House of Commons Select Committee Inquiry into Regeneration. May 2011

Peter Tyler[1] and Colin Warnock[2].

Section 1. Introduction

We are grateful for the opportunity to submit evidence to the Select Committee Inquiry into Regeneration. At a time of significant change in how regeneration policy is to be delivered it is important that new approaches recognise the strengths and weaknesses of previous policy and that key lessons are not lost.

The next section provides a short discussion about the rationale for regeneration policy. Section three considers what regeneration funding has been spent on in recent years and then section four addresses issues around Value for Money. Section five reviews some of the factors that have influenced the effectiveness of regeneration policy and section six concludes by considering whether the proposed changes to the shape and form of regeneration policy by HM Government are likely to be able to fund the amount of regeneration needed in England at the present time.

Section 2. The nature of the problem and the rationale for regeneration

Pronounced and persistent spatial disparities in the incidence of worklessness and income poverty have been a prominent feature of the United Kingdom for many decades. The extent of the problem can vary considerably between areas. The problem is often characterised by three inter-related components. There is a weak economic base, relatively high concentrations of unemployed and socially disadvantaged residents and often a poor physical environment. Within cities, housing, infrastructure and historic patterns of land use concentrate those on low incomes into particular neighbourhoods. The tendency for this to happen is, if anything, increasing (Tyler, 2011). This places disproportionate demands on the provision of public services in these areas, which then find it hard to adjust, and are often overwhelmed.

[1] Department of Land Economy, University of Cambridge, pt23@cam.ac.uk
[2] Colin Warnock Associates Ltd, cw@colin-warnock.co.uk

Once underway, the economic decline of an area tends to have a momentum of its own passing from one generation to the next. In some places there is sufficient access to new economic opportunity to ensure that following the loss of traditional industries new jobs are found quite quickly. However, in others there may be significant impediments that inhibit the pace of positive change. The rationale for regeneration policy is that the actions of the market and mainstream public services are not able to bring about significant improvement within an acceptable timetable without extra intervention. The extent to which it is possible for policy to produce sustainable and long term improvement depends on the scale of resources that can be levered and, importantly, whether a strategic approach is adopted that builds on the assets of the area and its residents.

Section 3. What has been the thrust of regeneration policy?

There have been a number of different approaches to regeneration policy over the last thirty years across the United Kingdom. Many of the early initiatives had a land and property orientation with a prominent example being the original Enterprise Zones (Department of the Environment, 1995). In the early 1990s the policy moved more to encourage local authorities to work with an extensive range of other partners to bid for regeneration funding to assist with the ‘holistic’ regeneration of run-down areas (Department of Land Economy, 2009) through initiatives such as City Challenge and later the Single Regeneration Budget Challenge Fund (SRB).

The focus changed again in the late 1990s following the Review of Government Interventions in Deprived Areas and the publication in England of the National Strategy for Neighbourhood Renewal (Cabinet Office, 2001). The emphasis moved to the regeneration of deprived neighbourhoods and a shift from housing and physical dereliction to problems associated with worklessness, crime and poor public services (Lawless, et al 2010), but by the end of the last decade housing-related initiatives had once again become a more central feature.

As Table (1) shows by the end of the last decade about one fifth of what was mainly urban focused regeneration expenditure in England was assigned to worklessness, skills and development activities, around 11% went to improving industrial, commercial and infrastructure and the remainder to activities associated with homes, communities and the environment with the largest share assigned to housing growth and improvement.

Table (1). Estimate of core regeneration expenditure by activity, estimated average annual expenditure in England. (Average spend over 2009/10 and 2010/11).

Regeneration Activity (Theme, Activity Category, Activity Type)	£m p.a.	%
Theme 1. Worklessness, skills and business development	**1949**	**19.2%**
Worklessness, skills and training, of which:	629	6.2%
Helping employees and businesses with skills development in the workplace	259	2.6%
Enterprise and business development, of which:	1320	13.0%
Promotion of business enterprise research and development	654	6.4%
Theme 2. Industrial and commercial property and infrastructure	**1143**	**11.3%**
Industrial and commercial property	761	7.5%
Infrastructure	382	3.8%
Theme 3. Homes, communities and the environment	**7052**	**69.5%**
Housing growth and improvement, of which:	6479	63.9%
New build	5296	52.2%
Improving existing stock	1017	10.0%
Demolition and new build	148	1.5%
Reducing homelessness	19	0.2%
Community development	35	0.3%
Environmental improvement	430	4.2%
Neighbourhood renewal	109	1.1%
Total	**10144**	**100%**

Source: Authors' analysis of expenditure data for 2009/10 and 2010/11 provided by Department for Communities and Local Government, RDA Finance and Governance data published on Department for Business, Innovation and Skills website (February 2010) and Homes and Communities Agency Corporate Plan (2009/10 to 2010/11)

Section 4. Valuing the benefits of regeneration expenditure

Recent research that we have undertaken has sought to value the benefits of regeneration policy on the areas that have been targeted (Tyler et al, 2011). The emphasis has been on developing an approach and producing illustrative Benefit Cost Ratios drawing on available evidence.

The first thing to note is that there has been considerable variation in the public sector cost per additional output associated with regeneration expenditure. Table (A1) in the Appendix presents provides the broad orders of magnitude for each of the main types of intervention. This variation is to be expected and will reflect the nature and severity of the problems being addressed and the intensity of the intervention being delivered as well as its effectiveness.

On the basis of the valuation approach described in Tyler et al (2011) Table (2) presents estimates of Benefit Cost Ratios for Regeneration Expenditure in England by main activity type. Based on cautious valuation assumptions, the overall Benefit Cost Ratio associated with all regeneration expenditure on all types of activities is estimated to be 2.4. In the round, this represents a substantial pay-back in real resource terms to society from regeneration policy.

While BCRs for some activities are higher than others, it is important to stress that for virtually all areas in need of regeneration, a mix of support is required. This will include some activities, such as business development and land and property regeneration, which generate higher BCRs by virtue of their job-creating effects. Other regeneration activities, such as those aimed at tackling worklessness, skills development, housing improvements and the environment have a vital role to play. What is crucial in regeneration, as we note below, is the degree to which an appropriate, well-resource package can be put together which tackles the problem on all fronts.

Table (2). Benefit Cost Ratios by Activity Type - central and cautious valuation applied to outputs derived using average unit costs			
Activity type	**Valuation basis**	**Central valuation**	**Cautious valuation**
Theme 1: Worklessness, skills and business development			
Tackling worklessness	Consumption benefits (earnings) plus indirect crime and health benefits	1.1	1.1
Skills and training	Production benefit - Earnings uplift arising from skills enhancement	2.2	1.6
General business support	Production benefit – GVA	9.4	6.4
Start-up and spin-outs	"	10.2	7.4
Business enterprise research & development	"	2.6	1.9
Theme 2: Industrial and commercial property			
Industrial and commercial property	Production benefit – GVA	7.9	5.9
Theme 3: Homes, communities and environment			
New build housing	Consumption (property betterment) and production benefits (GVA)	2.8	1.9
Housing improvement	Consumption benefits - property betterment and social benefits	2.0	1.3
Acquisition, demolition and new build	Consumption benefits - property betterment and visual amenity enhancement	5.7	3.9
Communities: Volunteering	Shadow price of volunteer inputs - minimum wage	1.1	1.1
Communities: investing in community organisations	Shadow price of social enterprise 'GVA'	1.9	1.3
Environmental: open space	Consumption benefits - Willingness To Pay	2.8	1.8
Environmental: public realm	Consumption benefits - Willingness To Pay	1.5	1.0
Neighbourhood renewal	Consumption benefits - value transfer from NDC evaluation which adopted shadow pricing approach	3.0	3.0
All Activity Types (real resource)		**3.5**	**2.4**

Source: Authors

Section 5. Factors that have influenced the effectiveness of regeneration policy in England

Much is now known about the factors that have influenced the effectiveness of regeneration policy in England and it is clearly important to ensure that key lessons are learned in deploying new initiatives.

Unrealistic expectations

There often seem to have been unrealistic expectations as to what can be delivered by expenditure on local area regeneration given the scale of the problems being addressed and, importantly, how they are continuing to change. As has been argued elsewhere (Tyler, 2011), area based regeneration initiatives are mainly operating at the margin to bring about change. The overall position in an area is determined by what is happening in the national economy and the actions of mainstream service providers. An area-based regeneration initiative relies for its impact on its ability to *lever-in* resources from the private and public sector. Too often insufficient attention has been given to how such leverage can be achieved.

The focus has to be on how successful regeneration policy is at getting business, mainstream service providers and ultimately households (through their consumption and housing decisions) to put more investment into declining places. However, in many cases the incentive to change behaviour has been too weak, too diffused or insufficiently targeted. As a result too little investment has been brought to bear and the relevant outcomes have not been altered sufficiently.

Moreover, the arbitrary timescales associated with most regeneration programmes have rarely, if ever, been grounded in a thorough analysis of how long it may take for regeneration to take effect. On numerous occasions, policies and the associated delivery chain have been disbanded before change could be secured or, even more common, a sustainable legacy fully embedded.

Inadequate understanding of how places relate to other places and the dynamics of the local economy.

The targeting and design of regeneration initiatives has not been given enough attention to how the place that is the subject of the regeneration relates to the wider economy of which it is a part. Three key elements here are displacement (the extent to which support for new economic activity may displace that from other areas (e.g. through boundary hopping), leakage of employment opportunity to residents outside of a target population and population churn, whereby those residents who can, leave a target area in search of economic opportunity or better living conditions elsewhere.

There has also not been enough research into how expenditure by Government (central and local), households and business impact on relatively under-performing places. Recent developments in the way local authorities and other agencies of government are going to plan and deliver their services in the future through the Total Place Agenda (HM Treasury Total Place, 2010) offer a way in which this can be addressed.

A lack of a strategic approach, good evaluation and insufficient attention to capacity

Other factors that have tended to constrain achievement have been the failure to pay enough attention to the need to adopt a strategic approach, build on what has been learned from the evaluation of previous initiatives (See Chadwick, Tyler and Warnock, 2011) and to ensure that enough attention is given to the *capacity* of partnerships to deliver the programme of change required. Even well designed policies can fail to help under-performing areas if they are delivered poorly and are not part of a clear and strategic approach to regeneration.

Too often there has been insufficient customisation of the local delivery response and enough focus on the pathways between intervention and the final impacts on target beneficiaries (See Department of Land Economy, 2009). The opportunities to pool staff and financial resources and break the mould of generic programme delivery have been few, and while there are some encouraging examples (e.g. Community Budgets (DCLG, 2010)), there remains much to do. Key constraints include a performance management and target regime which has ebbed and flowed with different governments but in any case has rarely been clearly directed at targeting the needs of particular deprived areas or groups for long enough to make a lasting difference.

Section (6). Maintaining the momentum-the funding outlook.

Regeneration policy in England is currently undergoing considerable change. We conclude with some observations on where we believe attention is required if momentum in tackling regeneration problems is not to be lost.

The Coalition Government has dismantled the Local Area Agreement and National Performance Framework of the previous Labour Government. It is in the process of abolishing the Regional Development Agencies. The emphasis is on devolving responsibility for local economic regeneration to local authorities. The Localism Bill that was presented to Parliament in December 2010 provides new freedoms and flexibilities to Local Government in this respect.

The abolition of the Regional Development Agencies means the removal of approximately £1.8 billion a year of support for regeneration initiatives that covered a range of policy instruments including the Business Grant. Budget 2011 also announced the removal of the Working Neighbourhood Fund (approximately £500 million per year) and the Local Enterprise Growth Initiative (worth approximately £100 million per annum).

New regeneration measures have been announced. Businesses are exempt from NICs payments in the regions outside London, the East and South East. Local Enterprise Partnerships (LEPs) have been established between local authorities and business in areas and are reported to cover more than 90% of England's population (DCLG, 2010). LEPs and other organisations can make bids to a new Regional Growth Fund that has £1.4 billion available over three years - a substantial reduction on the resources available to the RDAs.

Plans have also been announced for 21 new Enterprise Zones in England (DCLG, 2011). These zones will benefit from a simplified planning approach available on the zone land. Businesses that locate on the zone will not be required to pay business rates for a five-year period and any growth in business rates within the zone for a period of at least twenty-five years can be retained by the local authority to support the economic priorities of its LEP. HM Government has also suggested that it is open to the possibility of LEPs obtaining enhanced capital allowances for plant and machinery in limited cases and subject to State Aid rules. However, the suite of new EZ incentives does not appear to include capital allowances to support investment in property which was a very successful component of the original EZ policy in the United Kingdom. . The time-limited nature of the business rate incentive, and the market's general reluctance to fund speculative industrial and commercial at the present time, may well constrain what can be achieved from this policy in its present form for some time.

These changes to the way in which local area regeneration policy will be delivered are taking place against a harsh economic background. There is much reduced economic growth compared with the earlier part of this century. Public expenditure is under severe restraint. Moreover, the “credit crunch” affected the viability of the traditional approach of property-led regeneration to fund local area regeneration (Parkinson et. al., 2009). This relied on a relatively buoyant housing market, significant amounts of retail investment, relatively generous public sector financial contributions and, in some cases, significant financial assistance from European Structural Funds.

There are also worrying signs that some parts of England are still finding it very difficult to shake off the effects of deindustrialisation and turn things around given the scale of the new investment required in land reclamation, new transformational infrastructure, and people (See Fenton et al, 2010, Tyler, 2011).

HM Government is currently reviewing the scope for allowing local authorities to have more control of their local tax base (HM Treasury, 2010). One option that has been flagged and which has been moved forward in Scotland is the use of Tax Incremental Financing. However, at the present time progress in this direction looks to be proceeding relatively slowly in England. More generally, HM Treasury has also made it clear that it will not look favourably on significant local authority borrowing. Given the relative decline in the volume of government expenditure on regeneration that is now taking place, new ways have to be found relatively quickly that will allow local authorities, together with their regeneration partners to finance regeneration.

References

Cabinet Office, 2001. A New Commitment to Neighbourhood Renewal. National Strategy Action Plan. Report by the Social Exclusion Unit.

Chadwick, Tyler and Warnock (2011). How to raise the Bar on Impact Evaluation: Challenges for Local enterprise Partnerships and the Regional Growth Fund. Discussion Paper available from the authors.

Department of the Environment (1995) Final evaluation of Enterprise Zones, by PA Cambridge Economic Consultants in association with Richard Ellis and Gillespies, London: HMSO.

DCLG (2010). Press Notice: "16 areas get 'Community Budgets' to help the vulnerable" http://www.communities.gov.uk/news/corporate/1748111

DCLG (2011). Enterprise Zone Prospectus. London.

http://www.communities.gov.uk/documents/localgovernment/pdf/1872724.pdf

Department of Land Economy (2009). A. National Evaluation of the Single Regeneration Budget. Department of Land Economy, University of Cambridge. Communities and Local Government.

http://www.landecon.cam.ac.uk/research/reuag/uars/pdf/part1_final_eval_feb_07.pdf
http://www.landecon.cam.ac.uk/research/reuag/uars/pdf/part2_final_eval_feb_07.pdf
http://www.landecon.cam.ac.uk/research/reuag/uars/pdf/part3_final_eval_feb_07.pdf
http://www.landecon.cam.ac.uk/research/reuag/uars/pdf/annexes_10april.pdf

DCLG (2010). Local Enterprise Partnerships.

(http://www.communities.gov.uk/localgovernment/local/localenterprisepartnerships/).

Fenton, A. Tyler, P. Markkanen, S, Clarke, A. Whitehead, C. (2010). The Ward Penalty: race, Place and Poverty in Birmingham. Barrow Cadbury Trust.

HM Treasury (2010). Total place: a whole area approach to public services.

HM Treasury 20 September 2010. More Financial Freedom for Local Authorities (http://www.hm-treasury.gov.uk/press_47_10.htm).

Lawless, P, Foden, M, Wilson, I and Beatty, C. Understanding Area-based Regeneration: The New Deal for Communities Programme in England. *Urban Studies* 47(2) 257-275, February 2010.

Parkinson, M, Ball, M, Blake, N and Key, T (2009). The credit crunch and Regeneration: Impact and Implications. CLG ISBN: 978 1 4098 1090 2.

Tyler, P., Warnock, C. and Provins, A. DCLG (2011). Valuing the Benefits of Urban Regeneration. Discussion Paper available from the authors.

Tyler, P. (2011). What should be the Long-Term Strategy for Places with Patterns of Decline and Underperformance? In Strategies for Underperforming Places. SERC Policy Paper No 6. LSE. London.

Appendix (1). The Public Sector Cost per Additional Output for Mainly Urban Regeneration in England 2001-2009.

Table (A1) Public sector cost per additional output for urban regeneration in England 2001-2009 (2009/10 prices)

Activity type	Unit cost measure	Low	Average	High	Comment on factors influencing variation
Theme 1: Worklessness, skills and business development					
Tackling worklessness	Public sector cost per net additional positive outcome into employment	£7,230	£13,098	£18,965	Work-readiness of the individuals being targeted and the extent of support required to move them into sustainable employment.
Skills and training	Public sector cost per net skills assist leading to NVQ Level 2+	£5,175	£8,690	£12,204	The subject of training being provided, the NVQ Level of the training and the training delivery method.
General business support	Public sector cost per net additional job	£5,873	£12,329	£18,785	Highly dependent on the nature of the support being offered, from limited advice on marketing or web development through intensive management consultancy activity to capital investment in plant and equipment. The severity of the market failure dictates how significant public sector investment has been relative to private sector commitment.
Start-up and spin-outs	Public sector cost per net additional job	£1,849	£9,664	£17,479	In some ways similar to tackling worklessness – dependent on the start-up readiness of the applicant and their individual s-kills as much as the specific requirements of the business.
Promotion of business enterprise research & development	Public sector cost per net additional job	£34,029	£54,802	£75,574	Very large range dictated by the innovative nature of much of the activity being supported and the higher expense typically associated with R&D equipment and personnel.
Theme 2: Industrial and commercial property					
Industrial and commercial property	Public sector cost per net additional job	£18,981	£31,788	£48,024	Influenced by property market conditions (thus how much the private sector is willing to contribute and the gap the public sector must meet) linked to the physical condition of the sites and premises and the proposed intervention, where higher sustainability standards can increase costs quite significantly.

Table (A1) Public sector cost per additional output for urban regeneration in England 2001-2009 (2009/10 prices)

Activity type	**Unit cost measure**	**Low**	**Average**	**High**	**Comment on factors influencing variation**
Theme 3: Homes, communities and environment					
New build	Public sector cost per net additional dwelling	£57,276	£74,113	£90,949	See industrial and commercial property. Geography and property market variation, combined with variations in tenure mix are also likely to be significant factors.
Improving existing housing stock	Public sector cost per net additional dwelling refurbished	£8,800	£17,750	£26,699	The specific nature of the works required, e.g. to bring homes up to Decent Homes standard.
Acquisition, demolition and new build	Public sector cost per net additional dwelling replaced	£93,479	£110,316	£127,152	Highly site/location specific. Abnormal costs are key, but a very significant cost driver is the costs of acquiring properties. This can be very significant, particularly in areas with stronger property markets.
Communities: Volunteering	Public sector cost per net additional volunteer	£299	£929	£1,558	Dependent on the level of intensity of marketing, recruitment, training and other support.
Communities: investing in community organisations (existing enterprises)	Public sector cost per net additional social enterprise assist	£7,659	£12,924	£18,188	As with business support activity, costs will vary depending on the intensity of the support provided, ranging from limited signposting through marketing support to in depth business planning, mentoring and capital investment.
Communities: investing in community organisations (new enterprises)		£5,019	£14,322	£23,624	As with mainstream start-up activity, with community enterprises expected to require more intensive support to reflect the greater challenges associated with business planning.
Environmental: open space improved (ha)	Public sector cost per net additional hectare of open space improved	£71,302	£117,085	£188,387	Highly project specific, with costs likely to be available from project design work. The scale and quality of the works specification in terms of the type and extent of planting or nature of public realm improvements are key cost drivers.
Environmental: new public realm (ha)	Public sector cost per net additional hectare of new public realm provided	£600,000	£1,500,000	£3,000,000	
Neighbourhood renewal	It is not possible to suggest a single unit cost measure given	-	-	-	This activity type embraces many different activities, each with their own unit costs and

Table (A1) Public sector cost per additional output for urban regeneration in England 2001-2009 (2009/10 prices)					
Activity type	**Unit cost measure**	**Low**	**Average**	**High**	**Comment on factors influencing variation**
	the breadth of this activity				influencing factors.

Source: Authors' analysis of over 280 published and unpublished evaluations commissioned between 2000 and 2009 by England's Regional Development Agencies, Scottish Enterprise, the Department for Communities and Local Government and the Department for Business, Innovation and Skills; open space and public realm unit costs informed by discussions with landscape architects and published data on local authority planning contributions requirements