent regionally and 7 per cent nationally. High unemployment of over 9 per cent, more of a problem in the Birmingham side, and low level skills and qualifications. Almost half the population, 47 per cent, have no qualifications, with lowest levels within the Pakistani and Bangladeshi communities, and areas in Sandwell generally. It identifies that incomes within the pathfinder are extremely low and possibly too low in many areas to sustain viable homeownership.
- 36 It reveals a large social rented sector, which is being underpinned by barriers to people entering home ownership. An in-migration of less affluent households and out-migration of more economically mobile and affluent households. It considers the impact of these factors on affordability and ultimately, finds the emphasis for sustaining home ownership should be on ensuring high levels of employment with high and stable levels of income. An emphasis which UL cannot directly contribute towards achieving but must aim to achieve through partnerships, which will be discussed in more detail in the next section of this report.

- 37 However, the research also predicts encouraging prospects over the next 15 years, with an increase in the number of what are sometimes referred to as high Gross Value Added (GVA) producing industries. 'Gross Value Added' is one of the ways economists measure the contribution to the economy of each individual producer, industry or sector in the UK. The higher the GVA the greater the contribution. Provisional forecasts suggest over 100,000 new jobs will be created in the Birmingham City Region economy, many of them higher paid and higher skilled. This economic growth will require a strong housing market to attract and retain higher paid workers. At the same time many of the new lower skilled jobs offer an opportunity for those not currently engaged in the labour market. This economic growth is, therefore a major opportunity for Urban Living and key stakeholders.
- 38 However, the bulk of the growth and employment is predicted to come from service sector activities, not currently well represented in UL area, and from city centre job opportunities, not currently well accessed by UL communities, emphasising the scale of the challenge in re-skilling residents to equip them to access future job opportunities.
- 39 The CURS travel to work study found with the exception of Smethwick, Birmingham has few workers from the pathfinder area, but does draw from a large area, mainly North East and South West. Sandwell draws from a much smaller area; few from Birmingham. Attracting more affluent incomers to live in the pathfinder area will also present challenges as UL will be continuing to compete with other currently more attractive locations in the wider region as well as other new build outside the pathfinder area.
- 40 However, even without new affluent incomers the population base is projected to grow, driven largely by the internal growth of the BME communities and some new international migration. In the next decade demand is expected to outstrip supply for low cost inner city housing and also for some of the more aspirational housing. A model developed by ECOTEC used to predict population forecasts that overall population across the pathfinder will rise by around 13,000 between 2110 and 2030, and by around 11,000 over the lifetime of the pathfinder. However, it is explicitly acknowledged that the model needs further revision. It is noted that the actual change could differ by over 20,000 people in either direction.
- 41 Further work is needed to more accurately predict population forecasts in order to better determine how much and what type of housing is required. This needs to incorporate the projected growth in BME communities and the 'significant decrease in the level of net migration losses from the region, which may well be linked to capacity issues in the South-East' as recorded in the Regional Spatial Strategy annual monitoring report February 2005.

- 42 A land supply and sequencing strategy produced by the councils' in response to a previous Audit Commission recommendation outlines substantial current commitments of new housing, including over 13,000 units to be provided in Birmingham City Centre. It identifies that the market will be complementary to the pathfinder and that current development planning work is aiming to connect the City Centre investment with that proposed within UL. However, it remains unclear how these issues are to be resolved and the extent of housing potentially being built or planned to be built outside the pathfinder area but within its wider reference area represents a major risk to the successful revitalisation of housing markets in the UL area if not managed appropriately. The pathfinder has not particularly highlighted this as a key issue nor outlined how it intends to manage this problem. Without proper sequencing of activity and prioritisation between localities, there is a risk that the programme could further exacerbate the fragility of some neighbourhoods, and further polarise or displace existing communities.
- 43 A key component of the research has been focused on gathering opinions and perceptions from people who live and invest in the area. As part of this process 2,000 households were surveyed to assess levels of satisfaction with their property and the neighbourhood, 218 households living in housing developments built in the last ten years were surveyed to gather information on previous, current and potential future homes and areas. An outmigrants survey of 657 people who had moved out of the Urban Living area was undertaken to study the characteristics, motives and aspirations of residents who have chosen to move away and a range of focus groups and in depth interviews were conducted, to determine the housing needs and aspirations of emerging households, the views of different BME groups, and investors.
- 44 Findings indicate a perceived decline in the area over the last five years with demand boosted primarily by internal growth and international migration. Crime is highlighted as the most critical non-housing related driver, accounting for lower levels of satisfaction than housing and the thing most likely to encourage existing residents to move and deter potential incomers. Other factors include low quality physical environment, poor educational services and a lack of housing choice in terms of housing type and tenure. Of those interviewed who had left the area, most had previously lived in terraced housing, with almost 50 per cent now living in a detached or semidetached property, although demand for terraced homes within the UL area is likely to be sustained by BME groups. Very limited and sporadic private sector investment is apparent with 40 per cent of owners who experience disrepair having no plans to remedy the fault, and unregulated private sector landlords were found to be on the increase and undermining local housing strategies.
- 45 Surveys also revealed differences between the pathfinder neighbourhoods. Generally, while there was some likelihood of people moving from Birmingham to Sandwell neighbourhoods, very few would consider a move in the other direction due to perceived problems of high levels of deprivation and social cohesion issues. Perceptions shared by potential investors outside the pathfinder area with focus groups revealing that Birmingham in particular still has a negative image despite recent regeneration programmes.

- 46 The distinction between the Birmingham and Sandwell pathfinder neighbourhoods is also confirmed in the basic model developed by CURS, using three domains of housing market weakness, social exclusion; and cohesion. This characterises the Sandwell side as an area of market weakness, assessed by house prices and voids, while Birmingham has concentrations of social exclusion and cohesion, as assessed by crime and turnover.
- 47 A migration study carried out by CURS shows a clear relationship with two way migration within Birmingham between Aston/Lozells/Newtown and Soho/Handsworth and to the North but generally, little connectivity between other UL areas or across municipal boundaries. West Bromwich being more connected to the Black Country and Smethwick also more connected outside the pathfinder area but in a South West direction.
- 48 There is now much better empirical evidence of how different neighbourhoods work. Through this, UL has identified vulnerable neighbourhoods which are likely to deteriorate further without intervention and provided evidence to identify drivers of change, defined as the social, economic and housing factors that determine both the current position of the area and its future progress.
- 49 More work needs to be undertaken to further develop the understanding of BME housing needs, to refine population projections and to more fully consider the impact of development outside UL as well as the sequencing of activity and prioritisation between pathfinder localities. There are also huge challenges crucial to the pathfinder's success but outside its direct control, such as raising skills and income levels, reducing crime and building community cohesion.
- 50 However, the culmination of this enhanced evidence base has already been instrumental in raising the awareness and knowledge on the dynamics of the housing market, and its interrelationship with the economy and local communities. It is now important for UL to clearly determine what sort of housing market it wants to create and demonstrate how its strategic response will tackle the complex issues brought to the fore, particularly in terms of demographic change patterns, social exclusion and partnerships.

### **Strategic responses**

- 51 In 2005 the pathfinder revised its original objectives taking account of the information it had amassed to better understand the housing market. Its vision now is 'the creation of a balanced local housing market which is characterised by its stable and well managed neighbourhoods, and a high quality housing offer that meets the needs of the areas diverse communities'. It has identified major dysfunctions, which are those issues affecting housing which the market will not solve, including depopulation concentrated in Sandwell neighbourhoods and high levels of crime and inadequate housing pathways, choice and quality pathfinder wide.

- 52 The different characteristics of the neighbourhoods are also considered in the scheme update. The Sandwell part being characterised by low population densities, large areas of vacant land and a collapsed mixed use environment, and Birmingham by unpopular neighbourhoods, overcrowding, very low incomes and a disconnection from the wealth of the City Centre.
- 53 The revised objectives, listed below, aim to translate the vision into practical programme interventions to:
- repopulate the UL area and develop mixed income communities;
  - reverse the decline of unsustainable neighbourhoods and stabilise vulnerable neighbourhoods;
  - ensure that household growth is accommodated through a range of housing solutions; and
  - ensure sustainable home ownership through providing support to low income home ownership.
- 54 There are, however, fundamental tensions between these four objectives and a huge imbalance in the programme with most resources targeted at site assembly to facilitate future redevelopment across the pathfinder area in what has been termed catalytic sites. Catalytic sites being those considered of such a size and position to be strategically significant. There are also some fundamental concerns around the focus of interventions proposed within the Area Investment Plans (AIPs), produced by the councils’.
- 55 Four draft AIPs were reported to UL forum in July and refined subsequently for the scheme update. Two cover Sandwell neighbourhoods; Smethwick and West Bromwich/Greets Green and two on the Birmingham side; Aston/Lozells/Newtown and Soho/Handsworth. Developed with the aid of consultants and informed by ongoing research they are strong stand alone documents, identifying characteristics and dynamics of each neighbourhood, and outlining key planned and current regeneration activities with detailed expenditure and outputs for the next four years. Essentially these documents set out the programme for operational delivery of HMR interventions in the four sub-areas.
- 56 Each of the proposed programmes developed through the AIPs were assessed against weighted criteria, using a cost-benefit analysis technique, including strategic rationale, deliverability, and financial assessment. This process was undertaken between June and November 2005 via a series of meetings and review sessions, which refined the programme at each stage. The process was routinely monitored by the scheme update group and consultants Bucknall Austin were brought in to provide additional resources and expertise.
- 57 However, our ongoing work with the pathfinder identified concerns that AIPs in development before the overall UL strategic investment priorities had been revised could cause some confusion as to who is responsible for determining strategy, the pathfinder, or the councils through its AIPs. The risk being that the AIPs were pre-empting a pathfinder wide strategy and would reflect existing agendas.

- 58 In effect, despite the application of an option appraisal methodology the AIPs are clearly still being led by the councils' pre-existing plans programmes and initiatives within the area. Although AIP development work and UL research was carried out in parallel and refined over a period of time, there is little evidence to suggest that interventions have been prioritised in response to the newly amassed research and evidence. While issues around ethnic polarisation, choice, affordability, economy and crime, have been identified as key issues, these are insufficiently addressed in the programme with no explicit proposals detailing how housing market interventions will integrate with other initiatives to add value and deliver required outcomes.
- 59 Resources are clearly focused on continuing to gap fund existing programmes - despite the appropriateness of using HMR resources for many of these opportunistic projects having repeatedly been queried by the Audit Commission in our ongoing work - or bringing forward long standing priority sites. It is accepted that existing initiatives can provide an appropriate and eligible use of HMR funding where value for money is evidenced and the outcome clearly contributes to achieving housing market renewal. The pathfinder identifies a strategic fit in areas such as Greets Green and North Smethwick Canalside. However strong connections cannot generally be demonstrated and the pathfinder and HMR funding appears to be seen as little more than an add-on to council activities, particularly in Birmingham. The balance of power is clearly distorted. Instead of setting the agenda for market renewal, the pathfinder appears to be seen as more of a provider of resources to help progress the councils' existing agendas.
- 60 Objective one, concerning repopulation appears clearly valid for Sandwell neighbourhoods, where successive clearance has effectively thinned the population of the area to the extent that there is a collapse of neighbourhood services. This has ultimately reinforced and intensified a fall in urban densities to levels which can no longer sustain facilities. Research by CSR Partnership found that in the Smethwick area the population had declined from 76,407 in 1951 to only 44,350 in 2001.
- 61 However, the specific added value that UL brings to the existing initiatives of the New Deal for Communities and Urban Regeneration Company could be more clearly expressed. Market research conducted for the scheme update indicates that the private sector is already producing larger homes, largely being purchased by the local population. The West Bromwich Greets Green Area Investment Plan outlines that many sites are in private ownership and that regardless of whether the public or private sector leads on development, supplementary planning guidance currently ensures the residential mix reflects broader strategic context, citing an example of a site due to hold 220 units already being taken forward by a private developer that will contain 25 per cent affordable housing and 40 per cent larger executive style housing. If this were typical, then the question would perhaps be why HMR funds are needed at all.

- 62 In the Birmingham neighbourhoods, the objective of repopulating is perhaps less of an issue, with most areas subject to ongoing population growth and subsequent housing stress. However, similar interventions, focused on site assembly for redevelopment appear to form the bulk of the proposals. The first zone of intervention identified is the ring of neighbourhoods immediately adjacent to the business district. It builds on work commenced in 2003, and appears much more about progressing the councils pre-existing plans to clear its unsustainable housing stock and create new development opportunities on the fringe of the city centre, than responding to issues and problems identified in UL latest research.
- 63 There are few resources prioritised to tackle the issues of social cohesion, crime, low incomes, poor environment, unregulated private sector landlords and limited private investment - all clearly identified as causal to the current dysfunctional housing market here.
- 64 While there has been limited dialogue with private developers in response to a previous recommendation regards market testing in West Bromwich, generally, there has been insufficient engagement with the private sector. This is a serious flaw given that the main emphasis of the programme to 2010 is to continue site assembly, master planning and feasibility studies to provide the stimulus for greatly increased private sector activity. In general terms, the approach seems more based on optimism than fact and the relatively low level of private sector leverage anticipated over the next two years does not instil confidence.
- 65 There is still much to do in terms of location marketing to combat poor perceptions and even more to do in terms of demonstrable progress in education and crime before most investors' will be willing to commit to quality development in areas of high risk and low return. There is conversely a lack of explicit connections between tackling such issues and the housing market interventions proposed.
- 66 There is no firm evidence to suggest that the market will respond to future opportunities for redevelopment of catalytic sites that pathfinder intervention will create. But they will undoubtedly offer significant opportunities for change and have the potential to have a wider regeneration impact and benefit that the private sector may well respond to in an ad-hoc way. However, the pathfinder needs to create a more controlled environment for investment, to ensure appropriate trade offs between sites which may be less attractive to the private sector, but equally important in housing market terms.
- 67 There are no specific plans submitted with the scheme update which indicate how catalytic sites will link with other sites and projects. The pathfinder and councils' urgently need to demonstrate how linkages will be achieved, both through the procurement process and other means. An affordability strategy and a developer standard also needs to be put in place that will ensure quality homes are provided at prices that most people will be able to afford. If the pathfinder is not able to exert such influence and manage the process effectively, then the interests of the existing community will not be well served, and therefore, whether this is the best use of HMR resources has to be questioned.

- 68 In general terms, there is a question of why so much HMR spend should be targeted at land assembly, property acquisition and demolition (£35 million of £55 million budget) particularly when there are Urban Regeneration Corporations, New Deal for Communities, and a number of pre-existing cleared sites already in existence, some in private ownership. The suggestion that early and sizeable land assembly is needed to attract the private sector and influence the type and quality of new housing development is not evidenced.
- 69 The pathfinder's decisions on whether to refurbish or demolish properties, and the balance between these interventions, have been informed by the Neighbourhood Renewal Assessment process, options appraisal and neighbourhood consultation processes. A significant part of the demolitions proposed are of relatively unpopular, poorly designed homes in poor environments. However, the impact that changes made to the current balance of housing provision may have on homes and neighbourhoods nearby, which could result in changing or displacing current market demand from one area to another, often called displacement, has not been adequately assessed.
- 70 There is certainly a need to prioritise assembly of major development sites to mitigate the risk of leaving cleared sites unfinished, as can be seen currently in some parts of the pathfinder contributing to decline in quality of urban form. It may be appropriate to initially target specific areas at greatest risk in terms of sustaining services and facilities and use a phased approach in order to allow more resources now for pathways and other thematic interventions.
- 71 It is difficult to clearly distinguish between the main interventions proposed under objective one and two, despite the fact that given the wording they should be quite separate and distinct. For example, instead of catalytic sites, the term neighbourhood interventions is used, although in reality, there appears little difference, with the focus still on site assembly and future redevelopment in areas like the Lyng, Greets Green and Aston.
- 72 While objective two's stated aim is to stabilise vulnerable neighbourhoods, and Aston Lozells Newtown can clearly be identified as such, the Area Investment Plan proposes the creation of a 37 hectare site through extensive acquisition and demolition of almost 1,500 council homes by 2010. This will entail huge disruption and dispersal of the current population in an area already subject to severe housing stress. It is difficult to see how this intervention contributes to the stated objective and perhaps demonstrates a fundamental tension between objective one; focused on the creation of catalytic sites thereby creating new communities, and objective two; where interventions should be more focused on bolstering existing communities. It may also be an example of where interventions are based more on council priorities than on latest research.
- 73 There are also some clear omissions from proposed interventions which should perhaps best fit under objective two, which include projects aimed at the private rented sector, linkages with employment and training initiatives and strategies to deal with the nature, segmentation, polarisation and dynamics that currently exist within the local community. Crucially, there appears no strategy relating to transient demand and the nature of such demand and the function that the pathfinder plays in this respect needs to be more clearly explored.

- 74 The pathfinder also needs to take care to ensure that its overall aim of balanced communities is not compromised in scheme design. The site plan for the Lyng submitted as part of the scheme update is of some concern, with low cost affordable housing being shown located on the periphery of the site, physically separated from the rest of the development by a main road, in effect segregating the affordable housing occupants from the rest of the mixed use development.
- 75 The HMR area has, and continues to experience greater demographic and cultural changes than any other pathfinder area through continued BME household growth. Objectives three and four should therefore be the main focus of intervention given that the distinguishing feature of UL vision is that it will provide a sustainable housing market for a majority BME population. However, there are few explicit plans, and only relatively meagre resources, with most interventions a continuation of existing small scale projects, such as deconversion of houses in multiple occupation, self build and home extensions.
- 76 The development of housing 'Pathways' for BME communities and low income households features strongly as a concept in the scheme update, but there is no detail what this means and no resources earmarked to deliver anything against this heading over the next four years. There is much work yet to do in developing innovative and deliverable interventions to sustain home ownership. This lack of progress is particularly pertinent given that a specific recommendation arising from Audit Commission scrutiny of the first prospectus, due for completion by November 2004 was; under the banner of a housing pathways strategy, to pull together a clearer toolkit and set of housing options designed to support residents to become and remain home owners in the pathfinder area.
- 77 UL has a job to do that's different from anywhere else. The challenge of assisting low-income communities in poor housing within blighted neighbourhoods is one which the market alone will not address.
- 78 The scheme update acknowledges that HMR funding is crucial to mitigate the housing and social pressures created by international migration; growth in the BME community; and from increased polarisation of low income groups. However, despite a much improved evidence base, UL has not fully got to grips with what this means in terms of interventions. It needs to fundamentally revise the programme to ensure more resources are targeted at appropriate interventions to meet objectives two, three and four.
- 79 The key risk is that the pathfinder will continue to lack influence, a position that may be exacerbated by the new governance and management arrangements discussed later in this report, and the focus therefore is likely to remain on projects planned or instigated before the pathfinder was established.

## Aims and outcomes

- 80** The pathfinder has set out overall expenditure and output figures that it aims to achieve by 2018 in order to present a picture of what the area will be like at the end of the plan period. Over the next 13 years, UL is assuming £564 million HMR funding from a total programme of some £2,854 million. While its target outcomes for this level of resources do not appear very significant, UL considers them to be realistic and reflecting current levels in the wider area. For example, from a low base level of 44 per cent owner occupation, the target is to increase this by just 8 per cent. Currently, owner occupation in Birmingham and Sandwell is 60 per cent. For long term vacant properties, a 1.8 per cent reduction from 4.8 per cent to 3 per cent and a target increase in residents satisfaction levels of just 3 per cent, which would only reach a low 79 per cent. This latter target also incorporating more challenging aims of increasing satisfaction within some of the worst neighbourhoods by up to 30 per cent.
- 81** The net gain in homes anticipated over the same 13-year period to be achieved through a variety of funding is almost 8,000 for owner occupation and just 600 social housing. It is unclear how the pathfinder has arrived at this balance, or what proportion of the new homes will be affordable. However, given the clear need for affordable homes and the continuing demand for social housing, the pathfinder needs to be more explicit and better evidence how its targets relate to the needs identified in the latest research.
- 82** The programme for the next four years and in particular 2006 to 2008 is set out in some detail. Over the next two years, £55 million HMR funding is sought. A very broad breakdown of expenditure by activity includes £34.5 million for site assembly, acquisition and clearance combined; £7.5 million refurbishment; £5.5 million for grants and loans; £4 million management costs and £3.5 million on public realm and local infrastructure. Once again, outputs appear relatively low, with HMR funding identified as delivering 278 demolitions, 204 acquisitions, the refurbishment of 442 homes and 5 new build.
- 83** The pathfinder anticipates, however that this level of funding will lever in other investment from the public and private sector to substantially increase some of these outputs. The extent to which this is genuine additionality rather than substitution of funding is not shown although it is understood that most of this is actually complementary non-HMR funded investment. In terms of programme wide activity on the ground over the next two years, the investment is expected to create 1,800 new homes, refurbishments to 3,200 homes and demolition of 340 houses, and acquisition of 320 homes.

- 84 The pathfinder has done some initial work to identify what difference the programme is likely to make to market trajectories compared with not intervening in the housing market, sometimes referred to as a 'policy-off scenario'. This includes a number of general statements, suggesting for example without HMR funding there would be continued out migration, increased overcrowding and reduced access to affordable home ownership. More specific figures are suggested regards properties vacant more than six months, average house prices and net change in dwelling stock. For example, UL anticipates that the increase in housing stock would be around 80 per cent higher over the next two years with HMR funding than without.
- 85 The difficulty in predicting future trajectory due to the flexibility and function of the market as an international gateway to the West Midlands is acknowledged. However, it would be helpful to do more work on this. For example, it is suggested that without HMR funding private sector contributions would be minimal due to poor conditions and perceptions of the area, yet it is difficult to gain a clear picture of how UL proposals will do more than provide cleared sites for redevelopment which ultimately fail to tackle the wider problems and so will not serve to remove the key barriers to sustainable private investment.
- 86 The pathfinder's aims seem to cover all angles; with strategies of both growth and prevention of decline, and to both stabilise and reverse the fortunes of neighbourhoods. They are both trying to match the stock to the existing and emerging population and to attract and retain affluent incomers while also needing to respond to the pressures of continued international migration. This demonstrates the complexity of the market but also raises the question of whether a more focused approach could be beneficial.
- 87 The pathfinders stated priority is plans leading to new housing development. Beneficiaries will be existing, emerging and new residents. The scheme update suggests UL housing offer is vital in supporting the move from a predominantly manufacturing economic base to a more sustainable, diverse, competitive high value economy with high skills and education at its heart. However, it is unclear how this aim will fit alongside the current function of large parts of the area as predominantly a reception area catering for a transient population. It also aims to stabilise vulnerable neighbourhoods, but how this will be achieved is unclear.
- 88 The scheme update begins with the promise of delivering a transformational agenda. From the outset, it acknowledges the necessity to adopt and implement a multidisciplinary approach to regeneration which addresses economic activity and local incomes, crime, neighbourhood management and the issues arising from substantial future household growth. However, the programme does not go on to deliver, but merely outlines more of the same, with priority given to areas and neighbourhoods where plans are advanced and existing proposals are relevant to housing market renewal. The outcome and output targets for the end of the programme also show no major change and are certainly not transformational.

## Quality and sustainability

- 89** UL has recognised the importance of sustainable development, particularly what can be achieved through the promotion of good design, innovative technology and energy efficient construction practices. The pathfinder has worked with the Commission for the Built Environment (CABE), local authorities and other agencies to develop design quality and look to promote sustainable buildings - buildings which use key resources such as energy, water, minerals and land more efficiently.
- 90** Work was undertaken by CABE on the designs for the Lyng estate where the pathfinder provided gap funding to enhance the design-build aspirations for the internal and external environment for the area. It is anticipated that this will provide a flagship standard for new-build developments in the future. A mixed experience came from CABE's negative feedback on proposals for the redevelopment of Capehill Brewery site which spans both council areas. Sandwell's urban design capacity has been limited but it has recently been reviewed and restructured, aiming to provide an improved design service. Birmingham is already acknowledged as generally having a good approach to design quality.
- 91** Some AIPs also capture key special features of the area, for example the Soho/Handsworth AIP outlines the rich character of properties north of Soho Road and the architectural heritage around Soho Hill Conservation Area.
- 92** In July 2005 the pathfinder Forum agreed that a comprehensive heritage assessment for the Urban Living area should be undertaken. Plans are to largely develop this through the assembly of existing information held by the two councils. However, no obvious progress has been made to date. The pathfinder claims that Sandwell's Urban Landscape Assessment, updated in August 2005 summarising the historic character of the area, and Birmingham's Conservation Strategy reviewed in July 2004 and approved as supplementary planning guidance have informed the scheme update and the Urban Living Design Charter, although it not altogether clear how.
- 93** The scheme update outlines UL's intent to develop this agenda further by producing a sustainable development and design action plan and explore the use of the model produced by English Heritage for undertaking heritage surveys.
- 94** To summarise, the pathfinder has added value through the research it has carried out. UL now has a range of information about the opinions and perceptions of people who live and invest in the area and much better empirical evidence of how different neighbourhoods work. Its expanded evidence base has already been instrumental in raising the awareness and knowledge on the dynamics of the housing market, and its interrelationship with the economy and local communities. This has enabled the pathfinder to identify drivers of change, defined as the social, economic and housing factors that determine both the current position of the area and its future progress. It has highlighted, for the first time, the distinguishing feature of BME household growth and international migration as a key market driver and captured some useful information on BME housing needs and aspirations.

- 95 However, there is a lack of connection between the evidence base, strategic objectives and proposed interventions. The programme is not strategically driven. Proposals are more focused on progressing the councils pre-existing plans than responding to the complex agenda identified in the latest research. HMR funding appears little more than an add-on to council activities. More work needs to be undertaken to further develop the understanding of BME housing needs, to refine population projections and to more fully consider the impact of development outside UL to more accurately judge how much and what type of housing is required, as well as the sequencing of activity and prioritisation between pathfinder localities. There are no specific plans which indicate how catalytic sites will link with other sites and projects and insufficient engagement with the private sector with the risk that cleared sites could be left undeveloped or tackled in an ad-hoc manner that would do little to promote or contribute to wider regeneration.
- 96 The pathfinder needs to adopt a more focused approach to delivering its objectives with better balance and prioritisation between different types of intervention. In particular to bring forward specific programmes to deliver housing pathways for BME and low income households which address the nature, segmentation, polarisation and dynamics that currently exist within the local community. Otherwise, there is a risk that the programme could further exacerbate the fragility of some neighbourhoods, and further polarise or displace existing communities.
- 97 The key risk is that the pathfinder will continue to lack influence with the councils, a position that may be exacerbated by the new governance and management arrangements, with the focus therefore likely to remain on projects planned or instigated before the pathfinder was established. There are also huge challenges crucial to the pathfinder's success but outside its direct control, such as raising skills and income levels, reducing crime and improving education. Yet there are no clear plans regards how connectivity will be achieved between spatial and thematic interventions and across sectors; crime, education, transport, employment and economic development.

## Strategic context

- 98 It remains vital that pathfinders demonstrate a strong grasp of the (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 Urban Living to date.

## Policy alignment and influence

- 99** Achieving sustainable regeneration, particularly in the more deprived areas, requires integrated approaches tailored to local circumstances, including improving the housing stock; increasing employment opportunities; improving access for local populations to opportunities and facilities; and enhancing environmental condition. There are a number of regional and local bodies which have direct responsibility for developing strategies covering each of these various elements,
- 100** The West Midlands is going through a period of economic change, modernising its industrial base, developing new sectors and clusters and developing plans to accelerate the economic growth of the City region. The seven Metropolitan authorities in the West Midlands are in the process of preparing a City Region Development Plan (CRDP) for the Birmingham City Region outlining how higher economic growth levels will be achieved over the next 10 to 15 years. While the pathfinder has not been particularly engaged in the process to date, some general alignment of aims is apparent. The CRDP recognises the need to reduce social exclusion and the need to achieve more balanced communities. Its vision includes; delivering population growth and housing market restructuring to support economic growth; and delivering physical, environmental and cultural renaissance in a sustainable manner.
- 101** The CRDP will provide the framework to co-ordinate the Regional Economic Strategy (RES) and the Regional Spatial Strategy (RSS), and support the ambitions of the Regional Housing Strategy (RHS). All of these strategies are generally predicated on a rise in the number of jobs and an increase in incomes across both the Black Country and Birmingham.
- 102** UL strategy sub group in March 2005 considered a paper regards the pathfinder's role in supporting the emerging regional and sub-regional policy agendas. This highlighted the significance of the regional growth agenda and the pivotal role UL area has in spreading the economic benefits outwards from the city centre to the Black Country. While UL does not appear to have been particularly proactive in progressing this by responding to or trying to influence these emerging regional strategies, our ongoing work has revealed that key staff from the councils' have provided some strong advocacy which has helped to promote the UL agenda within the region. Positive reference to the pathfinder is usually explicit, and a general alignment of aims can generally be demonstrated with key regional strategies, although at this stage, UL is not a key influencing factor or determinant of locally based economic priorities.
- 103** The RSS in June 2004 provided a new long term land use and planning framework for the region, including the scale and distribution of housing and other new development. Together with the RES it sets out the spatial economic priorities for the region which are focused on making the housing and employment markets of the large cities and major urban areas (MUA) attractive once again, reversing 60 years of decentralisation.

- 104** One of the key objectives of the current RSS is to support a redistribution of housing provision to the metropolitan areas, and address areas of market weakness and outward migration. UL is recognised as a priority, but one of several in a challenging agenda; with two pathfinders and five urban regeneration zones in the region, coupled with the overarching aim to make improvements across all urban areas.
- 105** The emerging Black Country study formed the first element of the review of the RSS in autumn 2005. Key aims are to reverse the trend of out migration from the Black Country; to raise income levels through a better skilled workforce; to attract and retain people with higher skills into the area and to transform the environment by creating a better place to live and work. The study is developing a housing strategy to address areas of low demand and create a location for aspirational housing. It has forecast a provision of 71,000 extra households by 2031, but it is unclear where this growth will occur, or what the extent and impact of planning permissions already in the pipeline will be on the pathfinder. These issues are not able to be clarified until final figures are set and each local planning authority has allocated sites to meet the identified provision through relevant Local Development Framework documents.
- 106** It is variously reported within the scheme update that UL must be fully integrated with, and complementary to the Black Country study, and it is anticipated that there will be no incompatibility in respect of how the issue of housing aspiration is dealt with. However, it is unclear how or to what extent UL will be competing with other areas for regional allocations. It may also be useful to consider the extent to which its own approach should be less about competing to attract affluent incomers and more about improving minimum standards, helping individuals to improve their circumstances, a more 'bottom up' longer term approach to improving the economic base. The Black Country study is already recognising that a 'bottom up' improvement will be critical to achieving a more affluent population that will choose to remain in the Black Country.
- 107** Within the scheme update there has been insufficient consideration regards the impact that changes made to the current balance of housing provision may have on homes and neighbourhoods nearby, which could result in changing or displacing current market demand from one area to another, often referred to as displacement. The potential displacement effect requires further consideration, in particular, the effect of changing characteristics of market balance in upgrading areas and attracting higher income earners against the historical role of catering for low income migrant communities
- 108** The RHS submitted to Government in June 2005 is consistent with, and supportive of, the RSS. Its overarching goal is to redress the failure of the housing markets and provide people with the housing they want. The RHS recognises the strategic significance of pathfinders and acknowledges that UL has a major role to fulfil with one of its stated core aims to work towards the success of the HMR pathfinder in Birmingham/Sandwell.

- 109 The RES recognises that residential environments in the MUAs need to be made more attractive and provide the housing choice so that they can increasingly retain their population. The most immediate economic regeneration programme which has relevance to the Pathfinder with a similar investment horizon is the South Black County/West Birmingham Regeneration Zone (RZ) - the 'Arc of Opportunity'. The purpose of the RZ is to raise employment levels, increase business activity and improve the quality of life in the most deprived areas of the region.
- 110 The Regional Development Agency, Advantage West Midlands, provides funding for physical investment which will be targeted at enhancing local centres, supporting developments emerging from the Smethwick Master plan and bringing forward development at Icknield Port Loop, and West Bromwich Town Centre. Zone funding will also be used to support a range of programmes to link residents to local employment opportunities and at developing the local workforce to address local skills gaps.
- 111 Policies and practices at regional and local level through investment, land release and job creation need to be aligned for maximum effect. Our ongoing work with the pathfinder has shown that over the last year there has been significant improvement in developing closer co-operation, understanding and commitment to closer working. This includes proposals to develop a joint appraisal process and closer project alignment of timeframes and complementary interventions.
- 112 The spatial frameworks being developed by the RZ for central Birmingham will seek to ensure wider connectivity to surrounding areas. Some are co-terminus with UL and joint work on projects such as Icknield Port Loop could help to move market confidence north west of the city centre.
- 113 In addition thematic frameworks are currently being developed which have a relationship with UL activity, including a black country/north west Birmingham level adult skills framework and a strategic framework for a network of centres to engage the disengaged into economic activity.
- 114 RegenCo, as the Urban Regeneration Company (URC) responsible for the transformation of Sandwell, incorporating the pathfinder neighbourhoods of West Bromwich and Smethwick, has recently developed its three-year business plan for the period 2005/08, with the RZ and UL identified as key funders/partners. The URC will lead on the delivery of a Master Plan vision for the Physical Regeneration of West Bromwich Town centre and the three partners are planning to explore further scope for collaborative working to deliver economic, housing and environmental transformation, through the development of a joint action plan.

- 115 One example of positive alignment already witnessed in our ongoing work with the pathfinder is within the Greets Green New Deal for Communities (NDC) area. Here, Sandwell council, its Arms Length Management Company (ALMO) Sandwell Homes and UL are all signed up to deliver a joint strategy focused on widening housing choice, delivering decent homes and improving the environment, with UL kick starting funding for strategic demolitions. The second NDC Aston Pride covers the heart of the Aston/Lozells/Newtown neighbourhood in Birmingham, but while there is a stated commitment to joint working and the development of complementary programmes such as crime prevention and environmental enhancements it is still very early days.
- 116 There is limited reference in the scheme update regards alignment with Sandwell Homes ALMO. Our ongoing work with the pathfinder indicates that there is mutual recognition within respective business plans, and a grading of homes within the UL area so as to effectively delay any investment decisions until more certainty about the scheme update and ensuing programme is known. HMR funding was explicitly included in the ALMO's building cost model assumptions to 2010. This shows HMR funding all demolitions in the pathfinder area as well as contributing to estate works and improvements. Further work has recently been undertaken to consider alignment with Sandwell Homes ALMO. This includes mapping UL interventions against the ALMO's asset management portfolio, which provides details of programmed investment to 2010/11. We understand that no significant issues were identified.
- 117 Our ongoing work with the pathfinder revealed a need and opportunity to develop greater strategic input from housing associations. In particular, the possible merger of Prime Focus and Keynote Housing Associations a significant issue for the pathfinder, potentially creating a landlord with more stock in the UL area than either council, with around 8,000 homes in the pathfinder area and resources of some £30 million to reinvest in property and the neighbourhood. As such, seeking influence and alignment between business plans and programmes of investment activity would be very important for UL. There is no reference to this in the scheme update. However, our ongoing work with the pathfinder indicates that this is now being pursued by the councils'. Birmingham has been actively working with Prime Focus/Keynote to consider the strategic issues arising from the proposed merger. Further strategic working with housing associations is also being advanced through the Urban Living RSL Consortia and preferred partner meetings. The Consortia was recently established, with its overall stated aim to 'work with the UL Delivery Board and executive team and the two local authorities to contribute to and help deliver the renaissance of the housing market.' UL also has a standing invitation to attend Birmingham's and Sandwell's preferred partners meetings, where pathfinder and housing association programmes are discussed and opportunities for alignment explored.

- 118** The 2005 Housing Strategy for Birmingham sets out five priority themes: housing service performance; safety net and support services; decent homes; changing demand; and affordable housing. The AIPs explicitly record that the pathfinder programme has been developed to maximise its contribution to the City's housing strategy. With remodelling and improvements to areas of public housing developed to complement decent homes investment. This appears the reverse of what is happening more generally in pathfinders' where councils are bending their own investments to complement HMR funding and objectives. The council is currently undertaking a housing options appraisal and until this is completed, there is some uncertainty regards funding for decent homes and a threat that lack of complementary investment by the council could undermine the pathfinder programme, or potentially divert resources to ineligible activities.
- 119** Birmingham, with Solihull has its own economic framework led by a multi-agency Employment Strategy Group partnership which works across the two councils' boundaries and fits strategically within the Regional Skills Partnership. It has already embarked upon actions to co-ordinate planning and delivery, and a set of priority actions have been identified including delivering employment support in Aston, Soho, East Handsworth and Lozells in the Pathfinder area. At the City wide level, a new Economic Strategy, Developing Birmingham 2005-2015, has recently been agreed which forms one component of the over-arching Community Strategy. Arrangements in Sandwell are less explicit within the scheme update and it would be useful to explore in more detail what the key connections are between housing and economic development in both councils.
- 120** Having reorganised service delivery into 11 districts in 2004 in order to provide services more responsive to local needs, Birmingham is currently developing District Community Plans setting strategic aims for each district. These are not coterminous with the pathfinder or AIP areas, but potentially will add a further local strategic hierarchy that the pathfinder will need to fit into. There is limited evidence of the pathfinder area being prioritised within Birmingham, with the UL programme appearing more dependant on the direction of other strategies and seen as an add-on to existing programmes.
- 121** Both councils are currently preparing their Local Development Frameworks, due to become statutory in 2009, which will guide future planning decisions. The scheme update records that currently, in terms of planning policies, there is little to suggest any lack of alignment between policies across the HMR. However, our ongoing work with the pathfinder has revealed different policies and different approaches to planning and design in terms of land use and Section 106 agreements, as evidenced at Capehill Brewery site. A more common approach with co-ordinated strategies and integrated policies is needed. The scheme update outlines the councils' commitment to consult with each other to ensure alignment and review of strategies and it will be important to deliver against this intent.

- 122** There is no integration apparent between HMR interventions and the services, amenities and infrastructure needed to support the catalytic investment and serve repopulated areas. It is unclear how plans for education, crime, transport and local service centres will be linked. Smethwick AIP identifies the risk that without careful co-ordination between HMR and major transport investment, the new-build properties and revitalised communities in these areas would remain relatively isolated, potentially limiting the impact of HMR investment, not only in the target areas, but across the wider Pathfinder. Transport links at West Bromwich are similarly acknowledged to be poor, but while the issues have been raised, there is no evidence of any firm solutions being provided.
- 123** The report on Sustainable Home Ownership outlines that there is scope to improve the alignment of strategies, funding and activities of agencies within the employment, economic and housing sector. It recommends encouraging partners to focus on and prioritise the solutions of home ownership, involving four key intervention themes; local people into local jobs; progression; prioritisation and targeting and re-skilling. UL states that an action plan will be taken forward in spring 2006, and more detail clarifying how this is to be progressed would be beneficial.
- 124** Within the scheme update and AIPs generally, the need to strengthen connections and realign regional and local programmes, policies and actions between key partners and strengthen cross boundary governance arrangements is explicit. Given the wealth of regeneration initiatives in operation, and significant public sector investment planned within the pathfinder area there is a real need to ensure such co-ordination to deliver maximum results. But it is no easy task. Despite a range of regeneration initiatives over the past 25 years at Smethwick, Aston, Lozells and Newtown, designed to reduce the significant economic and social disparities, key issues of low incomes and social cohesion remain to be addressed. The pathfinder has been unable to punch above its weight or maintain a strong voice or influence to date. However, the Collaboration Board heading the new governance structure is now identified as the key player, and while it is early days, UL is very optimistic of its potential to promote greater collaboration between agencies and improve targeting of investment on the pathfinder area.
- 125** To summarise, added value is evident in the general alignment of aims within the key regional strategies and UL revised objectives. Despite limited direct representation, positive reference to the pathfinder is usually explicit and the strategic context is generally supportive. There is a particular emphasis on housing market restructuring to support economic growth. Crucially, both the Regional Spatial Strategy (RSS) and Regional Economic Strategy (RES) focus the redistribution of housing provision and economic activity at the major urban areas. However, it is currently unclear to what extent UL will be competing with other areas for housing allocations under the RSS, or where the sizeable growth afforded by RSS targets is likely to occur, or indeed what the impact will be on the pathfinder. There is insufficient consideration given to the effect of changing characteristics of market balance in upgrading areas and attracting higher income earners against the historical role of catering for low income migrant communities, often referred to as displacement.

- 126** At a local level, work is ongoing to ensure strategic alignment with Sandwell ALMO and major housing associations. The positive impact of alignment between key organisations within the Greets Green NDC provides an early example of success. A joint strategy to improve homes and the local environment is being developed, and having already gained broad community support for the sensitive replacement of existing dwellings, the NDC were able to access HMR funding to begin demolition. There are many references within the scheme update regards potential opportunities for improved joint working and closer alignment with the many other organisations active in the pathfinder area. The work on Sustainable Home Ownership has identified a means of progressing this which UL is to take forward. However, detail is currently lacking and firm proposals still appear some way off. The risk remains that without clear integration between plans and activities for education, crime, transport and local service centres, the impact of HMR investment will remain limited.
- 127** There is still much to do to better align policies and approaches across the two councils, although a commitment to tackle this has been identified. There is also a threat that lack of complementary investment could undermine the pathfinder programme, or potentially divert resources to ineligible activities. There is limited evidence that the pathfinder is being prioritised within Birmingham, with the HMR programme appearing more dependant on the direction of other strategies. The risk is that it will be competing against other areas locally and regionally for status and resources, with no guarantee that the pathfinder will be prioritised.

## Implementation

- 128** This section of the report concentrates on the how well the pathfinder has done so far. It includes consideration of how it has worked with local communities and other key groups of people.

### Working with local communities

- 129** The diversity of the pathfinder population and disengagement of some groups requires a sustained and well resourced approach to working with and involving local communities.
- 130** A consultation strategy was approved by the Forum in July 2005. This outlined a three tier approach, placing responsibility for undertaking different levels of consultation with different organisations. First, the UL core team were identified as responsible for strategic consultation and engagement with other organisations, including Health, Police and Local Strategic Partnerships (LSP). Second, the councils' responsibility to consult with communities on an area and thematic basis using existing structures was confirmed. Thirdly, individual project managers were given the responsibility to consult with individuals affected by specific proposals.

- 131 This in effect confirmed the way things were generally operating, but never served to develop an effective strategic approach or enhance existing arrangements. Our ongoing work with the pathfinder showed that further work was required on the action plan regards consultation and support, which has yet to be finalised. Given the new governance arrangements recently put in place, it may, in any case, need to revisit its approach and clarify the roles and responsibility for strategic engagement with stakeholders. Generally, the pathfinder needs to better demonstrate that it is adequately monitoring and evaluating the effectiveness of consultation and engagement.
- 132 Prior work undertaken by the local authorities and priorities expressed through Local Strategic Partnerships will have informed the councils' ongoing priorities. However, it remains unclear how community consultation has informed the pathfinder's strategy or priorities. For example, the consultation undertaken by the councils' on AIPs, was conducted at the end of the process in November 2005 and left little scope for any meaningful input to be considered or included in the proposals submitted in the scheme update. While generally positive feedback about the programme and proposed interventions was reported, concern was expressed regards potential clearance and gentrification or displacement. Similar concerns have also been revealed during our ongoing work with the pathfinder, when staff reported some anxiety on the ground from residents concerned that ULs agenda was about relocating existing communities in order to repopulate the area with more affluent white people.
- 133 These concerns need to be taken seriously and strategies put in place which fully consider language barriers and more effectively communicate the pathfinder's proposals to facilitate wider understanding and generate more ground level support, particularly from those communities directly affected. There are already some useful mechanisms which UL and partners can build upon. These include interpreters able to run consultation events in minority languages, translation of publications into minority languages and in audio and Braille and innovative technology used in the property Shop pilot to inform residents of available properties - in minority languages. While it is accepted that the pathfinder has utilised standard tools to inform decisions on demolition, new build and refurbishment the pathfinder needs to ensure communities are clear about how the final decision has been made and what outcomes are to be achieved. This has not always been apparent to date. For example, North Smethwick and Black Patch are both isolated communities following industry closure. Following major demolition being funded by UL, one site is to be subject to major redevelopment while there appear to be no plans at all for the other, aside from relocating a homeless hostel there.

- 134** In focusing most resources on catalytic sites, the majority of which were pre-existing priorities, there is a risk that the pathfinder is not sufficiently responding to the needs of existing communities. With the exception of the Lyng, where development is linked to clearance and nomination rights in the adjacent areas of Greets Green and West Bromwich town centre, to date there has been little connection between clearance and major new build. Consultation has revealed that the needs of different BME communities is not generally a key factor considered by developers, rather it is what housing will sell in a particular area with planning requirements and complementary infrastructure influencing investment decisions.
- 135** The pathfinder needs to more clearly demonstrate how its proposals will attract investment, influence future development decisions and more effectively link clearance and new build and remodelling of stock to the needs of residents, as site preparation alone will not restructure the market or make it more sustainable.
- 136** There have already been difficulties in relocating the number of people displaced by clearance, and the current proposals in the scheme update will magnify this problem. The proposals contain much about plans for redevelopment but little emphasis on what will happen to existing communities or how the risk regards the impact of these proposals on community cohesion and integration will be managed. For example, there are plans to demolish almost 1,500 homes in Aston, Lozells and Newtown by 2010, around 650 in the next two years; while new build is not anticipated in any significant number until after April 2010. Yet this AIP neighbourhood experiences the highest population growth, has witnessed the most recent racially motivated disturbances and has the highest levels of overcrowding, and the highest concentrations of BME groups. To deliver the programme proposed in the scheme update will require a well formed strategic approach across the pathfinder to ensure demolition is balanced and timed with creating new housing opportunities and the management of clearance integral into the project from the start. None of this has yet been evidenced.
- 137** There has been evidence of some effective consultation carried out on the ground by deliverers. Greets Green NDC in particular stands out as an example of good practice of working with local communities. Here, extensive engagement was undertaken as part of the Claypit Lane area replacement of low demand dwellings with new houses re-aligned to present an aspect to a park. This represents a successful consultation with those affected, emphasising the benefits of redevelopment, including the grants available to assist people to move. As a result, this is a project where the sensitive replacement of existing dwellings has met with broad community support. Recent consultation on environmental enhancement proposals in Greets Green received a 71 per cent response rate - demonstrating the value of working with and through existing organisations.

- 138 Surveys and focus groups undertaken by consultants over the past year engaged a broad range of stakeholders and communities, including asylum seeker and refugee agencies, young BME residents, emerging households and low income terraced home owners. This enabled UL to get some feedback on needs and preferences in terms of housing type, characteristics and community. It is unclear how these findings have been used with little evidence to suggest that they have informed the proposals put forward within the scheme update.
- 139 Generally, consultation undertaken to date has revealed a desire for further engagement from communities and a need to continue to build awareness of UL. There is now an urgent need to implement and manage an effective ongoing strategic approach which allows full and meaningful engagement with the diverse communities served.
- 140 In addition to working with local communities, it is also important for the pathfinder to work with the private sector, housing association and other key partners able to contribute to the delivery of its aims and objectives. Our ongoing work with the pathfinder generally revealed, with the exception of the councils', a lack of timely and inclusive engagement with stakeholders at a strategic level. However, this is now being addressed, and there is evidence that partners are becoming more engaged. The scheme update records active support from a number of partners, cumulating in a well attended Stakeholder Engagement Conference held shortly before submission of the scheme update. Developers and existing businesses have been consulted through Chambers of Commerce and Traders Associations, and housing association operational groups are of long standing. The formation of a housing association Consortia and plans to introduce a private sector developers' forum, are recent initiatives which should more effectively engage these key stakeholders at a strategic level via links into the new governance arrangements.

## **Achievements**

- 141 The Audit Commission Scrutiny report in June 2004 which assessed the original UL prospectus contained 20 recommendations. Further summary of those recommendations is attached at Appendix 2. Of the 20 recommendations 11 have been completed. None were completed within the original timescales set, although in a number of instances, formal extensions were agreed. The completed recommendations include improving and refining the information base and clarifying priority neighbourhoods for intervention. Substantial progress has been made on 7 further ones, which include issues relating to research, community engagement and governance. Some progress has been made on the remaining 2 related to value for money and housing pathways.

- 142** The pathfinder was awarded £50 million on 1 July 2004, broken down into expenditure of around £14.85 million for 2004/05 and £35.15 million for 2005/06. At the time of initial approval, the pathfinder was perhaps one of the least developed, and had much to set in place before project delivery could really take off. In delivering the first years programme, the pathfinder managed to virtually meet its expenditure targets. Approximately 92 per cent (£13.65 million) of the 2004/05 allocation was drawn down from ODPM. In December 2005, in response to ODPM requirements, UL Board noted a revised allocation of £29.5 million and outputs revised were agreed
- 143** Actual spend in 2005/06 has remained under target. At the end of January spend was 32 per cent less than profiled and expenditure to the end of December 2005 indicates only 52 per cent of the revised allocation has been spent. Despite this, the pathfinder is confident that it will achieve if not surpass the ODPM target before the year-end. However, a key question is whether this money will have been spent in the most appropriate and cost effective way, delivering programmes that have a strategic impact on the housing market. The Audit Commissions ongoing concerns regards value for money are explored in more detail later in this report.
- 144** The ODPM has identified a number of standard output measures against which targets are set enabling the pathfinders progress to be measured and compared. These are known as core indicators. The Audit Commissions ongoing work with the pathfinder has revealed significant concerns regards whether the pathfinder will be able to deliver the agreed outputs and very few cases where actual achievement closely resembles the original target set. For example, outputs reported in December 2005 indicate that in the first two years, property and land acquisition has far surpassed original targets. However, in most other respects, the pathfinder is likely to underachieve against original targets, in some cases, by significant margins. For example, the pathfinder aimed to refurbish 1,524 homes over the first two years; by December 2005 only 22 had been done, although UL was forecasting that 1,491 would be refurbished by the end of March 2006. Similarly, while not one home had yet been targeted by the private sector rented action plan, the pathfinder was forecasting 297 would be in the remaining three months, against a two-year target of 443. The pathfinder is finalising negotiations with the ODPM to adjust some targets following budget reductions which may serve to somewhat improve on this situation, although the size of the task in the last two months clearly remains challenging.
- 145** This wide variation, coupled with no clear strategic justification for changing the balance of expenditure, suggests that to date, the pathfinder's achievements are more a conglomeration of individual projects put forward by deliverers that loosely fit within its overarching aims rather than the amalgamation of strategic interventions focused on delivering the specific targets and outcomes as originally agreed. The risk is that this opportunistic approach may continue in the future, with the emphasis on getting projects through the system and spending the allocated resources being more important than realising the strategic vision. This is particularly relevant given that most proposals appear to be based on a continuation of projects begun in the first phase, and the strategic rationale for many of these remains questionable.

- 146** The Audit Commissions ongoing work with the pathfinder has evidenced that UL has managed to deliver some successful projects in challenging circumstances. It has kick started demolition at Greets Green NDC and provided gap funding for enhanced design on the Lyng Estate. The Lyng Community Association, in conjunction with Sandwell council have worked closely together to develop the Lyng regeneration project which consists of demolition of about 980 council owned units and the proposed regeneration of the area to deliver a mixed tenure estate of 200 social rented properties and in the region of 400 to 500 owner occupied properties. UL has financed high quality designs for the first two phases. A new health centre has opened. C.A.B.E are involved in helping to guide high quality design and sustainability development work is being undertaken to commence the final phase, to deliver a mixed tenure, high quality development comprising of 114 housing association units and 400 to 500 private sector units. However, much of the early activity has generally been centred on the councils' statutory and strategic housing roles and on existing programmes; continuing earlier clearance and demolition work of council stock, supporting feasibility studies, masterplanning and enhancing neighbourhood management.
- 147** Resources provided by UL have contributed to change the scale, pace or priority attached to these programmes. But the pathfinder needs to more clearly evidence how its interventions are contributing to wider housing market renewal and define the benefits and impact it has had additional to what would have happened anyway. For example, it needs to demonstrate how its initial funding of neighbourhood management pilots will lead to greater targeting of 'main stream' resources and more effective delivery of services in these areas.
- 148** The scheme update identifies a number of key issues that are fundamental to achieving the transformational change required by this programme. First, providing innovative ways of assisting people on low incomes sustain home ownership. Second, developing financial models such as shared equity operating in tandem with pro-active approaches to the provision of housing pathways, and third, strategic alignment of programmes in housing, crime, education, health, employment and economic development. However, it fails to specify firm proposals or commit appropriate resources which would instil more confidence that delivery would be sustainable.

### **Systems**

- 149** The Audit Commissions ongoing work with the pathfinder has found a lack of thorough, accurate and timely performance information and a weak appraisal process with ineffective challenge at Forum level. This has presented difficulties in monitoring and managing the programme to date. However, UL has recently reviewed systems and procedures and is working with the councils' towards the introduction of a much more rigorous performance management framework, made up of the following key components:
- Project Appraisal and Programme Management;
  - Asset Register and Asset Management;
  - Risk Register and Risk Management;

- Procurement;
  - Evaluation Framework; and
  - Value for Money.
- 150** While there remains much work to do, some progress is already apparent. External consultants have developed a series of benchmarks of different archetypes, covering demolition, new build and refurbishment. The aim is to use these to inform future project appraisal and regularly update the data using information from completed projects.
- 151** The pathfinder has finalised a new two stage project appraisal process to be applied to all new proposals which appears much more detailed and rigorous. The accountable body, which is the council that takes on the role and responsibility for generally overseeing financial matters for the pathfinder, in this case Sandwell, has endorsed the process and helped secure acceptance from the main deliverers. Guidance notes and a scoring mechanism have been compiled by the pathfinder, and workshops held. Once implemented, the new framework should ensure a better focus on value for money and improved transparency in decision making. However, the value of continuing to use external consultants to undertake all technical appraisals remains questionable, particularly now a benchmarking process has been devised. The process will also need to be reinforced by effective challenge at Board level to ensure the nature of interventions is not compromised.
- 152** Over the last year, the pathfinder has been developing its use and application of System K, a nationally recognised programme management database. Holding a comprehensive range of information based on individual projects, it can be a very useful management tool providing the capability to aggregate information at a variety of levels. It does, however rely on the quality and accuracy of data input, and in the past, UL has sometimes struggled to get timely and complete returns from all its deliverers. However, our ongoing work with the pathfinder indicates that the completion of project returns is improving and should be considerably enhanced following the introduction of an interactive electronic claim form, to be used by both councils' and housing associations, from April 2006. With automatic verification process inbuilt, this should reduce the opportunity for input errors and aid monitoring and evaluation.
- 153** A new project and risk management system is also scheduled for full implementation from April 2006. Developed with the assistance of MACE consultants, and spanning both councils' and UL core team, it should significantly improve upon current arrangements. A risk register and risk evaluation group is already in operation, and a basic traffic light system designed to provide an early warning to improve delivery and performance is currently in place. Risk registers have been established at four tiers; partnership; accountable body; programme and project based. Risk management processes have been embedded into routine practices and the Delivery Board has requested a risk report on a quarterly basis.

- 154** Consideration of risk has been included within each of the AIPs at three levels; first, risk to pathfinder as a whole, then AIP level risk, and finally project and proposal level. A workshop was held mid December to review and update the risk registers on behalf of both councils and UL with the register scheduled for completion in January 2006. However, in the scheme update there is no clear identification of strategic risks or how they will be managed. For example, the potential risk in operating different policies in different parts of the pathfinder is not explored. Yet having two councils with very disparate delivery structures, different policies, practices, cultures and perspectives has already caused problems. This is evidenced in the delays to the cross boundary initiative aimed at the private rented sector, and the special approval needed in terms of clawback on grants and loans experienced in the first phase of operation.
- 155** In the next phase, it will be particularly important to ensure policies and procedures for supporting people relocating and sustaining home ownership are consistently adopted and applied pathfinder wide. Careful handling will be needed so as to mitigate the risk of polarising relations between those who can and cannot afford it.
- 156** To summarise, the pathfinder has managed to deliver some successful projects in challenging circumstances. It has helped to kick start some major projects and provided some gap funding to enhance design. However, much of the early activity has been centred on the councils' statutory and strategic housing roles, and on continuing existing programmes. There is little evidence that the pathfinder is essentially adding much value with many interventions merely bringing forward pre-existing plans or providing substitute funding. Most key outputs are under target and there are wide variations in outputs with no clear strategic justification evident for changing the balance of expenditure. There is a risk of continuing to spend more on opportunistic projects than on strategic interventions and ultimately failing to achieve the transformational change required.
- 157** Some agencies have worked very effectively with local communities to involve them in initiatives part funded by HMR. Consultants appointed by the pathfinder have also engaged a broad range of stakeholders and communities in surveys and focus groups undertaken over the last year. However, the pathfinder has not yet put in place an effective strategic approach to consultation. There has been a lack of timely and inclusive engagement with private sector and housing associations at a strategic level, which is only recently being addressed.
- 158** The pathfinder is not adequately monitoring and evaluating the effectiveness of consultation and needs to facilitate wider understanding and generate more ground level support. It remains unclear how community consultation has informed the pathfinder's strategy, priorities or proposals. There was no meaningful input into the development of Area Investment Plans, and some serious concerns expressed regards potential clearance and displacement which need to be sensitively addressed. There is little emphasis on what will happen to existing communities and a risk that the proposals could impact on integration.

- 159** Limited progress has been made against previous Audit Commission recommendations with only eleven of the twenty completed and most of these outside the original timescales set. There has been a lack of thorough, accurate and timely performance information, coupled with a weak appraisal process and ineffective challenge, which has presented difficulties in monitoring and managing the programme to date. However, UL and the councils' have been pro-actively reviewing systems and processes and aim to introduce a much more rigorous performance management framework, with input at Board level, from April 2006. Risk management processes have already been embedded into routine practices and risk is explicitly outlined within each Area Investment Plan (AIP). However, there is no clear identification of strategic risks or how they will be managed pathfinder wide within the scheme update. There is also little evidence of consistent policies and processes being applied pathfinder wide, with the risk of polarising relations between different residents.

## Governance

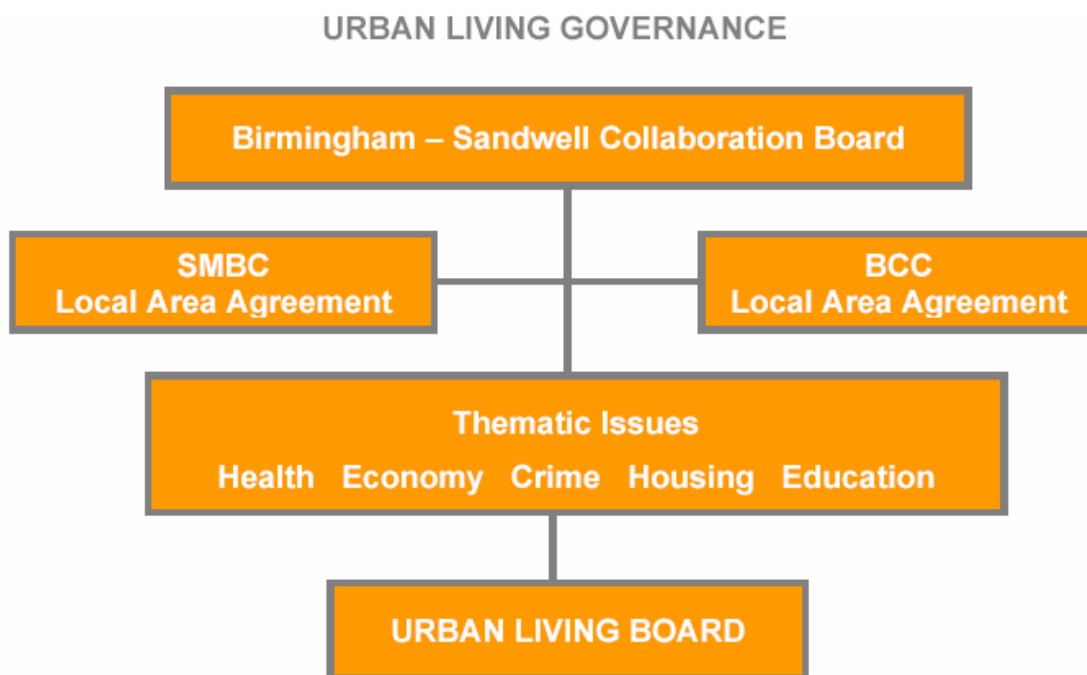
- 160** Pathfinders were established as strategic alliances and partnerships, working to achieve agreed agendas in a spirit of collective responsibility. It is essential that they operate fairly, transparently and effectively and this section of the report considers the performance of this pathfinder's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

### Roles and responsibilities

- 161** The effectiveness of governance relies partly on a complex set of dynamics and inter-relationships and partly on effective systems and procedures. One of the key organisational factors is the relationship between the legitimate strategic role of the UL Board and the statutory and non-statutory delivery and service functions of the two local authorities.
- 162** The Audit Commissions ongoing work with the pathfinder has found that governance of the pathfinder had been and continues to be an issue of major concern. The first scrutiny report in February 2004 highlighted the need to resolve where it is most appropriate for governance of the pathfinder to rest; and review and redraft the pathfinder's constitution. This was to be completed by November 2004. However, new arrangements were only finalised shortly before the scheme update, and the time taken to progress this and the lack of wider consultation on the proposals did not generally have a positive impact. The Forum which formally stood down at its last meeting in September 2005 had never functioned as a strategic entity. Members felt they could be the last to know if UL was not delivering and some thought there was too many around the table representing their own interests. The large membership helped to maintain its primary function as a discussion forum, sooner than a decision making body, and its challenge function was weak.

163 New governance arrangements devised by the councils' aim to secure effective co-ordination of local authority as well as partner's policies and actions across Birmingham and Sandwell. In order to drive strategic interventions through working in alignment with key agencies across the pathfinder area a Collaboration Board is being established for Birmingham and Sandwell. This will have the highest level membership from the two authorities and key partner agencies. Correspondingly to increase the effectiveness and efficiency of the programme, a UL Delivery Board has already been constituted. Headed by a new chair recently recruited by the councils' through open competition, its first meeting was held in December 2005. A number of thematic groups feed into the process. This new tiered structure of governance is demonstrated in the diagram below.

**Figure 5**



164 Terms of reference are outlined in the scheme update for both the strategic Collaboration Board and the operational Delivery Board. These confirm the hierarchical nature of control, as indicated above. The UL Delivery Board to have overall responsibility in partnership with both councils' for the delivery, monitoring, and evaluation of the pathfinder programme, using the strategic guidance, vision and aspirations set by the Collaboration Board. The balance of power and influence now clearly lies with the two local authorities. Although in many respects, the new arrangements merely formalise the existing reality reported by Forum members previously - that it is the councils' that drive strategy and direction within UL. There remains the associated risk that the pathfinder may merely become an additional resource for council activities and agendas sooner than, as originally intended, a key voice and influence in its own right driving wider housing market renewal strategy.

- 165** A broad range of agencies are to be represented on the Collaboration Board, and the councils' are actively networking to identify and recruit potential members. The private and community sectors as yet remain unrepresented and it is important that this omission is urgently rectified. In particular there is a need to ensure that structures are put in place which reflect the diversity of the communities served. The UL Delivery Board has a membership much more exclusively focused on housing with no representation from agencies responsible for delivery of crime and education. There is a risk in the potential over reliance on strategic level collaboration, as operational synergy is not guaranteed and the co-ordination of agendas so crucial to the pathfinders overall success will be outside of its direct scope or sphere of influence.
- 166** Our ongoing work has also revealed that there has been some confusion and duplication regards roles and responsibilities at an operational level. Programme management being one example. The original ambition was to establish a small core team co-ordinating the overall programme and promoting cross boundary solutions. But initially there was a sizeable gap to fill until the councils' delivery structures were fully established and operational. Essentially UL core team took on roles and responsibilities that the councils' anticipated would be theirs in the longer term. Now both councils have heads of service and delivery teams in place to fulfil these functions.
- 167** The Executive Director of the pathfinder has recently left and a member of the core team is currently acting as lead officer pending a review of staffing structures. The latest aim is to develop a single team approach across both councils' and UL core team. Consultancy support has been identified to assist in this task and it is already envisaged by the councils' that the future role of the pathfinder will be to co-ordinate delivery as opposed to direct or drive strategy. The scheme update outlines terms of reference for the UL core team but within this, there remains potential confusion and duplication of roles which needs to be clarified as the proposals are developed further. This includes, for example, UL core team and the strategic Collaboration Board both being identified as having explicit responsibility for ensuring there is an effective relationship with the Local Strategic Partnerships.

## Capacity

- 168** The Audit Commissions ongoing work with the pathfinder has previously identified that a rapid audit of capacity against task is needed, to inform immediate and longer-term action plans that will support new ways of working and improve delivery. Little progress was made until shortly before the scheme update, when the councils' decided to implement a single team approach, as outlined above. The councils' aim is to bring about a more streamlined and efficient approach to the development and delivery of the programme. This is likely to incorporate UL core team staff working more closely with programme and delivery teams in both councils' and could provide an opportunity for more collaborative working to be developed. However, until plans are more advanced it is difficult to get a clear picture of what is envisaged or comment on its appropriateness. Potentially, there is a risk that the role of UL could become indistinguishable from that of the councils', which could add to the imbalance of power that currently exists.

- 169 Both councils have strong lead officers who are currently trying to embed UL within their own corporate structures, and have done much to raise its profile locally and regionally. It is envisaged that HMR strategy groups based within the councils' will take the lead responsibility in ensuring that the AIP achieves the maximum impact, and that the overall strategy and delivery plan for HMR complements other mainstream service provision and discretionary initiatives.
- 170 The strategic capacity of the core team has been underdeveloped for some time, and consultants have continued to fill the gaps at this level. There have been recent appointments boosting skills in terms of finance, consultation and research, but the concurrent, though unconnected departure of the both the Chair and Executive Director are likely to leave some gaps in terms of knowledge and experience that may allow further scope for council dominance to be exerted.
- 171 The new Chair appointed to lead the Delivery Board has strong credentials and is respected as a leading authority and commentator on community regeneration and housing issues. But he will have a difficult task in ensuring the necessary challenge and independence of the Delivery Board, although early signs appear to be promising. Both Local Authorities are in agreement that the Chair, along with the acting co-ordinator, should lead the single team staffing review outlined earlier. An initial scoping meeting has already taken place with a view to undertaking an analysis of skill requirements, roles, responsibilities and accountability leading to options for organisational changes.
- 172 Birmingham City Council has recently boosted its capacity by appointing a permanent lead officer to head up pathfinder activities and is to invest in computer software to facilitate the move towards programme management systems and control which will then be shared pathfinder wide. There are issues of capacity relating to environmental health officers in Birmingham which have delayed delivery of the Private Rented Sector Action Plan that may still need to be addressed. Sandwell also has identified the potential to increase capacity in private sector renewal, planning and conveyancing.

### **Dynamics and accountability**

- 173 Local authority leadership is required to support the programme and could potentially add value with politicians and officers at the highest level agreeing to work together co-operatively. Local councils are also in a good position to be facilitator for bringing together different agencies and sectors, but to do so effectively they need to instil confidence that they will embrace partnership work not try to control it or impose their own agenda.
- 174 The Audit Commissions ongoing work with the pathfinder has demonstrated that the councils' have shown leadership in a number of ways. There has been good strategic representation from both councils on the pathfinder Forum and politicians and officers at the highest level have agreed to work co-operatively and build consensus for joint planning and seek to influence key players via the new governance arrangements.

- 175** Both councils have shown leadership in the way radical strategies have been championed in the past, which bode well for the future when difficult decisions may need to be taken. For example, in 2003, Birmingham pursued major clearance and redevelopment using compulsory purchase order (CPO) powers on a 3,000 home council estate at Attwood Green. And Sandwell via Greets Green NDC is currently adopting a range of radical interventions, incorporating use of CPO.
- 176** There has been a renewed, recent high level commitment from the councils'. However, thinking they had a clear mandate to provide a sense of direction and context for the pathfinder to operate in, the councils' were not as inclusive as they could have been in devising and introducing the new arrangements. This resulted in a clear undercurrent of concern and some temporary disengagement from key stakeholders. There is some evidence that the councils' are now seeking to engage more effectively with a wider range of stakeholders, although it may be difficult to convince people, particularly from voluntary and community sectors that they will be seen as equal partners with their input valued, appreciated and acted upon.
- 177** To summarise, in response to ongoing concerns, the councils' have recently finalised the structure for the pathfinder's new governance arrangements, which indicate a renewed high level commitment from the councils. The councils' have shown strong leadership in progressing these changes, members and officers at the highest level agreeing to work together cooperatively and build consensus for joint planning. Both councils have strong lead officers who are trying to embed UL within their own corporate structures and are now seeking to engage a wide range of stakeholders and influence key players via the new governance arrangements. However, the tiered governance structure may place too much faith in the ability of the pathfinder to influence and feed off strategic decisions at the Collaboration Board level. This creates a risk that operational co-ordination of wider agendas so crucial to the pathfinders overall success will not happen as effectively as they should.
- 178** The balance of power is already clearly with the councils' and there is a risk that latest proposals in terms of both governance and staffing arrangements will tip the balance still further. UL core team and Delivery Board role within the new structure is focused on compliance with strategy disseminated from the council led Collaboration Board and operational delivery. There is little independence for the pathfinder, limited strategic capacity bolstered by consultants and an ongoing risk that it will be little more than an additional resource for council activities and agendas sooner than, as originally intended, a key voice and influence in its own right driving wider housing market renewal strategy.

- 179** The distractions, uncertainty and unsettling influence of protracted delays in developing new governance arrangements and staffing structures has undoubtedly adversely affected both morale and programme delivery. There are some key elements, such as clarifying roles and responsibilities and developing structures for community representation, which need immediate attention. However, taking a pragmatic approach, the new governance arrangements need to be given time to operate. Early signs appear promising, but close monitoring is needed to ensure that decisions taken by the council-led Collaboration Board are in the best interests of the pathfinder and will allow it to carry out its strategic role in terms of delivering HMR.

## Value for money

- 180** 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 this pathfinder's approach to date.

### Processes

- 181** The Audit Commission's ongoing work with the pathfinder has identified significant concerns regards value for money and the need for UL to collectively ensure proper stewardship of public resources. In particular accept that the premiums set by the ODPM for the programme are not around simply achieving spend, but are instead related to securing transformational market impact over time, maximising efficiencies and leverage (particularly from the private sector) in order to achieve this. The pathfinder is actively seeking to improve systems and processes, and limited progress is evident, although there remains much still to address.
- 182** We found some examples of securing individual approaches to value for money, including instigating a framework arrangement for demolition contractors and consultants, and incorporating pay back and overage requirements in some funding agreements. Over the last year, following the appointment of a Finance Director, more work has been undertaken to develop strategies and processes which may enable a more systematic approach to be adopted in future. This includes the development of a more rigorous performance management framework, a new project and risk management system and the use of System K as outlined earlier in this report. Once fully implemented, these should help to improve the future focus and attention on value for money at an operational level.

- 183** The pathfinder engaged consultants to assist in developing the scheme update, which has included an independent assessment of plans with regard to strategic fit and deliverability. An initial value for money assessment on all proposals was also carried out prior to their inclusion in each AIP. The assessment considered a number of factors including strategic impact, public and private leverage and unit costs. However the fact that AIPs are essentially predicated on pre-existing priorities and a continuation of existing projects exacerbates the concerns about how much some of the schemes are contributing to market renewal. A strategic approach is still far from evident. HMR resources are to be used to stretch existing budgets, instead of working as a lever to bend funds and programmes towards HMR.
- 184** This raises a question concerning how pathfinder resources will be used to support ongoing projects. In some cases, there is the potential for HMR funding to be wrongly used in place of other core funding, often referred to as substitution. Substitution has been raised as a concern in the past, but little attention has been given to respond or alleviate these concerns. For example, in February 2005, the Audit Commission expressed concern that HMR resources had been used to fund the entire cost of home-loss and disturbance payments to housing association tenants on Black Patch (as well as demolition costs to a Housing Revenue Account (HRA)-owned asset, without securing any pay-back).
- 185** In June 2005 an application for a further phase was approved based on the rationale that 'this project should be approved because it follows on from an earlier pathfinder funded project'. The business case justification was very weak and centred around 'council policy' and 'corporate objectives'. It was also specifically identified that cleared land would not be used for residential purposes. The scheme is not linked into any broader HM intervention and while it may be arguable that UL is contributing (100 per cent) to create conditions for industrial and commercial investment by the private sector, it is clearly the case that the council and RSL would have had to take action themselves anyway, having identified that these homes were 'not cost effective to continue to maintain'. The appraisal report did not explicitly consider the specific concerns raised by the Audit Commission. 100 per cent HMR funding was given, which again included the entire cost of home-loss and disturbance payments to RSL tenants on Black Patch. However, the funding agreement did specifically seek pay back and overage should the site be sold for redevelopment.
- 186** Other projects where substitution remains an issue include funding of energy efficiency works to achieve decent homes standard, work to improve long term voids, mandatory licensing of houses in multiple occupation and private rented sector enforcement and funding of housing grants. All look set to continue unchallenged, some with 100 per cent HMR funding and significantly increased budgets. The programme for 2005/06 was reported to Birmingham's Cabinet on 12 September. The report confirmed that £12 million of £16.780 million is being directly managed by Birmingham, and is 'essentially a continuation of current schemes'. A key question that the pathfinder has not yet addressed is how such projects meet its revised objectives, and contribute to securing transformational market impact over time.

- 187 Sandwell has recently established an Arms Length Management Organisation (ALMO) to manage its housing stock. This will have significant benefits for the area in terms of budget availability, bringing an award of additional funds to spend on bringing all homes up to decent homes standard. HMR resources cannot be used for this purpose, yet the Smethwick AIP states that HMR investment in such projects as burglary reduction will assist Sandwell Homes in delivering the decent homes project. This again suggests that substitution will be continuing issue.
- 188 Following the unsuccessful stock transfer ballot in April 2002 Birmingham is currently undertaking its stock option appraisal for the future of its stock. The option appraisal is being carried out on a phased neighbourhood basis, and the pathfinder will need to ensure that the scale and timing of HMR investment is informed by this process in order to ensure the most efficient use of resources. There is also a need to clarify exactly what is being funded, for example, in Handsworth; HMR is to fund neighbourhood management team, including a direct labour organisation team for at least another four years to have synergy with the devolution of services projected by Birmingham council. Once again, there appears a clear element of substitution within this funding proposal.
- 189 Both councils have indicated that in the short term, more than half of housing capital resources will be devoted towards achieving the decent homes standard, with the bulk of the remaining monies divided between initiatives to meet changing demand, including providing match funding for AIPs, and activities to increase the supply of affordable housing. Birmingham has expressed commitment to using HMR resources to undertake additional activity, and seek alternative sources of funding to meet its decent homes commitment. The foregoing examples demonstrate that substitution remains a major issue and the pathfinder will need to more clearly evidence that HMR funding is not being used in place of other resources.
- 190 A financial model has been developed for UL by Ernst and Young which has been used to build up a financial profile of the proposed programme from the AIPs. The model profiles investment over the life of the programme and allows bespoke reports to be created to test a range of scenarios as an aid to decision making. It identifies quantity and costs by output type and unit cost assumptions and produces outputs, outcomes and budgetary information at three levels - project; area and strategic framework level.

- 191** The business plan prepared by Ernst and Young on behalf of UL makes a series of assumptions about unit costs. The document records that some assurance has been sought regarding the reasonableness of assumptions, but the underlying information has not been independently verified. However, all AIP templates for capital projects have been independently assessed in detail by Bucknall Austin in terms of deliverability and accuracy of costings. Based on the tables detailing average unit costs against outputs, the following is indicated; £99,700 per unit for new build, £115,700 to buy a property, £10,700 per property for demolition, and £9,600 for home loss and disturbance payment, £15,800 for refurbishment to decent home standard and £37,600 for refurbishment to sub-decent standard. With the exception of new build and decent homes refurbishment, these costs all appear high in the context of benchmarking information supplied to the Audit Commission. Acquisition and demolition particularly so. For example, other pathfinders reporting demolition costs of between £1,800 and £6,200 against UL £10,700. With the balance of the programme particularly skewed towards this work, it would be useful to explore this further. The difference in cost between decent and sub-decent refurbishment also needs to be investigated, as it would normally be assumed that the former would cost more than the latter.
- 192** There is also a need to question assumed property values used within the business plan. The cost of an average residential property is assumed to be £170,000, yet the West Midlands average is only £130,000 and the pathfinder average much less at just £95,000. While it is acknowledged that the pathfinder aims to develop some homes that may attract more affluent buyers, basing the business plan on such a high average increase appears unrealistic. It may be difficult to achieve volume of sales at this price. It may also prove difficult to attract private sector investment. The values currently used assume developer profit of 15 per cent and private sector support for pre-development costs, which may not be achievable. The assumptions also need to be considered in the context of the research reported earlier. This found that local properties even at current prices have become un-affordable for an even larger proportion of the resident population while conversely, developers get lower value and lower profit margin within UL than can be obtained in other areas in the Region.
- 193** The business plan also notes that spend in early years, for example on site assembly may generate a long term commitment to further spend or funding in future years. This is not quantified and it is unclear to what extent the programme approved for 2006 to 2008 will result in forward commitments which may be unsustainable given that the pathfinder would be unlikely to achieve the substantial increase in funding identified for 2008 to 2010.
- 194** The scheme update recognises with the scale of the Pathfinder programme, there is great potential to deliver social, environmental and economic benefits through the procurement process. The key role of UL in influencing and promoting good practice in procurement is identified.
- 195** The original scrutiny report in June 2004 included the recommendation that the pathfinder produce a procurement strategy. Limited progress has been made, despite consultants being commissioned to help progress this almost a year ago.

- 196** UL has recently produced a procurement strategy framework, which outlines a set of draft procurement principles and identifies that UL and its partner's have recently committed to move towards strategic commissioning, already begun through the process of developing area investment plans which seek to align core HMR investment with complementary public and private sector activities. A three phase approach to the evolution of the procurement strategy framework is illustrated, and some progress is demonstrated, including the establishment of a focus group involving local authority partners to promote more effective procurement and collaboration. Issues to be considered when making decisions are identified along with what the elements that a new regime should include, but for the most part, detail is lacking and implementation still some way off.

## Leverage

- 197** The business plan includes anticipated contributions from potential funding partners and typical expenditure they will support. In total around £320 million for the period 2006 to 2008 is projected. This includes almost £126 million from the private sector; £107 million from Sandwell ALMO and Birmingham council and £34 million from housing associations and the Housing Corporation and £28 million from New Deal for Communities. However, it is unclear to what extent this funding is firmly secured or merely anticipated and how much is as a result of pathfinder interventions, which is regarded as matched funding, or whether the investment would have happened anyway.
- 198** The Smethwick AIP states that many of the projects do not include any formal public sector match funding. There is also an element of back loading investment to later years when less firm projections are used. For example, the Handsworth AIP (excluding complementary investment) indicates a total £24 million investment will be made by Birmingham over the next four years alongside the £26 million sought from HMR but only £2 million of this is coming from Birmingham within the next two years, when more certainty is required. A more detailed resource analysis, using information already available in the financial model, would be useful to clarify current uncertainties about projected matched funding.
- 199** This should be one of the easiest pathfinders to lever money into. It is not a failing housing market. It may be at risk, but it has significant population growth and a number of existing development opportunities already supported by key agencies such as English Partnerships and the Urban Regeneration Company, RegenCo. However, with the dominance of traditional public sector interventions funded so far the involvement of the private sector to date has been extremely limited. No significant improvement is evident in the next stage of the programme, with comparatively low levels of private sector leverage anticipated, particularly given the scale of public sector investment being made. There is the key risk that the private sector may not find the development opportunities and returns attractive enough to invest on the scale envisaged in the future. The high level of HMR spend on land acquisition predicated on future private sector redevelopment may therefore need to be questioned, not just in terms of value for money, but requiring a more fundamental options appraisal involving private sector developers to determine whether this intervention on the scale proposed is in fact the right one.

- 200** Our ongoing work with the pathfinder has shown that UL does not actually know what level of complementary or match funding has actually been obtained. The first prospectus estimated £50 million UL funding would be complemented by a further £68 million of other public and private resources in the first two years. The pathfinder has not monitored or reported on levels of leverage achieved, and, indeed does not have complete or accurate data in order to do so. UL are currently capturing and inputting baseline information into systemK and will incorporate a requirement to provide actual returns in the new project monitoring forms.

### **Efficiencies**

- 201** The ODPM's original invitation to submit a scheme update required each pathfinder to produce an efficiency plan identifying and quantifying savings. At this stage the UL efficiency plan is more of a general indication of the methodology and timescales for production of a plan in the future. All pathfinders have adopted a baseline pro-forma approach which identifies four areas of work which will be developed further- corporate costs, revenue, productive time and procurement. UL has not added to these, and has not sought to include any figures at this stage. The pathfinder suggests that it is not yet possible to quantify efficiency savings with any degree of accuracy, and outlines that a statement on actual gains achieved in 2006/07 will be produced in 2007.

### **Maximising assets**

- 202** For the pathfinder, the term 'assets' principally refers to land and buildings, although it is not currently allowed to hold such assets in its own right. However, it is important that UL ensure that any land and buildings which it has helped to build, improve or purchase are used to best effect and that any gain that may arise from their future sale is recycled in the most effective way to meet the pathfinders overall aims.
- 203** UL has recently produced an Asset Management Strategy which outlines the principles and framework to be developed, identifies areas for resolution and specifies the component parts required in order to develop an output driven, systematic approach to asset management. However, like the efficiency plan, at this stage, the document is more a statement of principles and intent. Most of the detail is currently lacking and much is yet to be implemented.
- 204** The use of capital receipts, which is the term for the money the pathfinder or its partners receive by selling off land and buildings, is mentioned among the areas requiring resolution. A policy on valuation of assets, recycling proceeds and where the responsibility for decision making lies has yet to be agreed. However, individual funding agreements do now seek to ensure that all capital receipts generated by interventions, wholly or partially resourced from HMR funds, are retained for pathfinder usage.

- 205** The pathfinder aims to develop SystemK, linked to geographical information system (GIS) to record all acquisitions and disposals. In the interim, Sandwell, the accountable body, continues to maintain an asset register of acquisitions, and all funding agreements include conditions regards use of receipts. The Aston/Lozells/Newtown AIP identifies that a strategic fund is required which can be utilised to acquire key buildings and land in a timely manner and proposes that Birmingham manage this fund and will develop a set of criteria for acquisition priorities. Given this must be additional to the large extent of acquisition already outlined in the scheme update it would be useful to clarify how much is proposed and what the strategic rationale is.
- 206** It may also be useful to explore the rationale behind some different policies, in terms of value for money in accessing recycled receipts. For example, in providing HMR resources for refurbishing void properties, in Sandwell the homes are subsequently sold while at Birmingham they are retained for letting. A capital receipt will accrue in the case of the former, but not the latter.
- 207** The business plan has used high level working assumptions to estimate a potential figure of almost £45 million in capital receipts recycled into UL over the lifetime of the programme. The capital receipts likely to be generated from all developments have been included in individual AIP templates and have been brought into the financial investment framework. This provides an indication as to where and when these resources may be anticipated, although at this stage there is inevitably a high degree of uncertainty in terms of amounts and timing.
- 208** To summarise, consultants have supported the pathfinder in undertaking an independent assessment of plans, developing a flexible financial model and producing a business plan used to inform the scheme update. Capital receipts to be recycled from the sale of land and buildings have been estimated and brought into the financial investment framework. A number of strategy frameworks have also recently been drafted, including procurement, asset management and efficiency, although detail is lacking and implementation is still some way off. At an operational level a number of strategies and processes have also recently been developed which should ensure a more systematic approach to value for money in the future.
- 209** However, currently, value for money is not well evidenced in the scheme update or the Audit Commissions ongoing work with the pathfinder. Unit costs are high, the extent of matched funding is unclear and HMR resources continue to be used to stretch existing budgets, instead of working as a lever to bend funds and programmes towards securing transformational market impact over time. The high level of HMR spend on land acquisition is of concern and there is a risk that projects may lead to long term funding commitments which cannot be supported.

- 210** There is evidence to indicate that HMR funding is being used in place of other resources, often referred to as substitution. This could mean that resources will be wasted by not being strategically focused on projects which will deliver housing market transformation. There is also a relatively low level of leverage anticipated and the pathfinder has not yet sufficiently engaged with private developers to gauge the level of likely interest. A fundamental risk is that the private sector may not invest to the extent anticipated, because of potential high risk and low return on investment.

## Learning and innovation

- 211** Pathfinders are expected to be learning organisations, and lead the thinking on how to deal with low demand and fragile housing markets. This also means they need to actively share what they are learning with others, and to take part in collective pathfinder events and activity.
- 212** UL has not been as active as some in sharing good practice, but is continuing to develop its approach to learning and innovation. It actively participates in the Pathfinder Projects Working Group (PPWG) Research and Strategy Group and has been developing links with others. For example using the Manchester Salford approach to help guide development of systems and processes and discussing with Renew the possibility of establishing a joint appraisal panel and shared training for Board members. UL also worked with Renew to influence the West Midlands Regional Housing Strategy (RHS). Discussions were undertaken between officers on what was required of the strategy and responses were shared to ensure maximum effect. This has resulted in a RHS that has a core aim of supporting the Market Renewal Pathfinders and shadow Pathfinders in the region.
- 213** There are also some areas of work recently completed, or currently underway that may provide the opportunity for UL to make a more positive contribution to the cumulative learning emerging from the national pathfinder programme. In some ways this has been more evident during the Audit Commission's ongoing work with UL than it is from the scheme update.
- 214** These include the sensitive handling of demolitions at Greets Green NDC, where a range of initiatives have been designed to help deliver the clearance and rehousing programme in as sensitive way as possible. This involved offering relocation packages and property appreciation loans to enable people to move to better quality homes. The accommodation programme led by Family Housing Association, covering the Birmingham side of UL is another example. This programme aims to address the problems faced by refugees who settle in the area by ensuring a holistic approach to refugee settlement, with activities such as increasing and improving provision and quality of housing advice for refugees, capacity building for refugee community organisations and publicising positive media coverage of refugees. In mid 2005, following eight months of requests, UL gained access to data sets from the Home Office on EU Accession State Migrants in the pathfinder. With contacts forged in the Home Office the equivalent data was received for the Black Country authorities as part of the Black Country Telford shadow pathfinder. Methods of accessing this data were shared with the other pathfinders and the ODPM is now currently trying to facilitate the release of data to them.

- 215** The pathfinder has already offered to share outcomes from work carried out to improve the reliability of information from Hometrack used to analyse housing market trends. Before UL commissioned data from Hometrack, extensive consultation was carried out with the other pathfinders that had decided to buy the data and with those that did not. As a result UL went into negotiations with the company much more clearly informed than would have been the case otherwise. Work has been ongoing to revise the format the data is supplied in to ensure it is customised to UL needs. This will be of wider benefit to other Pathfinders.
- 216** The work recently undertaken in terms of research into BME housing needs and aspirations is being disseminated by the pathfinder, and work currently being undertaken in conjunction with English Partnership to pilot gap-funding projects with the private sector could also provide useful future learning.
- 217** To date, neither the pathfinder nor the councils have developed a systematic approach to capturing learning and evaluating impact. They are conscious of the need to do so. Ecotec produced an initial scoping paper for UL in August 2005 and have included an outline framework within the scheme update. The framework, structured around six levels, ranges from a national strategic level to a process operational level and identifies a number of cross cutting themes, such as community cohesion and value for money, which also need to be inbuilt. The framework in itself appears to have potential. However, the pathfinder has much to do and many barriers to overcome before it can be made operational. The stated aim for full implementation by March 2006 appears somewhat optimistic given the size of the task. Including; defining the actual indicators to be used in the framework, and establishing a baseline position and future targets; commissioning primary research to further develop its evidence base, and developing a protocol for sharing information between key partners. At an operational level all projects, as specified in the terms of the funding agreement, are required to submit an evaluation report on the delivery of the project. Where projects have been put forward for continuation into the 2006 to 2008 programme they have already been informed that the end of project evaluation report will be included in the assessment of the application for funds. Projects will be expected to demonstrate what issues have arisen in the last two years and what measures have been/will be needed to address them.
- 218** In addition, the programme management team, in conjunction with the councils' delivery teams, undertook an evaluation of the first year of delivery. This evaluation has generated an action plan, the implementation of which is being monitored by the finance and programmes group.

- 219** To summarise, the pathfinder has gained some value through sharing and learning from others. It is continuing to develop its approach and actively participates in Pathfinder Policy Working Groups and has been developing links with other pathfinders to secure mutual benefits. Some evaluation of projects and programmes has already been carried out and an evaluation framework is being developed to ensure a more systematic approach. However, there are a number of barriers to overcome before it can begin to be effectively implemented. The risk is that the pathfinder will not deliver exemplar projects or effectively apply what it has learnt. Ultimately, the risk is that a lack of learning and innovation will mean the pathfinder is unable to adequately respond to the serious concerns expressed within this report.

## Appendix 1 - Summary of added value and risk

**Table 1**

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Influencing Trends and Meeting Aspirations	Moderate	<p>An expanded evidence base helping to raise awareness and knowledge on the dynamics of the housing market, and its interrelationship with the economy and local communities.</p> <p>Highlighted, for the first time, the distinguishing feature of BME household growth and international migration as a key market driver.</p> <p>Captured useful information on BME housing needs and aspirations.</p>	High	<p>Lack of connection between the evidence base, strategic objectives and proposed interventions.</p> <p>Programme driven by pre-existing plans in the area, with HMR funding appearing little more than an add-on to council activities.</p> <p>No specific plans to indicate how catalytic sites will link with other sites and projects.</p> <p>Insufficient engagement with the private sector with the risk that cleared sites could be left undeveloped or tackled in an ad-hoc manner.</p> <p>More work needed on population projections and the impact of development outside UL to more accurately judge how much and what type of housing is required.</p>

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
				<p>More focused approach to delivering objectives needed with better balance and prioritisation between different types of intervention.</p> <p>The programme could further exacerbate the fragility of some neighbourhoods.</p> <p>Pathfinder may continue to lack sufficient influence with the councils, and focus likely to remain on projects planned or instigated before the pathfinder was established.</p> <p>Key issues outside direct control, crucial to success such as reducing crime and improving education and no clear plans regards how connectivity will be achieved.</p>

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Strategic Context	Moderate	<p>General alignment of UL aims with the key regional strategies.</p> <p>Redistribution of housing provision and economic activity focused at the major urban areas (RSS and RES).</p> <p>Positive impact of alignment between key organisations within the Greets Green NDC.</p> <p>Potential opportunities for improved joint working and closer alignment with the many other organisations active in the pathfinder area.</p>	High	<p>Unclear to what extent UL will be competing with other areas for housing allocations under the RSS, or where the sizeable growth afforded by RSS targets is likely to occur, or what the impact will be on the pathfinder.</p> <p>Insufficient consideration of displacement issues.</p> <p>Risk that without clear integration between plans and activities for education, crime, transport and local service centres, the impact of HMR investment will remain limited.</p> <p>Need to better align policies and approaches across the two councils.</p> <p>Lack of complementary investment could undermine the pathfinder programme, or potentially divert resources to ineligible activities.</p> <p>Limited evidence that the pathfinder is being prioritised within Birmingham, with HMR programme appearing more dependant on the direction of other strategies.</p> <p>Risk that it will be competing against other areas locally and regionally for status and resources, with no guarantee that the pathfinder will be prioritised.</p>

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Implementation	Minimal	<p>Delivered some successful projects in challenging circumstances-kick starting demolition and gap funding enhanced design.</p> <p>Some agencies have worked effectively with local people and consultants engaged a range of stakeholders and communities in surveys and focus groups.</p> <p>UL is proactively reviewing systems and processes, including risk and performance management in order to effect future improvement.</p>	High	<p>Risk that HMR resources are merely substituting other funding without delivering significant added value.</p> <p>Most key outputs are under target and Wide variations in outputs with no clear strategic justification evident for changing the balance of expenditure.</p> <p>Risk of continuing to spend more on opportunistic projects than on strategic interventions and ultimately failing to achieve the transformational change required.</p> <p>Not yet put in place an effective strategic approach to consultation.</p> <p>Language barriers not fully considered.</p> <p>Lack of timely and inclusive strategic engagement with private sector and housing associations.</p> <p>Not adequately monitoring and evaluating the effectiveness of consultation.</p> <p>Need to facilitate wider understanding and generate more ground level support.</p> <p>Unclear how community consultation has informed the pathfinder’s strategy, priorities or proposals - little evidence of any meaningful input.</p>

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
				<p>Concerns regard potential clearance and displacement which need to be sensitively addressed.</p> <p>Little emphasis on what will happen to existing communities and a risk that the proposals could impact on integration.</p> <p>Lack of thorough, accurate and timely performance information, coupled with a weak appraisal process and ineffective challenge to date.</p> <p>No clear identification of strategic risks or how they will be managed pathfinder wide.</p> <p>Little evidence of consistent policies and processes being applied pathfinder wide and the risk of polarising relations between different residents.</p> <p>Limited progress against AC recommendations.</p>

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Governance	Minimal	<p>Structure for the pathfinder’s new governance arrangements finalised.</p> <p>Ongoing leadership demonstrated and renewed high level commitment from the councils.</p>	High	<p>Tiered governance structure may place too much faith in the ability to influence and feed off strategic decisions at the collaborative board level with a risk that operational co-ordination of wider agendas will not happen as effectively as they should.</p> <p>The balance of power is already clearly with the councils’ and there is a risk that latest proposals in terms of both governance and staffing arrangements will tip the balance still further.</p> <p>Little independence for the pathfinder.</p> <p>Core team and Delivery Board focused on compliance with strategy disseminated from Collaborative Board.</p> <p>Limited strategic capacity in core team bolstered by consultants.</p> <p>Ongoing risk that UL little more than an additional resource for council activities and agendas sooner than, as originally intended, a key voice and influence in its own right driving wider housing market renewal strategy.</p> <p>Protracted delays in developing new governance arrangements and staffing structures adversely affected both morale and programme delivery.</p> <p>Community and private sector underrepresented.</p> <p>Need to clarify roles and responsibilities and develop structures for community representation.</p>

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Value for Money	Minimal	<p>Consultants supported UL in undertaking an independent assessment of plans, developing a flexible financial model and producing a business plan used to inform the scheme update.</p> <p>A number of strategy frameworks recently drafted, including procurement, asset management and efficiency, although detail is lacking and implementation is still some way off.</p> <p>A number of strategies and processes recently developed at operational level which should ensure a more systematic approach in future.</p>	High	<p>Value for money not well evidenced.</p> <p>Unit costs are high.</p> <p>Extent of matched funding is unclear.</p> <p>HMR resources continue to be used to stretch existing budgets, instead of working as a lever to bend funds.</p> <p>High level of HMR spend on land acquisition is of concern.</p> <p>Risk that projects may lead to long term funding commitments which cannot be supported.</p> <p>Evidence of continuing substitution with HMR funding being used in place of the councils and ALMOs own resources.</p> <p>Resources could be wasted by not being strategically focused on projects which will deliver housing market transformation.</p> <p>Relatively low level of leverage.</p> <p>Insufficient engagement with private sector and risk that may not investment to the extent anticipated.</p>

Theme	Added value assessment	Summary reasons	Risk assessment	Summary reasons
Learning and Innovation	Moderate	<p>Dissemination of BME work and Hometrack</p> <p>Joint work with Renew and the Black Country Telford shadow pathfinder</p> <p>Future opportunities to share and learn from others</p> <p>Some evaluation of delivery and an evaluation framework is being developed, but has a number of barriers to overcome before it can begin to be effectively implemented.</p>	High	<p>Not significantly embraced joint working or contributed to cumulative learning</p> <p>The risk is that the pathfinder will not deliver exemplar projects or effectively apply what it has learnt.</p> <p>Ultimately, the risk is that a lack of learning and innovation will mean the pathfinder is unable to adequately respond to the serious concerns expressed within this report.</p>

## Appendix 2 - Summary of progress against original Audit Commission Recommendations - February 2004

**Table 2**

<b>Recommendation</b>	<b>To be completed by</b>	<b>Comment</b>
Improve and refine its information base	March 2005	Completed
Develop approach to adjacency analysis	March 2005	Completed
Produce a specific plan for increasing social capital in Pathfinder communities	March 2005	Not fully completed
Clarify and substantiate overall supply and demand context and justify the choice/funding for complementary programmes	March 2005	Not fully completed
Develop a land supply and sequencing strategy	June 2005	Not fully completed
Ensure an appropriate social policy framework is in place for housing market restructuring	June 2005	Not fully completed
Revise strategic focus and key objectives	Aug 2004	Completed
Clarify priority neighbourhoods for intervention	Aug 2004	Completed
Complete toolkit and options for housing pathways	Nov 2004	Not completed
Develop risk and programme management mechanisms	Nov 2004	Completed
Define outcome/output targets and principles for investment	June 2005	Completed
Develop community engagement and communication strategies and action plans	Aug 2004	Not fully completed
Evidence value for money approach on projects	May 2004	Completed
Develop a more strategic approach to demonstrating value-for-money	Aug 2004	Not completed
Refine and develop selection of output and outcome targets	June 2005	Completed

Market Renewal | Appendix 2 - Summary of progress against original Audit Commission Recommendations - February 2004

<b>Recommendation</b>	<b>To be completed by</b>	<b>Comment</b>
Revise governance arrangements, clarifying responsibility and accountability	Nov 2004	Not fully completed
Produce a forward strategy for the Pathfinder	June 2005	Completed
Market test proposals at West Bromwich	Aug 2004	Completed
Produce statement of council resources	May 2004	Completed
Produce procurement strategy	Aug 2004	Not fully completed