The Credit Crunch, Recession and Regeneration in the North: What’s Happening, What’s Working, What’s Next?

Report Commissioned by The Northern Way

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The regeneration and transformation of the North’s towns, cities and regions has been a major success story over the last 15 years. Underlying economic strength and resilience have been improved through a more diverse business base, attracting new sectors and inward investors. Formerly single-industry towns have been steadily restructured through investment in new industries and jobs.

But the process of economic change can take decades, and in an ever-changing global marketplace can never be said to be complete. Despite significant flows of public and private investment, there was a sense of a job half-done. Then we were hit by the credit crunch and recession. The impact on investors has been sudden and profound, and we are only now beginning to see a return of any sort of confidence in the future. The property sector has been particularly badly hit, to an extent that requires a fundamental re-think of the business model that has financed and supported regeneration. The public sector has helped fill in funding gaps in the short term, but now faces its own recession as public capital spending is cut back.

It was this challenge that motivated The Northern Way’s ‘Regeneration Momentum’ programme, aiming to set a new course for regeneration – its financing and delivery – in a more difficult economic environment. As a coalition of the three northern Regional Development Agencies, we are well placed to bring practical experience and regional understanding, and to work with the most innovative thinkers in the field to question old ways of working and find solutions that fit the new environment, doing more with less, while continuing to deliver. There are some excellent examples of good practice to build on, and real successes delivered despite the economic context in which we’re all working.

I am delighted that, as part of this programme, Michael Parkinson and his colleagues accepted an invitation from The Northern Way’s Steering Group to reprise their influential report from last year on the impact of the credit crunch on the prospects for regeneration. We asked him to look at what has worked well, and which strategies seem best placed to retain momentum into the future. This report is a compelling and inspiring call to action. It couples realism about the scale of the challenge and the tough choices we face, an understanding of the serious constraints facing private sector developers and investors, with practical examples of how we can move forward. It includes important messages for Government, as well as organisations working on the ground. Above all, it encourages us all not to give up, but to redouble efforts and renew our commitment to a better economic future for all.

Hugh Morgan Williams OBE
Chair of The Northern Way
Chapter 1: What does this report do, why and how?

1. Introduction

1.1 During the past year the UK has experienced a credit crunch and economic recession as severe as any during the post-war period. This report assesses their impact upon regeneration in the North of England. It was commissioned by The Northern Way to update our original study which we conducted in 2009 for national Government – The Credit Crunch and Regeneration – Impact and Implications (Michael Parkinson et al., CLG, 2009). This report is different from our original in two key ways. First, although it is concerned with a wider national context, its primary focus is the North of England, defined as the three regions which constitute The Northern Way – the North West, Yorkshire and Humberside, and the North East. Second, it not only reviews the scale and impact of the recession and crunch, it assesses what different people and organisations have been doing about them and identifies some key policy lessons.

1.2 The report answers the following questions:

- How has the story unfolded nationally and in the North during the past year?
- Which places, projects and people across the North have been most affected by the credit crunch and recession and in what ways?
- Who has been doing what in which sectors to address the challenges?
- What is working?
- What are the policy lessons?
- Who needs to do what better or differently in future to sustain regeneration momentum?

1.3 The report is based on a large amount of new evidence that we have collected in the past six months including: data from national, regional and local publications; interviews with partners from the public, private and community sectors in the North; a national e-mail questionnaire; evidence from a range of organisations responsible for delivering regeneration – Regional Development Agencies (RDAs), Urban Regeneration Companies (URCs), Housing Market Renewal Pathfinders (HMRPs), local authorities – and a review of a range of regeneration projects across the North.

1.4 The report has not been easy to write. It has attempted to take a snapshot of a moving target. The picture has changed almost daily throughout the process. Also, it has been difficult to avoid either understating or overstating the problems and challenges the region faces. It is clear that there are large numbers of good people and good organisations doing very good work in the face of adversity. We want to reflect honestly the challenges they face but not to increase their difficulties by exaggerating the scale of the problem.

What is the mood music one year on?

1.5 In some ways the key headlines of our original report have been underlined. In some ways there are differences.

‘Half way up the hill’

1.6 The picture is a mixed one. It is not all bad news. There is good news in the sense that many places had experienced such a good period in the years up to 2007 that they were starting from a higher base line. They have not fallen back to
the position of a decade ago. And many feel the position – and certainly the mood – has not been as bad as in the 1980s when the North was going through massive industrial and economic restructuring.

‘So far, hard but not disastrous.’

1.7 Also, many people and places have reported that the last year – although hard – had not been as bad or as difficult as they had feared one year ago. In particular, the sense of crisis in mid-2009 has eased considerably. Indeed, some leaders in the North have argued that developers are beginning to put their toe in the water again and planning applications have increased. But there is no point being unrealistic. The North has been badly hit by the credit crunch and recession, as our original report said it would be. The prediction that this would be a southern-based, middle-class recession which would most badly affect financial services has not been borne out. We now know that traditional declining manufacturing industries and places, and semi and un-skilled employees have been more badly hit. This is an old-fashioned Northern recession.

Public sector recession to choke potential private sector recovery?

1.8 However, just as some people think they can see at least the bottom of the private sector regeneration recession, many more are extremely concerned about the impact that potential cuts in public expenditure will have in the North in the near future. There are real worries that cuts in capital and revenue public expenditure, and rising unemployment will choke off the growth in confidence and condemn the region to a much longer period of lower growth.

So what?

1.9 The thrust of this report is that we are at a crucial stage in the economy of the North. In particular, decision-makers in the public and private sectors must recognise:

- the achievements that have been made in the North during the past decade;
- the potential for regeneration and genuine economic growth that still exists; and
- the risks of a policy that will reduce commitment, expenditure and intervention too soon on the grounds that the job of regeneration and economic recovery has already been done – or that it cannot now be done.

1.10 The remainder of this report spells out this argument in greater detail. Chapter 2 reprises the key messages of our original report on the impact of the credit crunch in 2009 and serves as a benchmark against which we can assess change. Chapter 3 reviews the quantitative evidence about trends in the national economy and public expenditure during the past year and the impact they have had upon the North. Chapter 4 looks at the impact of these macro trends upon organisations and places in the North. Chapter 5 explores the mood on the ground in the North and discusses the experiences, hopes and fears of senior players in regeneration. Chapter 6 looks at what different partners in different places have been doing to cope with the crunch and recession and outlines some golden rules for coping with adversity. The final chapter presents the balance sheet and identifies some key messages for partners inside and outside the North, whoever forms the next Government. This report does not have a separate executive summary. Readers who wish to see the essential argument may choose to read this chapter first.
1.11 The report has many details about performance, prospects and policies. But the headline is that there are real concerns that the genuine improvements that have been made in many – if not all – parts of the North in recent years have been slowed by the events of the last year. There are even greater fears that the policy debate in the UK threatens the North’s future prospects even more. The legitimate concern about public expenditure and debt levels threatens to foreclose a debate about what are the key priorities for the North and what role the public sector should play in it during the next period. The key message from our 2006 report *State of the English Cities* (Michael Parkinson et al., ODPM, 2006) was that sustained investment by the public sector had contributed to the renaissance of many Northern towns and cities. The message of our original *Credit Crunch* report in 2009 was that the public sector was keeping momentum going at the beginning of the credit crunch. We argued it should continue to do so. There is a real fear that the potential regional consequences of reducing that public commitment have not been sufficiently discussed. This report is intended to stimulate that debate.

1.12 This is far from a counsel of despair. The current position is very difficult. But the North has delivered much economic development and regeneration in the past decade. There remains much economic potential. Also, there are some signs that the adverse trends are slowing down in some places. The private sector still sees the North as a potential area for investment in the medium term. And there is belief that development will return even if it takes another year or more. But partners recognise that there will be less public money in future and that they need an economic regeneration programme for the North. Continuing public investment in the North will attract private sector investment in the medium term. This is not the moment to jeopardise the substantial public investment that has already been made – or the prospects for further economic growth in the North.
Chapter 2: The credit crunch, recession and regeneration at the start of 2009: where were we then?

What was happening to regeneration one year ago?

2.1 In this chapter we reprise the key findings and messages from our report to Government one year ago. We do this to provide a benchmark against which we can judge what has happened since then in the North – to the economy, projects on the ground, the mood of the regeneration community and Government priorities. It is important in these difficult days to remember the progress that had taken place in the days before the financial crisis. The last decade has been a very good one for some places and some people in the North, underpinned by a buoyant national economy and major public expenditure. During this time, many places recovered from a period of massive economic restructuring to develop new economic niches. Some big cities have given political and economic leadership to their surrounding regions. They have won the argument that they are assets not liabilities, the drivers of regional and national economies. They have delivered a huge amount of physical regeneration. Many places look and feel dramatically different today from 10 years ago. But the picture has been changing during the past year as a result of the credit crunch and economic downturn, as this new report demonstrates. However, we start with our assessment of the origins and impact of the credit crunch one year ago at the beginning of 2009.

What was the crunch?

2.2 Our original report argued that the effect of the credit crunch was simple, although the causes were complex. The credit crunch meant that lenders wouldn’t lend, borrowers couldn’t borrow, builders couldn’t build and buyers couldn’t buy. The credit crunch started as a local phenomenon in a specialised housing market. But it had gone global and mainstream. The national economy was slowing down and concerns about the impact of the crunch had filtered into wider concerns about how the performance of the economy might exaggerate the constraints upon development. The risk was that the property decline, the financial problems and the economic downturn would get thoroughly intertwined. The hidden social consequences of the physical downturn could become more apparent – with fears about increased debt, poverty, repossessions and homelessness.

2.3 The speed with which events unravelled shocked all those involved – bankers, investors, property developers, house builders, governments, regeneration agencies and public organisations. The prospects for regeneration in 2009 remained uncertain at best. Nobody in the regeneration sector really knew how long it would last. But nobody believed it would end before 2011. Many felt we were not likely to return to the volumes of recent regeneration activity for perhaps five more years.

2.4 Our original report showed that there had been a flight from risk and a flight to quality. This meant that marginal places, projects, partners and people were most threatened. The crisis hit them sooner, would be deeper and probably last longer. In terms of places, London and the South East had been better protected in terms of development. But the position could change as the economic downturn threatened jobs in the financial services sector. The North and Midlands had been more badly hit. The cities with more robust economies and more entrepreneurial leadership would weather the storm better than others. Small and medium towns which depended on single declining economic sectors would be badly hit. Rural areas were not immune from the impact either. Paradoxically, in the short term, public sector employment might protect places from the worst of the recession, as it did in the 1990s. But in the longer term, as public finances were substantially cut after 2011, even that would be badly hit.
2.5 In terms of sectors, housing had been most badly hit. This especially applied to city centre apartments, buy-to-let and volume house builders. Other sectors had been less badly affected then – but the position was worsening. Projects that had started would probably finish. Many projects that were about to start might not. The position was worse where the market had overprovided in recent years and where developers were financially exposed. It was better where the developer had long-term aspirations and resources, where the money was organised before the crunch began and where there were pre-lets for projects. Public sector projects were most likely to continue. At the beginning of 2009, the public sector was keeping the wheels of regeneration turning as the private sector was sitting on its hands.

The regional picture

2.6 No region was immune from the impact of the credit crunch. But in the two worst hit sectors, residential and mixed use, the North and West Midlands had been more badly hit than Southern and Eastern regions.

Figure 2.1: Regional Differences in Levels of Residential Activity 2008-9

Who was doing what about it?

2.7 Partners were trying a variety of coping strategies, although it was too soon to tell whether they were working. They were carrying out strategic land acquisitions rather than new-build schemes. They were doing everything to gap-fund projects that were crucial to the area. They were recalibrating their masterplans and strategies, bringing forward less risky schemes and moving riskier ones to the end of the queue. Generally, the local public sector was doing everything to boost spending and activities.

Were there any silver linings?

2.8 There were some marginal benefits – even if they did not outweigh the costs. The crunch would allow review of some of the housing policies that were being undertaken in cities, especially city centre apartments. It would allow a focus upon long-term place making rather than house building. It would allow the public sector to buy land cheaper, if of course it had the resources. It would allow and encourage
the public sector to get into longer term relationships with committed long-term developers. It would allow the public sector to provide the necessary physical and community infrastructure that would underpin sustainable regeneration. But these benefits were medium term whereas the costs were immediate.

What were the future risks?

2.9 There was a risk that projects would be mothballed or abandoned. There would be pressure to reduce standards. There was a risk that Section 106 would not deliver in future the levels of social housing it did in the past. There were risks that if the public sector and the RSLs bought up too much unsold private housing and put social tenants in them they might be reinventing the socially segregated estates most places had spent a decade trying to eliminate; in effect creating slums for tomorrow. However, all partners were agreed that the real risks were for the future. There was great concern that the pipeline would dry up so products would not be coming on to the market in two or three years’ time. There were real fears about the loss of momentum, confidence, investment, skills and capacity. If the tap was turned off there were fears that it would take a long time to deliver products once the economy did revive. Many experienced people had already been lost. The regeneration industry could ill afford that loss of capacity.

What should we do? Some key principles, priorities and tools

2.10 In 2009, we argued that the development and economic downturn would get worse before it got better. The pressures upon all partners in the regeneration industry would become more not less intense. So it was crucial that partners should stick to some clear principles and:

- recognise that regeneration is a long-term challenge which needs long not short-term commitment;
- protect marginal places, projects and people in difficult times;
- provide brave leadership and a steady hand in difficult times;
- provide financial innovation;
- work even more in partnership;
- increase flexibility, especially in the planning system;
- keep the regeneration wheels turning and maintain momentum;
- commit to quality;
- do everything possible to prepare for the upturn; and
- retain existing regeneration capacity and skills.

2.11 More generally, we underlined that the private sector had become risk averse and would be more reticent in future to commit to projects. It was the public sector which was keeping much of the regeneration activity going in this country. It was crucial that public sector resources and projects continue if the regeneration tap was not to be turned off. Resources that were already committed to regeneration until 2011 should be reviewed to see whether they could be front-loaded. Equally, wider public programmes which were not regarded as regeneration should be more closely aligned with regeneration aims and ambitions in future. The resources going into the building of schools, clinics and hospitals should, wherever possible, complement not contradict regeneration programmes.
Investment, risk and innovation

2.12 We argued that the financial model which had underpinned regeneration during the past decade was fractured if not broken. The banks and investors which paid for it in the past were unlikely to do so in the same way in future. Financial partnerships between the public and private sectors, and the innovative use of public resources in those partnerships, would become a more fruitful way forward. We argued that the public sector should increasingly take a share in investment and development and a return from uplift in future. The public sector should become more of an investor in long-term regeneration, sharing the risks and sharing the rewards and recycling them for future projects. We said that Tax Increment Financing or the Core Cities version of it, Accelerated Development Zones, although complex, had much to recommend them.

Tax on empty properties

2.13 We also argued that the new restrictions on business rate relief for empty properties (effectively a new tax) was a key challenge for regeneration. In marginal areas it was the straw that broke the camel’s back as it made developers less likely to go ahead with already marginal schemes. In some cases this had led to developers knocking down properties rather than paying the tax. This was hardly a sustainable approach to regeneration which would also limit supply when the market gets going again. The tax was not only paid by developers but also by business owners of buildings who may have reduced the scale of their operation, or even by public sector organisations which own such property, like RDAs. We argued that Government should try to see whether the tax could be amended in certain regeneration areas to encourage future investment.

Place making not house building

2.14 We argued that housing had been badly affected by the economic crisis and would continue to be so in future. The housing business model that underpinned the boom of the 1990s would not work in the next business cycle. Even before the crisis there were real concerns about the over provision of city centre apartments and the absence of family homes and the infrastructure that makes them viable. The financial crisis had only underlined the weaknesses of that model. Equally, there were questions to be raised about the real level of home ownership that was desirable and possible in the future, and the balance of building homes for sale as opposed to renting. There was clearly a demand for rented market accommodation in many places. But the crunch had highlighted the weaknesses of a system which depended upon the individual landlord rental model. We needed a financial system which encouraged major institutional investors to become involved in the long-term provision of private rented housing that would give the flexibility of the existing system but with better standards.

2.15 More generally we argued that place making rather than house building should be the future goal of policy. This had implications for the provision of infrastructure in places. It had implications for the numbers of houses that would be possible and desirable to build in future. It had implications for the targets that were set for public agencies in future. There was considerable anxiety in the regeneration industry that the existing housing and regeneration targets would not be achievable in regeneration areas in future and that resources would flow to other areas where the targets could be more easily achieved. To avoid cherry picking and abandoning
regeneration areas, we argued that those targets should be looked at to determine whether they would still encourage sustainable regeneration in future.

New economic drivers

2.16 Our report underlined the fact that the last decade had been a very good one for English cities. They had undergone a substantial renaissance underpinned by a successful national economy and buoyant public spending. But those circumstances would not be found in the next decade. Equally, the sectors of the economy which underpinned their renaissance in that cycle might not be the most appropriate for the next cycle. The drivers of much of the renaissance were retail, leisure, residential and financial services. These were primarily consumption or service sector activities which might not be as robust in the next years. Places would need to think of more high value added production activities based upon innovation and learning, or more sustainable sectors which would feed into the national and global low carbon sustainability agenda.

Sticking to the guns

2.17 The key message of our report was that Government and partners should not panic in the face of the financial and economic challenges they faced. Things were very difficult and would get worse before they got better. But history told us these periods end. Most importantly, the good principles that had worked in the past would work again in the future. We needed an approach which encouraged: long-term thinking and planning; Government commitment to regeneration; public-private partnership and investment which shared risks and rewards; more efficient, flexible and innovative local leadership and decision-making; and a commitment to economic and social as well as physical regeneration. It was the best model we had for working together in the bad as well as the good times. Regeneration was a long-haul business. There was every reason and need to continue with it. The motto for all partners, especially government, had to be ‘Stick to your guns’.

How have we been doing since 2009?

2.18 Our initial report tried to be realistic without being too pessimistic. It argued that there had been a great deal of successful regeneration in the decade before the credit crunch and the recession took hold. But it showed that regeneration there had already been arrested and was even more vulnerable in future. It tried to identify things partners should do to keep the regeneration wheels turning. We next turn to see what has happened in the year since the report was published, how regeneration in the North has fared, what partners are doing and how Government has responded.
Chapter 3: How has the story unfolded since 2009 – nationally and in the North?

3.1 This study focuses primarily upon the North. But it functions within a national context. It is clear that the past year has been extraordinarily difficult for the UK economy, public finances and the regeneration industry. The economy has slumped, public finances have got into a dire state and the regeneration industry has been dramatically affected. We explore those three issues in turn, starting with the national position and then reviewing the position of the three regions across the North.

What’s been happening to the national economy?

3.2 We are in recession after many good years. UK GDP has declined for six successive quarters, the first time since records began.

Figure 3.1: UK GDP % Change Quarter, 1955-2009

Source: ONS
3.3 Unemployment has increased since 2004/5 and sharply over the past year, although it is not as high yet as it was prior to 1997. The North has done worse than the rest of the UK.

Figure 3.2: Unemployment Rate, Persons of Working Age

3.4 There was a steep increase in the claimant count during the autumn and winter of 2008/9 followed by tentative signs of a levelling off from spring 2009.

Figure 3.3: Claimant Count Rate, 2007-2009
3.5 Unemployment reached almost 2.5 million in the 3rd quarter of 2009 — a sharp increase compared with the previous year. It is at its highest level since the mid-1990s — although still not as high as the peaks of the 1980s and early 1990s.

Figure 3.4 Unemployment, 000s, UK, 16+, 1971-2009

[Graph showing unemployment trends from 1971 to 2009]

Source: ONS

3.6 The North experienced greater annual increases in unemployment between 2004/5 and 2007/8 compared with the rest of the UK. However, in the most recent time period, 2008/9, the percentage increase in unemployment has been higher in the rest of the UK than in the North.

Figure 3.5: Unemployment, Annual % Change, 2001/2 - 2008/9

[Bar chart showing unemployment changes from 2001/2 to 2008/9]

Source: ONS
3.7 The general air of depression and volatility has been reflected in the stock market with recent slumps and more recent – possibly fragile – gains.

Figure 3.6: FTSE 100, 1984-2009

What’s been the impact upon public finances?

3.8 The impact of the recent slump and Government efforts to address it through increased public spending are shown in Figure 3.7. Public expenditure (Total Managed Expenditure) has risen as a proportion of GDP from 36.3% in 1999/00 to a forecast 48.1% in 2010/11.

Figure 3.7: UK: Total Managed Expenditure as % of GDP, 1963-2014

Source: HM Treasury
There have been deficits since 2002/3, which will peak in the current year 2009/10 at 6.7% of GDP. Public sector borrowing is also forecasted to peak in 2009/10 at 9.8% of GDP.

Figure 3.8: Budget Balances as % of GDP, 1973-2014

Figure 3.9 shows how this translates into debt levels. Public Sector Net Debt is rising to unprecedented levels. It is forecast to reach £1,370 billion, 76.2% of GDP in 2013/14, compared with £690.5 billion or 43.2% in 2008/9.

Figure 3.9: Public Sector Net Debt as % of GDP, 1974-2013
What’s been happening to property and regeneration?

3.11 The third part of the story is the impact upon property, lending and regeneration. We present next some data about housing, land prices, lending and credit. Figure 3.10 shows the decline in house sales which fell from a monthly average of 101,000 in the first half of 2007 to 61,000 in the first half of 2008, down to just 38,000 in the first half of 2009. Sales are at their lowest for over 15 years. It is too early to tell whether the rise in house sales in the first half of 2009 is simply seasonal or the start of a recovery.

Figure 3.10: House Sales, England & Wales, 1995-09

Source: HM Land Registry

3.12 The North mirrors the national trend. Sales volumes have fallen dramatically. Similarly, there has been a slight increase in sales in 2009.

Figure 3.11: House Sales, the North, 1995-09

Source: HM Land Registry
3.13 Figure 3.12 shows the rise and subsequent fall in house prices nationally and across the North. The rise in house prices in the North was lower than that seen nationally up to the start of 2008. Subsequently, house prices in both the North and nationally have fallen by around 15%.

Figure 3.12: Average House Prices (£), 1995-2009

Source: HM Land Registry

3.14 Lending is dramatically down since the beginning of 2008 with a slight recovery since the middle of 2009. The amount being lent for remortgaging shrank dramatically from £12.1 billion in January 2008 to £3.1 billion in October 2009. Amounts lent for house purchases, which had fallen to £2.9 billion in October 2008, have recovered somewhat climbing to £5.8 billion in October 2009.

Figure 3.13: Mortgage Lending by Major UK Lenders (£billions), Jan 2008-Oct 2009

Source: Bank of England
3.15 There is a similar picture for general credit. The reported availability of secured credit to households fell in eight out of 10 quarters up to Q3 2009. Only in two quarters did credit availability increase.

Figure 3.14: Availability of Secured Credit Households, reported changes quarterly, 2007–2009

![Graph showing availability of secured credit to households](image1)

Source: Bank of England

3.16 There has been a similar tightening of credit to the commercial real estate sector. In nine consecutive quarters credit availability has lessened, dramatically so at points. The figure for the most recent quarter suggests that although credit is still restricted, conditions are beginning to level out.

Figure 3.15: Availability of Credit Commercial Real Estate Sector, reported changes quarterly, 2007–2009

![Graph showing availability of credit to commercial real estate sector](image2)

Source: Bank of England
3.17 There has been a dramatic collapse of housing completions and starts which have both declined precipitously since the beginning of 2007.

Figure 3.16 Private House Building Starts & Completions, UK, 1990-2009

3.18 There has been a similarly dramatic decline in completion and starts in the North where housing starts dropped from a peak of over 12,000 in 2006 to just over 2,000 at the end of 2008.

Figure 3.17 Private House Building Starts & Completions, the North, 1990-2009

3.19 It is too early to say whether the slight increases in starts in both the UK and the North in 2009 indicate the beginnings of a possible recovery.
3.20 Mortgage possession claims which peaked at over 140,000 in 2008 calmed down in 2009 falling to just over 100,000, probably influenced by the mortgage protection protocol which came into effect at the end of 2008.

Figure 3.18 Mortgage Possession Claims, England & Wales, 1999-2009

Source: Ministry of Justice

3.21 The North has mirrored the national trend, again peaking in 2008 and falling back in 2009.

Figure 3.19: Mortgage Possession Claims, the North, 1999-2009

Source: Ministry of Justice
Finally – how is the North doing?

3.22 So far, we have concentrated mainly upon the national picture. We now turn to the position in the North and present a range of quantitative evidence about performance during the recent past. We present evidence about land values, housing starts and completions, house prices and sales, retail, office and industrial rentals and yields, planning decisions, unemployment and inward investment.

Headline messages

3.23 The clear story is that the recession has intensified during the last year. The residential sector has been particularly badly hit. There are much reduced residential land values, decreasing housing start and completion rates, a sharp decline in the volume of house sales, reduced number of planning applications and significant job losses within the sector. However, there may be some tentative signs of a bottoming out. For example, recent housing start figures show modest improvements and there are some indications of a slight recovery in housing sales volumes. Job creation associated with foreign direct investment has not declined in the North during the downturn and in some Northern regions has increased appreciably.

How does it compare with other regions?

3.24 The North’s decline has been similar to the national picture on some indicators – for example, land values, planning applications, house prices, and job losses. However, it has done worse on other counts, particularly in terms of housing starts and completions and the volume of house sales. There are very few indicators which show the North performing better than the national average.

What differences are there across the North?

3.25 There are some key differences between and within the three Northern regions. Industrial land values have been worst affected in Yorkshire and Humberside but from a higher starting point. Residential land values have held up slightly better in the North West. So far, the North East has experienced fewer job losses in the regeneration sector. Secondary cities and more peripheral places have done worse than the Core Cities.

Land values

3.26 During the course of the downturn, residential land values have fallen both nationally and across the North for the past two years, as figures 3.20 & 3.21 show. Of the three Northern regions, the North West has maintained the highest land values and experienced the lowest percentage falls. The North East has had slightly steeper reductions compared with the national and the two other Northern region averages. There has been a much sharper reduction in land values during the past 12 months, as the credit crunch and economic downturn have deepened and intensified.
Figure 3.20: Residential Building Land Index, £s per hectare, 2001-9

Source: VOA

Figure 3.21: Residential Building Land Index, % Change in Value, 2006-9

Source: VOA
3.27 Industrial and warehouse land values have also fallen, however less substantially compared with residential land, and largely over just the past year.

Figure 3.22: Industrial & Warehouse Land Values, £s per hectare, 2003–2009

![Graph showing Industrial & Warehouse Land Values, £s per hectare, 2003–2009.]

Source: VOA

3.28 During 2007-8 industrial and warehouse land values rose nationally and in two of the three Northern regions. But in 2008-9 values fell 18% nationally. The falls in the Northern regions were slightly higher, ranging from 18.5% to 26% with Yorkshire and the Humber the biggest casualty. Yorkshire and the Humber had also experienced an 8% fall in 2007-8. However, each region started from very different base points with Yorkshire and the Humber having a relatively strong market in July 2008 and the North East much less so.

Figure 3.23: Industrial & Warehouse Land Values, % Change, 2006–2009

![Graph showing Industrial & Warehouse Land Values, % Change, 2006–2009.]

Source: VOA
Housing starts and completions

3.29 Housing starts and completions figures underline the difficulties faced by the construction sector over the past year, with the former particularly badly affected. Private sector housing starts nationally fell by over 25% between the first quarter of 2007 and 2008, and by over 50% in the same period between 2008 and 2009. The North has done worse, however, with overall falls of 37% in 2007-8 and in excess of 60% in 2008-9.

Figure 3.24: Private Sector Housing Starts by Region, 2003-2009

3.30 The most recent quarterly figures for Northern regions have shown small increases in numbers of private sector housing starts, however, albeit from a very low base.

Figure 3.25 Private Sector Housing Starts by Region, quarterly, 2008-2009
3.31 House completions have not deteriorated as much as starts since those schemes began earlier. However, there is declining activity, both nationally and across the North. Nationally, completions fell by just under 20% between the first quarter of 2007 and 2008. The North had an almost identical reduction, with a fall of just over 20%. Again there are some variations across the North. The North West actually recorded a small growth in completion rates during this period. But completions in Yorkshire and Humberside fell by 30% and nearly 44% in the North East.

3.32 Nationally, the decline in housing completions accelerated between the start of 2008 and 2009 falling by just under 30%. The trend was worse in the North. Here, completions fell by nearly 40%. The North West witnessed a dramatic reversal in fortunes from the previous year, with rates declining by 45%, the highest rate of fall of all three Northern regions. The North East saw a decline of just over 40% and Yorkshire and the Humber’s housing completions fell by just over 30%.

Figure 3.26: Private Sector Housing Completions by Region, 2003-2009

3.33 However, recent figures show tentative signs of a possible bottoming out in the market. Housing starts in quarters 1 to 3 in 2009 each exceeded the preceding quarter in the North. At national level, quarter 1 2009 data were up on 2008 quarter 4. Housing completions, however, have continued to fall both nationally and in the North, although the overall fall for the North hides the faintest of increases in the North East.
House prices & sales

3.34 House prices peaked in the North and nationally at the very start of 2008 and then began to fall throughout 2008 to the start of 2009. Between January 2008 to July 2009 house prices fell 15% nationally, the same as in the North. There have also been significant reductions in the volumes of house sales. Figures for the most recent months, however, suggest that house prices have levelled out and there have even been some slight increases nationally.
The steepest reduction in sales volumes happened during 2007-8 although the trend has continued in 2008-9. Nationally, sales fell by 52% between June 2007 and 2008 and by 13% between June 2008 and 2009. The fall in house sales in the North was slightly higher at 54% and 22%. In the North East sales fell by 57% and in the North West 55% between June 2007 and 2008. The Yorkshire and Humber region did fractionally better with a fall of 50%. From June 2008 to 2009, sales in the North East fell 25%, in Yorkshire and Humberside 23% and by 19% in the North West.
3.36 The decline has not been confined to residential markets but has also been experienced across the retail, office and industrial sectors. Retail rents in the North have fallen dramatically during the past year with all three regions experiencing greater falls than the UK. The heaviest fall has occurred in the North West where values fell by 20%. In the year before, prime retail rents in the North and nationally were largely unchanged.

3.37 Office rents in the North have also fallen over the past year although not to the same degree as retail. The falls in the three Northern regions are less than the national figure. However, the national figure is heavily influenced by the massive fall in office rents in central London. In comparison with regions outside of London, the North East has experienced the largest fall, down 8%, while the falls in Yorkshire & Humberside and the North West are more typical of those found elsewhere.
Figure 3.33: Office Prime Rents, % Change, 2007–2009

Source: CB Richard Ellis

3.38 Industrial rents have also fallen during the past year in each of the three Northern regions, mirroring the national picture.

Figure 3.34: Industrial Prime Rents, % Change, 2007–2009

Source: CB Richard Ellis
Retail, office and industrial yields

3.39 Since the start of 2007 average yields for retail have worsened (i.e. increased) both in the North and nationally. However, in the last two quarters there has been an improvement in all three Northern regions and nationally. However, yields remain a long way from their early 2007 level and the North still lags behind the UK.

Figure 3.35: Retail Prime Average Yields, % Change, 2007 – 2009

Source: CB Richard Ellis

3.40 Office yields have also worsened since the start of 2007. However, again there has been an improvement in the three Northern regions during each of the three quarters of 2009. Nationally, improvements in office yields are evident during the past two quarters. But again the North lags behind the national figure and yields are still worse (i.e. higher) than in 2007.

Figure 3.36: Offices Prime Average Yields, % Change, 2007 – 2009

Source: CB Richard Ellis
3.41 Industrial yields also worsened through 2007-9. But again there has been some recent improvement in all three Northern regions and nationally – although the yields in the North continue to lag behind the national figure.

Figure 3.37: Industrial Prime Average Yields, % Change, 2007 – 2009

Source: CB Richard Ellis

Planning decisions

3.42 The number of planning decisions by local authorities has fallen and the downward trend is increasing. While the number of planning decisions fell slightly in the period leading up to the credit crunch, it fell dramatically during the downturn. The falls between quarter 1 2007 and 2008 were greater in the North at 7% – compared with 3% nationally. In the following year, the falls in both the North and nationally were over 29%.

Figure 3.38: Planning Decisions Made, % Change, 2007-9

Source: CLG
The economic downturn has had a major impact on unemployment. For example, the claimant count actually fell during 2006-7 nationally as well as in the North. But it rose during 2007-8 and 2008-9. The increase in the North during 2007-8 was 11% compared with 8% nationally. The increases in 2008-9 were much higher – 67% in the North and 74% nationally.

Figure 3.39: Regional Claimant Count Numbers, 2003–2009

![Regional Claimant Count Numbers, 2003–2009](chart)

Source: ONS

Figure 3.40: Claimant Count Numbers, % change, 2006-9

![Claimant Count Numbers, % change, 2006-9](chart)

Source: ONS
Jobs in property related regeneration

3.44 The property regeneration sector has been hit particularly hard over the past two years. There have been approximately 21,000 job losses in the Northern property regeneration sector. Nationally, the figure stands at around 70,000.

3.45 Figure 3.41 shows the claimant count for property regeneration professionals. From a low base the increase in both the North West and Yorkshire & the Humber between October 2007 and 2009 was 585%. The North East was comparatively better, with an increase of 390%. The figure for the North overall was just short of 560%. Nationally the figure is just over 500%.

Figure 3.41: Unemployment Property Related Regeneration, 2005-2009

Source: ONS

Skilled building and construction trades

3.46 The recession has also led to heavy job losses in the skilled building and construction trades. Nationally, over 64,000 jobs have been lost within these trades between October 2007 and October 2009. Approximately 20,000 have gone in the North.
Property related regeneration in the North has clearly experienced a very difficult period. However, data on foreign direct investment (FDI) offer grounds for optimism. They show that the North as a whole performed better than the UK in terms of jobs created and safeguarded by FDI projects during 2008-9 as compared with the previous financial year. In terms of numbers of projects the North and all three Northern regions attracted more inward investment projects during 2008-9 than in the previous financial year, mirroring the UK-wide trend.

Source: ONS

Inward investment

3.47 Property related regeneration in the North has clearly experienced a very difficult period. However, data on foreign direct investment (FDI) offer grounds for optimism. They show that the North as a whole performed better than the UK in terms of jobs created and safeguarded by FDI projects during 2008-9 as compared with the previous financial year. In terms of numbers of projects the North and all three Northern regions attracted more inward investment projects during 2008-9 than in the previous financial year, mirroring the UK-wide trend.
What differences within the North?

3.48 The evidence we have presented so far has discussed the regional picture. However, there are significant variations within – as well as between – regions. The experience and reactions are varied. The Core Cities have found the recession so far not as bad as they feared. But many of the smaller places outside the Core Cities have found it worse than they had feared a year ago. A recent survey of nine Government Offices by CLG underlined that the downturn has had different impacts in different places but is likely to reinforce, rather than transform, England’s economic geography. There are particularly vulnerable places in all English regions, North and South and in Wales. But the regional analysis for the North underlines the sheer breadth of impact – with the list of particularly ‘vulnerable’ places including key segments of city-regions, freestanding towns, old industrial centres and a major seaside resort. Each of these places has its own particular combination of risk and vulnerability factors. The impact of the recession on the North is not a problem solely for the city-regions or just for the region’s old industrial towns. They are all affected.
### Table 3.1: Vulnerable Places in the North identified by the Government Offices

<table>
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<tr>
<th>Region</th>
<th>Details</th>
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| Yorkshire & Humberside                | - **Sheffield City Region**: with Rotherham’s manufacturing sector seeing major job losses including at Corus and Burberry.  
- **Kingston-upon Hull**: vulnerable to job losses in low skill industrial sectors, with high unemployment and a weak economy.  
- **North Lincolnshire & North East Lincolnshire**: in particular Scunthorpe with high numbers of job losses at Corus and in food processing and petrochemical sectors.  
- **Leeds City Region**: risks of job losses in financial services sector (with Leeds Financial Services Initiative suggesting impacts will be felt most in 2009/10). |
| North East                            | - **Middlesbrough and Redcar and Cleveland**: unemployment levels continuing to rise, and impact of potential job losses at Corus Steelworks a challenge.  
- **Easington**: increasing unemployment, in particular long-term unemployment, with predictions of these high levels continuing.  
- **Durham County**: increasing unemployment, reduction in vacancies and increasing long-term unemployment.  
- **Sunderland and parts of the Tees Valley Coastal arc**: increasing unemployment and vulnerable to potential large-scale job losses. |
| North West                            | - **Parts of the Northern Arc of Greater Manchester**: high rates of long-term unemployment but optimistic employment recovery forecasts.  
- **Greater Merseyside**: high increases in unemployment (including long-term unemployment) and high rates of repossessions. Halton is a particular area which scores very high across a range of indicators.  
- All parts of **Pennine Lancashire**: high long-term and youth unemployment.  
- **Blackpool**: so far performed relatively well but facing long-term decline and has deeply ingrained deprivation. |

Source: CLG

**A finer breakdown**

3.49 We have broken down the North into local authority areas in the three regions to see in more detail which places have been most affected by the recession and crunch. The essential point is that the impact is not confined to a few. It affects the many. But it also affects some places and therefore some people more than others, presenting significant risks. The Core Cities have done better than many of the smaller towns.
3.50 Figure 3.45 shows changes in unemployment between 2007 and 2009. Most areas have had significant increases. But Hartlepool and Middlesbrough in the North East, Rochdale and Halton in the North West and Hull, Rotherham and North East Lincolnshire in Yorkshire and Humberside have been most badly affected.

3.51 There is particular concern about the impact of recession upon young people. Figure 3.46 shows the pattern of increasing youth unemployment. Again, everywhere is affected. But Redcar & Cleveland, Stockton-on-Tees and Hartlepool in the North East, Wigan and Rochdale in the North West, and Rotherham, Barnsley and Doncaster in Yorkshire and Humberside stand out.

3.52 Figure 3.47 shows the pattern of mortgage possession claims in 2009. Knowsley and Burnley in the North West particularly stand out. But the problem is severe in many local authorities right across the North.
Fig. 3.45: % Point Increase in Unemployment by Local Authority & Region, 2007-09

Source: ONS
Figure 3.46: % Point Increase in Unemployment 18-24s, 2007-09

Source: ONS
3.53 Figure 3.48 shows the incidence of negative equity. The North East has been particularly badly affected, but there are clusters of places in all three regions which face big challenges.
Figure 3.48 Negative Equity Estimates % of Households, 2009

Source: CLG
This chapter has presented a wealth of data to show the extent of the credit crunch and recession nationally and their impact upon regeneration across the North. It is quite clear that the recession has deepened during the past year. In particular, the North has been more badly hit than the rest of England. In the North itself there is considerable variation. The Core Cities, because of the gains they made during the last decade, so far have not been as badly hit as many smaller, peripheral places and those dependent on single industries. Many of the latter have been hit very badly. Of course, there are places in all three regions across the North which have not been as badly affected. But the general picture is one of significant problems and future challenges. As we shall see in later chapters there are growing concerns, amongst private as well as public sector partners, that the places which have not been as badly hit so far will be at greater risk in future when the public sector resources that have sustained much regeneration during the past year could be significantly reduced.
Chapter 4: What’s been the impact in the North?

Introduction

4.1 The last chapter provided a wealth of quantitative evidence about the impact of the crunch and recession upon different sectors of the economy and regeneration industry in different areas of the North. This chapter shows what this has meant on the ground. It focuses upon different organisations and shows how it has affected them. It is based upon an e-survey of those involved in regeneration as well as a range of published material. Where the evidence was collected on a non-attributable basis, we have anonymised places and organisations. Where the evidence is in the public domain we identify them.

How difficult has the year been?

4.2 It has been difficult. For example, respondents told us:

- their position has got worse over the past year;
- reduced consumer confidence and a shortage of mortgage finance have had a big impact on regeneration;
- regeneration projects have struggled to attract end users;
- the downturn has impacted a much wider range of private-led projects;
- they are worried about a second dip to hit public sector and local authorities;
- there is increased pressure on council services and a downturn in council income; and
- the social and economic challenges resulting from the crunch have worsened with increased unemployment, deteriorating economic growth, pay levels squeezed and fewer job vacancies.

North West Housing Market Renewal Pathfinder (HMRP)

‘It has had a profound effect. There is a severe slow down if not actual halt. There is a slowing rate of new housing, both numbers and timescales, plus a reducing volume of people wishing or able to move within the housing market. There is greatly reduced business confidence with associated job losses, increasing unemployment and repossessions. Stalled delivery requires additional public sector support and substantial “de-risking” of sites to enable developers to proceed.’

Second North West HMRP

‘The lack of mortgages is blocking sales and leading to a lack of developer confidence. There is a slowing of new-build developments and sub-contractors are going into liquidation. There is an increase in maintenance costs where sites are mothballed. There has been a collapse in the market for apartments for sale. We have had to revise the business case for several sites. There has been a decline in employment and training opportunities and an increase in unemployment.’

Yorkshire Metropolitan Borough Council

‘Physical projects are proving harder to complete or get off the ground. Those completed are struggling to attract end-user tenants in some instances – especially in the town centre. There are some major job losses. Council income is way down on previous years and affecting budgets – especially in areas like planning, building development, architects. These services are under threat of job losses due to not balancing the books, which could lead to problems in the longer term and in any upturn as qualified staff will have left.’
Has the year been better or worse than people feared?

4.3 As we shall see in the next chapter, a number of the Core Cities have found the crisis not as bad as they had initially feared. However, that was not the case for many smaller towns. They have had a very bad year. As our initial report predicted, the crunch has hit marginal places, people and projects more than those closer to the mainstream. The gap is widening.

North West District Council

'It has been worse – there are no real signs of recovery as we had previously hoped.'

North West Metropolitan Borough Council

'Employment, job vacancies, economic growth, pay levels show that the last 12 months have been more damaging than the preceding 12 months. The impact has been greater than many policy makers suspected. Part of the problem is that local authorities are tied to Local Area Agreements in which one party to the agreement, Government, will not accept negative forecasts, despite what the experts say. Optimism is not a bad thing, but forced optimism is dangerous.'

Yorkshire Community Association

'It has been worse than expected and forecasted to last longer than expected. The second bump likely to hit the public sector/local authorities is a big worry.'

North East Community Partnership

'Worse than expected – there have been fewer contracts and funds available to support our work.'

Which projects have been affected most by the crunch?

4.4 The key messages are:

- housing projects have taken the biggest hit;
- apartment schemes have been the biggest casualty;
- banks are withdrawing finance from housing schemes, often part way through the development process;
- sites have been put on hold – due to credit restrictions;
- undeveloped sites have been mothballed until the market picks up again;
- projects which have financially weak developers have suffered. Many have walked away from sites;
- commercial sites have been vulnerable; and
- sites are in jeopardy where the anchor tenant has folded.

4.5 Registered Social Landlords have experienced a lack of credit from banks to fund their development programmes. The reduction in mortgages has significantly reduced the proportion of newly registered buyers and newly listed properties. Although the supply of loan finance has improved slowly during 2009, it remains at very low levels. The terms of lending have tightened, with reports of cautious valuations, lower loan-to-income ratios (despite lower interest rates) and higher deposit requirements. The number of loan products and the volume of loan finance...
available remains at historically very low levels. The lack of buyers has knock-on effects for housing associations’ budgets, with lower take-up of vacant sale properties reducing their borrowing ability. This also applies to private developers. Land purchased and negotiated for new-build development before the downturn was usually purchased at prices much higher than it is currently worth. And reduced sales volumes make the financial viability of development schemes increasingly difficult. Reduced market values have made schemes more difficult to deliver and even more so if there is an affordable housing provision requirement. As a result, developers are trying to renegotiate or stall developments.

4.6 This has led to reduced levels of new housing starts and completions, except where Government intervention has boosted output. However, the worry remains that this is only a short-term solution to a longer term problem. Government interventions to help developers with strategically important schemes have had an impact, but many doubt whether the level of assistance being provided can be sustained beyond the short term.

Yorkshire Community Association

‘We had five sites that we were in the process of developing. Since the credit crunch all interest in those sites has died. We needed the funds generated to further our good causes – we are now trying to break even.’

Second Yorkshire Community Association

‘We were in the process of building a new Enterprise Centre. Planning permission was granted last November. We had intended using a combination of public finance with a mortgage and income generated by developing some of our land. We are now looking at almost 100% public funding due to the credit crunch. Our undeveloped sites are now mothballed until the market improves – not a good option in a regeneration area.’

Yorkshire Development Trust

‘Our large flagship Innovation Centre is threatened. Although business enquiries are holding up, our anchor tenant has folded and conversion from enquiry to take-up of office space is poor. Empty property rates levies mean that property here is being given away, in some cases destroying the market.’

Very few projects have continued unaffected. But public sector-led and financed schemes – schools, universities, hospitals – have continued.

Have any sites and projects been unaffected?

4.7 Very few projects have continued unaffected. But public sector-led and financed schemes – schools, universities, hospitals – have continued. Development is continuing where gap funding for remediation work has been put in place and/or discounted land provided for the developer. Projects which are continuing unaffected have good public finance secured, strong leadership, and partners’ commitment to deliver.

What does the future look like?

4.8 Very few future schemes are predicted to be unaffected. There are fewer projects in the pipeline and these require greater public sector intervention to proceed. Those that are continuing are proceeding at a much slower pace and will be delayed. There are pressures to reduce quality amongst developers. Speculative developments have
been hit hard. There is little progress here. Most developers will not continue without pre-lets, which are proving very difficult to get in the current market.

Yorkshire Metropolitan Borough Council

'We have decided not to progress with a speculative office scheme in the town centre – the developer would not continue without pre-lets which was proving to be difficult. We are having to look now at potentially fewer projects, with greater public sector intervention.'

What has been the impact on local authorities?

4.9 All local authorities across the North have been affected, with stalled and abandoned developments, decreasing planning applications and falling housing start and completion rates becoming widespread over the last 12 to 18 months. While no local authorities have been immune from these effects, more peripheral towns and cities have been dealt the biggest blow, while there is evidence of key development sites continuing within the Northern Core Cities. The tendency amongst developers increasingly to hedge their bets and focus their efforts on less risky developments within stronger economies has been crucial. We illustrate the experience of a number of different types of local authorities.

North West Metropolitan Borough Council

4.10 The response by this town to our survey graphically illustrated the challenges facing smaller and medium-sized towns on the edge of the more successful Core Cities. This town has a reputation for innovative economic development and had had a decent decade before the crunch. But it has been very badly hit. The credit crunch and recession have massively reduced occupier demand for commercial property, and the impact on residential sales and residential development has been the most damaging since the late 1970s. The reluctance of banks to lend to SMEs is a particular feature of the recession and shows no sign of improvement. The usual funders have no appetite for the development of commercial property.

4.11 New housing projects have been all but abandoned. Sales of residential land are a thing of the past. The terms upon which bank funding for new schemes link payments to disposal of individual plots is not attractive to those with land holdings. The town has lost numerous residential land deals and there is no prospect of the market improving before the end of the financial year.

4.12 The market for commercial property is also dead. The town has lost disposals to developers who have planning consent. They have walked away from the scheme despite having invested considerable sums in feasibility work and planning applications. But they could not secure bank funding for the development even if they wished to proceed. Indeed, the whole development appraisal has changed making development in more marginal locations even more risky than at any time in the last 10 years. The RDA will not be able to fill the development gap with gap funding. So there will not be a quick return to commercial property development in all but prime locations.

4.13 No proposed projects have continued as planned. All have been at least delayed and phased more slowly. Almost without exception, residential developers are claiming that financial conditions mean they are unable to provide affordable housing and are requesting renegotiation of planning Section 106 agreements and conditions.
How has it been for the Core Cities?

4.14 One of the threads of this report is that the Core Cities which had a very good decade until 2007 have managed to weather the storm better than some of the smaller, peripheral or less economically diverse towns. “Hard but not disastrous” was essentially a Core City response. Nevertheless, all of them have been affected by the crunch and recession. We next describe the key features of their experience during the past year.

Newcastle

4.15 The pace of regeneration has slowed. Falling house prices, added to restricted or withdrawn access to affordable development finance, has meant that many developers have been reluctant to speculate on new schemes or phases of existing projects, where they would be seeking homes for sale. Reduced access to mortgage finance for homeowners has compounded that problem.

4.16 The number of homes completed in the last six months of 2008 was only two-thirds the number completed in the first six months of the previous year. The number of new homes started on site has been affected even more seriously.

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<tr>
<th>Table 4.1: Slowdown in House Building</th>
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<tr>
<td>Period</td>
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<td>Jan-June 2007</td>
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<td>July-Dec 2007</td>
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<td>Jan-June 2008</td>
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<td>July-Dec 2008</td>
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4.17 Overall numbers of planning applications have also fallen over the last year. Applications by households and smaller commercial schemes have also reduced. However, major applications have increased slightly.

<table>
<thead>
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<th>Table 4.2: Falling Planning Applications</th>
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<tr>
<td>Type of Development</td>
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<td>Major</td>
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<td>Minor</td>
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<td>Household</td>
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4.18 The Council has been attempting to combat the crunch with a combination of ‘direct actions’ and additional ‘fiscal stimulus’ measures. Direct actions have included:

- Strategic acquisition of sites. The Council has taken advantage of reduced commercial property prices, and the Council’s access to relatively low cost loan finance, to purchase the Tower at the Regent Centre in Gosforth. It is to be let to the green support services company, eaga plc, the UK’s leading provider of residential energy efficiency solutions.
- An investment fund of £25m has been agreed in principle by the Council to purchase further strategic sites to facilitate future regeneration projects.
- The Council has secured £14.1m of Single Programme funding for use on economic regeneration projects over the next two years – this will include funding to support the developing cluster of off-shore and environmental technology industries.
Newcastle Science City Partnership (Council, University, 1NE) is aiming to ensure that the city benefits economically from the development of science. Working with partners it intends to press ahead with investment in infrastructure and the first phase of building at a cost of up to £23m. The Council is bidding to the Treasury for this site to be part of an ADZ pilot to help pay for infrastructure costs, where the Council could borrow money to fund infrastructure and repay the loan through increased business rates that would follow in future years.

In addition to these direct actions to support the economy, the Council is providing a fiscal stimulus by maintaining its £280m capital programme and by boosting spending by over £37m on infrastructure and regeneration projects in the next three years. It has tried to maintain momentum in current regeneration schemes. In some cases, it has reviewed the tenure balance of specific sites to frontload schemes over the next two years with an acceptable level of social rented homes which can draw down additional National Affordable Housing Programme grants, without undermining the long-term commitment to sustainable communities. It is working with developers to help their cash flow on strategic sites that will have a number of phases over the coming years. This might include a deferred capital receipt where the Council owns the site, or applying additional public funding that could be repaid at a later date as the housing market picks up and sales values increase. It has placed more emphasis on specialist housing to meet specific local needs. These are not affected by fluctuations in the housing market and can draw considerable amounts of external funding. It is exploring options for ‘rent now buy later’ homes that would allow the houses to be built immediately and rented out until the housing market picks up and the occupier can either access mortgage funds or have saved up a sufficient deposit. It is investing in site remediation, preparation and infrastructure so sites are ready for the upturn when it comes. The Council has accepted reduced capital receipts for housing sites to reflect the reduced sales values.

Liverpool

Liverpool continues to feel the impact of this recession, largely through increasing unemployment, lower levels of development and a suppressed housing market. In some areas, the city has performed relatively well, experiencing lower increases in Jobseeker’s Allowance (JSA) claimants and a higher level of people leaving the JSA register than other areas. However, absolute levels of unemployment are extremely high and reductions in the employment rate are less positive. Business insolvencies in Liverpool showed a year-on-year increase of 25% in the first quarter of 2009 compared to 2008, although this does compare favourably to the national average of 36%.

Business confidence, as measured through the Chamber of Commerce quarterly survey, is fragile. But it indicates improvements in business confidence and some improvements in cash flow during July to September 2009. Anecdotal reports suggest that, whilst the effects of the downturn are still being felt, there are also signs that a number of businesses are successfully winning new contracts and many are reporting new optimism and expanding markets.

Development schemes which have been brought forward with public sector support, as well as major private schemes which were well advanced, have progressed well. But schemes which were not so advanced have been slowing down, or have stopped completely. A number of high profile development opportunities have been under review and it is unclear whether they will ever happen, or whether developers will revise their plans for certain schemes. There has been a significant
slowdown in the rate of new development across the city. Developers have become extremely cautious about progressing developments in vulnerable market areas and are slowing down and, in some cases, stopping or postponing development. Developers have become more risk averse over the last year about the type of residential units they build and the locations where they build. There has been a marked downturn in the number of major planning applications. The number of major planning applications is down by 23% compared with 2008 and 56% compared with 2007. Planning fees are now 45% lower than in 2007.

4.23 The housing market has been badly affected. House sales and house prices have fallen and there have been increases in the number of empty properties in more vulnerable neighbourhoods. House sales fell by 53% over the period September 2007-September 2008. They have fallen at a slower rate than in all other CoreCities, while nationally sales have fallen by over 67%. Liverpool has had a smaller decrease in the volume of house sales than the regional and sub-regional average. It is also lower than some of the major cities with the exception of Bristol, Leeds and Nottingham. However, the volume of sales is at the lowest level since the start of the credit crunch. House prices in Liverpool fell between January 2008 and August 2009 by 17.8%; slightly higher than the regional average of 16.6% and the national average of 15.4% but in line with the major cities.

4.24 Despite these difficulties there are a long list of private and public sector developments which are continuing, including: Mann Island, the extension of the Leeds Liverpool canal; the new Museum of Liverpool and the Mersey Ferry Terminal; Kings Dock Mill; Baltic Triangle; the Hilton hotel; Building Schools for the Future; Housing Market Renewal Initiative; the Central Library; and two hospitals are being rebuilt.

4.25 The Council has adapted a variety of initiatives to help businesses and people cope with recession. The Economic Development Company (EDC), Liverpool Vision, is running a programme to help small businesses to understand more clearly their exposure to the economic conditions, and to put in place sound business planning. For larger businesses, or those with more complex problems faced as a result of the recession, a pilot scheme is offering more intense support from business turnaround specialists. Liverpool Vision has recently been working with the City Council to develop a new initiative designed to strengthen the Council’s service to business.

4.26 The Council and EDC are attempting to keep potential developments moving offering a variety of help to developers including:

- Project Jennifer – helping the developer to revise plans and add value, and applying available budgets to keep site assembly going.
- Festival Gardens – supporting a bid for funding to deliver the gardens.
- Great George Street – supporting efforts to bring forward 10 social housing units.
- Ropewalks – commissioning a marketing and promotion strategy to support local businesses and landowners.
- Edge Lane – helping the developer to promote the scheme to potential tenants.

4.27 As the private sector continues to struggle to raise finance to fund development schemes, major public sector-funded programmes such as Building Schools for the Future (BSF) will take on increased importance in the local economy and may also be able to move more quickly. BSF and Primary Capital Programme (PCP) combined are linked to substantial local labour employment and training programmes.
Although Manchester has been hit hard by the recession, it has not been affected as badly as many feared initially. Some thought that the size of the city’s financial services sector and the volume of development in the pipeline or on the books would leave the city vulnerable. It has in fact fared better than many other Northern towns and cities. Although the city and wider conurbation have suffered major job losses, unemployment between July 2008 and 2009 increased by 53% which was much lower than in Greater Manchester (73%), the North West (70%) and the UK (81%). This is probably because the city’s recent renaissance, strong record of public-private sector partnership and the diversification of its economy have left it in a better position to cope than in previous recessions. Spending on health and education projects has also remained high which has protected the city against job losses.

But development activity has slowed down as the recession has deepened. Nineteen developments were started in 2008 compared with 32 in 2007. There are indications that the figure in 2009 might be lower still. Residential developers have been worst affected. Because of the low number of starts, completions are expected to fall from a peak figure of 2,500 units this year to less than 300 next. In the office market, speculative developments have been put on hold. Take up is much lower in 2009 than in 2007 and 2008. However, those were record years and lettings continue, particularly in Spinningfields, the new office district. The volume of new commercial development and refurbishment in recent years means that there is still a lot of good office space available for when the upturn comes. Emphasis has switched to refurbishment recently within the hotel sector. The retailing sector has been largely unaffected because there are no major developments in the pipeline.

What is the local authority doing about it?

The City Council and its partners have tried to respond to the recession by keeping to their priorities of improving training and skills provision and transforming deprived neighbourhoods, while at the same time limiting the negative impacts of the recession on local businesses and residents by providing advice and support initiatives. In terms of regeneration, the City Council has:

- stuck to its key regeneration principles such as quality of design, introducing a greater mix of tenures and choice of housing types, and creating local hubs which incorporate improved educational, health and retail facilities;
- reviewed its investment options and plans by regularly monitoring market trends and impact;
- worked with developers and the HCA to secure Kickstart funding to stimulate new-build housing on stalled residential sites;
- applied for National Affordable Housing Programme funds to build new council housing;
- explored ways of securing equity funding for the acquisition of distressed stock;
- tried to prepare for the upturn by maintaining the momentum in regeneration areas such as Ancoats, New Islington, Victoria Station area and the Oxford Road Corridor, including site acquisition and preparation, masterplanning and improving infrastructure; and
- expressed interest to Government in piloting Accelerated Development Zones.
Leeds

4.31 Leeds faces many of the challenges experienced by other Northern core cities, including:

- increasing unemployment and decreasing growth in the city; unemployment rose by 89% and vacancies fell by 44% between June 2008 and 2009
- a slowing housing market, both in terms of new builds and house sales
- stalling regeneration projects as major city centre developments are put on hold; and
- fewer development projects in the pipeline.

4.32 Investment and development have largely ground to a halt, although most commercial schemes on site have been completed. Some residential schemes under construction have halted. A limited number of commercial and mixed use developments have been completed. Public sector schemes that were well on have continued, but there have been fewer new schemes being brought forward. Activity has been reduced by up to 75% in most sectors. There have been fewer planning applications submitted and those that were being submitted were subject to delays as developers attempted to renegotiate on Section 106 agreements. Total planning decisions have reduced by over 30% in Leeds over the past 12 months, despite decisions increasing by approximately 20% over the first two quarters of 2009.

Table 4.3: Total Planning Decisions 08-09

<table>
<thead>
<tr>
<th>Area</th>
<th>Q1 2008</th>
<th>Q2 2008</th>
<th>Q3 2008</th>
<th>Q4 2008</th>
<th>Q1 2009</th>
<th>Q2 2009</th>
<th>Annual Change (%)</th>
<th>Quarterly Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leeds</td>
<td>1629</td>
<td>1657</td>
<td>1450</td>
<td>1158</td>
<td>924</td>
<td>1101</td>
<td>-33.6%</td>
<td>+19.2%</td>
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Source: Leeds City Region Economic Bulletin: CLG Planning Statistics

4.33 Construction activity has continued to fall since 2008. All of the new starts for 2009 are non-commercial with all but one being developed at Leeds University. The only other new start is the Northern Ballet and Phoenix Dance Theatre development that was made possible by a substantial amount of public sector funding. Several prime office developments were completed at the end of 2008. But weak demand has resulted in low take-up levels and increasing vacancy rates. Currently more than 80% of the new space completed in 2008 and 2009 is still available as occupiers have decided to delay relocation plans until the economy improves. In turn, developers have delayed the start of construction on a number of projects, most seeking to secure pre-lets before starting on-site. A total of 286,750 sq ft of new office space has been delivered so far in 2009, with only 10,000 sq ft still due to be completed. This constitutes a drop of 34% year-on-year and 40% less than the 2007 supply. At present, no developments are scheduled to complete in 2010 and beyond, although several schemes have received planning permission and are ready to start construction once market conditions improve.
The residential sector has been the worst affected sector in Leeds as supply levels have dropped 60% year-on-year. No new starts have been recorded and several residential schemes have been put on hold. Retail and leisure have been hit. There is one retail scheme currently on site. Several other retail developments are in the pipeline but are currently on hold. Trinity Leeds – a joint venture between Land Securities and Caddick Developments – is currently delayed by 12 months. Another joint venture development is Eastgage Quarters by Hammerson Plc and Town Centre Securities, a mixed use scheme anchored by John Lewis and Marks and Spencer which was due to start in 2009 but has been put on hold. All of the new starts recorded in 2009 have a link to the education sector. Six of the seven new starts under construction are at the main campus of the University of Leeds. House prices fell by 15% until mid-2009, just below the national figure. The average monthly volume of sales fell by 50% in the year until mid-2009, but again this was better than the 60% reduction in the region and nationally. Retail property rents have fallen by 16% over the year to March 2009 and demand for office space is predicted to fall by 25% in 2009. Demand for larger retail units is holding up. But demand is declining for smaller retail units and the vacancy rate in Leeds is around 10% compared with 12% nationally.

Leeds City Council (LCC) has used its own financial resources and some new external funding sources to maintain momentum within a small number of its flagship regeneration sites.

More generally, it is developing a new shared Agenda for Improved Economic Performance. It is acting as honest broker between funders, developers and any other relevant organisations. It has continued marketing and promotion. It is sharing information and intelligence with partners – both public and private sectors. It is emphasising the Leeds City Region agenda. It is considering different use of LCC assets, particularly at a time when there is little demand. But the difficult state of public finances may not help partners to use their assets more creatively.

The recession has reduced the revenues the Council receives from a number of sources while, simultaneously, increasing demand for many of its services. This has affected the financial position of the Council, its capacity to meet its existing improvement priorities for Leeds and increased demand for many of its services. Accessing additional funding where possible and reconfiguring its services is enabling it to meet increased demand in the short term and to continue to deliver many of its priorities. In the longer term, however, the consequences of the recession and central Government’s reaction to it will require the local authority and public bodies to work very differently to deliver more with less.

Sheffield

Like other Northern cities, Sheffield had rises in unemployment, increased take-up of a range of benefits, and falls in housing prices and sales volumes. However, there has been a slight upturn in the latter recently and signs of business confidence returning. The city has not suffered as badly as it did during the 1979-84 recession. It has proved more resilient than other Yorkshire cities and occupies a mid-range position on a basket of economic indicators when compared to other Core Cities. This is due mainly to a mixture of economic diversification, better public/private/voluntary sector joint working, civic leadership and a considerable injection of Government and EU funding. Sheffield is now relatively strong in advanced manufacturing, nuclear-related industries,
biomedicine and healthcare, creative and digital industries, sport science and technology. Despite a marked reduction in the number of inward investment enquiries, the city has continued to attract a significant amount of new investment during 2008/9.

4.39 In terms of regeneration, the rapid contraction in development finance has made it difficult for developers to complete schemes underway and most planned developments have either stopped or been delayed. There is no longer an appetite for new residential apartments, speculative office or industrial schemes without a pre-let and guarantees. Hotel schemes have been put on hold, with the exception of budget accommodation. Mixed use developments in which more lucrative elements, like residential, office and retail, cross-subsidised other uses – affordable housing, managed workspace – are no longer possible.

4.40 The City Council and its partners have succeeded in keeping going some elements of Sevenstone and The Moor retail-led developments, the Digital Campus and the Park Hill Flats residential refurbishment project. Elsewhere in the city centre, office, hotel and leisure schemes have stopped. This is either because the developer has gone into liquidation, a lack of development finance, the lack of pre-lets and empty property rates or the need for flood protection works. Food retail schemes and publicly-funded public realm works have done better and continue to be planned and implemented.

How has Sheffield responded?

4.41 The City Council and its partners have responded to the downturn in two main ways. They have stuck to their task of developing a robust economy by promoting business investment and innovation, developing physical infrastructure, improving marketing, creating a one-stop business support service and improving skills supply. They have also developed a recession action plan to alleviate its impact on businesses and residents. Its main measures comprise the supply of intelligence, advice and support to the vulnerable via publications and a continually updated website, a redundancy support package, additional job opportunities for young people, faster payments to suppliers, a ‘buy local’ initiative and promotion of small business rate relief.

4.42 In terms of regeneration, the Council has pursued a three-pronged strategy. It has:

- kept projects alive wherever possible to maintain confidence and momentum;
- re-shaped projects to suit current market conditions; and
- tried to position the city to take advantage of the upturn by preparing strategies, projects and carrying out facilitative activities such as land acquisition.

The balance sheet

4.43 This chapter has shown that the credit crunch and recession have hit places right across the North and across all sectors public, private and community. The year has been worse than they feared for many – if a bit less so for the Core Cities so far. Housing has been most badly affected. But all projects have been affected and few are expected to be immune in the coming year. The community sector is taking a big hit. Local authorities are being squeezed. We turn in the next chapter to see how this has affected the mood of the regeneration partners in the North.
Chapter 5: What’s the mood in the North?

5.1 So far we have looked at the way in which the big trends have affected places and regeneration projects and organisations in the North. We next want to see what this has all meant for the people involved on the ground. This chapter tries to catch the mood of key players. In some ways in the development business, attitudes matter as much as ‘facts’. So how was it for them? Has the past year been worse or better than they had hoped or feared? What are their hopes and fears for the future? We report the views and experiences of a wide range of partners – local authority officers and politicians, Regional Development Agencies (RDAs), Housing Market Renewal Pathfinders (HMRPs), Urban Regeneration Companies (URCs), and national and regional developers. Because we collected our evidence on a confidential basis we do not name individuals or places. But they are representative, not minority, views and provide a fair reflection of opinion. And they are drawn from places right across the North: West to East, big and small, more successful and less successful.

5.2 The views are not homogeneous because their experience is not homogeneous. However, there is considerable consensus on the big issues. It has been difficult so far – although not disastrous for everyone or everywhere. The North has been affected more than other places. The pressures on everyone are growing. The private sector is still risk averse, even if it is looking for some easy wins in good places. The banks are still reluctant to lend for regeneration. The threat of future public sector cuts is hanging over everyone – places, people and projects. And, despite the fact that so far things have not been as bad as peoples’ initial worst fear, the mood of pessimism is growing. There are genuine concerns that, as parts of the region are at the beginning of the end of the private sector development recession, it is about to enter an even greater public sector recession. And these are not simply public sector voices protecting their turf and jobs. The private sector – investors, developers, volume house builders, Chambers of Commerce – is equally concerned about the risks. It is concerned that the public sector will not be able in future to sustain the investment it has made in the past year which would allow the private sector to get back into business when private finance does become available.

The Core City Leaders’ Tale

5.3 We talked to three Core City leaders in the North who had had mixed performances during the past decade. Their experiences were different in detail. But they were remarkably similar in terms of the big picture.

First Core City Leader’s tale

‘It’s been hard – but not disastrous’

5.4 We talked to a leader of a major Core City which had done well during the past decade. In his view, although things were difficult, the city had not had as bad a year as he had feared.

‘The city has not done as bad as the nation. It is not as bad as other big cities. Unemployment has gone up 58% not 70%. It does not feel as bad as the 80s. They were horrendous for our city. There is not a recession feel about the place.’
5.5 But the crunch had hit different sectors in different ways.

‘Construction has had a bad time. Retail has not been hit as badly as we thought. Major store groups say they are having a decent time. A lot of housing is being finished. Volume house builders are starting to get on site again. It is coming back. We have revised planning applications coming in with fewer apartments and more houses. We expect to start building in modest numbers – outside Kickstart, council housing, and NAHP (National Affordable Housing Programme). Proper commercial housing is starting again.

5.6 Repossessions had been lower than expected but, ironically, were expected to increase when the market goes up.

‘At the moment the banks are not taking homes back when they can’t sell. But when they can they will. Homelessness is not that bad. We have advice workers trying to avoid court repossessions. Rented markets are pretty buoyant. There is a 10% void rate.’

5.7 The city centre, which had seen much development, has been affected.

‘Except where the local authority has been able to help, things are tricky. For example, a major developer had a blue chip client but a financial gap – so we bridged the gap. There are a few signs of planning applications returning. But they want pre-lets – so it isn’t enormous. Hospitality is not doing well. Bars are struggling. Hotels are down only a couple percent even with new capacity. But room rates are down.’

5.8 The local authority was making a substantial contribution to activity.

‘We are investing £700m in schools, employing several thousand people. There is serious investment in public transport. We are doing basic infrastructure investment.’

5.9 So far unemployment had not been unmanageable.

‘The position on employment could be worse. The number of job ads is increasing. Notified vacancies are going up month by month. Redundancies have been relatively small.’

What’s next? Public sector cuts

5.10 However, despite the fact that things had not been as tough as feared so far, his fear was that the future would be different.

‘It is better than I feared 12 months ago. But my real concern is whether the private sector can keep the place going when the public sector is cut. Our city, like most others, has a big public sector – the local authority, health, Jobcentre Plus. It has not been growing but it is still a big bit of our economy. And it will be hit very badly by cuts.’
What about new fiscal tools?

5.11 This leader’s view reflects those of many who have been involved in running cities for a long time – we should take a look but be realistic.

‘We should explore but must be wary of Tax Increment Financing. It is not a silver bullet and there is an element of risk. There are as many examples of failure as success. But it does allow local government to take the risk. So we should be looking at those kinds of models. But we must test on a big scale. Otherwise we should use prudential borrowing. The key thing is for local authorities to keep locally generated taxes.’

What will the model look like?

5.12 Now that the immediate crisis and panic has passed there are different views about how robust the original model was and how much of it could be sustained.

‘Developers will come back but not in the same way. They have been borrowing. In future, there will have to be equity. The financial models will be different. We will not see the same scale. There will not be 100% loans. There may be different players. There will not be the Irish banks. We might see rather more pension fund and investment companies’ long-term income especially where stocks and shares are down. But the volume house builders will go back to doing what they have always done.’

What is the ask of Government?

5.13 The crunch and recession had underlined four big things that regeneration and cities needed from Government – on skills, public sector intervention, infrastructure and governance.

Skills

‘We know the economy is about people, knowledge and skills and requires investment all the way through education and the skills system. We have got to continue working to get people off incapacity benefit and income support. But Draconian measures will push people into crime.’

More than markets

‘Neighbourhoods of choice will not be delivered by markets alone. However it is managed, we will need Government support.’

Infrastructure

‘We risk a creaking national infrastructure – especially railways. The Government needs to think about the longer term and maintain investment in heavy infrastructure. If it doesn’t, it will undermine recovery now and create problems in 2020. There is a huge risk that north of London will be even more marginalised in Europe.’
Governance

‘If we keep the current architecture, the RDAs should become slim strategic economic development partners regulating plans and ensuring local leaders deliver. If RDAs are abandoned, local authorities will not be able to deliver the major projects. We need to divide the whole country into viable economic units in sub-regions. City-regional government must be the right way forward.’

Second Core City Leader’s tale

5.14 We report the views of a Core City leader whose city has had a slightly different recent trajectory from the first.

How has it been?

‘Many people thought we were very exposed. But initially that was not true. We had had less development so there was not so far to fall back. We never had the ‘buy-to-let’ housing bubble and so we have not taken the critical tumble that other places have.’

How bad will it get?

‘It is changing. Up to a year ago, I was sure this was primarily a white collar industry recession, I knew there would be an impact on property markets but thought it would not be so bad for those in lower skilled jobs. Part of my optimism was based on the public sector. But that is disappearing. Twelve local authorities in my region have a capital spend of £1.2 billion – never mind the rest of the public sector. That could be halved. There is bound to be a big rise in unemployment for manual workers after public sector cuts 2011-14.’

Can the private sector pick up the shortfall?

‘No – not at the moment as the banks won’t lend. Investment will go down and unemployment will go up.’

What are you doing about it?

‘We are making a big effort to do renewable low carbon to compensate for the cuts in manual construction jobs that are inevitable. But it is a race against time. We are doing all we can. We are lending money to firms. We are underpinning market scheme mortgages. We are guaranteeing mortgages.’

Would new fiscal tools help?

‘We are very positive about Accelerated Development Zones (ADZs). We want the Treasury to respond on this. But Treasury do not trust us to deliver. However, the Government is not at risk on this. They must trust us more and let us do things and take the calculated risk. It is part of a grown-up relationship with the centre. Otherwise we can only sit on our hands asking for Government handouts.’
Third Core City Leader’s tale

5.15 The mood in the city was better than expected. The city has been one of the drivers of the North’s renaissance over the past decade. That achievement is reflected in the qualified optimism of the leader.

‘It’s not been as bad as perhaps as I feared. I don’t get the despair of the 80s. I feared crime would double with young people losing jobs. I feared a nightmare. Many are still in work but there is a lot of pain. We have lost some big development schemes and some are on hold. Planning income is down and we have lost some planners. But it is bottoming out. Some developers are coming back to us. But we are lucky. I would hate to be a one-horse town.’

But the prospects were worrying

‘I am worried about the public sector. The public sector recession has yet to hit us. Like many others we have plans to retrench next year. We are expecting next year and the year after to be extremely difficult. And it will be very difficult to keep the show on the road after that.’

The RDA Chief Executives’ Tale

5.16 We report the views of the Chief Executives of the three Northern RDAs. Again there are differences in detail because the regions face different circumstances. But there are large parallels in their performance and prospects. Again many of the themes are reprised – the fact that the private sector recession was ending at the point when the public sector recession might begin. There is also a wider concern about the loss of political support for regeneration in the North. And there is a plea not for too complex financial mechanisms but a more creative use of existing public assets in a major Northern Investment Bank.

First RDA Chief Executive

How has it been?

‘The wider economy has been a nightmare for our region. It is as tough as we have encountered – with job losses and pressure on companies. Places with more diverse economies have not been hit as bad. But some single industry places have been hit very hard. Six months ago we felt the world was crashing down around us. It has subsided and we have weathered the storm – partly because of our work with those companies. It was bad but we have hit the bottom and are coming out.’

Regeneration has already been badly hit

‘Construction and regeneration have been the hardest hit of any single sector. I don’t see an end for a very long time. There is a public sector squeeze. There is a black hole in regeneration. Unless something radical is done we are destined for five years of piecemeal and very small development.’

A perfect financial storm

‘The basic model of the uplift in value in residential and commercial has gone. It is almost a perfect storm. Finance has dried up. Banks and investors have red-lined..."
certain sectors. The top team in a bank recently told me that investment in new retail development in the North will have to be cast iron and probably won’t happen.’

Fiscal tools

5.17 Given this, the region needed to seriously explore new ways of generating cash for regeneration in the region.

‘We have no long-term investment model. We need to be much more creative. ADZs are all right but they do rely on growth and increased business rates. We need to look more at assets within local authorities. We need a pooled fund into which we can put lots of local authorities’ pensions’ funds and attract long-term private sector investment. We need to look more at local authority bonds. And simply we need a Northern Investment Bank.’

What’s the future risk?

5.18 The Chief Executive was rather pessimistic about the future of regeneration.

‘There is massive danger in the next phase. We could revert to social, environmental and physical silos. All good innovative things such as place making are being seen as non-core. It is going to get much worse up here. In London people see good things happening. They do not see how bad it is up here.’

Second RDA Chief Executive

5.19 This interviewee confirmed that the region had not done as badly as initially feared – or as badly as in previous recessions.

‘The recession is the worst since the 1930s. But it is a banking recession. The region is far more resilient than during the last two recessions. Last time the structural changes and recession made it worse. Then unemployment was over 200,000; now it is nearer 85,000. Steel, chemicals, banking and cars have taken big hits. But we are close to bottom. But it does feel fragile. The banking system is not changing. But the wider economy has not been too awful. It’s been tough but we’ve all worked hard. It’s not finished yet. But we’ve done better than previously.’

5.20 However, despite the qualified optimism of the wider economic scene, construction and development have been badly hit.

‘The construction sector has been slashed. Getting the private sector to invest is terribly difficult. End users will not sign up. People are staying where they are. Developers can’t get money even if they had schemes. And there is the ticking time bomb of public sector capital budgets.’

5.21 In his view the public sector was doing everything possible to keep development going. The RDA, Homes & Communities Agency (HCA) and local authorities were working together strategically and being flexible, asking for lower prices, postponing payments, providing guarantees, putting in land free, taking short-term hits for longer term gains.
Some of these things have worked. It has involved lot of effort, sweat and toil. A lot of schemes have been stalled. There has been a lot of debate about quality. We will get cowboys wanting to do crap. It’s absolutely crucial to retain quality.

He had the same story on the banks.

“We are doing lots of brokering between banks and developers. But they are talking past each other. The banks have obviously got loads of stuff which is reducing in value all the time. They are being very conservative.”

There are similar views on new financial mechanisms.

“We think JEREMIE and JESSICA will be helpful to the regions. And we think there is something in ADZs. It will work better in key locations like city centres. It will not work outside in smaller places where there is not the same appetite or potential and too much market failure. But we should give it a go and try it in some places and see if it works.”

Third RDA Chief Executive

Another RDA Chief Executive emphasised the things they were doing to keep the show on the road.

“We can get key big schemes done. We have supported two huge schemes in the region which were at risk. But we have to choose. We are directing resources to projects which will make a difference and need support to make happen. We have got to be realistic about how we pull opportunities together. Projects which need 100% funding we can’t touch.”

But he knew their capacity to continue doing so in the future was limited.

“We have helped the private sector where deals are unravelling. We have a good strong memorandum with the HCA. We have got a JESSICA programme started. We will continue to support URCs in the region. The problem is money. HCA’s regeneration budget is small – determined by disposals. RDAs don’t have the money they had. We can’t get on with brownfield. This is a national policy issue. Where will the resources be for brownfield recovery? We must not shift to greenfield development and reopen the green belt argument.”

Again the same story emerged on banks. But it had an added regional dimension.

“The problem is institutional finance. Bankers can make 15% in the South. Why look at stuff in the North?”

What are the prospects?

The fact that the development model of the last decade was broken meant places had to behave differently in future. Places that were outside the main growth areas were at risk.

“The old development model with lots of developers and lots of credit, and lots of Scottish banks spending lots of money in lots of small towns has gone. I do not see
a return to that. Residential and retail are under duress. We must think about how to make some small towns more investment-ready. It is not just skills and demographics. We need to make them private sector attractive. But it is hard to see marginal locations attracting investment. One-horse towns and local authorities will need to understand retail and potential office markets.’

‘In the past developers had too much money. Now developers will only bite on schemes with guaranteed occupants, the site cleaned up, the risk taken out. Local authorities will have to think carefully about development. They can’t just red-line an area, get a masterplan done and then expect everything to fall into place. It will not work like that. They will have to try much harder.’

5.28 Whatever has happened so far, the prospects were gloomy.

‘Money will be much more difficult. We will have to prioritise. There is a risk that poorer places and people will be worse hit and the gap between places may increase. We must decide what do we want to do – competiveness or cohesion? But also the next Government must tell us what the priorities are between those two.’

5.29 There was also a wider policy point emerging from this discussion with implications for Government policy.

‘Government must recognise the argument – the North needs regeneration. It must understand this is not a Noddy economy. Both the main political parties really fail to understand the scale of the achievement and the opportunity in the region. They must be told there is opportunity as well as need. They must understand you can make money in this region. They must continue their investment.’

The Economic Development and Urban Regeneration Companies’ Tale

5.30 The Chief Executive of an EDC from a Core City painted a bleaker picture than some others. The impact of the crunch and recession on development in the city had been pretty devastating. For many years the city had needed public grants to deliver development. During the last five years it had got beyond that stage and could do development without public subsidy. But it had slipped back.

‘Now we can’t do anything without grant again. The occupier market is shot. City centre apartments are shot. Demand for commercial space is limited. The development market is desperate. Even with grant, people will not do speculative stuff. Outside the city centre, marginal places have been really hit. The developer and investor industry is looking how to avoid closure. It is desperate for more occupiers. Occupiers have lost confidence. They have to give huge incentives. Most but not all are avoiding dropping rents. But some are tempted out by really good deals.’

5.31 There are fears for the future.

‘The macroeconomic stuff and public finance are still the problem. I am not sure how much worse it will get. But it will be bad and is already bad. The Government has not helped. It has raided RDA agencies to keep house building going. But they didn’t spend it. Physical regeneration is now in deep trouble.’
5.32 His views of the Homes & Communities Agency reflect those of many in the field, in sorrow rather than anger.

‘HCA only has housing money. So there is no money for regeneration. It is saying brave things and it believes in doing more than residential. But actually it is only doing residential with NAHP.’

5.33 He confirmed that the continuing fiscal squeeze which started the problem remains the problem.

‘There is no new money in the market. The banks will not fund any new residential – that has had the biggest hit. Things will get worse with the banks. They are looking to improve the quality of their portfolios. They have got a lot of bad stuff but have not recognised how far their assets have fallen. They are frightened to take the hit on their investments. For example, my building is half full but the developer borrowed at the peak of the market. It has not filled as quickly as he had hoped. The capital value is much reduced with a significant loss of security for the bank.’

5.34 But he also confirmed the real fears about public sector money drying up.

‘There is no public money. Public sector costs are going up. At the same time the public sector tap is being turned off. The public sector has been keeping things going in the city during the last year – by supplying grant and providing end users. The RDA supported two hugely important developments in the city centre. But that won’t be possible in future. They don’t have the money. We can’t start big things any more. My company has an indicative allocation of £14m for next year from RDA. Most of that is already committed. Three years ago we had £40m from the RDA. We also had big European money. But that’s gone. The City Council will be really strapped. It will be a huge struggle to choose – will it use its assets to put more money in the revenue coffers, or will it use it to invest long term?’

New fiscal mechanisms

5.35 Again there is a plea for realism about new mechanisms.

‘ADZs are a bit of a mixed bag. You can’t make a silk purse out of a sow’s ear. If you have mechanisms which assume growth and there will not be much growth then you are kidding yourself. There has to be some free money somewhere to change the equation. Grant does that. It frees land. It gives tax holidays. It is free money. In addition to the fundamentals there are the practical problems with the Treasury and local authorities. The question of who bears the risk has not been worked out.’

Some grounds for optimism

5.36 It was important to remember that regeneration and development was not the only bit of the local economy.

‘There is quite a lot of outside investment taking place because of our low cost base. We are now on their radar. The visitor economy is strong. Big cultural institutions are doing well. Hotels are doing ok and better than previous years. The city does not have lots of big companies. It is not being disproportionately hit on the business front. But in the longer term it is still too dependent on the public sector – both in terms of grants and major institutions.’
The URC Chief Executive’s Tale

5.37 The EDC was in a large Core City. We compared it with the views of a URC on the other side of the country in a much smaller town. The story was similar.

‘Things have changed terribly in the last 12 months. I don’t know any developer bringing forward spec development. No one is lending. There is no money. We had a good developer and a good scheme. But the bank said if there was not a quality pre-let developer they wouldn’t do it. So we had to let it go.’

What must happen?

5.38 The crunch had underlined the need for flexibility and innovation by the public sector to make development happen.

“We had to persuade the Council not to compete with our scheme to get £180m investment. They did and stepped back from an alternative project. It means the local authority must take leadership. It has to do things it would not contemplate in the past. It must do what is necessary to get good development in. The public sector must understand private sector issues. It must not assume the private sector is ripping us off. It must drill down and ask developers – what issues are stopping you coming here?’

Another EDC Chief Executive’s Tale

5.39 We had a similar tale from a URC which had become an EDC outside a Core City. The shift in status had been helpful.

‘We are in pretty good shape. The shift from URC to EDC was helpful. It has allowed us to switch from a physical regeneration to a broader economic agenda. It was timely given the crunch and has helped us respond better. We don’t just do the sexy stuff. We put people into companies to help them.’

5.40 However, the development story was familiar.

‘It has been very tough with developers and investors. It is especially challenging with the future of HCA and RDAs uncertain. Pure development is down by 70%. We would have wanted to work on five or six big schemes. But we are only doing two or three. We have gone away from big ticket single developer. We break it up into smaller bits and do more intensive management stuff.’

The National Player’s Tale

5.41 So far we have focused on players primarily based in the North. The picture of prospects for regeneration and for the North was confirmed by a senior national figure.

How bad has it been?

‘We have seen a huge slowdown, if not a meltdown. The area of work which is absolutely fundamental to the North has juddered to a halt. The place making capacity part of this industry has gone off the cliff. It is a major challenge to Government. There is a fundamental difficulty in getting people to face long-term regeneration schemes in difficult areas and persuading boards to support them.’
What about financial innovation?

5.42 Again there is a welcome for the idea of exploring new financial mechanisms.

‘Government will have to constrain traditional expenditure. It would be sensible to see if the ADZ model does work. But we must be very realistic about where it will work and what it will deliver. Some Core Cities’ schemes were desirable but not deliverable. But there is real mileage in ADZs. The Treasury suspect them. But it could be a way for both Labour and Conservatives of maximising the effectiveness of public expenditure – not more for less.’

What needs to happen – less money less clutter?

5.43 This senior player underlined a point many have made: that the scarcity of public money meant that any Government would have to review the overly complex regeneration delivery system in future to see how it could be rationalised and made more efficient.

‘We need a much more strategic approach across place. We should work on a limited number of strategic issues – including growth and regeneration. We need to sweep away all existing programmes. There are too many different funds. There are too many bits of machinery in the same place. We must have a simplification agenda. And we must have bottom up place making which will give us more bangs for our buck. It should appeal to the localism agenda of both major parties.’

What does the future hold for regeneration?

5.44 He was equally concerned about the wider prospects for regeneration in the North in future.

‘For example, HCA’s profile is completely unbalanced. Its spend is entirely about housing numbers. This will shift investment from North to South. Volume builders will definitely go to the South. Kickstart schemes will be greater in the South East. There will be less investment for the North.’

What needs to happen?

‘We must reinject confidence and persuade political leadership to take a long-term view. We need to get the Treasury persuaded of the benefits of regeneration. Treasury say there is no genuine new economic benefit or it is simply displacement. There is an allegation that we lack reliable robust evidence about the impact of investment. In our guts we know it works in the long term. Look at Peel Holdings and Salford Quays over time. But it is difficult to demonstrate.’

The Private Sector’s Tale

The national niche developer

5.45 Such concerns are not confined to the public sector. For example, we got the views of a leading niche developer who is based in the North but has undertaken innovative, well regarded mixed use regeneration across the country and whose own business has been significantly affected by the recession and crunch.
What’s happened so far?

5.46 ‘It’s been awful. Two things have gone – confidence and liquidity. Liquidity has hit regeneration the worst. Purchasers for residential have all but disappeared. There is no money for mortgages. Valuations have been reduced. There is a lack of confidence in housing. Mortgage applications are down by 90%. Sales are down by 90%. Most regeneration was financed by debt. Now you can’t get it. The banks are pulling in debt.’

What are the prospects?

5.47 There is some good news but not for regeneration areas.

‘Lending is easing but only in prime locations with prime covenants. This might help established areas. But it will not help regeneration areas. Regeneration has stopped pretty much everywhere.’

5.48 There are some opportunities but banks are still risk averse and reluctant to lend.

‘There are some opportunities. There is spare capacity for building houses. There is increased demand for affordable housing. And the construction industry creates jobs in the UK – unlike the car industry. Values have stopped falling. There is some increase in liquidity. There is some mortgage lending from the publicly owned banks. But the irony is that if companies are in debt the banks will not hit them. But if they see they are becoming buoyant again the banks will hit them with punitive fees, and this includes the publicly owned banks.’

What next – quality versus action

5.49 The withdrawal of the private sector meant that the public sector must take the lead – but with quality products.

‘The public sector must be seen to be doing things that are worthwhile and have public benefit. The National Affordable Housing Programme (NAHP) is good, as is Kickstart. Rent to buy is good. But there is pressure to get the cash spent as quickly as possible. There is a tension between quality and getting things done before the next election. Kickstart must make sure it builds quality. All these things are short term. We need to develop much longer partnerships for regeneration.’

Firm leadership, decisive action

5.50 This developer shares a common concern that the uncertainty about the political future is causing the equivalent of planning blight as all partners are reluctant to commit to plans and programmes.

‘Any new administration must make decisions quickly. We must not have inaction. They must decide what streams of work they want to support.”
Fears for regeneration in the future

5.51 Like many in the development industry, this developer fears that regeneration is becoming marginalised.

‘I really rate the HCA. But it is becoming a housing organisation. Regeneration is being marginalised. We must keep regeneration going. If not we will lose all knowledge and capacity. In fact the areas will be lost and we will have riots.’

Limited money – so use more intelligently

5.52 There would be limited money. So Government should be looking for catalytic investments where small inputs of money will encourage investment. This had happened in city centres in the mid-90s where catalytic investments of public money had led the market to get involved. We need financial instruments to turn around areas which have failed. But there were two sorts.

‘The bland way is the Enterprise Zone. You draw a red line and everyone inside gets the benefit. It is simple. But financially astute people exploit it and do not necessarily get you regeneration. In fact you get bland buildings. The other way is focused gap funding which is more much more sensitive and rewards good development.’

5.53 Different places might require different approaches. The Enterprise Zone principle would work in industrial estates. But the town centres would benefit from gap funding which would be highly sensitive to the quality of regeneration. But the key thing in regenerated areas is encouraging the emergence of new businesses to take up the built product. His view was that giving rate relief to every new business would encourage the creation of more new firms.

The regional developer

5.54 The previous views were those of a ‘big fish’ national developer. But they are shared by a ‘smaller fish’ regional investor and developer.

What has happened?

‘First, all development finance facilities I had in place were either frozen or withdrawn. This has resulted in either mothballed sites or partly completed sites leading to unnecessary “forced” sales. Second, in terms of land assembly for regeneration sites, no private funding is available. Third, private sector landlords are reluctant to sell, due to decreased values, and little options for reinvestment.’

How bad has it been?

‘2007 was a correction after Northern Rock – but something that could be absorbed. After Lehman’s collapse it has been dramatic. I would say it has been worse than expected mainly due to the speed of it and in my eyes the over correction that has occurred. It has yet to find a correct level, in terms of values and credit availability. My organisation has lost 75% of its work. Residential and mixed use has been cut by 50% in the region, and retail and leisure by 75%.’
What will happen next?

‘A number of schemes have had their existing finance facilities extended simply to allow the worst of the recession to pass. No development or regeneration scheme I am involved with has been unaffected by this. The best I can hope for is to prepare the ground so they can move ahead again in six to 18 months’ time. Given historic land values in this part of the region have not been high, I expect to see the need for additional public investment and gap funding if certain regeneration schemes are to be delivered here in future.’

What would be most helpful from the public sector?

5.55 This developer reinforced the view of a URC Chief Executive that local authorities will have to be fleet of foot and flexible in future. In particular, they would need to collaborate more.

‘The new Metropolitan Area Agreements could have the greatest impact by encouraging local authorities to work together and ignore boundary lines. We could get greater efficiency and higher priority could be given to key sustainable development opportunities.’

The volume house builder

5.56 A former Chair of a major volume house builder, now a board member of one of the largest regeneration projects in the UK, put this recession in a larger historical context.

‘I have been through three recessions. The 1970s was deep but short. The early 90s was shallow but long. This is both deep and long. It will only get worse before it gets better with public sector cuts. It will be at best a year – and probably two – before we see the private sector back. Until that happens the private sector is looking for all the public sector help it can get.’

The international mixed use development company

5.57 This company operates globally but with mixed use developments across the UK and several in the North. The Chair’s view was pretty clear.

‘If you have survived the last 12 months you will probably be in business in the future. We have been through a lot of pain in the last 18 months. We will hang on for the next 18 months. After that we will make money again.’

5.58 These selective opinions of what has happened, might happen and should be done were shared by many others across the private sector. Their mood varied depending on: the degree to which their companies had anticipated the downturn and minimised risk exposure; their dependence on debt finance; and the nature of their property portfolios, especially whether they were operating in primary or secondary markets and more or less buoyant economies. But the storyline was essentially the same. Developers will build for clients offering guaranteed, high quality covenants. But speculative development in all property sectors is out of the question. Housebuilders have restructured and scaled back activities in regeneration areas and moved to safer territory – family homes in better areas. Public subsidy in the form of gap funding and equity loans is needed to encourage them to continue
in the regeneration areas. Most thought that the market will take another year or so to recover – and probably longer in regeneration areas – and that Empty Property Rates will delay the upswing. Many recognised that property is still attractive to investors given low interest rates, and low returns on shares and gilts. However, they believe that funds will go to prime estate and prosperous areas and will take time to return to many parts of the North.

So what is the mood in the North?

5.59 This chapter has revealed a variety of concerns across different parts of the public and private sectors. For some – although not all – the position has not been as bad as they had feared. But for many this was in part at least because the public sector had been able to bring forward investment to keep the wheels turning. There are real concerns about the potential impact of public sector cuts in the North. And this view is not simply that of the public sector concerned about its own bailiwick – but also of private sector partners. They emphasise the need for continuing public support where possible to sustain momentum until private finance can flow again and allow the market to return. Many have underlined that whatever else it is, it is still a bankers’ recession. They argue that basic demand and opportunity still exists in the region. But the financial squeeze is making it difficult for the private sector to respond. Everybody agrees the property and development market will return eventually, but as our original report suggested, probably not before 2011. And there will be far less debt and there will have to be far more equity to finance development in future. New kinds of investors and vehicles will need to be found.

5.60 So this is not a counsel of despair from the players on the ground. The North has delivered economic growth and regeneration in the recent past. There are future opportunities. The Core Cities in particular are real economic assets with further potential for development. There has been substantial public-private partnership working right across the North which has delivered many projects. As we shall see in the next chapter there are many public-private partnerships working to keep projects going where possible. The key request is for the public sector to do everything possible to maintain momentum and protect the investment which has been made until the private sector can play its full part in partnerships and investment in future.
Chapter 6: What are people doing to cope and what’s working?

Introduction

6.1 So far we have discussed the impact of the credit crunch and recession on the North. This chapter shifts gear and asks what Northern towns and cities are doing about it and what the key policy implications are. We look at the different things being done, by different types of partners in different types of areas in all three Northern regions. We focus on what has worked well and the principles of good practice. We illustrate them with a series of short case studies. We end with some ‘golden rules’ – guiding principles for coping with difficult markets. Our analysis comes with a health warning. Initiatives are at different stages of implementation – indeed, some are proposals. Our findings are emerging rather than definitive. But in the land of the blind, the one-eyed man is king.

What’s being done by whom?

6.2 Regeneration organisations’ responses can be grouped into five main kinds of activity. They are not mutually exclusive:

- reviewing options;
- keeping existing projects going;
- taking advantage of current market conditions;
- preparing for the upturn; and
- developing new models and mechanisms.

6.3 The most fundamental questions facing regenerators is to decide:

- which projects to continue in what form?
- which to mothball?
- which to abandon altogether?

6.4 This in turn requires a judgement on:

- whether the projects are still worth pursuing despite the downturn;
- whether market conditions have changed irrevocably and the original assumptions no longer apply;
- whether they can be rescued, given the resources and leverage available to partners; and
- the balance between the risks and rewards involved and the opportunity costs of intervention given competing demands upon funds.

Keeping the wheels turning

6.5 So far partners have devoted most attention to keeping going projects which have already started. Partners have been more inclined to rescue projects:

- for which there is still demonstrable demand;
- where there is scope to substitute more viable for less viable components; and
- where the risks and costs of delay to partners outweigh the benefits.

The risks can include loss of the developer, costs of repeating marketing and procurement, loss of partner and community confidence, risk of challenge to attempted CPO acquisitions and political difficulties.
6.6 Partners have tried to keep existing projects going to:

- capitalise on earlier investment and groundwork;
- take up planning consents;
- maintain partners’ commitment; and
- sustain wider community confidence.

This echoes wider Keynesian measures by Government to stimulate the economy through short-term cash injections and budgetary pledges on housing. For a while, public partners tried to maintain momentum by reconfiguring projects and re-negotiating development agreements. Typically, less viable elements have been dropped or postponed, numbers scaled down, delivery timetables extended and Section 106 requirements eased or removed.

6.7 Public partners have also sought to de-risk projects by undertaking and funding additional preparatory work and contributing land at no cost rather than insisting on a receipt. They have also entered into a closer dialogue with banks in an attempt to establish their requirements, broker deals and find ways of unblocking loan finance and resume stalled schemes. However, as the recession has persisted and deepened and banks have continued to behave in an extremely risk-averse way, the need for direct public intervention has grown. There are an increasing number of cases of short-term loans, gap funding, and growing reliance on HCA and partners’ rescue packages. In some cases the public sector has assumed control of projects.

Pulling the plug

6.8 Projects most often mothballed or abandoned have been those heavily reliant on debt finance, increased property values, growth in consumption of retail goods or where it has become clear that there is oversupply. So most residential apartment schemes have been put on hold. Mixed-use schemes which rely on significant cross-subsidy by the apartment element have suffered a similar fate. A number of large retail-led regeneration schemes have also stalled. In virtually every case, public partners have decided that direct intervention could not be justified because of the huge sums of money and risks involved.

Any silver linings?

6.9 Despite the gloom, the downturn has presented some opportunities to regeneration bodies. In a buyer’s market, land and property has become easier and cheaper to acquire. Falling contractor prices have meant that public resources stretch further. A number of local authorities have used their prudential borrowing powers to buy rather than lease buildings. They have done so both on value-for-money grounds and to unlock schemes which have stalled because the developer has found it difficult to obtain bank finance.

Structuring new business models

6.10 A combination of tighter fiscal conditions and margins has prompted partners to review business models and examine how to streamline delivery arrangements. For example, many regeneration bodies are exploring how to simplify contractual models, forge longer term joint ventures with private partners where assets and contractual opportunities are packaged together, rationalise funding streams and reduce organisational complexity.
Preparing for the upturn

6.11 Besides maintaining current momentum, many regeneration bodies are also trying to prepare for the upturn. The slowdown has provided an opportunity to pause and take stock. Existing masterplans have been reviewed in the light of changed market conditions and new ones devised to provide a framework for future development projects and guide land acquisition. Many bodies have focused on removing potential barriers to development by assembling the necessary land, negotiating with neighbouring landowners and other parties, securing or extending planning consents and investing in infrastructure and servicing.

New ways of paying for development

6.12 A combination of limited availability of private finance, less scope to extract planning gain and the prospect of public expenditure restrictions has encouraged the search for new ways of paying for urban infrastructure and regeneration projects. Four main avenues are being pursued: Tax Incremental Financing (TIF)/Accelerated Development Zones (ADZs), JESSICA and JEREMIE, changes in Local Government finance and the attraction of new investors.

ADZs/TIFs

6.13 The British Property Foundation, the Core Cities and a number of local authorities have for some time been advocating the designation of ADZs, the British equivalent of American TIFs. These would enable a local authority to pay for new or improved infrastructure by borrowing against anticipated ring-fenced increases in tax revenues within a designated area. The Government indicated in the 2009 Budget that it would assess the scope for piloting ADZs in areas where their use could be justified and the proposed regeneration activity would not otherwise be feasible. A number of bids have been made to Government to be pilots.

6.14 ADZs have the virtue of generating additional funding from future revenue increases rather than from current forms of taxation, such as Business Improvement Districts or Business Rate Supplements. However, there are hurdles to overcome. ADZs would require the Treasury to cede control of revenue to local authorities. There is also the question whether the current inflation cap on business rate increases would be eased to permit increases in property values to be captured. Expected increases in revenue would have to be underwritten by somebody.

6.15 The real risk of this not being achieved given the recession would have to be priced in. The authority would also have to weigh up the acceptability of foregoing revenue elsewhere during the period of the ADZ. Also ADZs, although potentially helpful, would not address the lack of debt finance and the effect this has had on project viability. No ADZs have as yet been approved let alone piloted. So it is still too soon to draw conclusions about their worth.

JESSICA and JEREMIE

6.16 JESSICA (Joint European Support for Sustainable Investment in City Areas) is a European Union initiative. It permits Regional Development Agencies to receive part of their ERDF allocations for the period 2007-13 to invest in a revolving local urban development fund which can be used for equity, loans or guarantees. The London Development Agency has already secured approval of a £109m programme to
deliver urban regeneration and renewable energy projects in deprived areas of London. In the North, the appetite for JESSICA has varied depending upon ERDF spending priorities and the availability of matching funds. NWDA has recently approved a £200m fund comprising EIB, ERDF, NWDA and local matched funding, for urban development aiming to support one project in each sub-region. The fund is designed to support robust portfolios of urban regeneration projects. NWDA, however, awaits Government approval.

6.17 JEREMIE (Joint European Resources for Micro to Medium Enterprises) operates in a broadly similar way to JESSICA. It is a revolving fund run by an appointed fund holder which is designed to improve SMEs’ access to finance. The fund is a toolbox of financial instruments including venture capital, equity, loans or guarantees targeted at identified market failures and gaps between supply and demand. It is intended that JEREMIE will help fill the regional venture capital gap and offset the fact that the UK market is centralised within London and the South East. ONE’s North East Finance unit is planning to recruit a specialist venture capital firm to run a £125m investment fund commencing early in 2010. The fund will consist of a mix of ONE’s Single Programme, ERDF and EIB loan finance. Similar programmes are close to launch from NWDA and Yorkshire Forward which will provide some £400m additional growth finance for Northern businesses.

Promoting more financial freedoms and flexibilities

6.18 Local authorities have argued that they could respond better to the recession if Government gave them additional freedoms and flexibilities. For example, the recession has choked the supply of both private and affordable housing and is exacerbating shortages of suitable housing. While ALMOs can use rents to finance development costs and enable councils to access receipts from property sales, local authorities cannot. The Local Government Association is lobbying for this to change and also for local authorities to be able to borrow more easily against future income and be granted access to mainstream funds for housebuilding. Again, the ball is in the Government’s court.

Encouraging new investors in regeneration

6.19 The other main area being explored is the search for new investors or new forms of investment in regeneration activities. A number of regeneration bodies are trying to persuade local authority pension funds and regional building societies to play a greater role in funding regeneration projects in their area. Some have, for example, advocated the creation of local housing funds consisting of local housing bonds and mortgages, possibly borrowing funds from The Housing Finance Corporation or the Charity Bank with public sector organisations acting as guarantors. The HCA is making a concerted effort to promote institutional investment in the private rented sector. It has received 64 expressions of interest from potential investors.

6.20 A number of RSLs, banks and local authority pension funds are holding discussions about the funding of market rented housing. Mainly for management reasons, this model is expected to be applied to new rather than existing stock, such as unsold private apartments which have been included within the Government’s Clearing House Initiative. However, there are potential problems. Initial interest in testing out what is a new, potentially risky, market is likely to be stronger in more buoyant parts of the country. Stamp duty land tax rules have discouraged large-scale
investment in residential property in the past. The short-term nature of tenancies is a
disincentive to overseas investors. And the nature of the Real Estate Investment
Trusts’ regime has not encouraged such investment either. Some RSLs are
developing non-mortgage home ownership products with financial institutions
because of the difficulties many people in less prosperous areas face in getting home
ownership. Again, most proposals are still at the conceptual or developmental stage
and are too early to assess at this point.

Real success in real places – what’s working across the North?

6.21 Although the market is very difficult, many partners in the regeneration
business have shown considerable invention in facing up to their challenges. So we
next discuss successful instances of project rescue and identify the principles which
underpin them. The different responses are best seen as different tools in the toolkit
to be used as appropriate. Frequently, they are used in combination rather than on
their own.

6.22 The strategies include:

- boosting demand;
- prioritising;
- rationalising funding;
- revamping projects;
- packaging public assets for the private sector;
- public sector helping private sector cash flow;
- direct public sector intervention;
- supplying gap funding; and
- sticking with the long term.

Boosting demand

6.23 Some measures have sought to boost consumer demand. This has included
different kinds of discounting, better marketing, tailoring of products to consumers’
circumstances and new products. For example, public and private sector partners
have worked together to put on homebuyer events which promote and demystify
different products and try to overcome barriers to home ownership – for example,
The Key Events held in Liverpool and Manchester. Potential buyers’ problems in
getting mortgages have prompted many housebuilders, social landlords and
HMRPs and the HCA to develop new forms of low cost home ownership. These
principally involve shared equity and intermediate rent products, some of which
have involved additional public and private subsidy. Some developers are dealing
with clients on a fully transparent ‘open book’ basis. For example, Wykeland
Developments has sold a number of plots to companies on the Europa Business
Park on the northern fringes of Hull and then acted as their building contractor.

Prioritising

6.24 Another response to tighter credit conditions and public expenditure
restrictions has been to focus on leading priorities and those projects which have
the best prospect of being implemented in the immediate future. One North East,
for example, has been concentrating on supporting regeneration projects in new
and emerging economic sectors which have most economic potential in future.
1NG, the new City Development Company for both Newcastle and Gateshead has
also taken this line. Partners can also help by agreeing to prioritise the same projects rather than backing potentially competing schemes. For example, Sunderland City Council has given such undertakings to the developer of the Holmeside scheme in its city centre which will enable this important mixed-use development to proceed.

**Stimulating emerging economic sectors: One North East**

Lack of bank finance has not only affected speculative property development and physical regeneration but also businesses looking for capital. This has underlined the importance of RDA efforts during the recession to support the new industries of tomorrow. In some cases, such industrial projects are important parts of physical regeneration schemes, other elements of which have stalled. The following outlines the sorts of such projects being backed by One North East, which are replicated by Yorkshire Forward and NWDA with leading sectors in their regions.

Using significant funding from the Department for Business, Innovation and Skills (BIS) and Department of Energy and Climate Change, despite the downturn ONE has continued to support the New and Renewable Energy Centre (NaREC) in Blyth which it established in 2002 to exploit the economic potential of offshore wind and wave power by providing world-class testing and verification facilities. The Centre includes prototype facilities, test sites, business incubators, and an education and training centre. NaREC is now the leading centre for renewable energy technology commercialisation in the UK.

ONE has also continued to support three initiatives in the North East’s three main urban centres which are designed to promote business growth in emerging sectors:

- The Science City Newcastle initiative, a partnership between ONE, Newcastle City Council and Newcastle University, aims to exploit commercially the city’s growing strengths in the fields of ageing and health, stem cells, sustainable environmental technologies and molecular engineering.
- The Digital City project in Middlesbrough is situated at the interface between the Middlehaven project and the town centre. It was established by ONE, University of Teesside and Middlesbrough Council to promote enterprise in the creative and digital sectors. It consists of an institute for nurturing digital entrepreneurs and the Boho Zone, a creative quarter containing business space for new creative and digital companies to grow.
- Sunderland Software City has a similar philosophy. ONE, together with a local technology group (Leighton Group), Sunderland University, Sunderland City Council and North East Business and Innovation Centre are trying to promote innovation and new businesses in the technology and computing sector which is a growing local specialism and reflects the area’s good telecommunications connectivity.
Concentrating on priorities: 1NG Newcastle and Gateshead

1NG is an Economic Development Company. Its leaders acknowledge that 1NG has been launched at a very challenging time and that recession will make its job that much harder. So what’s its coping strategy? It is fourfold:

- Prioritising a few projects that will make a big difference and have a realistic prospect of getting funding.
- Engaging with developers and investors to create a climate of confidence.
- Encouraging public sector partners to commit to partnership and make tough choices about priorities.
- Sticking to principles on quality and sustainability.

The four key projects in which it will invest most of its energy and resources include:

- Science Central – redeveloping a former brewery site to create a new quarter which provides the infrastructure to develop the city’s science economy.
- International Conference and Exhibition Centre feasibility study.
- Ouseburn Cultural Quarter – bringing forward a mixed use development for cultural industries.
- Gateshead Quays – preparing a Masterplan for the area.

1NG will also play more of an enabling role in other projects where the private sector is more able to take the lead. Also it has revised its Science City Masterplan to reduce science and innovation space, increase retail, reduce multi-storey buildings, and extend timescales.

Rationalising funding

6.25 The corollary of greater prioritisation is rationalising the many different funding streams which flow into the regeneration pool. While such initiatives have the virtue of targeting different problems, they can and have generated additional costs. The Total Place Initiative, which is being piloted in Durham and other areas, shows that there is scope to simplify resourcing and make the most of available budgets.

Rationalising funding: Durham Total Place Initiative

Regeneration has a multitude of funding streams because of the political tendency to address the latest problems with a fresh round of shiny new initiatives. This can add to bureaucracy and transaction costs, lead to duplication and encourage short-term thinking. When resources are at a premium, there are pressures to do fewer things well. The Total Place initiative, a product of the Government’s Operational Efficiency Programme, is being piloted in 13 areas and involves local authorities mapping separate funding streams in their area to show how they might be more efficiently organised. Durham is focusing on using resources around housing to help regeneration, including the scope to cut duplication and improve services. Discussions have revealed that there is scope to reduce 47 funding streams to a handful of budgets. This should help councils and partners do more with less, provide greater clarity and certainty to partners, help long-term resource planning and align housing and regeneration programmes.
Revamping projects

6.26 Partners have tried to improve projects’ prospects of being implemented by altering their composition. The most successful have scaled down or cut out the least viable elements, tried to start on safer aspects, often where there is a guaranteed end-user, and adjusted to less demand by extending timescales and reducing annual expenditure. Another common tactic has been to ease some demands upon the developers to get action on the ground by renegotiating the terms of the development agreement. The examples of Tees Valley Regeneration and Talbot Gateway, Blackpool, below, illustrate some of these methods.

Revamping to stay afloat: Tees Valley Regeneration

Tees Valley Regeneration (TVR) is an Urban Regeneration Company. So what has happened to the URC’s project portfolio during the recession and how have TVR and partners responded? Several have faltered but the URC has managed to keep others on the road.

The Middlehaven project is trying to transform underused land bordering the former Middlesbrough Dock and the River Tees into a new mixed use development consisting of a new college campus, superior apartments and family housing, offices, hotels and leisure attractions. Broadly the publicly funded elements of the scheme have gone well while the private ones have had more mixed fortunes. Middlesbrough College want to supplement their main award-winning campus building with other facilities. A second office building is to be built by Terrace Hill at Manhattan Gate with a pre-let by Middlesbrough PCT which will house all its staff who currently work in scattered locations across the Tees Valley. Anish Kapoor’s massive public artwork ‘Temenos’ will be completed early 2010. Development in the cultural and digital industries Boho Zone continues. The Digital City complex will be complete along with offices, live/work units and a budget hotel nearby. But the credit crunch and lack of an established market for apartments has caused delay to the residential elements. The first block of 80 private apartments is now to go ahead as BRQ, the main developer, has secured bank finance with the help of a cocktail of underwriting by its public funding partners.

In Central Park, Darlington, TVR and partners are seeking to provide modern offices, apartments and town houses, a hotel and a conference centre on a site adjacent to the main East Coast rail line near Darlington station and town centre. Momentum is being maintained with this project. The developers (OKY consortium comprising CEG, Keepmoat and Yuills) have continued to assemble land and the residential development is due to start summer 2010. Teesside University are pressing ahead with expansion plans and their 30,000 sq ft lecturing facilities should be complete in time for the start of the 2011 academic year. The developers, TVR and NWDA are jointly exploring the business case for a public-private funded business incubator facility near to the station.

TVR has lobbied hard for the construction of a rapid transit system, the Metro, linking all the physical regeneration projects together and led feasibility work to help realise that goal. The Department of Transport has now accepted the business case and released the first tranche of funding (£40m) and partners are now working on the detailed design of stations and other infrastructure.
TVR has tried to maintain momentum by: renegotiating development agreements to secure development; bringing forward publicly funded project elements with the support of partners; revising masterplans and re-phasing project components; and seeking additional public funding and underwriting to unlock private finance and de-risk private residential schemes.

**Revamp and rescue: Talbot Gateway, Blackpool**

Many regeneration schemes in Northern towns have simply stopped or been abandoned. In Blackpool, one of its key town centre regeneration schemes is continuing because of partners’ collective efforts to change its design, content and phasing and commit greater levels of support to it.

**Talbot Gateway** is designed to help re-establish Blackpool as the retail, business, civic and cultural centre for the Fylde Coast. The project aims to redevelop comprehensively a rundown area around Blackpool railway station to create an impressive arrival point, new civic quarter, integrated transport facilities and better car parking. Muse Developments, the preferred developer, with the Borough Council and ReBlackpool, the town’s urban regeneration company, worked up a mixed-use scheme consisting of 1.7m sq ft of new offices and business space, new supermarket, shops, hotels, cafes and restaurants, apartments, council offices, replacement courts, police headquarters, health centre and library. Before the credit crunch the scheme was considered viable without any public support. During the downturn, plummeting property values and deteriorating yields have opened up an increasingly large funding gap. As a result, Muse became increasingly reluctant to sign a developer agreement.

Partners have addressed this problem in a number of ways. They have narrowed the funding gap by scaling down the quantum of the scheme, eliminating the apartments, adding a hotel and refurbishing rather than replacing a multi-storey car park. The most certain elements of the scheme will be implemented first – the new council offices, police station and law courts and anchor food superstore and pedestrian plaza. The local authority has agreed to put in land at no cost rather than insisting on a receipt. NWDA has become more directly involved in the scheme and, subject to Government approval, intends to provide a maximum grant amount to make the scheme viable and give the developer certainty over the project’s lifetime and allow it to proceed. Demonstrating viability is also crucial as a Compulsory Purchase Order is required. As the project progresses, each individual element will be re-appraised and the minimum amount of grant support provided. NWDA will have first call on overage payments. NWDA is contributing to land acquisition costs and public infrastructure and public realm but not other elements, to remain State Aid compliant. The development agreement has been signed. The project is planned to start in 2011 and will take a decade to complete.

**Packaging public assets for the private sector**

6.27 Another common response to the tighter resource climate is public partners’ practice of packaging either assets or development opportunities together and then marketing them to the private sector. The appetite for asset backed vehicles where
public agencies enter into joint ventures with private sector partners with each party supplying property assets and equity, respectively, has cooled during the recession because of stagnating property values. However, a number of authorities are packaging development opportunities and then procuring preferred developers as with Pennine Lancashire and BNG Housing Market Renewal Pathfinders. The joint venture between Bury Borough Council and Ask Developments is another example of this. The model rests on the premise that supply of a portfolio of sites provides certainty and continuity to the private sector and value for money for the public sector since more competitive deals can be struck and the better sites can cross-subsidise the less viable ones. Such packaging also makes long and costly procurement processes more worthwhile for the private sector.

**Delivery of major projects in Pennine Lancashire**

Elevate Housing Market Renewal Pathfinder and the Pennine Lancashire (PL) local authorities commissioned independent research on the impact of the economic downturn on delivery, and also got an assessment of the suitability of current and alternative delivery models this year. It found the recession had markedly affected development partners’ confidence and appetite and led to a reduction in their estimate of end values. This has meant that most schemes now require gap funding. The PL local authorities have responded in a variety of ways including allowing additional affordable housing in initial phases, downsizing early phases, cutting the number of apartments, direct involvement in funding and/or delivery, extending delivery timescales and re-negotiating development agreements to provide additional support for preparatory work in exchange for more favourable overage and clawback provisions. The consultants recommended that the best route would be for partners to investigate the feasibility of setting up a multi-authority, multi-agency, public-private partnership to deliver the necessary scale and range of types of investment. This might provide a vehicle for the MAA and the new Economic Development Company, and also support from NWDA and others.

**New products and approaches: Bridging NewcastleGateshead Housing Market Renewal Pathfinder**

The crunch and recession came at a bad time for BNG and many other Housing Market Renewal Pathfinders, since having assembled land it is at the point of releasing it to the market for high quality homes to create more mixed income, mixed tenure communities. Most sites have required significant remediation work because of heavy contamination. Combined with reduced lending and falling house prices this has meant that new development has stalled everywhere and considerable gap funding is required for it to be viable. Developers are reluctant even to bid for Kickstart funding, where there is a requirement to build and sell 50 units or more, given the risks involved. Undervaluation of new homes in regeneration areas by lenders has further restricted access and made matters worse. Stalled progress is particularly damaging to community confidence and perceptions, especially as many residents have suffered dislocation associated with site clearance.

In response, BNG has decided to stick to its goal of creating mixed communities rather than switching to social rented provision which would simply perpetuate
existing tenure imbalances and be unsustainable in the long term. Falling property and contractor prices presented the Pathfinder with an opportunity to speed up property acquisition and demolition programmes and also place more emphasis upon street refurbishment programmes and conversion of unpopular flats to large family homes, especially in areas with higher proportions of minority ethnic groups. BNG is trying to develop a choice of intermediate housing options – so called ‘Practical Affordable Housing Solutions’ – which will supplement HCA products. These consist of either an interest-free loan topped up by further purchaser and seller contributions to the deposit or a shared equity product involving a selected developer and BNG. Since there are no significant legal hurdles, it is trying to procure loan providers and reviewing which products to offer on which sites. Modelling work commissioned by BNG suggests that it should target the limited subsidies at the most marginally unviable areas where new mixed use development is planned. More generally, BNG is aiming to generate a better land receipt through de-risking sites and persuading developers to take an appropriate share of the risk. Gateshead Council is packaging a mixture of pathfinder and non-pathfinder sites and entering into a Joint Venture with a private sector partner over a 20-year period in which the more attractive sites would cross-subsidise less viable developments.

Public sector helping private sector cash flow

6.28 In some cases, the public sector has played a substitution role by providing the short-term loan finance which would in normal times be supplied by the banks. This has eased developers’ cash flow problems and in some cases prevented projects from stalling and not going ahead, as the examples of Bradford and Durham show.

Easing cash flow problems: Bradford and Durham

A number of local authorities have been approached by developers for a short-term commercial loan, either because of the lack of credit or banks demanding more equity because of changes in loan to value ratios. In Bradford, the Council has agreed to provide a £6m loan to McAleer and Rushe to cover a funding shortfall on their £45m Southgate development. Although the developers had secured two major pre-lets to Provident Financial and Jury’s Inn and started construction, they were about to call a halt because of their financial problems. The loan will secure an estimated 1,000 jobs. This has brought relief to a city that has been hit hard by the credit crunch. Earlier this year, Westfield put on hold their £320m Broadway project which has left a large cleared empty site, prompting concern about whether it will materialise and loss of custom to other centres. Other better news is Yorkshire Forward’s decision to speed up infrastructure investment in a new city park, construction of which is getting underway. There have been three other similar loan rescue packages in Yorkshire and Humberside alone. In another case, One North East has provided short-term finance to a regeneration agency in Durham to enable it to implement an industrial project. The development company will repay the money when re-financing and re-mortgaging occurs.
Direct public sector intervention

6.29 In some cases, public partners have had to intervene more directly. Some authorities have used prudential borrowing powers to acquire interests in schemes which have either released bank finance or enabled subsequent phases of schemes to proceed, for example Sheffield City Centre.

Responding to recession: Sheffield City Centre

Sheffield has been hit by the recession. The major contraction in the amount of development funding available has meant that finishing schemes in progress has proved challenging and planned developments have been delayed or stopped. There is no appetite for new residential apartments, speculative office or industrial schemes without a pre-let, and also hotels, with the exception of budget accommodation. Mixed use developments where more lucrative elements (residential, office, retail) cross-subsidised other uses (affordable housing, managed workspace) are no longer possible. The City Council has pursued a three-pronged strategy of: keeping projects alive wherever possible to maintain confidence and momentum; re-shaping projects to suit current market conditions; and positioning the city for the upturn by preparing strategies, projects and carrying out facilitative activities such as land acquisition. Many of the principles of previous masterplans for both city centre and economy remain valid. However, some assumptions, such as the growth of financial services employment, will be revisited.

The Moor: RREEF the developers have had to reconfigure their mixed use scheme here which originally comprised replacement retail units, student accommodation and a new market because of an inability to gain the necessary finance or grant support. The residential element has been dropped and the City Council has opted to purchase rather than lease the site for the market using prudential borrowing (PB) powers and supply it on a design and build basis, partly on value for money grounds since shifting yields have brought down property values. This effectively de-risked the development for RREEF who will supply the remaining retail units. Yorkshire Forward has agreed to fund public realm improvements along the scheme’s frontage and beyond, using its fiscal stimulus package.

Digital Campus: The City Council followed the same logic with this project which has sought to provide accommodation and support facilities for firms in the rapidly growing creative and digital industries. The Council opted to purchase rather than lease the phase 1 building, which has recently opened. This persuaded the developer to bring forward the second phase. This should prove a sound long-term investment for the city as the building lies at the heart of Sheffield Hallam University’s rapidly expanding campus.

Park Hill Flats: Urban Splash’s £160m scheme to refurbish Britain’s largest Grade II-listed building and supply 900 homes for sale, rent and shared ownership has been significantly affected by the crunch. Restricted credit and tighter mortgage lending policies have meant that the developer has asked for gap funding support by the HCA, English Heritage and Transform South Yorkshire (the Housing Market Renewal Pathfinder) to be brought forward. Refurbishment work finally began on the first block this summer.
The public sector funding will finance enveloping work and also new affordable housing options while the developer is paying for stripping the building back to its concrete frame and internal works. The project is now expected to take longer to complete than originally envisaged ending mid-2017 rather than 2012.

Heart of the City: Partners have worked hard to pursue this mixed use (public realm/hotel/prime office/residential apartments) scheme. The City Council helped secure complete occupation of the second office block by purchasing the new owner’s (Department of Children, Schools and Families) former premises at Moorfoot using its PB powers. The adjacent car park has been built and two 32-storey residential apartment towers are scheduled for completion in the next 12 months despite financial problems and changes of ownership.

6.30 Cocktails of public funding have been assembled to underwrite schemes. Where developers have begun to experience difficulties selling homes, the tenure mix has been altered in favour of shared equity or intermediate rent products – for example EASEL, Leeds.

**Housing rescue package: EASEL (East and South East Leeds)**

EASEL is Leeds’ top renewal priority and largest housing-led regeneration programme. The area is dominated by system-built, local authority stock. After a lengthy procurement process, Leeds City Council entered into a Joint Venture agreement with Bellway Homes in late 2008. The initiative aimed to deliver 5,000 new homes and 2,000 new jobs over a 20-year period. The model essentially involved the phased transfer of council land to Bellways, and relied upon strong demand for affordable family homes in the area, increasing property values and recycling of sale proceeds to develop subsequent phases. Bellway has reclaimed the first two large sites, which have the capacity to accommodate 400 homes, at considerable cost and begun construction. However, it has struggled to sell properties because of prospective customers’ inability to raise mortgage finance, especially as many cannot afford a deposit and/or have poor credit ratings. This is despite the availability of Bellway’s open door equity share scheme and the Government’s First Time Buyers’ Initiative.

To maintain progress and community confidence, the Council and the HCA have intervened in concerted fashion in a number of ways. HCA has supplied about £3.25m of Kickstart funding which will supply a mixture of Homebuy Direct, Rent to Homebuy and Low Cost Home Ownership units. The City Council has acquired 20 units from Bellway using a combination of Housing Revenue Account funds and site disposal receipts and the homes will be managed by East North East Homes Ltd (the ALMO). The council has also obtained HCA approval to build a further 63 properties using HCA grant from the Local Authority Newbuild programme matched by prudential borrowing funded from the HRA account. Chevin Housing Association has obtained National Affordable Homes Grant for 60 intermediate rented units.
Supplying gap funding

6.31 In a number of cases, partners have had to supply gap funding to keep projects going – as in the Liverpool office schemes – or even resorted to taking them over as in the Tower Works in Leeds. Such scenarios have raised State Aid and ultra vires issues which have sometimes required partners obtaining legal advice which has slowed progress. Public investment will be retrieved either through overage and clawback provisions in revised development agreements or the expectation that the project will become more marketable to the private sector in the medium to long term. Many current models are based on upfront public investment in exchange for greater equity share. But this does demand greater commercial awareness and deal-making skills from public sector organisations given the risks involved.

Helping office schemes to work: St Paul’s Square and Mann Island, Liverpool

The recession poses added problems for cities where there has traditionally been an undersupply of prime accommodation because of low values and relatively poor yields. Without public support, there is a risk that supply bottlenecks could choke recovery in such locations. Liverpool lies within an assisted area which has enabled NWDA to gap fund two city centre commercial schemes without contravening State Aid rules.

The St Paul’s Square scheme is a classic example of where changing market conditions threatened to halt the completion of a hitherto successful scheme. This project is the gateway to Liverpool’s new Central Business District and consists of five office buildings providing 360,000 sq ft commercial floorspace, a public square, 50 residential apartments and a 400-space car park. It has been carried out in three phases by the English Cities Fund with support from Liverpool Vision, the city’s Economic Development and Regeneration Company, and NWDA. Phases 1 and 2 (250,000 sq ft) required some gap funding and are now complete and the first four office buildings are fully let to a variety of banking and professional services firms. Since the second phase required much less gap funding, the expectation was that the third and final phase would not require public funding. However, the recession has meant that the developer is now less confident about securing end users and has also affected rent projections and scheme risks and costs. A combination of NWDA and ERDF funding support has been necessary to persuade English Cities Fund to go ahead with this speculative office scheme. Construction has just begun and the project will deliver 109,000 sq ft of BREEAM standard grade A office space by 2011.

NWDA has also stepped in and gap funded the 140,000 sq ft office element of a mixed-use scheme by Neptune Developments and Countryside Properties at Mann Island, which also includes dockside apartments, cafes, shops and public open space. While the developers had secured a pre-let on a 30-year lease from Merseytravel and then forward funding from CommerzReal and Bank of Scotland, the deal threatened to unravel for a number of reasons. First, Merseytravel no longer required all the floorspace for their new headquarters, because a major tram scheme was not proceeding in the short term. Second, the recession had radically affected yields and property valuations, and overseas investors such as CommerzReal initially attracted to the UK by lower exchange
rates and competitive property deals were cutting down the number of locations in which they were prepared to invest and threatening to pull out from many schemes. Investors were also now insisting on pre-lets. Due, however, to a combination of improvements in Liverpool’s economic performance and property market in recent years and NWDA’s contribution to construction costs subject to the usual clawback provisions which offset reduced investment by CommerzReal, the scheme has gone ahead. NWDA do not typically do such schemes but decided to intervene to maintain the supply of grade A office accommodation and in view of the scheme’s prominence as an integral part of plans to regenerate the Pier Head section of Liverpool’s waterfront. The 11-storey building is of BREEAM standard and is due to be complete by the end of 2010.

Taking a lead: Tower Works, Leeds

In some cases, the public sector has taken back control from the private sector to keep regeneration going. Tower Works is one of the key flagship projects within the Holbeck Urban Village area of Leeds. Its distinctive buildings which include three Italianate towers, were acquired by Yorkshire Forward in 2005. Isis were then appointed as preferred developer to develop a mixed use scheme. Their proposals incorporated 7,800 sq ft of shops, bars, restaurants and leisure uses at ground floor level and 112,000 sq ft of offices and 150 residential apartments above. The scheme set out to be an exemplar of design, place making and sustainable construction techniques. During the recession, progress stalled. Nationally, Isis dramatically scaled back its operations and cut its staff by half. It struggled to make the scheme viable and obtain the necessary private finance in view of costly preparatory works, falling real estate values and nervousness about market interest. Since the parties had not signed the development agreement, Yorkshire Forward decided to take the scheme on itself. It has since obtained Government approval to carry out a first phase of work designed to make future phases of development attractive to the private sector. This will involve clearance and demolition, refurbishment of the listed buildings to create office accommodation and creation of public open space to improve pedestrian links between Holbeck Urban Village and the city centre. This scheme will also complement important neighbouring projects such as Granary Wharf, Light Neville Street project and the new City Inn Hotel.

6.32 Delays caused by the downturn raise the crucial question of what to do in the interim, especially where either planned or incomplete schemes are causing blight. Stalled retail-led schemes in town and city centres have proved particularly problematic, by causing extensive blight, loss of confidence and additional voids. Sheffield City Council’s approach to dealing with the Sevenstone scheme shows some of the potential ways in which such areas might be supported in the interim by encouraging short-term tenancies, alternative uses and window dressing.
Keeping retail going: Sheffield City Centre

Hammersons remains committed to this large-scale redevelopment scheme – Sevenstone New Retail Quarter – which aims to revitalise the city’s retail offer, but the credit crunch and recession have slowed progress markedly. A start is not now envisaged until conditions improve. Preparatory work such as gaining compulsory purchase and planning approvals, completing supply of utilities and refining design work has continued so that the scheme can be developed quickly once the upturn comes. The South Yorkshire Fire and Rescue Service has vacated its old headquarters building within the site and moved to new state-of-the-art premises elsewhere in the city centre. Project partners face two main issues: securing finance in order to purchase property to secure the Compulsory Purchase Order before it expires, and taking steps to minimise blight in the interim. In response, the local authority and Hammersons have bid to Treasury for a TIF-style loan. The City Council has also introduced a vacant shops strategy for Sevenstone and other retail areas in transition involving use of hoardings, window dressing using student artwork, training schemes or community initiatives, refitting to allow temporary re-use, and staging events and exhibitions in larger units. The remaining hurdles include: making the scheme work given uncertain timescales; negotiating head leases with owners and devising management arrangements; securing the co-operation from landlords and retailers; and seeking rates exemptions/reductions from Government and permission to retain rates to carry out further improvements. If the scheme is successful, it could be extended to other parts of the city.

Sticking with the long term

6.33 Finally, it is important to keep a cool head in a crisis and focus on medium and long-term as well as short-term objectives. While all regeneration agencies have often concentrated on rescuing schemes underway, a number have found that short-term measures have a good prospect of yielding longer term benefits. More upfront public investment may, by de-risking the projects, generate more long-term interest by the private sector, as with Tower Works, Leeds. In a number of cases, partners have found it necessary for the public sector to step in and acquire property since developers are increasingly reluctant or unable to incur costs given the credit crunch as, for example, at Chapel Street, Salford.

Taking the long view: Chapel Street, Salford

The Chapel Street project is meant to revitalise the historic core of Salford and create a new city centre and is being led by Central Salford URC, ECF the preferred developer, Salford City Council and NWDA. In essence, the plan is to traffic-calm what has become a major arterial route into Manchester and improve the pedestrian environment and complement and support new office, leisure, retail and residential development. Links will be improved to Central Salford Station and Manchester’s successful new commercial district, Spinningfields, to the east and also University of Salford’s campus to the west.

Before the recession, it was assumed that a combination of the URC’s guiding regeneration framework, planning guidance and development briefs and cross-subsidisation by ECF of its less profitable sites by its more profitable
schemes would stimulate the necessary investment. ECF had begun to acquire property adjacent to Spinningfields. The latter’s developer, Allied London, had indicated it would contribute half of the cost of a new footbridge across the River Irwell to link the two areas. But market slowdown, the fall in property values and credit restrictions have meant that the NWDA and the URC have had to step in and pay for acquisitions because of the developer’s reluctance and limited scope to incur upfront costs.

The regeneration framework rests on three main principles: exploiting the proximity of Spinningfields, dealing with fragmented land ownership by site acquisition and rationalisation, and creating new public infrastructure. ECF is trying to provide offices for small commercial firms as Spinningfields is supplying offices with larger floorplates. So far, NWDA has undertaken strategic acquisitions and given careful thought to interim arrangements since immediate development is unlikely. In one case, it has acquired a small industrial estate where rents will more than cover holding costs. In most other instances, demolition is necessary which means that Empty Property Rates are not an issue. An upside of the recession has been that NWDA has been able to acquire land and property at current value for less public money than would have been possible two years ago. As a result, most key sites will soon be in partners’ hands. Over the next two to three years, about £8m of NWDA and ERDF will be spent on demolitions and acquisitions, junction works, public realm improvements, and improved pedestrian links. While the fundamentals of the regeneration framework remain sound, it did envisage that apartments would feature early on and partners have had to reassess the land use mix. They are now examining which other elements should fill the gap, such as university spin-out companies or creative enterprises. Chapel Street shows the importance of keeping an eye on the longer term, adaptability of approach and also good relationships and division of labour between the main partners. For example, the URC has brought focus and local capacity and NWDA has been able to leave compulsory purchase matters to the local authority in view of their experience and know-how. ECF has been an approachable and capable development partner.

All hands to the pump

6.34 Finally, there is no single magic bullet. Most organisations are pursuing a combination of responses. We show below the range of things that Housing Market Renewal Pathfinders have been doing to cope with adversity.
All hands to the pump: Housing Market Renewal Pathfinders

Pathfinder programmes have used a mix of the following to get new homes built and to prepare for the upturn:

- Acquiring land for large future programmes at reasonable prices.
- Remediating land, improving the infrastructure and carrying out environmental improvements to add value to public sector sites and ‘de-risking’ for future private development.
- Gap funding essential schemes to maintain momentum and economic activity.
- Developing longer term agreements with the private sector to deliver key priorities especially where supported by public money through NAHP and Growth Points.
- Getting increased value for money by re-negotiating contracts with developers.
- Taking less upfront value from regeneration developments with a greater share of future profits.
- Developing new financial products for first-time buyers.
- Re-phasing developments.
- Revisiting masterplans and designing out apartment blocks in favour of family housing.
- Selling properties to RSLs, without sacrificing long-term ambitions for more mixed income and tenure communities.
- Developing other tenure options to deal with unsold stock such as intermediate rent, rent to purchase, assured short-holds.
- Sharing development risk and introducing mortgage relief and deposit schemes.
- Escalating acquisition and demolition programmes.
- Prioritising retail and leisure developments before residential developments.
- Investing more funding in neighbourhood management projects.
- Developing joint asset backed delivery vehicles.

Coping with adversity: What have we learnt?

6.35 So what have we learned about coping with adversity? There is much that can be and is being done by public and private partners to keep the show on the road. In essence, the key messages about what can be done are:

- Assess carefully whether schemes can realistically be rescued given the resources and leverage of public sector partners.
- Stimulate demand by discounting, better marketing and use of other incentives.
- Prioritise the most important projects which both deserve and stand the best chance of securing scarce public resources.
- Rationalise funding streams to reduce bureaucracy, duplication and transaction costs and assist resource planning.
- Reconfigure regeneration schemes by altering their scale, composition and phasing, and partners’ inputs and demands.
- Package assets and development opportunities to get better value for money deals with the private sector and cross-subsidisation.
- Public organisations should provide short-term loans in order to ease developers’ cash flow problems and enable schemes to go ahead.
- Direct public involvement either in the form of prudential borrowing, public investment, underwriting, gap funding, and equity sharing or direct project control.
Is the party over?

7.1 This report has assessed the impact of the credit crunch and recession upon regeneration in the North. It has tried to find out which places, projects and people have been most affected, who has been doing what about it, what has worked, what are the policy messages and who should do what next better or differently. A wide range of evidence paints a consistent picture. After a very good period, much of the North has been badly affected by the crunch and recession. Many good people are doing many good things on the ground to limit the potential economic, social and physical damage to places in the North. We have shown many examples of what is possible even in adversity. But often their levers are limited and their resources declining. It is crucial that policy makers nationally and locally do all they can to sustain the gains that have been made in the North in recent years and to limit the potential damage threatened by the worst credit crunch and deepest recession in living memory.

What was it like before Lehman Brothers fell?

7.2 This report underlines that the case for the North is not based upon special pleading for a region that is facing great challenges. Rather it rests on the evidence of the real gains that were made in and by the North in regeneration and the wider economy more generally in recent years – and the potential that remains to realise even more gains in future. Until 2007, the North had had a very good decade of investment and renaissance. As our State of the English Cities report demonstrated many – although not all – towns and cities in the North had made significant improvements. On many indicators of economic competitiveness and social cohesion many had improved their performance during the decade, even if they had not caught up with more prosperous places in the South and East of England. The big cities in particular had experienced significant regeneration as a result of a booming national economy and significant public investment. Many city centres especially had flourished with major investments in mixed use regeneration schemes, city centre living, retail, leisure and tourism as well as expansion in financial services and major public sector organisations like universities, the health service and local government.

7.3 However, even during the boom days there were worries. First, there was evidence that much of the investment and success was concentrated in the centres of the Core Cities with more economically and physically peripheral places benefitting rather less from the good years. Second, there were worries that the business model on which so much of this development was based nationally was not sustainable. So it has proved. In particular, the conditions of huge demand for city centre apartments fuelled by the buy-to-let market, the expansion of retail, the availability of cheap, easy credit for builders and buyers, and the provision of much social infrastructure by developers based on rapidly rising land and house prices, is over. The bubble has burst nationally. Confidence and liquidity have disappeared. And the development model of the past decade is broken and is unlikely to be fixed.

7.4 But this report has shown that, despite those genuine gains, the North has been affected even more than the rest of the country by the credit crunch and recession. It is not all bad news. There are some tentative signs of the recession bottoming out. There are some indications of a slight recovery in housing starts and sales. Job creation associated with foreign direct investment has not declined in the North and in some Northern regions has increased appreciably. But much regeneration activity in the North has been badly hit. Projects have mainly been able to continue because
they have had a variety of support from the public sector or they have got guaranteed tenants. Speculative development is over for the time being. The fundamental problem is that banks need to recapitalise to offset bad debts and as a result are reluctant to finance most forms of speculative property development in the North. Before the collapse of Lehman’s in 2007 there was too much money and too little fear. Now it is the reverse.

“We have seen a huge slowdown, if not a meltdown. The area of work which is absolutely fundamental to the North has juddered to a halt. The place making capacity part of this industry has gone off the cliff. It is a major challenge to Government. There is a fundamental difficulty in getting people to face long-term regeneration schemes in difficult areas and persuading boards to support them.”

National Player

But a mixed picture

7.5 However, the North is a diverse region. Not all places have been affected in exactly the same way. Our earlier report predicted that marginal places, projects and people would be most affected by the crunch. This has come to pass. So far, for example, regeneration in the Core Cities, although affected, has not been hit as badly as regeneration and development in second order Northern towns. Core Cities have been the scene of most commercial development and major regeneration schemes over the last decade. Though such schemes can contribute to a property overhang in the short term, they give these cities competitive infrastructure advantages. They are less likely to experience supply bottlenecks and are better placed to take advantage when recovery occurs. The worst hit places have been the more peripheral, less well-connected, towns and those dependent upon struggling economic sectors. In future, places’ prospects will also be significantly affected by the extent to which they rely upon public service employment as well as public funding for regeneration projects, given proposed public expenditure cuts. All places will be hit by this. But fiscally strong local authorities with appreciable land, property and other assets will have more room for manoeuvre than their more strapped counterparts.

7.6 Luck and timing have played a role. Some places were unlucky because the crunch and recession hit them just as major development was about to get underway. This has left a legacy of blighted properties, cleared land and hoardings, and loss of community confidence. In other places, development has been stymied because developers bought land and property at the height of the boom and are now struggling to make their schemes stack up. By contrast, those places where developers had sunk costs in the scheme so that they could not walk away, have done better.

7.7 There are also differences at a more local level. Within town and city centres, primary retail areas have done better than secondary and tertiary ones where independent retailers are concentrated. They have borne the brunt of falling consumption. Retail centres in areas which have been badly hit by job losses have also suffered. Prosperous residential areas have so far been less affected by the recession and are beginning once again to witness small-scale housing projects by niche firms. By contrast, volume housebuilders have struggled to keep schemes going in less well off areas because of mortgage restrictions, falling demand and plummeting land values. Ethnic make-up of places and neighbourhoods has also come into play. For example, family financing methods which are more prevalent
in Asian communities have meant that mortgage restrictions have not caused as many problems in those areas.

7.8 So it is not all bad news. There is good news in the sense that many places experienced such a good period before 2007 that they entered this recession at a higher base position. They have not fallen back to the position of a decade ago. And some, especially in the Core Cities, feel the position and certainly the mood has not been as bad as in the 1980s when the North went through massive industrial and economic restructuring. Although, as we have seen, the experience and mood is worse in smaller towns.

7.9 Also some people and places have reported that the last year – although hard – had not been as bad as they had feared one year ago. In particular, the sense of crisis in mid-2009 has eased considerably. Indeed some Core City leaders have argued that some developers are beginning to put their toe in the water again and planning applications have increased. However, just as some think they can see at least the bottom of the private sector regeneration recession, they can see the beginning of a public sector recession. There are real fears amongst all partners that cuts in capital and revenue public expenditure and rising unemployment will choke growth in confidence and condemn the region to a much longer period of underperformance.

‘There is no public money. Public sector costs are going up. At the same time the public sector tap is being turned off. The public sector has been keeping things going in the city during the last year – by supplying grant and providing end users. The RDA supported two hugely important developments in the city centre. But that won’t be possible in future. They don’t have the money. We can’t start big things anymore. Three years ago we had £40m from the RDA – now £19m. We also had big European money. But it’s all gone.’ Chief Executive, EDC.

What’s helping and what’s not?

7.10 This report has underlined that the key principles outlined in our earlier report are still the right ones. They include:

- recognise that regeneration is a long-term challenge which needs long not short-term commitment;
- protect marginal places, projects and people in difficult times;
- provide brave leadership and a steady hand in difficult times;
- provide financial innovation;
- work even more in partnership;
- increase flexibility especially in the planning system;
- keep the regeneration wheels turning and maintain momentum;
- commit to quality;
- do everything possible to prepare for the upturn; and
- retain existing regeneration capacity and skills.

The golden rules for coping with adversity

7.11 But this new report has also put some flesh on the bones of those principles by underlining what can be done in difficult circumstances. It has repeatedly shown that public partners have responded to the drying up of private finance and recession with considerable ingenuity. Public and private partners have often worked together well in
devising rescue packages and solutions. There is a body of good practice underpinned by a set of principles. We have seen a wide range of ways in different projects in different places how creativity, commitment and cash have helped to sustain momentum in a series of important projects. We have seen science and innovation projects in Newcastle, office schemes in Liverpool, housing schemes in Pennine Lancashire, Leeds and Salford, and mixed use schemes in Sheffield, Tees Valley and Blackpool kept going by creativity, commitment and cash.

7.12 We do not repeat the details of those projects. But they demonstrate that the golden rules for coping with adversity include:

- rigorous review of options;
- stimulating consumer demand;
- project prioritisation;
- rationalising funding and institutional arrangements;
- flexible use of funding instruments;
- re-configuring projects;
- packaging of development opportunities;
- public investment through short-term loans, prudential borrowing, gap funding and underwriting, equity sharing; and
- carrying out preparations on future schemes in anticipation of the upturn.

Fears of worse fiscal pressures to come

7.13 This process has not been easy, however. And it will get harder yet as the impact of potential public sector capital and revenue cuts kick in. Already during the past year activity has had to be scaled back and difficult choices made. Public budgets have come under increasing pressure. The costs of intervention have gone up because of reduced private sector leverage and prospective tenants’ strong bargaining position. Regional Development Agencies’ budgets have been cut back at precisely the time when there have been the greatest calls upon them. The Homes & Communities Agency is focusing more on housing than place making because of national policy imperatives. Much of its budget is already allocated up until 2011 – which does not leave too much scope to respond to short-term crises. Falling capital receipts compound that problem. After 2011 its room for manoeuvre could be limited by national expenditure cuts. Many local authorities are doing what they can to help vulnerable individuals, households and businesses. But they have limited budgets to compound their limited tax raising and legislative powers. Fiscal pressures upon them will grow. Some of the recent public funding has been money already brought forward from future years, which will compound the problem in the future.

Long-term needs and short-term responses

7.14 So far much Government emphasis has been on short-term rescue packages which are necessary and helpful. But large regeneration schemes and infrastructure projects need longer term funding strategies. Many are concerned about what will happen when time-limited programmes run out. For example, Kickstart, which accounts for over 50% of housing starts in the North West in 2009, will end soon. In addition, there are worries that the simultaneous ending of Government asset-backed and credit guarantee schemes, the higher ceiling stamp duty holiday and increases in VAT will have a deflationary effect upon the economy and regeneration.
Limited finance for the North

7.15 The other major problem is bank finance. National Government and public agencies have become increasingly involved in direct negotiations with banks trying to persuade them to ease lending criteria. But the fact remains that many areas in the North have suffered a triple whammy as a result of the credit crunch and recession. First, debt finance has been withdrawn to the greatest extent from areas which are seen as more risky investment propositions. Second, if the current recession follows the trajectory of earlier ones, struggling Northern towns and cities will take longer to recover than more prosperous places, to which banking and investment will return first. Finally, Northern towns and cities tend to rely more upon public sector jobs and may therefore suffer to a greater extent from public expenditure cuts in future.

‘The problem is institutional finance. Bankers can make 15% in the South. Why look at stuff in the North?’ Chief Executive, RDA

Too many initiatives, too much confusion

7.16 We found a number of other policy problems. Take up of some programmes has been low. For example, the Government’s Mortgage Rescue Scheme aimed at preventing the repossession of the homes of those unable to pay their mortgages has had a faltering start because of tight eligibility rules, complicated processes and limited purchase. However, there are signs that refinements in its design are helping. Some housing rescue programmes such as Home Buy Direct are administered sub-regionally rather than locally which has caused problems of accessibility and lack of awareness. Also, national programmes such as Kickstart do not always fit local circumstances. For example, some HMRP housing schemes are too small to be eligible for such support. And some rescue initiatives like the Government’s Housing Stimulus package have caused confusion, bureaucracy and fly in the face of calls for simplification of public programmes as represented by the Total Place Initiative.

Creating silos or places?

7.17 Regeneration needs joined-up thinking and budgets. But many think the Government is going in the opposite direction and adopting an increasingly siloised approach. The Department of Communities and Local Government is majoring on housing supply issues. The Department for Business, Innovation and Skills is pressing Regional Development Agencies to follow its business growth agenda. Many believe that the place making agenda which underpins so much regeneration activity has taken a back seat and lacks a powerful champion within Government. This could make regeneration vulnerable to cuts in forthcoming public expenditure reviews.

‘Construction and regeneration have been the hardest hit of any single sector. I don’t see an end for a very long time. There is a public sector squeeze. There is a black hole in regeneration. Unless something radical is done we are destined for five years of piecemeal and very small development.’ Chief Executive, RDA

The straw that broke the camel’s back – Empty Property Rates

7.18 Empty Property Rates are regarded by virtually all public and private sector partners as extraordinarily damaging to regeneration in the North. The decision to cut business rate relief on empty properties was devised in good times in order to prevent deliberate dereliction, to increase the supply of premises and to reduce rents.
In the recession it is having precisely the opposite effect. And it is making it much more difficult to get new regeneration projects off the ground. There have been increased demolitions to avoid tax which is reducing supply, particularly of the type of accommodation which could be refurbished to provide basic ‘easy-in, easy-out’ accommodation for start-up companies. Supply reductions will inevitably lead to rental increases of remaining properties when market conditions improve. And they are making many speculative regeneration schemes even less viable because the risk of incurring tax on voids adds to costs and makes institutional investment even harder to obtain.

Who needs to do what better in future?

7.19 This report has found that the principles we advocated in our previous report – holding one’s nerve, maintaining vision, civic leadership, good governance, retaining capacity – remain true. In this report, we have examined responses in greater detail and come up with more specific recommendations.

Partnerships, risks and rewards

7.20 Longer term public-private partnership working will require changes in attitudes. The private sector will have to accept less profit over longer time scales in return for greater security, flow of work and longer term stakeholding. The public sector will need to take on more risk as well as the rewards. But this will have implications for organisational culture, ethos, skills and capacity. In future, local authorities will need more people with the skills to assess the risks and rewards of development projects, to negotiate effectively with developers and to advise on the division of roles, resources, and risk and content of development agreements. The public sector, and local government in particular, will need to continue improving its decision-making and planning processes, becoming more flexible, more innovative and more developer friendly.

‘It means the local authority must take leadership. It has to do things it would not contemplate in the past. It must do what is necessary to get good development in. The public sector must understand private sector issues. It must not assume the private sector is ripping us off.’ Chief Executive, URC

Less money, less clutter?

7.21 We share the view of many partners that the pressure upon resources means that the architecture of regeneration will need to be revisited. It is complex and overlapping. And the costs of administering so many different overlapping vehicles are probably too great when public sector resources are being squeezed. We agree that any future Government must address the overly complex regeneration delivery system to see how it could be rationalised and made more efficient.

‘We need a much more strategic approach across place. We should work on a limited number of strategic issues. We need to sweep away all existing programmes. There are too many different funds. There are too many bits of machinery in the same place. We must have a simplification agenda. And we must have bottom up place making which will give us more bangs for our buck. This should appeal to the localism agenda of both major parties.’ National Regenerator
But don’t throw the baby out with the bathwater

7.22 There will be a need for simplification and clarity. But whoever forms the next Government must avoid throwing the baby out with the bathwater. Institutional change for the sake of it will waste time, capacity and goodwill at the worst time of recession. For example, the Northern RDAs are well regarded by many in the public and private sector for the work they do. The idea of simply reinventing them with a different title alarms many in the North.

Speeding up expenditure

7.23 Government and public agencies should do all they can to compensate for the shortage of public and private finance by making sure that available funds are delivered quickly and efficiently to urban regeneration schemes. At the moment the barriers to this happening include onerous procurement rules, inflexible appraisal techniques and lack of evidence about the returns on previous Northern urban regeneration schemes.

Stick to cross-cutting agendas

7.24 In difficult financial days, organisations tend to stick to core business and cut back spending on wider activities. In past recessions, public organisations have also tended to concentrate finite resources on what they define as core services such as health and education rather than other activities. If this happens now, it will leave regeneration and place making activities vulnerable to expenditure reviews. For example, training and employment projects which try to link deprived communities to major regeneration projects could come under pressure. It is important that the wider regeneration approaches that have been developed so effectively in many places in the North, and which address issues of social cohesion as well as urban competitiveness, are supported. This will require dedicated funding.

Support quality place making

7.25 This report has underlined again the risk of lowering standards simply to get development activity going. There is a pressure to get money spent and houses built especially in a pre-election period. Place making and quality must be kept at the top of the agenda. Government itself is committed in principle to this through its World Class Places agenda – it must stick with it. This has implications for the national regeneration agency, the Homes & Communities Agency. The HCA is well regarded by many partners. Its key principles of the single conversation, local investment agreements, and place making rather than house building are supported. The quality and experience of its senior staff are acknowledged by all. But there are huge pressures and many constraints upon it. It has declining resources given the drop in capital receipts for the assets it inherited from English Partnerships. And too many of its resources are for the National Affordable Housing Programme rather than for regeneration. Its expenditure profile is wrong. It is crucial that the Agency is allowed to pursue a place making agenda and that it has enough resources and freedoms to do that. It is worth recalling the advice from a very successful developer:

‘The HCA should not become the Cheap Homes Agency!’
Winners and losers

7.26 There is a wider concern that has been expressed differently in different places but is essentially the fear that the need to prioritise with scarce resources will lead to investment in winners and the neglect of losers – people and places. This choice is not a local one alone – it also a matter of Government direction. Again we repeat the view of an RDA Chief Executive:

‘Money will be much more difficult. We will have to prioritise. There is a risk that poorer places and people will be worse hit and the gap between places may increase. We must decide what we want to do – competitiveness or cohesion. But also the next Government must tell us what the priorities are between those two.’

And we repeat the warning of a successful niche national developer:

‘Regeneration is being marginalised. We must keep it going. If not we will lose … the areas … and we will have riots.’

Development models

7.27 The recession has created changes in development models, specifically the shift from short to long-term financing methods, greater equity sharing between public and private partners, packaging of assets and projects being set within masterplans. While stagnating land values potentially limit the value of TIFs and LABVs, there is some scope for local authorities to exert greater leverage by packaging together redundant land and property but also other income-earning assets such as industrial estates and some council buildings. There will be scope to combine elements of different models by, for example, pursuing a mixture of LABVs and ADZs where projects are located in the same area or along transportation corridors.

Fiscal initiatives

7.28 Whichever models are pursued, the regeneration funding gap will grow. Banks, building societies and public finances are all being squeezed precisely when requirements are rising, as, for example, in relation to affordable housing, design standards, and Codes for Sustainable Homes. New instruments and sources of revenue are needed. More needs to be put in the pot by public and private partners and less taken out. So how can this be achieved? It is clear that there is no single magic bullet which will keep regeneration going. It is the fundamentals which matter – even more so in difficult times. And despite the many fiscal pressures we have discussed throughout this report, nobody believes there is a single financial tool that will make the difference. We have reviewed a variety of potential candidates – including ADZs, LABVs, JESSICA and JEREMIE – as well as greater revenue retention by local government.

7.29 All are worth pursuing. In particular ADZs have virtues and should be encouraged. There are potential downsides. They will not work in all places. They will probably work best in the most prosperous places on flagship schemes. They will not address the immediate question of shortage of finance and debt. There are risks they will encourage competition for investment and development between places. There are risks that the projects will not generate the necessary revenue and the allocation of that risk between the public and private sectors must be got right. Nevertheless, ADZs are one potentially powerful way of attracting new resources into the regeneration sector at a very difficult time. And they do not cost the Government
in new expenditure at this point. The Treasury must explore and exploit them as positively as possible. From the recent Budget announcement, however, there is little evidence that it is doing so despite receiving 182 bids for Pilot projects in response to Government’s invitation in 2009. We agree with the view of one Core City leader:

“We should explore but must be wary of ADZs. They are not a silver bullet and there is an element of risk. There are as many examples of failure as success. But it does allow local government to take the risk. So we should be looking at those kinds of models. But we must test on a big scale. Otherwise we should use prudential borrowing. The key thing is for local authorities to keep locally generated taxes.”

7.30 These fiscal initiatives need to be underpinned by greater Government encouragement of local, regional and national moves to set up different forms of infrastructure banks.

7.31 We endorse the argument that with limited resources in future, Government should be looking for catalytic investments where small inputs of money will encourage investment. This happened in city centres in the mid-90s where catalytic investments of public money led the market to get involved. Different places might require different approaches. The Enterprise Zone principle might work in the industrial estate. But town centres would benefit from gap funding which specifically rewards the quality of regeneration projects.

The bigger picture

7.32 The old order has gone. Debt-financed development models and lifestyles are no longer tenable. But, there is a risk of continuing as if nothing has changed and expecting business as usual once the upturn comes. The downturn gives us an opportunity to decide whether we need different approaches to urban development and regeneration in future. We should not focus only on the crunch and recession and forget that bigger challenges loom. Global warming, competition from developing economies, growing population, and changes in energy demand and supply will fundamentally affect how we plan and regenerate in future. Hard questions need to be asked about the fundamentals. Which forms of transport and other infrastructure investment should be prioritised where? Have we got the balance right between new development and refurbishment and retrofitting? Are we locating jobs and people in the right places? What do we do about marginalised places that have lost their economic rationale? More widely, what kinds of economic development will work in the future in the North and how different are they from current activities?

7.33 Government has issued a set of national policy statements covering key areas of infrastructure. But it is not clear how these will be tied together into a national investment strategy and what the spatial implications will be. Most current strategies are regional, sub-regional or local. But this risks neglecting wider pan-regional, Northern and national issues.

7.34 The North needs a costed long-term strategic investment strategy which features key economic regeneration projects so that essential infrastructure projects are identified and supported.
7.35 We need a proper infrastructure funding strategy. There are a number of initiatives trying to attract new forms of institutional investment especially in the housing sphere. This should be extended to all types of regeneration programmes. A combination of prudential borrowing, Government guarantees, gap funding and pump priming, and long-term institutional investment is required. Barriers need to be systematically investigated and removed. Freeing up local authorities to raise additional finance should also be a central element of the plan. National asset registers, hypothecated savings schemes, tax incentives, more systematic regulation, and the creation of a national infrastructure bank could help. Major banks should be encouraged to invest in the latter.

7.36 We endorse the wider point about money that was made by many partners – and specifically the need to explore a Northern Investment Bank:

'We have no long-term investment model. We need to be much more creative. We need to look more at assets within local authorities. We need a pooled fund into which we can put lots of local authorities’ pension funds and attract long-term private sector investment. We need to look more at local authority bonds. And quite simply we need a Northern Investment Bank.' Chief Executive, RDA

Continuing Government commitment to regeneration

7.37 Our earlier report emphasised the need for continued Government commitment to regeneration – to the principles as well as the resources. In the past year there is common agreement that Government has done much to keep the flow of resources going and has brought forward projects and expenditure wherever possible. However, there is a widely held fear that that commitment is now waning under financial pressures. Senior players on the national scene are worried that the case for place based regeneration is being lost within the higher reaches of Government. That commitment must be maintained in future if we are not to waste the investment that has already been made. And the crucial link between physical and economic regeneration also must be recognised and strengthened.

'We must reinject confidence and political leadership to take a long-term view. We need to get the Treasury persuaded of the benefits of regeneration. Treasury say there is no genuine new economic benefit or it is simply displacement. They say we don’t have reliable robust evidence about the impact of investment. In our guts we know it works in the long term. There is evidence of payback. But it is difficult to demonstrate.' National Regenerator

Continuing Government commitment to the North

7.38 There is considerable consensus on what has been happening to regeneration in the North. The past year has been very difficult so far – if not disastrous for everyone or everywhere. The North has been affected more than other places. The pressures on everyone are growing. The private sector is still risk averse, even if it is looking for some easy wins in good places. The banks are still reluctant to lend for regeneration. The threat of future public sector cuts is hanging over everyone – places, people and projects. And despite the fact that so far things have not been as bad as some peoples’ initial fears, the mood of pessimism is growing. There are signs that the genuine improvements that had been made in many, if not all, parts of the North have been slowed by the events of the last year. There are fears that as some parts of the region can see at least the beginning of the end of the private sector recession, we are about to enter a greater public sector recession.
7.39 There are even greater fears that the policy conversation and debate in the UK threaten the future of the North even more. The legitimate concern about public expenditure and debt levels threatens to foreclose a debate about what are the key priorities for the North and what role the public sector should play during the next period. The key message from our 2006 report, ‘The State of English Cities’, was that sustained investment by the public sector had contributed to the renaissance of many Northern towns and cities. The message of our original Credit Crunch report in 2009 was that the public sector was keeping momentum going at the beginning of the credit crunch. We argued it should continue to do so. There is a real fear that the potential regional consequences of changing that commitment have not been sufficiently discussed.

National interest not special interest

7.40 This report is not the North producing a begging bowl. Rather it makes the case that the North has a huge amount to offer the future of the UK economy. We have seen that, even in these difficult days, Foreign Direct Investment continues to come to the North. To the extent that the North underperforms, the nation does not perform as effectively as it could and should. There is much evidence that the North did begin to make an increasing contribution to the national economy during the boom years. There is also evidence that some cities and towns across the North, whatever their remaining difficulties, did contribute much to national economic performance, urban regeneration and the place making agenda during the last decade. Some Northern cities and Northern based developers delivered very high quality development which raised the bar locally and nationally.

‘Government must understand this is not a Noddy economy. Both parties really fail to understand the scale of the achievement and the opportunity in the region. They must be told there are opportunities as well as need. They must understand you can make money in this region. They must continue their investment.’ Chief Executive, RDA

7.41 We are at a crucial stage in the economy of the North. In particular, it is crucial that decision-makers in the public and private sectors recognise:

- the achievements that have been made in the North during the past decade;
- the potential for regeneration and genuine economic growth that still exists; and
- the risks of a policy that will reduce commitment, expenditure and intervention too soon.

7.42 But there are a variety of concerns across different parts of the public and private sectors. For some – although not all – the position has not been as bad as they had feared. But this was partly because the public sector had been able to bring forward investment to keep the wheels turning. There are real concerns about the potential impact of public sector cuts in the North. This view is not simply that of the public sector concerned about its own bailiwick – but also of private sector partners. They emphasise the need for continuing public support where possible to sustain momentum until private finance can flow again and allow the market to return. Whatever else the recession is, it is still a bankers’ recession. Basic demand and opportunity still exist in the region. But the financial squeeze is making it difficult for the private sector to respond. Everybody agrees the property and development market will return eventually, but as our original report suggested, probably not before 2011. But there will be far less debt and there will have to be far more equity to finance development in future. New kinds of investors and vehicles will need to be found.
But what is the North’s offer? What kind of regeneration and economy in the future?

7.43 The current position on regeneration is very difficult. But the North has delivered much economic development and regeneration in the past decade. Northern RDAs are promoting investment in renewable energy technologies, advanced manufacturing, digital and bio-medical industries. There remains much economic potential. Also, there are some signs that the adverse trends are slowing down in some places. There has been substantial public-private partnership working right across the region which has delivered many projects. And there are many public-private partnerships working to keep projects going where possible. The private sector still sees many parts of the North as potential areas for investment in the medium term. The Core Cities in particular are real economic assets with further potential for development. And there is belief that development will return even if it takes another year or more. Continuing public investment in the North will attract private sector investment in the medium term. This is not the moment to jeopardise the substantial public investment that has already been made – or the prospects for further economic growth in the North.

7.44 One key concern of partners identified by this report has been the role of Government in the North and in particular how it can minimise the impact of public sector expenditure cuts on regeneration. This is the Northern ask of Government. But there also has to be a Northern offer to Government. Because whatever partners want and whoever forms the next Government, there will be significant cuts in public expenditure. No region in the UK will get the amount of money in future that it has had in the past. So partners in the North will need to determine what their priorities for limited public expenditure are in future. They will need to decide what kind of regeneration, in which kinds of places, for which kinds of people they want to prioritise and support with public money. This will inevitably create some difficult choices. But they cannot be ignored. So what is the North’s offer to Government and to UK plc? What is the Northern rescue and recovery plan? These must be founded on the North’s distinctive assets and USPs including: low congestion, environmental quality, low cost base, natural resources and energy supply.

Economic place making and economic inclusion in future

7.45 The focus of this report – reflecting the thrust of partners’ concerns – has been the condition of regeneration and place making in a physical sense and the importance of protecting vulnerable communities. Those concerns remain important for obvious reasons. But to deliver on those concerns, there is also a need and a demand for the economic regeneration of the North. Partners will need to decide what kind of economy they want to create in the future, which economic sectors are liable to drive that economy and which will therefore receive the more limited public support which is available. They will have to focus upon economic place making rather than simply physical or community place making. In fact they are not mutually exclusive but part of the same equation. As our work on Competitive European Cities: Where Do the Core Cities Stand? (Michael Parkinson et al., ODPM 2004) demonstrated, the drivers of successful places are innovation, skills, economic diversity, place quality, connectivity and good governance. Successful regeneration will have to focus on improving performance on all those linked drivers. There is not a conflict between economic competitiveness and social inclusion. Indeed, the better term in future might be economic inclusion. A policy to increase the competitiveness of the North to create economic opportunities, wealth and jobs would also improve the chances – although
only with policies of linkage – of creating socially cohesive and environmentally sustainable places. We need to think in terms of economic inclusion. Regeneration cannot neglect physical development and excluded communities. But regeneration policy needs to be about more than those two important issues.

**Competitive and cohesive places**

7.46 The recent European experience is that the best performing, most innovative national economies – for example, Finland, Sweden, Denmark – are also those which invest most heavily in human capital and social infrastructure. They regard such investment as the foundations of – not a constraint upon – economic innovation and competitiveness. Finland, for example, in its great economic and financial crises in the 1990s, which were worse than those the North now faces, did not cut investment in skills and education. The simple model has the following elements. Invest in education and skills, to produce highly skilled people, who create innovative products and services, which sell globally, provide them with high salaries and allow them to pay taxes to fund education in the future – and at the same time create demands for social and business services which provide jobs at different income and skill levels for other people in their communities.

**What economic opportunities?**

7.47 But where are the opportunities for creating wealth and jobs? This report has argued that it cannot be business as usual for the institutional and financial architecture of development and regeneration. In the same way it cannot be business as usual for the economy and jobs. In particular, the sectors of the economy which underpinned the renaissance of places and cities in the last business cycle will not be the most appropriate for the next cycle. The drivers of much of the urban renaissance were retail, leisure, residential and financial services. These were primarily consumption or service sector activities which will not be as robust in the next years.

7.48 Places will need to think of more high value added production activities based upon innovation and learning or more sustainable sectors which would feed into the national and global low carbon sustainability agenda. The drivers of the Northern economy in future are more likely to be in the sustainable and innovative sectors – education and knowledge, health, energy, creative, communications and even social welfare. They create high value added jobs. But they also create demand for less skilled jobs. They encourage skill development. They encourage innovation. Many of their products are exportable. They are the sectors of the economy that the Northern Way has been attempting to encourage. They feed directly into Government’s ambitions in *Building Britain’s Future* through the New Industries New Jobs and Low Carbon Transition Plan. And they are the sustainable economic activities a future Government is more likely to support since they not only help the North but also help UK plc. They are also the sectors that the RDAs and more successful city-regions of the North have been trying to develop.

**Which kind of places might lead the recovery?**

7.49 If regeneration is about sectors and skills it is also about places. The kinds of activities we discussed are more likely to be found in the larger cities and in particular in the city-regions in the North. They have the skills, the people, the networks, and the internal and external connections that are required for these industries of the future. We would be building on existing success. The city-regions have performed
best and delivered most to the economy of the North in recent years. They have the greatest potential in future. City-regions are also the thrust of much current Government policy. In future, investment might need to be concentrated in those areas. They will help better move us away from the current model we have of 19th-century governance and 20th-century territory, to run a 21st-century economy.

7.50 This inevitably raises issues of territorial justice and the needs of smaller, less prosperous places — and how they can be helped to share those benefits. Again, these choices will have to be faced. There are no easy answers. But a strategy which focuses upon skills increases the prospects of everybody. Increasing skills and improving low carbon connectivity to allow skilled and unskilled people to get to the jobs in the urban drivers of the Northern economy will also have to be centre stage in the debate about regeneration and investment.

Maximising Integrated Regional Strategies contribution

7.51 So partners in the North will have to face and decide these crucial issues of which sectors, places and people to prioritise with scarce public resources. They will have to better integrate economic policy making with territorial policy making. But this also goes with the grain of current policy. For example, it feeds into the Single Conversation and Local Investment Plans being developed by HCA. And, most crucially, it supports the principles of Integrated Regional Strategies which not only ask what kind of economic activities should be encouraged, but where they should be located. The North is already preparing three Integrated Regional Strategies. When completed they will make an important contribution to the wider Northern debate.

7.52 The North needs a focused, costed plan which it can offer to the private sector – nationally and internationally. This would also identify the offer of the North to UK plc and its realistic ask of Government. And that ask must be placed in a wider national context. Some of the activities carried out in the North might not be sustainable in future. But, equally, the continued investment in an overheating — if currently cool — South may not be sustainable either. A higher performing North would take the pressure off growth in the South but without loss to the national economy. So the debate about spatial investment is not simply a Northern but a national debate.

Endpoint – the future of public expenditure in the North

7.53 Government plans have now made it clear that there will be significant cuts in public expenditure in the coming years. However, not all the detail has yet been specified. We believe that the major issues raised in this report must be considered in the public debate that will take place in the coming months before an election and in future Comprehensive Spending Reviews. That debate will underline that there is not a conflict between economic competitiveness and social justice. It will underline that economic regeneration will be crucial in future. And it will emphasise the need to concentrate on some crucial drivers of economic competitiveness in the North – innovation, skills and connectivity. That debate must take place between the North and Government. But it must also take place within the North — and start now.