

# **Strategies for Underperforming Places**

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# SERC Policy Paper 6

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# **Strategies for Underperforming Places**

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## **Introduction**

All governments are concerned with tackling the problems of areas that experience sustained decline and underperformance. In the UK, several factors have combined to raise profound questions about future government policy in this area. First, it is becoming increasingly clear that the recession has impacted on different places in different ways. Some places have emerged relatively unscathed. For other places, the impacts have been far more negative. Unfortunately, many of the places that have suffered most were already struggling and may also be the least well placed to recover. Second, the recession has had a negative impact on the government finances. Coupled with the credit crunch this has had serious implications for the viability of the traditional funding model for local development and regeneration policy. Specifically, until recently, this model relied on high levels of government expenditure leveraged with contributions extracted from private developers who were benefiting from relatively buoyant commercial and residential property markets. In both respects, the current situation is far less favourable. The third significant factor is, of course, the change in government with the coalition placing increasing emphasis on decentralised decision making across a range of policy areas, including those of regeneration and local economic development.

Against this background, the Department for Communities and Local Government and the Spatial Economics Research Centre (SERC) jointly organised a seminar to consider Strategies for Underperforming Places. The papers presented in this report were presented at that seminar. They were originally commissioned as part of the CLG's expert panel programme but were substantively updated to take in to account changes in both the economic and policy environment. The papers represent the authors own opinions and are intended to encourage debate. In keeping with this (and reflecting their development) the papers are relatively informal and arguments are often sketched out rather than fully developed.

The papers deal with a large number of issues and at times present highly contrasting view points. As such, little would be served by trying to summarise the views presented in this brief introduction. One thing on which all the authors agree, however, is the need for open debate and the importance of research in to the causes of local decline and the impact of previous policy interventions. Only by increasing our knowledge and by building on what is known will we be able to formulate appropriate policy responses to the challenges raised by the recession and its impact on struggling places.

# Strategies for Places in Decline

Professor Paul Lawless

## 1. Setting the Context: Understanding the Neighbourhood

There is a long tradition in UK/English policy of addressing underperformance apparent at different spatial scales: regional, city-regional, local authority, and neighbourhood. This think piece is intentionally designed to address trends within, and policy implications relevant to, the last of these spatial dimensions: **the neighbourhood**. This is not a new debate. For more than 40 years UK governments have sought to moderate the scale of disadvantage apparent within what have often been referred to as deprived 'pockets' in cities and larger towns. A raft of innovations, often termed Area Based Initiatives (ABIs), has been instigated by governments of both political persuasions including the Urban Programme, Enterprise Zones, City Challenge, Urban Development Corporations, the Single Regeneration Budget (SRB), and so on.

However, there is a strong argument that the New Deal for Communities (NDC) Programme, and its associated national evaluation, represent a step forward of understanding how policy impacts on traditionally deprived localities. Brief details of both the programme and the evaluation are provided in Appendix 1. Suffice here to point to:

- the innovative nature of the Programme: 10 year strategies, designed to transform 39 English neighbourhoods, in relation to six outcomes, three primarily relating to **place** (community, crime, and housing and the physical environment (HPE) and three to **people** (education, health, and worklessness).
- and the comprehensive, probably uniquely intensive, approach taken to evaluate the Programme, based on survey and administrative change data for all 39 NDC, and comparator, areas, from a common base line, supplemented by in-depth case-study work.

Evidence from the evaluation provides an unprecedentedly strong evidence base from which to tease out that interplay between neighbourhood-level disadvantage and policy. And these are disadvantaged areas. In 2004, 28 of the 39 NDC areas were concentrated in the most deprived decile of LSOAs according to the Index of Multiple Deprivation. Knowsley NDC area was ranked equivalent to the 117th (out of more than 38,000) most deprived LSOAs in England.

Implications arise from majoring on this particular Programme and its evidence base. This is an intensive ABI, the nature of which is unlikely to be repeated in the medium term at least. Results are, moreover, drawn from just 39 areas when other evidence points to the existence of many similarly deprived neighbourhoods<sup>1</sup>. And some more theological debates surrounding-say-'what is a neighbourhood'- are taken out of the equation: this evidence is based on pre-defined localities, each accommodating on average about 10,000 people.

Having said all of that, the NDC evaluation nevertheless provides a categorical step forward in terms of disentangling neighbourhood based change: there has never been a better

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<sup>1</sup> In 1998 the Social Exclusion Unit referred to several thousand such areas in 'Bringing Britain Together: A National Strategy for Neighbourhood Renewal'.

neighbourhood level evidence base arising from any previous ABI, either in the UK, or almost certainly, anywhere else. Appendix 2 provides brief details of reports published in late 2009 and 2010.

So what are the key messages to emerge from this evidence base which **can inform longer-term strategies towards deprived neighbourhoods**? Cutting across all of this evidence, four overarching questions merit comment:

- what outcome changes are likely to be associated with ABIs?
- what does the 'NDC model' of regeneration say about organising neighbourhood level interventions?
- what are the lessons in relation to partnership working with other agencies?
- how should neighbourhood regeneration programmes engage with local communities?

## **2. Outcome Change at the Neighbourhood Level**

At the time of writing, it is not possible to be precise about the nature, or indeed the very existence, of future neighbourhood regeneration policy. But whatever strategies ultimately emerge, the NDC narrative contains important lessons in relation to what is likely to be achieved in the way of outcome change. This debate is best explored within three themes:

- being realistic about what can be achieved
- more change will occur in relation to place, not people
- some areas will see more change than others.

### **2.1 Being realistic**

Because the evaluation has change data in relation to all 39 NDC Partnerships, the 39 NDC areas, and also trends across parent local authority districts (LAD), Volume 5 of the final reports is able to explore associations between area-level change and three sets of possible 'explanatory' factors; those:

- falling within the remit of Partnerships, such as patterns of spend
- relating to individual NDC areas, such as say demographic composition
- arising from change across LADs, such as buoyancy in the wider labour market.

Not surprisingly a great deal of change occurring in the 39 NDC areas cannot be explained: change in individual small areas will occur for a wider range of factors. But where it is possible to see associations between change and possible explanatory factors, the key headline is how little of this apparent change falls directly within the remit of any NDC Partnerships. Change tends to be associated with factors such as demographic composition, the location of NDC areas (a theme developed in more detail below), and tenure patterns.

This might initially appear surprising. It might have been expected that the spending patterns of NDC Partnerships, each of which received £50m of Programme funding, ought to be associated with change. But other than some marginal effects and one surprising finding in relation to education (see below), these associations do not come through. £50m of additional resource might sound a lot of money going into any small area. But in practice that resource is designed to transform the lives of 10,000 people, over ten years, in relation to six outcomes. This works out at less than £100 per annum per person per outcome. It is notoriously difficult to estimate the scale of public spend going into any small area, but work undertaken by the national evaluation team in the Bradford NDC area, suggests that this amounts to less than 10% of mainstream spend anyway going into that neighbourhood<sup>2</sup>. Of course NDC resources are more than useful, not least because they can be used flexibly. But of itself this scale of additional spend is not going to transform these areas across all six outcomes. Regeneration programmes need to be realistic about what ABIs can achieve at the neighbourhood level.

## **2.2 Seeing more change in relation to place**

Whilst accepting that the distinction between the three place, and the three , people-related outcomes is somewhat artificial, there are nevertheless clear signs that more change has occurred in relation to the former than the latter. Table 1 lists the 13 instances where there was a statistically significant difference in change between NDC, and comparator, areas (2002 to 2008). Eleven of these showed NDC areas seeing greater change than the comparators, eight of which are place-related indicators. And of the three people-related indicators seeing positive change, two are for health, where, as is shown in Volume 5 of these final reports (Chapter 3: 3.40/41), there are strong links between seeing positive change in relation to health and positive change with regard to a range of place-based indicators such as thinking the area has improved. Mental health improved because of issues such as improved perceptions the local environment, not because NDC Partnerships majored on it as a policy issue.

In short, and in common with evaluations of other area-based regeneration schemes<sup>3</sup>, the NDC Programme showed more signs of positive change in relation to place, not people. It is not possible here to explain why that should be so in any detail. Suffice to comment that it is harder to achieve people-related changes; they are more difficult to identify through top-down surveys; the scale of changes affected by local regeneration schemes will get swamped by processes operating at wider spatial scales; and individuals seeing positive people-related change may leave the area-although evidence from this evaluation suggest the effects of that process are often exaggerated.

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<sup>2</sup> CLG 2010 'Assessing Neighbourhood Level Regeneration and Public Expenditure; Evidence from the Bradford NDC Area'.

<http://extra.shu.ac.uk/ndc/downloads/reports/Assessing%20Neighbourhood%20level%20regeneration%20and%20public%20expeniture.pdf>

<sup>3</sup> Such as CLG 2008 'Neighbourhood Management Pathfinders: Final Evaluation Report People, Places, Public Services: Making the Connections'; ODPM/NRU 2004 'Neighbourhood Wardens Scheme Evaluation Research Report 8'; CLG 2007 'The Single Regeneration Budget Urban Research Summary Number 25'.

**Table 1: NDC and comparator change, significant differences: 2002 to 2008**

	Percentage point change 2002 to 2008		
	NDC	Comparator	Difference
<b>People</b>			
SF36 mental health index, high score	4	-3	7
Taken part in educ./training in the past year (a)	2	-2	4
Health somewhat/much worse than one year ago	-2	1	-3
Key Stage 2, English, level 4	11	13	-2
Key Stage 4, five or more GCSEs at A* to C	22	24	-2
<b>Place</b>			
NDC improved area a great deal/a fair amount (b)	27	n/a	n/a
Lawlessness and dereliction index, high score	-18	-9	-9
Area got much/slightly better in past two years (c)	18	11	7
Very/fairly satisfied with area	13	8	6
Involved in NDC activity (b)	6	n/a	n/a
Been a victim of any crime in last year	-6	-3	-4
Problems with environment index, high score	-10	-7	-3
Been a victim of criminal damage in last year	-3	-1	-2

Source: Ipsos MORI NDC and Comparator Household Surveys 2002, 2008; SDRC.

Base: All; (a) All working age not currently in full time education; (b) All heard of local NDC; (c) All lived in area two or more years.

Shaded indicators: comparator areas have seen more improvement than NDC areas.

This is not to say regeneration schemes have no role to play in helping to secure people-related outcomes<sup>4</sup>. Issues such as worklessness and poor health are central to the lives of those living in disadvantaged areas. And one benefit from maintaining a comprehensive, or holistic, approach towards regeneration is that attaining improvements in one outcome can be associated with positive change in another. For instance:

- NDC areas seeing greater change in HPE are also more likely to see greater improvements in crime (correlation coefficient 0.51, significant at 1 per cent level), and the community dimension (correlation coefficient 0.35, significant at 5 per cent level).
- And there is a weaker, but still significant, relationship between worklessness and health outcomes (correlation coefficient 0.35, significant at 5 per cent level).

<sup>4</sup> And worklessness at least is central to the government's regeneration policy as laid out in CLG 2009 'Transforming Places, Changing Lives: Taking Forward the Regeneration Framework'. <http://www.communities.gov.uk/documents/citiesandregions/pdf/1227732.pdf>

There is therefore a case for delivering neighbourhood level initiatives to improve outcomes with regard to worklessness<sup>5,6</sup> and health. However, it would be naïve to imagine that the planning of interventions can be carried out effectively at the local scale. That requires the marshalling of evidence and expertise within 'city-wide' institutions such as JCP, local authorities, LSPs, and PCTs<sup>7</sup>. And whether regeneration programmes should seek to change the third people-related outcome, education, is a more finely balanced question. In the NDC narrative surrounding 'people', education has been the one outcome where, not only has it been difficult for NDC Partnerships to make an impact, but there are also, albeit weak, negative associations between higher rates of educational spend and change. If education is to be incorporated into future ABIs, more emphasis should be given to determining what works at the neighbourhood-level. There may for example be more mileage in assisting pupils and their families, rather than prioritising work with schools<sup>8</sup>.

Finally in this context it is worth pointing to more 'technical' implications which flow from change tending to occur in relation to place:

- The IMD is largely driven by 'people' indicators relating to income, worklessness, education, and health; substantial improvements in relation to place in small areas will not culminate in a proportionate change in IMD ranking.
- There can be little doubt that all forms of regeneration policy will be subject to more robust forms of cost-benefit analysis; because of the depth of data in relation to individual-level preferences, quality of life and income levels, the NDC national evaluation was able to employ a form of shadow pricing which suggested benefits considerably exceeded costs (see Volume 6); had the CBA been based on more conventional tools (e.g. calculating financial benefits arising from more jobs, less crime, etc), it is doubtful whether this would have been the case; regeneration programmes need to have an adequate evidence base from which to assess the financial benefits arising from place-related change.

### **2.3 Some areas will see more change than others**

Because of the depth of evidence available on all 39 areas, it has been possible to explore the degree to which different types of NDC areas have seen contrasting rates of change. Using a variety of statistical techniques the evaluation team created a five-fold classification: 'London NDC areas', 'entrenched disadvantage', etc. In that context, it is intriguing to see the scale of negative associations between people-based change and 'stable and homogenous' areas. The 14 NDC areas falling into this cluster consist of largely 'white', peripheral estates, in smaller non-core cities and include Norwich, Oldham, Derby and Luton NDCs. In various regression models, being located in this type of area emerges as one of a number of significant predictors for achieving less change with regard to the three people-related outcomes taken together: worklessness, education, and health.

A number of reasons might help explain this trend. For example, there may be fewer job opportunities locally, public services may be poor, mobility limited, and prevailing

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<sup>5</sup> As suggested by other observers: CLG 2009, 'Tackling Worklessness: A Review of the Contribution and Role of Local Authorities and Partnerships'. Final Report by Stephen Houghton.

<sup>6</sup> And there is evidence for spatial targeting of programmes CLG 2010, 'The Working Neighbourhoods Fund Scoping Report'.

<sup>7</sup> Or building on the apparent benefits arising from 'City Strategies DWP 2010 Evaluation of Phase 1 City Strategy'.

<sup>8</sup> CLG 2010, 'Improving Attainment? Interventions in Education by the New Deal for Communities Programme'.

'cultures' less welcoming of change. But whatever the reasons, this finding is relevant to questions of targeting. Peripheral, ex-public sector estates can be seen as the types of areas regeneration policy might wish to prioritise. However, if the emphasis is to be placed on achieving outcomes such as economic development, enterprise and jobs, as laid out in 'Transforming places, changing lives', these areas seem less likely to see positive change than other deprived localities. Spatial targeting at the local level is likely to involve balancing out two, not entirely compatible, objectives: selecting more deprived areas, on the one hand, whilst, prioritising areas with opportunities for change, on the other. As the 2009 framework suggests, targeting involves, 'not trying to transform everywhere - but investing where it will have the most impact by supporting those communities where the most severe poverty and worklessness persists and where there is the opportunity to deliver long-term change'<sup>9</sup>. However, areas seeing least positive change may not be those where there are the greatest opportunities to deliver longer-term change<sup>10</sup>.

### 3. The NDC Model: the 'How's' of Regenerating Neighbourhoods

Whatever future regeneration policy emerges to address areas of decline and underperformance, this will need to address how best to **organise local interventions**. The NDC model can inform the 'how to do it' debate in relation to three parameters:

- centrally or locally driven?
- creating 'semi-autonomous' agencies
- time and space.

#### 3.1 Centrally or locally driven?

Like many previous ABIs, the NDC Programme could be typified as 'centrally devised-locally implemented'. This is an England-wide initiative, the architecture of which was laid down by central government. Of course, NDCs and partner agencies had a critical role in devising the specifics of what went into these 39 local strategies. But even then GORs, and ultimately central government, had important quality, and sign-off, responsibilities.

It seems probable that whatever happens in terms of national politics and policy, there will be more of a local feel to (any) future regeneration programmes. Local authorities are likely to be central in devising and implementing regeneration programmes, liaising with partner agencies through LSPs. Most regeneration practitioners would probably welcome a more overt move to 'localism'. And there is a case that the NDC Programme reveals one of the problems which tends to arise when the centre plays too dominant a role: lack of flexibility. To give two examples: As is developed below, there was always a case for being more flexible in relation to time horizons in order to meet the specific objectives assumed in each NDC strategy. Equally so, there was too heavy an emphasis on stressing the need for all 39 Partnerships to achieve change in relation to fully six outcomes. In some instances it would have been better to have focussed on fewer outcomes, in order to reflect local priorities.

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<sup>9</sup> CLG 2009, 'Transforming Places, Changing Lives: Taking Forward the Regeneration Framework', par 18. <http://www.communities.gov.uk/documents/citiesandregions/pdf/1227732.pdf>

<sup>10</sup> It is interesting to see the All Party Urban Development Group (2010) advocating regeneration monies being allocated to areas unable to attract investment without public sector support: Next steps: a regeneration agenda for the next government.

However, it would be misguided to assume that 'sub-contracting out' regeneration policy to local authorities would be the right step to take. The NDC Programme points to benefits arising from central government engagement with local regeneration programmes. For example, expertise in CLG-and its predecessor departments-provided an invaluable input into strategic thinking; there were consistent efforts to ensure Partnerships were aware of, and in turn contributed to, the evidence base; and a centrally devised performance management framework made Partnerships look more critically at what they were doing and achieving. Moreover, it would now be easy to overestimate the scale of regeneration expertise residing in local authorities and their partners. And on a more parochial note, it is not for this author to comment on the value of the NDC national evaluation. But it can confidently be predicted that if regeneration policy is simply passed onto local authorities, the varied nature of initiatives which will then emerge, will make it difficult if not impossible to add to the evidence base. The centre should not abandon some 'framework' influence over regeneration policy.

### **3.2 Creating semi-autonomous agencies**

There are different ways of organising the implementation of local regeneration programmes. One immediate choice that will need to be made is that between establishing 'semi-autonomous' agencies somewhat detached from the local authority (the NDC approach), as opposed to a model whereby initiatives are more centrally embedded in the local authority, as tended to be the case with SRB and the WNF. This is not an issue where it is possible to point to a definitive answer. Not surprisingly, those associated with NDC, would point to benefits apparently arising from the 'semi-detached' model<sup>11</sup>, because this allows for:

- the build up of local expertise.
- continuity in relation to staffing, an important factor in developing good relations with local communities and other delivery agencies
- continuity with regard to leadership: at various times the evaluation has uncovered relationships between positive change and keeping NDC 'directors /chief executives' in post.
- a clearer focus on sustaining activity after regeneration funding ceases.

However, there are contrary arguments. There are costs in establishing semi-detached organisations. It took at least a year for most Partnerships to complete necessary administrative 'setting-up' tasks surrounding HR and financial processes. In all but one instance, the local authority in any event was the accountable body, so had to be heavily involved in these early tasks. Moreover, through time local authorities have played a critical role in helping NDC Partnerships especially with regard to the planning, funding and implementation of projects. They have to be centrally involved anyway.

### **3.3 Time and space**

The NDC model was premised on the assumption that transformatory change would require at least ten years, and that it was more likely to occur if activity was focussed on relatively

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<sup>11</sup> CLG 2010 'What Works in Neighbourhood-Level Regeneration? The Views of Key Stakeholders in the New Deal for Communities Programme'.

small areas. Both of these assumptions seemed entirely reasonable when the Programme was launched. However, subsequent evidence casts doubt on both.

- In retrospect ten years might be exactly the wrong time horizon to adopt as a standardised model. The comment is made earlier that the 'central-design' of the Programme made it more difficult for NDCs and their parent local authorities to be more imaginative in relation to issues such as time horizons. Ultimately the time horizons assumed by regeneration schemes should be driven by what they are attempting to achieve. If the primary objective is to improve the environment and reduce fear and incidence of crime via interventions such as neighbourhood management, then four years might be sufficient. In the NDC Programme a great deal of change in relation to 'place' occurred in the first four years for which there is change data: 2002-2006. At the opposite end of the spectrum, if the objective is radically to refurbish the area, evidence from this Programme suggests ten years may not be long enough! It is easy to underestimate time horizons required to devise and implement major refurbishment schemes in a complex institutional environment within which it is essential to secure the buy-in of various public, and private, sector bodies, and in a volatile economic context where sudden changes in sentiment can lead to projects being delayed or even abandoned<sup>12</sup>.
- It is however, possible to provide a stronger steer with regard to the preferred size of regeneration areas. Although on average each NDC area accommodates around 10,000 people, by 2007 totals actually varied from less than 5,000 in Plymouth, to over 21,000 in Hackney. Because of this range, it has been possible to see if population size is associated with change. It is: NDC areas accommodating larger populations achieved more change particularly in relation to people-related outcomes, a finding given anecdotal support from key stakeholders working in, or with, Partnerships<sup>13</sup>. This may be because agencies are more willing, and able, to improve delivery to larger groups of people. Perhaps too, having larger populations means there is more scope for capturing outcome change occurring to individuals in relation to worklessness, education and health: there are more people making more changes than is the case for areas with smaller populations. It is perhaps significant here too to point out that there are also associations between positive change and both larger NDC Partnership Boards and also larger projects. Perhaps bigger is better?

#### **4. Partnership Working in Regeneration: Lessons from the NDC Programme**

The third overarching theme addressed in this paper concerns partnership working. There has always been a debate surrounding the costs and benefits of ABIs engaging with existing, mainstream, delivery agencies. Evidence from the NDC Programme informs this question

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<sup>12</sup> As is evident in other programmes: CLG 2009 'Key Messages and Evidence on the Housing Market Renewal Pathfinder Programme 2003-2009'.

<sup>13</sup> CLG 2010 'What Works in Neighbourhood-Level Regeneration? The Views of Key Stakeholders in the New Deal for Communities Programme'.

and hence in turn has implications for the potentially more cohesive and integrated approach towards public services reflected in, for instance, 'Total Place'<sup>14</sup>.

The rationale for NDC Partnerships working with other agencies is clear enough. In theory benefits should flow from a strategy which embeds other agencies within NDC strategies. Mainstream agencies will, for example, contain expertise, experience and conceivably resources which can help Partnerships achieve their objectives. Liaising with agencies might too help sustain some initiatives after NDC funding ceases in 2011.

There are **positive things** to say arising from NDC narrative surrounding partnership working. In general, NDC Partnerships secured, and maintained, good relationships with key delivery agencies. By 2008, on average each NDC Partnership board had representation from seven delivery agencies. As the Programme evolved, relationships between NDC Partnerships and their parent local authority improved. To some degree this was a consequence of the experience of working together and becoming accustomed to what initially may have been new ways of working. In addition, the creation of LSPs and the establishment of Local Area Agreements, helped to prioritise the importance of delivering improved services throughout LADs. In that context, LSPs have increasingly drawn on the experience of NDC Partnerships in delivering wide-ranging, neighbourhood-based, ten year strategies. And there have also been other unexpected benefits arising from partnership working. Working with NDC Partnerships has, for instance, brought senior representatives from key public agencies into closer contact with disadvantaged areas than would have otherwise been the case.

But at the same time partnership working has highlighted some of the **tensions** which can arise when ABIs seek to work more closely with existing agencies. In the NDC context three of these are especially pertinent.

First, certainly in the early years, tensions arose from what be seen as the ethos of the Programme. To give one example: NDC Partnerships were to place the community at the heart of the initiative (a theme explored in more detail below), whilst at the same time engaging agencies to help deliver ten year strategies. But for many in the community, the problems of their neighbourhood had arisen exactly because of apparent previous failings in what agencies, notably 'the council', had done. The 'local politics' of agency engagement matters.

Second, and more fundamentally, different agencies have contrasting commitments to 'local space'. The notion of working within neighbourhoods is central to the remit of some agencies. It is not surprising that NDC Partnerships have had most 'significant engagement' with agencies which naturally operate in 'places' such as the police and local authority housing and environmental departments<sup>15</sup>. This did not change a great deal over time. In the early 2000s the evaluation team suggested partner agencies could be classified as either 'friends' (the police, LA environment departments, etc), acquaintances (e.g. PCTs and JCP), or 'strangers' (such as RDAs and Connexions). The rationale for that model remained robust throughout the Programme. In essence organisations with a spatial remit covering cities or regions, such as RDAs, or which focus primarily on individuals and families, including social services, have never really signed up to partnership working with area based regeneration agencies. And ultimately why should they?

Third, there can be tensions with regard to the objectives partnership working is intended to achieve. From the point of view of NDC Partnerships, working with other agencies has generally been seen in instrumental terms: securing more resources through which to support specific NDC interventions. But for many agencies, it is all a bit greyer.

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<sup>14</sup> HM Treasury, CLG 2010 'Total Place: A Whole Area Approach to Public Services'.

<sup>15</sup> CLG 2009 The 2008 Partnership Survey; Evidence from the NDC Programme  
<http://extra.shu.ac.uk/ndc/downloads/reports/2008%20partnership%20survey.pdf>.

There may want to engage with NDC Partnerships in order to show local political and institutional support. The police, have been keen for officers to experience 'neighbourhood policing', for which NDC areas provide an ideal laboratory<sup>16</sup>. In addition senior staff in some agencies, have seen helping their local NDC Partnerships as almost a personal crusade. However, at least some agencies have been less prepared to go very far down the road of signing up to local targets. Schools and JCP for example, are primarily driven by national targets and can, understandably, be reluctant to sign up to more, locally determined, objectives<sup>17</sup>. And, again not at all surprisingly, agencies may prove reluctant to provide what are genuinely 'additional' resources into NDC areas. There are exceptions. The somewhat limited evidence with regard to the kinds of interventions which may survive after NDC funding ceases, suggests that some police forces and some PCTs are keen to sustain initiatives initially devised by NDC Partnerships. However, in the final analysis there is not much evidence that agencies have been willing to provide a great deal of direct, **additional**, financial support. For each pound of NDC spend only a further 34p was secured from other public funds<sup>18</sup>. Although the evaluation team was never able to pin this down, there has certainly been anecdotal evidence that some agencies have been consistently reluctant to provide more money to 'resource rich' NDC areas. As Lambeth NDC's Chief Executive commented<sup>19</sup>:

*'The professionals were all ... very helpful in advising NDC how to spend its money – it was just very hard to find ways to get them to change the way they spend their own.'*

The key conclusion to all of this is that partnership working in regeneration needs to be going somewhere. It can be very easy to spend a considerable amount of time and effort liaising with agencies which ultimately will not, possibly because they cannot, provide real hard edged additionality into regeneration areas.

## **5. Engaging Local Communities: Progress and Pitfalls**

All regeneration programmes are faced with the question of how to engage with, and if possible benefit, the local community<sup>20</sup>. Placing communities 'at the heart' of the regeneration process is certainly one of the defining features of the NDC Programme. Perhaps more than for any other previous ABI, NDC Partnerships have made strenuous efforts to involve local people in the planning, design, delivery and review of their local programmes, not least through resident representation on NDC boards. And there have been some real successes. For instance:

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<sup>16</sup> It is interesting to see too how the police have been engaged in other place based initiatives; for instance CLG 2008 'Neighbourhood Management Pathfinders: Final Evaluation Report'.

<sup>17</sup> Education and health providers have proved difficult to sign up to other regeneration schemes; see for instance CLG 2009 'Delivering Mixed Communities: Learning the Lesson from Existing Programmes'.

<sup>18</sup> Other initiatives point to the problems in 'bending' resources into regeneration areas CLG 2010 'Evaluation of the National Strategy for Neighbourhood Renewal: Local Research Pilot'.

<sup>19</sup> CLG 2010 'What Works in Neighbourhood-Level Regeneration? The Views of Key Stakeholders in the New Deal for Communities Programme', par 4.34.

<http://extra.shu.ac.uk/ndc/downloads/reports/What%20works%20in%20neighbourhood-level%20regeneration.pdf>.

<sup>20</sup> The NDC experience is also relevant to more 'generic' community initiatives CLG 2010 'An Evaluation of the Community Contracts Pilot Programme'.

- there is a widely shared perception among key stakeholders that communities are stronger and more capable as a result of NDC interventions
- resident involvement has brought benefits to NDC Partnerships by shaping interventions and holding services to account
- local observers point to the benefits which resident board members bring to the operation of NDC Partnership boards, notably their ability to 'validate the additionality' of proposed projects<sup>21</sup>
- participation is associated with improved outcomes for individuals; those who have participated in the NDC Programme (in any way) are more likely to experience a range of improved outcomes compared with those who have not.

But this is a fraught arena. Four lessons from the NDC Programme are important in informing the 'community dimension' in regeneration.

First, it is easy to assume that deprived areas have an existing community capacity. Some NDC areas **lacked much in the way of community capital** when the Programme was launched. Despite heroic efforts on the part of Partnerships, it is not clear what will remain in some areas after Programme funding ceases. In this context too, it is important to appreciate that even these relatively small areas may contain several, not necessarily mutually supportive, 'communities'. It can be a delicate and protracted process to ensure each feels they are getting their 'fair share'. And that is to say nothing of non-residential communities, notably local businesses, who in general have played only a muted role in this Programme.

Second, there is an **inherent dynamism** to the 'community dimension'. In part this is driven by the reality that key players in the community move on. But in this Programme there was a more structural dimension to this too. It has never been clear what the community dimension meant. Was it about informing locals, 'empowering them', involving them in the governance, using them to 'validate' proposal, engaging them in the running of projects, or some combination thereof? In the very early days of the Programme the line from central government to local residents was 'it's your money'. But nobody really meant that. Indeed one sub-theme to the entire Programme has a steady retreat from that position. Regeneration programmes need to be clear from the outset as to the role and limitations of 'community involvement'.

Third, it is important to be **realistic about what can be achieved**. In this Programme some 'social capital' indicators (such as feeling part of the community, or thinking that neighbours get on with each other) have not changed a great deal. In part this is because even in this most intensive and long-term ABI most people do not engage with their local NDC to any significant degree. Only relatively small numbers of local residents have been directly involved in the formal processes of decision making and resource allocation.

Finally, what this Programme also shows is that there can be **tensions in engaging locals in devising and implementing ten year strategies**. In particular:

- local residents do not always fully appreciate the scale of problems impacting on their neighbourhood; for instance, there has been a tendency for residential representatives to overestimate problems of crime-when actual figures are often low and declining-and to underestimate problems surrounding-say-health.

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<sup>21</sup> CLG 2010 'What Works in Neighbourhood-Level Regeneration? The Views of Key Stakeholders in the New Deal for Communities Programme'.

- the local community is not always 'right': there can for example be an inclination to support worklessness projects which whilst possibly helping individuals concerned are unlikely to lead to positive 'into-work' outcomes; agency representatives need sometimes to challenge prevailing community views.
- and there can be especially acute problems when proposals are made to carry out extensive refurbishment plans; for NDC Partnerships this has inevitably meant working with private sector developers to increase owner-occupied accommodation in the area; there may well be very good reasons to do that in order to widen choice of housing and to modify local demographics; but not many, if any, existing residents will be in any position to benefit from extensive refurbishment schemes; it is not possible to guarantee regeneration programmes will bring positive change to all existing residents.

## **6. Decline and Underperformance at the Neighbourhood Level: Ten Lessons from the NDC Narrative**

- being realistic about what regeneration schemes can achieve: mainstream resources are much more important
- it is likely that greater discernible change will occur in relation to place, not people
- but there is case for delivering people-related neighbourhood-level interventions especially in worklessness and health, providing these are informed and driven by city-wide regional institutions
- areas most in need of interventions, including ex-public sector estates on the edges of non-core cities, may be those least likely to see change
- there are risks in 'sub-contracting out' regeneration policy to local authorities and their partners; but if the centre does retain a role it should help create more flexible programmes than is evident in the NDC Programme
- for instance ten years is not appropriate for all programmes, and it may be better to look to achieve a narrower, rather than a more comprehensive, set of outcomes
- bigger NDC areas, bigger projects and bigger Partnership boards are all associated with more positive change
- partnership working needs to be going somewhere: it is better to liaise with institutions having a natural 'neighbourhood remit' in order to secure pragmatic, measurable gains
- all regeneration programmes will have to engage with local residents: the NDC Programme points to the importance of ensuring clarity of objectives from the

outset, being realistic about the scale of change for social capital indicators, and ensuring agencies are prepared to challenge prevailing views in the community

- the NDC evaluation emerged with a positive cost-benefit equations using a shadow pricing methodology drawing on individual level data on quality of life, income, attitudes and so on; more conventional approaches towards CBA-such as those based on calculating benefits from more net jobs, fewer net crimes, and so on, are unlikely to be so positive in their conclusions: in an era when 'value for money' will become ever more important, regeneration schemes need to ensure adequate resources are made available through which to ensure robust evaluation evidence in relation to benefits arising from ABIs.

## Appendix 1: The NDC Programme: Brief Details

The New Deal for Communities (NDC) Programme is one of the most important Area Based Initiatives (ABIs) ever launched in England. Announced in 1998 as part of the government's National Strategy for Neighbourhood Renewal<sup>22</sup>, the Programme's primary purpose is to 'reduce the gaps between some of the poorest neighbourhoods and the rest of the country'<sup>23</sup>. 17 Round 1 Partnerships were announced in 1998 and a further 22 Round 2 schemes a year later. In these 39 areas, which on average accommodate about 9,900 people, local NDC Partnerships are implementing approved 10-year Delivery Plans, each of which has attracted approximately £50m of Government investment.

The Programme is based on a **number of key underpinning principles**:

- NDC Partnerships are carrying out 10-year strategic programmes designed to transform these deprived neighbourhoods and to improve the lives of those living within them.
- decision making falls within the remit of 39 Partnership Boards, consisting of agency and community representatives.
- communities are 'at the heart of the regeneration of their neighbourhoods'<sup>24</sup>.
- in order to achieve their outcomes, the 39 Partnerships have worked closely with other delivery agencies such as the police and Primary Care Trusts: the notion of working collaboratively with other delivery agencies is central to the Programme.
- partnerships are intended to close the gaps between these areas and the rest of the country in relation to:
  - three **place-related** outcomes designed to improve NDC areas: incidence and fear of crime, housing and the physical environment (HPE), and community.
  - and three **people-related** outcomes intended to improve the lives of residents in the 39 areas: health, education and worklessness.

Between 1999/00 and 2007/08 the 39 NDC Partnerships spent a total of £1.56 billion on some 6,900 projects or interventions. A further £730 million was levered in from other public, private and voluntary sector sources. Of the six outcomes, housing and the physical environment accounted for the greatest proportion of spend: 31 per cent of all non-management and administration NDC expenditure, or £427 million (Figure 1.1). In contrast, £139 million was spent on measures to tackle crime, roughly one tenth of overall Programme spend.

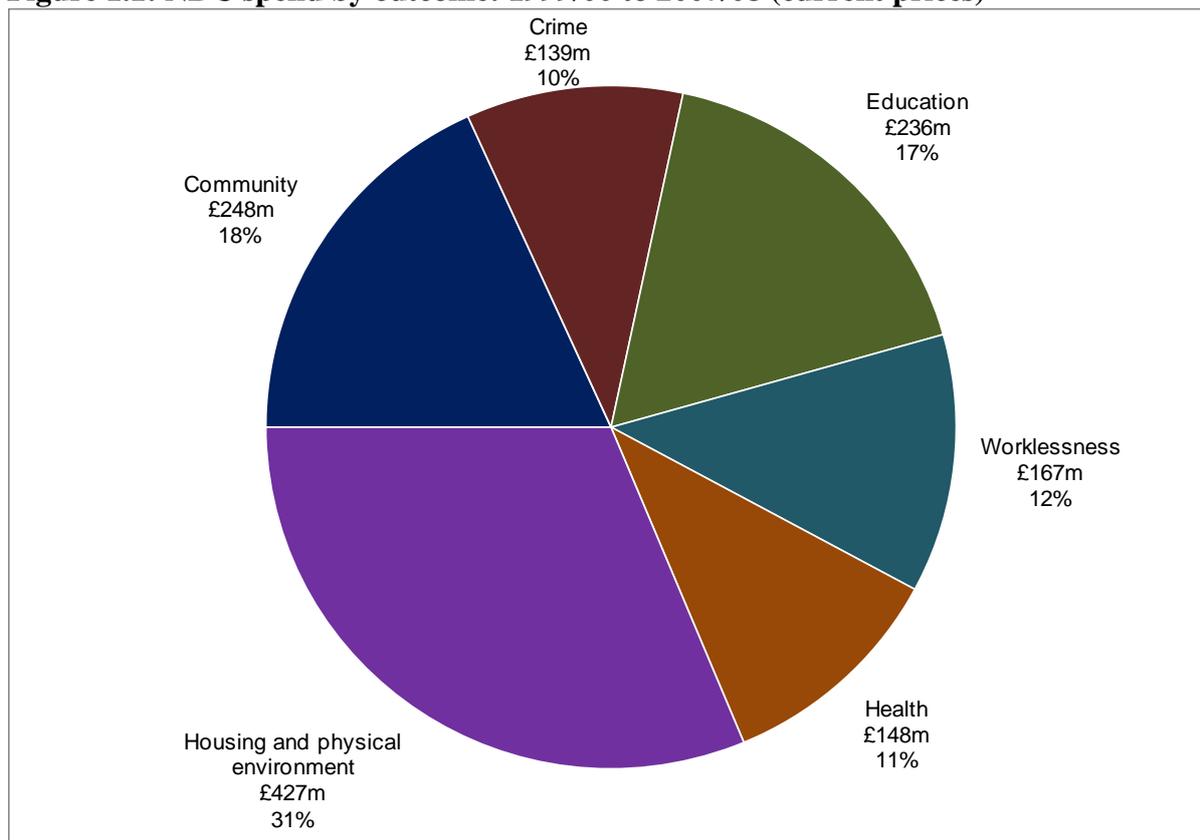
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<sup>22</sup> HM Government 1998 Cm 4045 'Bringing Britain Together: A National Strategy for Neighbourhood Renewal'.

<sup>23</sup> DETR 2001 'New Deal for Communities: Financial Guidance'.

<sup>24</sup> ODPM 2004 'Transformation and Sustainability: Future Support, Management and Monitoring of the New Deal for Communities programme, 11'.

**Figure 1.1: NDC spend by outcome: 1999/00 to 2007/08 (current prices)**



Source: CEA, System K

Key data sources available to the **evaluation** include:

- Four NDC household surveys were carried out in all 39 NDC areas by Ipsos MORI in 2002, 2004, 2006 and 2008; overviews of main findings for the periods 2002-2006<sup>25</sup> and 2002-2008<sup>26</sup> have previously been published; sample sizes in each NDC area vary wave on wave but provide for robust analysis at the NDC area level; the design of the survey also allows for the creation of a longitudinal panel of respondents who were revisited wave on wave of the survey.<sup>27</sup>
- Equivalent household surveys were carried out in comparator areas: similarly deprived areas within the same local authority districts as each of the 39 NDCs.<sup>28</sup>
- Administrative data has been provided by the Social Disadvantage Research Centre (SDRC) for all 39 NDC, and also 39 comparator areas<sup>29</sup> including

<sup>25</sup> CLG 'New Deal for Communities National Evaluation: An Overview of Change Data', 2006.

[www.neighbourhood.gov.uk/publications.asp?did=1898](http://www.neighbourhood.gov.uk/publications.asp?did=1898)

<sup>26</sup> CLG 2009 'An Overview of Cross-sectional Change Data: 2002-2008: Evidence from the New Deal for Communities Programme'.

<sup>27</sup> For further details of this panel see CLG 2009 'Four Years of Change? Understanding the Experiences of the 2002-2006 New Deal for Communities Panel'.

<http://extra.shu.ac.uk/ndc/downloads/reports/Four%20years%20of%20change%20main%20report.pdf> and Volume 5 of this Final Suite of reports.

<sup>28</sup> Brief notes on how comparator areas were selected and sample sizes.

<sup>29</sup> These comparator areas are not necessarily the same as those where data is collected for the household surveys. See CLG 2010 'New Deal for Communities Evaluation: Technical Report; Chapter 3'.

evidence in relation to worklessness benefits, pupil level educational attainment rates, and house prices; administrative data can be benchmarked against change occurring both nationally and in parent local authority districts.

- NDC expenditure and 'matched funding' by Partnerships and associated information on quantifiable outputs generated by projects.
- 193 project level reviews have been undertaken to inform questions such as the degree to which NDC projects have levered in funds from other sources, any displacement of existing projects, and the scale to which any benefits 'leak out' of NDC areas; these have been weighted to be representative of all six Programme outcomes.
- In 2004 a survey was carried out of some 1,008 project beneficiaries in 23 NDC areas; this sought evidence on residents appreciation of the quality of life/satisfaction in the NDC area, their involvement with the project and what they felt the local NDC had been able to achieve; questions also probed how projects had changed status and quality of life, whether respondents believed this provision to be additional to the area, and where, if at all, they might have accessed similar provision either within, or outside, the local NDC area.

## Appendix 2: Recently Published NDC Evaluation Reports

All reports from the evaluation can be accessed at:

[http://extra.shu.ac.uk/ndc/ndc\\_reports\\_02.htm](http://extra.shu.ac.uk/ndc/ndc_reports_02.htm)

**Volume 1: The New Deal for Communities Programme: achieving a neighbourhood focus for regeneration.** This report explores the model underpinning the NDC Programme. It considers its key features, including the focus on partnership working and having a strategic approach over 10 years. It examines the implications of developing and managing regeneration over a 10 year period, implementing a holistic approach to regeneration, and strategies for sustainability. The volume concludes with some reflections on the advantages and limitations of the 'NDC model'.

**Volume 2: Involving local people in regeneration: evidence from the New Deal for Communities Programme.** This report examines the rationale, operation and consequences of the Programme's aim of placing communities 'at its heart'. It outlines the strategies, resources and interventions employed in engaging residents. It explores the extent to which residents have been engaged and the impact of resident involvement on partner agencies, NDC Partnerships and residents themselves.

**Volume 3: Making deprived areas better places to live: evidence from the New Deal for Communities Programme.** This volume considers the nature, operation and successes of NDC interventions designed to improve the 39 NDC areas. It focuses on evidence related to the three place-related outcomes of crime, community, and housing and the physical environment.

**Volume 4: Improving outcomes for people in deprived neighbourhoods: evidence from the New Deal for Communities Programme.** Complementing volume 3, this report considers the nature, operation and successes of NDC interventions designed to improve outcomes for residents living in the 39 NDC areas. It focuses on the three people-related outcomes of health, education and worklessness.

**Volume 5: Exploring and explaining change in regeneration schemes: evidence from the New Deal for Communities Programme.** Some areas and groups of individuals have experienced greater, or lesser, amounts of change compared with others. This report considers factors which help explain why this might be the case.

**Volume 6: The New Deal for Communities Programme: assessing impact and VFM.** This report uses all of the evidence available to the evaluation in order to identify the impact of, and cost and benefits arising from, the NDC Programme. This report outlines the net additional outputs and outcomes delivered by the Programme over the period 1999/2000-2007/2008. The report also provides an assessment of the degree to which the programme delivered value for money over the period 2002-08.

**Volume 7: The New Deal for Communities experience: a final assessment.** This final report in the set provides a synthesis of evidence from the other volumes. It provides an overview of how well the Programme has met its objectives in terms of transforming the areas, closing gaps with what is happening nationally, achieving value for money, working with partner agencies and engaging the local community.

## **New Deal for Communities Evaluation Theme Reports: indicative examples**

### *Education*

**Improving attainment? Interventions in education by the New Deal for Communities Programme.** This report focuses on interventions and outcomes in the field of education. It details the strategies and interventions developed by four case-study NDC Partnerships to address issues of low educational attainment prevalent in their areas, as well as looking at Programme-wide change. The report also looks at the sustainability of the NDC approach, and draws lessons for both central government and local regeneration partnerships.

**Narrowing the gap? Analysing the impact of the new deal for communities programme on educational attainment.** This report uses individual level longitudinal data to analyse the impact of the NDC Programme on educational attainment for children living in the NDC Partnerships between 2002 and 2007. The approach taken in this research is able to determine if educational attainment outcomes have improved over and above improvements that might have been expected in the absence of the NDC Programme.

### *Housing the physical environment*

**Interventions in housing and the physical environment in the New Deal for Communities Programme.** This report reviews the activities undertaken by the NDC Partnerships from 1999 until early 2009 in the domain of housing and the physical environment.

**Tenure and change in deprived areas: evidence from the New Deal for Communities areas.** This report examines the possibility that different patterns of tenure in deprived areas may make a difference to how much change an area is likely to experience over time, using evidence from the NDC areas. The relationship between concentrations of social housing, socio-demographic profiles of areas and achieving change across a range of key indicators is explored.

### *Health*

**Health interventions and their impact in NDC areas.** This report examines interventions designed to improve health outcomes for NDC residents, and explores their subsequent impact. It draws on case study research in four NDC areas, as well as Programme, and national, -level outcome data. The report also looks at the sustainability of the NDC approach, and draws lessons for both central government and local regeneration partnerships.

### *Community engagement*

**Running a regeneration programme: the experiences of resident representatives on the boards of New Deal for Communities Partnerships.** This report examines the experiences of resident representatives on NDC boards. It examines how and why local people become involved in running regeneration programmes in deprived neighbourhoods, and their experiences in these roles. It draws on a telephone survey conducted with past and present resident board members.

### *Crime*

**Crimes occurring and prevented in NDC areas - an approach to estimating the economic costs and benefits.** This report seeks to quantify the economic cost of crime in NDC Partnership areas, and explores whether there is any evidence that the NDC Programme may have resulted in reduced crime in NDC areas, and therefore, reduced costs of crime.

### *Economic deprivation*

**Tracking economic deprivation in NDC areas.** This report focussed on changes in levels of economic deprivation in NDC areas between 1999 and 2005, looking at how progress compares with similarly deprived areas, as well as change in the wider locality. It draws on analysis of the Economic Deprivation Index (EDI), which allows deprivation to be tracked over time at a small area level.

### *General*

**What works in neighbourhood-level regeneration? The views of key stakeholders in the New Deal for Communities Programme.** This report examines the views of key stakeholders in 8 NDC areas which have seen considerable positive change between 2002 and 2008. It offers insight into the experiences of regeneration practitioners working in some of the most deprived neighbourhoods in the country. Topics covered include the issues around planning ten year strategies, the role of partners and the local community in regeneration programmes, and impact at the local level. It concludes by outlining lessons for policy and practice.

**Neighbourhood level regeneration and public expenditure: findings from the Bradford New Deal for Communities Area.** Research focussing on the Bradford NDC area attempted to gather data on the totality of public expenditure going into the area and to see whether the patterns of expenditure from different services have changed over time. This report provides valuable contextual information on how NDC Programme spend in a small area compares with overall public expenditure in that area.

# Policies to Help People in Declining Places

Henry G. Overman

## Executive Summary

This policy paper challenges many aspects of the ‘place-based’ approach to helping declining places. It argues that focusing public expenditure on “turning around” declining places has not worked; that policy should instead focus primarily on people (e.g. through skills investment) and on improving incentives and removing regulatory barriers to development.

*What causes spatial disparities?* Places appear very unequal. But it is hard to work out what spatial differences mean in terms of what a place offers to people who live and work there. Composition effects as a result of sorting are much more important than area effects. Earnings disparities between areas are uninformative about differences in wellbeing unless we take account of differences in composition, costs of living and local amenities.

*Policy should be assessed by impact on people not places.* In the recent past, policy has been too heavily focussed on public expenditure to “turn around” declining places; policy has paid too little attention to individuals and to housing costs and amenity differences.

*There is little evidence that policy has significantly reduced ‘the gap’ between areas.* There is no compelling evidence that RDAs are a good or bad thing nor that there are benefits to approaches such as ‘clusters’ or targeting small businesses.

*Neighbourhood policies provide important public goods but not economic development.* Area Based Initiatives (e.g. New Deal for Communities, Neighbourhood Renewal Fund and Housing Market Renewal Pathfinders) provide public goods such as social housing and public spaces. There is a (possibly large) consumption value to these goods. But there is no compelling evidence that they meet objectives of narrowing the gap between disadvantaged individuals and the rest.

*Policies around education and ‘up-skilling’ workers have a spatial perspective.* Policy needs to focus on improving the skills of individuals and be realistic about the fact that those with new skills may choose to leave an area. There should be much less focus on policies based on attracting skilled workers to move to disadvantaged places. Even if successful, increased numbers of skilled people in an area may negatively impact lower skilled residents.

*There has been too much emphasis on one size fits all policies for land use and housing.* Declining places with low house prices should not increase housing supply – this simply reduces relative house prices further. Increased housing density has side effects on costs and congestion and unknown effects on carbon. National policies emphasising brownfield land, high density, city centres, mixed-use, and further building regulations (e.g. energy efficiency) cumulatively increase costs of new development which may disproportionately affect disadvantaged areas where commercial and residential property prices are low.

*Bad housing outcomes reflect an income as much as a housing supply problem.* Explore options like housing vouchers and better understand how housing benefit and social housing systems interact with local economies.

*Policy should focus on encouraging labour market activity and removing barriers to mobility.* This means expanding housing supply and reducing costs of living in relatively successful places. This will require a softening of restrictive planning and national top-down guidelines. Decentralisation of decisions needs to be accompanied by large enough incentives for local authorities and compensate existing residents to ensure development is agreed.

## **1. Introduction**

Policy in Britain has been too focused on public expenditure to “turn around” declining places. These policies have not been very successful. Given the need to cut public expenditure, we have to identify priority areas of expenditure and consider more radical changes – such as reforming land use planning – to help address issues arising from spatial disparities. Interventions should be judged primarily on the extent to which they benefit *people* living in declining places.

## **2. What Causes Spatial Disparities?**

Places in the UK are unequal in terms of earnings, employment and other socio-economic outcomes. Policy often seeks to reduce these disparities. But these disparities are simply aggregates of the outcomes for people who live and work in different places. They do not measure the advantages or disadvantages that a place offers to people. To develop policy we need to know to what extent area disparities arise because of the characteristics of people (composition) versus different outcomes for the same types of people in different places (area effects).

Evidence from Gibbons, Overman and Pelkonen (2010) shows that:

- i) Composition effects as a result of sorting are much more important than area effects;
- ii) Despite many decades of intervention the places with the worst area effects have seen little, if any, catch-up with better places;
- iii) Any catch-up has been offset by greater sorting so area wage disparities are very persistent across time.

Earnings disparities between areas are uninformative about differences in wellbeing unless we take account of costs of living and local amenities. As most people are free to choose where they live places with high wages should have high housing costs or low quality of life. Preliminary research (Gibbons, Overman and Resende, 2010) shows a clear link between area wages and house prices:

- i) On average, higher area wages are exactly offset by higher housing costs so high *nominal* wage locations do not pay higher *real* wages (i.e. net of housing costs).
- ii) Places with better amenities pay lower *real* wages.
- iii) Sorting by people in response to wage, price and amenity differences results in concentration of low skilled people in low wage places.

We can draw a number of lessons for spatial policy and for policy aimed at declining places:

*Area averages are not very useful wellbeing indicators.* Differences in average incomes across neighbourhoods or regions reflect the interaction of area effects and the sorting of people. High wages tend to be offset by high house prices or low quality of life so income differences on their own are not very useful indicators of differences in wellbeing.

*Policy should be assessed by its impact on people not places.* People trade off wages, cost of living and amenities and can move in response to changes in any of these. As a result the impact on observed area differences offers a very poor guide to the overall effects of policy on individuals.

*In practice, policy has been too heavily focussed on places.* Area effects mean that living in some places negatively affects individual outcomes. The usual response is to try to improve “bad” areas. An alternative would be to focus on improving outcomes for people who live in bad areas. The focus on area differences biases policy towards the first response. Unfortunately, evidence suggests this has not been successful as area effects are very persistent. This argues for a greater focus on improving outcomes for individuals including, possibly, removing barriers that prevent people relocating to better areas.

*Policy pays too little attention to house prices and amenities.* Planning decisions play a key role in generating area disparities because people and firms sort in response to both wages and local costs. Similarly disparities in amenities matter because high quality of life compensates people if wages are low relative to the cost of living. Local policy makers have policies that directly affect house prices and amenities and relatively few that affect wages and employment.

### **3. Policy Options to Help People in Declining Places**

#### **3.1 Institutional context: RDAs versus LEPs**

The previous government aimed to ‘improve the economic performance of all English regions and reduce the gap in economic growth rates between regions’. Regional Development Agencies were created to achieve this. The devolved administrations have agencies with similar objectives. There is little evidence of *significant* progress against these objectives. A recent assessment (August 2009) by BIS reports ‘some progress’. Between 2002 and 2007, five regions improved on baseline (1990-2002) while four regions saw weaker growth. In terms of narrowing differences, assessment is based on the gap in growth rates between the Greater South East and the North, Midlands and South West. Again, comparing to 2007 against the baseline suggests a small improvement: the gap has fallen from 0.6 to 0.5 percentage points. But add in the 2008 downturn and the gap *rises* to 0.7.<sup>30</sup>

It is hard to assess the role played by RDAs. PriceWaterhouseCoopers found that £1 spent added £4.50 to regional GVA. These numbers seem high as the evaluation attributes things to RDA activities when they (or something else) would have happened regardless. Estimating the ‘additionality’ of policy interventions is difficult, but the approach taken by most RDA evaluations (asking project managers or recipients) is close to the bottom of the ranking in terms of rigour. Taking these figures at face value, given that there has been no

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<sup>30</sup> Data taken from ‘Key Indicators’ (<http://stats.berr.gov.uk/reppsa2/>) accessed 25/01/10.

significant progress either (i) RDAs were no more effective than previous arrangements or (ii) RDAs were more effective but private sector growth that is *not* reliant on public sector support has dropped markedly since their creation. In short, there is essentially no compelling evidence as to whether RDAs did well or badly.

The White Paper on Local Growth committed the coalition government to replacing RDAs with Local Enterprise Partnerships the structure of which will be based on proposals put forward by Local Authorities. In line with its decentralisation agenda the government will leave these LEPs to formulate their own objectives (although the process of accepting LEP proposals appears to be placing some limits on this). Regardless of these local objectives, the coalition government has committed itself to a rebalancing of the economy. It has established a £1bn Regional growth fund to help achieve this objective by encouraging private sector enterprise and supporting areas that are particularly hard hit by public spending cuts. The details of what rebalancing might mean and the longer term implications for policy remain to be formalised, but discussions to date highlight three issues (i) the amount of private relative to public sector employment; (ii) the structure of the economy in terms of manufacturing versus services; (iii) the extent to which the economy of some areas lags behind that of others. Clearly, policy to address any of these imbalances will have important implications for declining places.

### **3.2 Traditional regional and local economic development policy**

One possible response to the persistence of area disparities and area effects is to try to improve the impact of traditional policy. Bartik (2004) summarises existing US evidence. It suggests that:

- i) Tax incentives are effective at redistributing *within* urban areas. But they are costly and easily offset if labour or land costs in poor areas are too high (e.g. due to national pay setting or local land regulations).
- ii) ‘Extension’ activities to improve productivity (e.g. benchmarking) can be cost-effective.
- iii) There is little evidence on the benefits of ‘cluster’ or high tech approaches.
- iv) The case for targeting small businesses is not compelling because most sell locally so the possibility that those receiving help simply displace activity at other local businesses is a real risk.
- v) Evidence on policies targeted at deprived neighbourhoods is mixed.

There are lessons here for LEPs and for the coalition government. First, there needs to be serious consideration given to the issue of local authority finance. The coalition government has some proposals on the table regarding the retention of business rates by local authorities, but the rates themselves would remain centrally determined. The US evidence points to an important role for tax rates as a redistribution mechanism *within* urban areas. Second, although tax incentives are effective, they are easily offset by other cost differentials. This explains why tax incentives are more effective at redistributing within urban areas (with similar costs) rather than between urban areas where other factors are likely to dominate. This raises questions about the likely effectiveness of the national insurance break in addressing persistent disparities because any tax advantages may be easily offset by productivity differences across areas that are not fully reflected in cost differences across areas (even if it

may play some short term role in terms of offsetting local shocks). In the long term, the central cost differential issues concern national pay setting and local land use regulations. The latter, in particular, are likely to be crucial. Cheshire and Hilber (2009) report that commercial rents in Birmingham are twice those in San Francisco (mostly because Birmingham's planning restrictions are more restrictive than San Francisco - itself a highly regulated city for the US). We discuss this more below. Third, national government and RDAs often placed cluster and high tech strategies at the heart of development efforts despite the fact that there is very little evidence to support their effectiveness. It is reasonable to suspect that LEPs will, unfortunately, continue this emphasis when they would be better advised to focus on issues around the general business environment rather than the performance of particular sectors. Fourth, problems of access to capital for small firms as a result of the banking crisis need to be separated from the role of small business in local development. The evidence that policy needs a specific small business focus in declining places is weak. The final lesson concerns the mixed evidence on neighbourhood policy, an issue which we now consider in some depth.

### 3.3 Area based initiatives

The previous government introduced various policies aimed at improving neighbourhood outcomes. The National Strategy for Neighbourhood Renewal focused on deprived neighbourhoods aiming to ensure that within 10-20 years, no one would be seriously disadvantaged by where they live. As well as directing mainstream funding, specific programmes were associated with this objective: the New Deal for Communities, the Neighbourhood Renewal Fund, Housing Market Renewal Pathfinders and the Working Neighbourhoods Fund. Working out the impact of these policies on deprived neighbourhoods is difficult. Expenditures have provided public goods to deprived areas, for example, through improved social housing and public spaces. Aside from the consumption value of these goods, there has been little progress in narrowing the gap between outcomes for the most disadvantaged individuals and the rest.<sup>31</sup> Of course, things may have been worse without these policies. But as with RDAs, there is little compelling evidence on the impact of these initiatives.<sup>32</sup>

The evaluation of the NDC is more rigorous.<sup>33</sup> The NDC spends £400 per household per year in 39 of the most deprived areas of England. Evidence on its impact to date is underwhelming. According to the summary of the recent evaluation:<sup>34</sup>

‘NDC areas are experiencing positive change, some of which is over and above that occurring in the comparator areas.’ Specifically, ‘[a]fter controlling for base characteristics, residents in NDC areas have on average seen statistically greater positive change in relation to their satisfaction with the area compared with comparator residents [...]. This is not, however, the case when a respondent’s initial level of satisfaction is included.’

In the full report, controlling for socio-demographic factors individuals in NDC areas did *worse* on two to seven out of 15 indicators. In other words, based on the best available

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<sup>31</sup> National Equality Panel (2010).

<sup>32</sup> For example, the recent evaluation of the NRF states that: ‘There is very limited data available to evidence outcomes at a local level. Therefore we provide comment on who benefited from NRF based on how funds have been targeted and stakeholder perceptions of the outcomes arising.’

<sup>33</sup> See <http://extra.shu.ac.uk/ndc/>.

<sup>34</sup> <http://www.communities.gov.uk/publications/communities/afinalassessment>.

evidence, a reasonably well-funded area policy has not, on average, improved individual outcomes in targeted areas.

The report leaves some wriggle room. There may be policies in comparison areas that are as successful – although it seems unlikely that they could be as costly as NDC. It is also early days for NDC – although the evaluation suggests that the largest gains came first. The report itself suggests:

‘There can be no assumption that “success” is best measured in relation to what happens to individuals as opposed to what happens to these areas over time’.

This is baffling. If such policies have equity objectives – e.g. helping the disadvantaged – then as discussed above we should care about what happens to individuals *not* areas. That the evaluation suggests the opposite highlights confusion about what policy could and should try to achieve.

In the light of this mixed evidence base on the effectiveness of many existing interventions, some have begun to argue for alternative approaches.

### **3.4 Improving the local skills base**

We can think of traditional regional development and regeneration policies as targeting negative area effects in disadvantaged places. As discussed above low house prices mean a disproportionate number of low skilled people live in these places. Instead of trying to negate area effects, policy could focus instead on changing skill composition either through increasing skills of existing residents or by attracting new higher skilled people. Indeed, the evaluation of NDC just discussed raised the possibility that the latter should be considered as an explicit objective of policy at the neighbourhood level. We consider each in turn.

#### *Up-skilling and education*

Skills policy in the UK is in transition. From a spatial perspective there are several open questions:

- i) *Should we better join up skills policy (devolved) and employment policy (not devolved)?* Better coordination of training, particularly for people frequently shifting employment status, may improve outcomes.
- ii) *Should devolved skills policy respond to local demand or focus on general skills?* This is a poorly understood issue. Under current arrangements there is an (implicit) bias towards addressing local sector skill needs. We do not know if this is best for individuals.
- iii) *Who should deliver and fund local training?* One issue is that people may move elsewhere once trained. This has implications for who should pay for funding (it argues against purely local funding) and also suggests local policy makers may not have strong incentives to improve individual skills. This is a good example of an issue where focussing on area outcomes is a very poor way to assess policy.
- iv) *What is the best way of improving schooling outcomes in poorer areas?* A key question is the role of school system reform versus extra expenditure. There is evidence that a pupil premium attached to poor pupils would help to address inequalities because between LA funding is more redistributive than within LA funding. At larger spatial scales this may be less of an issue (as redistribution

occurs via LA funding). There is some evidence that attracting higher quality teachers would enhance outcomes. Declining areas have an advantage as national pay scales and low house prices mean they pay high real wages but this appears to be insufficient to offset the negative non-pecuniary costs (e.g. stress) of teaching in deprived areas. The evidence on a link between choice and achievement (which would be addressed by the coalition government's academies and free school policy) is weaker.

### *Attracting skilled people*

Places with large numbers of skilled people do better, respond better to shocks etc. This has led to a wave of policy prescriptions based on attracting skilled people as a means of improving the fortunes of weak performing towns and cities. This may be effective policy for a small number of places that are already attracting more skilled people. However, even when successful the benefits to existing (poorer) residents in declining places are almost certainly overstated and possibly negative. Because this policy is so poorly understood, it is worth considering the issues in some detail, even if the conclusion is that policy initiatives in this area are not appropriate for many declining places.

- i) *The regeneration potential of city centre living has been exaggerated.* There has been an increase in the number of highly skilled people living in previously run down city centres. This likely reflects improvements in levels of crime, the built environment and other amenities as well as three demand-side factors: empty-nesters choosing city centres for consumption reasons; people delaying family formation; increased participation in higher education. For some cities (e.g. Manchester, Leeds and Newcastle) improving central locations has attracted more skilled people. For the majority of places, however, central locations remain highly unattractive because the amenities they offer in terms of accessibility to employment and consumption are not sufficient to offset other negative factors. This is particularly true for families as single family homes remain much more popular than any of the multi-family urban housing options. These preferences mean that while city-centre improvements may bring benefits to existing residents (including the poor) the usefulness of this policy as a means of attracting highly skilled workers to declining places is certainly overstated.
- ii) *Most people prefer lower density, private space and private transport.* Cities that improve amenities will be more attractive to the higher skilled. Aside from consumption amenities just discussed, the evidence points to willingness to pay for easy access to jobs, better education, lower crime, more open space and good transportation. Recent policy has emphasised density, public transport and spaces (e.g. parks) to supply the latter two amenities. Public open space is important in dense neighbourhoods (because private open space is minimal) and good public transport is one reason why low income households (without access to a car) favour larger cities. Unfortunately, this does not change the fact that willingness to pay is higher for *private* space and transportation.
- iii) *People are willing to trade private space for good access to jobs and amenities.* When city-centres offer good access to jobs and other amenities (as in London) then these benefits can outweigh those of more private space and better transportation in the suburbs. Such places will tend to be higher density and this higher density may then offer additional benefits. Note, however, that the

causality runs from attractiveness to density. Simply increasing density in unpopular places is unlikely to deliver benefits that outweigh the disadvantages. Emphasis on brownfield and higher densities in *low* amenity locations works against the objective of attracting the high skilled.

- iv) *People prefer to pay less for housing.* An alternative to trying to attract skilled people through better amenities is to attract them through lower house prices for big houses in nice neighbourhoods. We deal with this and land use more generally below.
- v) *It is difficult for policy to increase demand for high skilled workers in declining places.* Another alternative is to increase high skilled wages by increasing demand. Fiscal incentives to firms in declining places may achieve this (e.g. support for high tech). Decisions around universities, research funding and government employment are other levers. Funding councils constrain admissions at popular universities. Allowing popular universities in disadvantaged places to expand (conditional on student demand) would increase the demand for high skilled people. More radically, removing the cap on student fees would allow these universities to exploit their cost advantage (in terms of pay and land costs). Coalition government proposals outlined in the Brown report, to lift but not abandon the cap, appear to have limited this possibility (because most universities look set to charge fees at the new higher cap). Again, however, as a tool for benefiting declining places, differential pricing would benefit few places. Public sector relocation could play a role. However, national pay scales mean public sector wages do not vary as much as private sector so public sector employment in disadvantaged areas must crowd out some private sector. More work is needed on the role of public sector employment as a prop to disadvantaged areas. But as the Lyons and Smith reviews make clear, local pay setting is crucial to realising any benefits.
- vi) *Spreading out 'high tech' employment may be bad for innovation.* Policies involving the distribution of research funding and the promotion of high tech firms have to address crucial questions around the loss of benefits that existing concentration brings in terms of the production of knowledge and the operation of highly specialised job markets. The evidence suggests these benefits are important which means that spatial redistribution may have negative effects on innovation.
- vii) *Attracting high skilled may make the lower skilled worse off.* Some amenities (e.g. lower crime) benefit all individuals and should be preferred to those targeted at specific types of people. If policies aimed at particular types of people are successful in attracting those with higher incomes, then rising house prices may mean that lower skilled people are worse off. In the absence of evidence of strong spillovers from skilled to unskilled at the city level, policies to attract skilled people may improve area averages while making the lower skilled worse off. One needs only to look at deprived areas within London to see that these negative cost effects can be significant.
- viii) *Mobility of high skilled constrains local redistribution.* Policies that rely on attracting skilled people must recognise that redistributing *locally* from those people is difficult as a result of the fact that they are clearly mobile.

The objective of attracting skilled people has been pushed by a number of policy advocates and has proved highly appealing to policy makers. However, it is hard to see the policy succeeding for any but a small number of places that are already attractive to skilled people. Even when successful the benefits of the policy to existing (poorer) residents in declining places are almost certainly overstated and possibly negative.

### 3.5 Local land use

This section considers general issues relating to land use. Urban policy in this area has suffered from two problems. First, the evidence to support current land use policies (e.g. brownfield targets, mixed communities etc) is weak and the interaction between land markets and the wider economy has been poorly understood. Second, there has been a strong tendency to assume the appropriate land use policy is the same across all places independent of local conditions and preferences. Coalition government proposals to decentralise planning decisions look set to partially address the latter problem although there are real concerns about the overall effect of these reforms on the supply of residential and commercial properties.

Because housing is durable, falling demand lowers prices (rather than reducing supply) so housing is cheaper in declining cities. Cheaper housing is relatively attractive to low paid people. In addition, land constraints in more successful places raise prices. As the low skilled wage premium in successful places is small relative to the house price premium this exacerbates income sorting across successful and declining places. The concentration of low paid people can be reinforced if there is negative feedback (evidence is limited) or if local fiscal conditions worsen. The latter may not yet be a major issue in the UK as much LA funding comes from central government in a way that offsets variations in local revenues.

UK housing policy has traditionally focused on housing conditions of the poor. The analysis on what may work to improve housing conditions at the neighbourhood scale says little about the role that land use plays in the functioning of the city and the broader economy. A better understanding of these broader issues raises a number of crucial concerns about urban policy.

- i) *Government should not fund additional supply in declining places with low house prices.* Housing Market Renewal Pathfinders have had government funded new-build rates running at around 10% of demolitions. Such increases supply housing in unpopular locations, reinforce relative house price effects and increase the over-representation of the low-skilled in the area.
- ii) *Benefits of high density, mixed use overstated.* Urban policy has placed strong emphasis on increasing densities and changing the composition of local housing to encourage income and tenure mixing. It is argued that higher densities support local shops and public transport. It is also claimed that higher densities are better for the environment. Income and tenure mixing are said to be more in keeping with historical patterns, to deliver benefits to poorer households and to improve the functioning of the neighbourhood (and by extrapolation the city itself). All of these claims are open to challenge. They are often supported by little, if any evidence, and fail to satisfactorily address important concerns about these policy prescriptions.
- iii) *Costs of high density ignored.* The emphasis on local shops ignores the role of big box retail in lowering the cost of living, particularly for low income families for

whom issues of price are more important than quality. Town centre first policies force big boxes to down size downtown (e.g. Tesco Metro) raising costs and increasing competition for local stores. Smaller stores increase the distribution costs of serving a given number of customers (with knock on effects to traffic congestion). Locating retail facilities in town centres far from residents may increase the number of miles travelled per shopping trip (and these journeys occur on more congested roads). Higher densities do not guarantee that public transport will be used. If it is not, the resulting congestion has high social costs, including in the generation of additional pollutants per mile travelled. Higher densities and smaller housing units encourage second home owning, while small amounts of private space increase the consumption of public open space which may require travel from home. In short, systematic analysis of the social and environmental impacts of higher versus lower densities is in its infancy and it is striking that policy has accepted one set of arguments (higher density good) without any attempt to disentangle these effects. This is particularly puzzling because there is strong evidence that private space is highly valued.

- iv) *Costs of mixing ignored.* The evidence on tenure and income mixing also raises questions about the underpinnings of policy. Spatial segregation of income is highly persistent and greater integration goes against historical trends not with them. The notion that mixed neighbourhoods deliver positive benefits to poorer residents is contested and fails to take account of the fact that there are also costs (e.g. in the loss of retail services targeted at the poor). Richer individuals demonstrate strong preferences against mixing. Once again it is striking that policy has accepted one set of arguments (mixing good) without disentangling these effects and thinking through the implications for the functioning of the city. For example, in disadvantaged areas planned mixing makes new developments less attractive to the high skilled than they otherwise would be which works against the objective of attracting higher skilled residents to these developments. The strong emphasis on encouraging mixing through what gets built has also meant that other methods for encouraging mixing – for example through the provision of public spaces, educational facilities and other amenities – has received much less attention, so we have little idea of the relative merits of different interventions in achieving policy objectives.
- v) *All else equal, dense, mixed use, mixed tenure housing is less popular.* Dense mixed use developments in city centres are expensive to build, particularly if social housing units are built to similar standards as private. Further, as discussed, urban family housing units are not popular. In short, the existing emphasis on high density, mixed use, mixed tenure housing means declining cities provide developments that are likely to be unpopular with the people who have choice about their location.
- vi) *Demolition and densification often unpopular with existing residents.* When these higher density developments are created by the demolition of existing housing these policies often prove unpopular with poorer residents who already live in these neighbourhoods. This is particularly true when policy involves government identifying specific areas to be subject to redevelopment with little regard to small scale spatial variations within those neighbourhoods.

- vii) *Brownfield land is costly do develop.* In addition to these wider concerns, building on brownfield rather than Greenfield land raises the overall construction cost of new commercial and residential space.
- viii) *Policy makes for new developments that are unpopular and expensive.* National policies which place a strong emphasis on brownfield land, high density and mixed use make new development relatively expensive and lead to characteristics that are not popular with many households. As declining places have a relatively abundant supply of housing, net additions that follow these policies exacerbate problems of lower house prices in the area. When there are no net additions but redevelopment improves the overall quality of stock there will be a positive effect on prices (from the composition effect of improved quality) that offset the negative effects. When development follows demolition these policies contribute to the dissatisfaction that comes from local disruption, if new build replaces housing that had characteristics that are preferred by most households (e.g. lower density owner occupied terraces).
- ix) *Decentralise so local policy can better fit local conditions.* It should be clear from the above that national planning guidelines have encouraged policies in declining places that are not well suited to local conditions. In declining places housing market “renewal” may be best served by policies that reduce rather than increase household density and that emphasise piecemeal development. Policies that could be explored include offering long term vacant properties to neighbours, selective demolition of properties to create public spaces or to extend private gardens. Local leadership and experimentation are key to figuring out which policies are most appropriate in any context.
- x) *Building regulations and VAT on upgrading bite harder when house prices are lower.* Another issue that needs consideration is the way in which building regulations reduce the incentives of owners to invest in their properties. When construction costs are high relative to prices owners have lower incentives to invest in upgrading and maintenance. Building regulations increase costs while the capital returns come as percentage increases in prices. As a result stringent building regulations have a disproportionate effect in reducing incentives of owners to invest in low price areas. Ironically, disadvantaged areas, e.g. the Thames Gateway often impose stringent building regulations and then wonder why the private sector development response is muted. VAT on up-grading also reduces incentives to owners in disadvantaged areas. VAT is also not imposed on new builds leading to a fiscal distortion. There needs to be further consideration of the impacts of equalising the tax treatment of new build and up-grading.
- xi) *Local authorities will need strong fiscal incentives to help meet national objectives.* Giving local authorities more control over land use may lead to choices that are incompatible with national objectives, particularly with respect to Greenfield land. VAT on new build, combined with the introduction of fiscal incentives and impact fees for new development could provide incentives to local authorities, while allowing them the flexibility to make decisions better suited to their own areas. We return to this issue below.

### 3.6 Encouraging labour market activity and mobility

Once we shift our focus from the impact of policy on places to the impact of policy on people this raises the issue of how best to encourage greater labour market participation and whether to facilitate more mobility from declining places to more successful places.

- i) *High house prices are the biggest economic barrier to migration.* Although much is made of attachments to particular places high house prices are the largest *economic* barrier to migration from declining to more successful places. Moving from a declining to a more successful area improves labour market outcomes at the expense of higher cost of living. There are three changes that can help address this barrier. First, increase the supply of housing in successful places. Second, use fiscal measures (such as housing vouchers) to relax the budget constraint of those living in declining areas. Third, remove institutional barriers to moving (e.g. for those in the social housing sector).
- ii) *No need to concrete over the South of England.* Expanding housing supply in more successful areas does not mean “concreting over the south of England”. First, contrary to public perception, there is still a plentiful supply of undeveloped land in the south so allowing more building is not a significant issue in terms of land availability. Second, higher density development via infill and upgrading is more likely in areas where house prices are high. Third, if people have strong local affiliations then responding to demand will mean much of the expanded supply should come in relatively successful regional cities (e.g. Manchester, Leeds or Newcastle).
- iii) *We need to accept more building on Greenfield land.* While a policy emphasis on higher density, brownfield development may make more sense in high demand markets national planning guidelines are still too restrictive. Greenfield building generates negative externalities (e.g. for the environment) that are ignored by private sector developers. But the huge differences between the price of land with and without planning permission appears to dwarf reasonable estimates of the environment and social externalities of Greenfield building on much land. Impact fees for new development would ensure that private sector developers internalise the wider social costs. To emphasis, restrictions that raise land prices are not just an issue for London and the South East. To return to an example above, restrictive planning policy helps make commercial rents in Birmingham twice those in San Francisco (itself a highly regulated city by US standards). Restrictive planning quickly drives up commercial and residential prices chocking off recovery and limiting the extent to which cities can grow. In ex-industrial centres with large amounts of brownfield land existing policies may act as a major barrier to economic growth. Again, more local discretion is needed with government using fiscal incentives to achieve national policy objectives.
- iv) *Local communities need to be compensated for new development.* National policies are not the only barrier to expanding land supply in more successful places. We need mechanisms to ensure that communities are compensated for increasing land supply which generates significant benefits for in movers, but generates significant costs for existing residents. Top-down planning guidelines impose new building by central dictate. This has proved unpopular and ineffective and the coalition has already moved to scrap Regional Spatial Strategies. Coalition

government proposals to incentivise local authorities via the New Homes Bonus (providing six times council tax for each new build), although the fiscal incentives are almost certainly too small. Arguably, more radical changes are required to ensure local residents are compensated for new building. Impact fees and mechanisms for capturing land price gains should form part of a successful package but central government may also play a role (as allowing people to move to more productive places increases government revenues and decreases expenditures).

- v) *Lower house prices are a good thing.* Increased housing supply in more successful areas lowers the cost of living. While this has distributional consequences it also, on average, improves real incomes. This, in itself, is a useful outcome in a country where house prices remain very high relative to incomes. Further, with appropriate impact fees, new development would be fully funded by the private sector with zero net cost to government. Lowering housing costs also gives people in declining places the *option* to move if this is what they would like to do.
- vi) *Bad housing as much an income as a housing supply problem.* Under the present system help to people in bad housing conditions in declining areas comes through public construction or subsidies to private development. An alternative would be to recognise that bad housing outcomes predominantly reflect an income not a housing supply problem. Economists advocate the use of housing vouchers as a better way to address this problem than direct or subsidised production. If housing vouchers were given to people in declining places, but did not have to be spent in those place then this would give more people the *option* to move if this is what they would like to do. Other proposals, e.g. for council housing “swaps” try to address the same problem.
- vii) *How do benefits, social housing and local conditions interact to affect incentives to work?* High worklessness rates in some London wards remind us that labour market problems remain an issue even in our most successful cities. We need to do more to understand how the benefit and social housing systems interact with local economic conditions to affect incentives to work. These problems are clearly more acute in areas where private sector housing costs are high relative to the non-market sector.
- viii) *Policy needs to address negative consequences of out mobility.* Of course, these changes would allow households to move away from declining cities if they wanted to, possibly exacerbating problems for those left behind. Falling house prices and vacant properties are a visible manifestation of this problem and we have dealt with possible policy responses above. The impact on local labour markets is harder to gauge. While the evidence on agglomeration economies suggests that local employment has some effect on local wages it is easy to overstate the magnitude of these effects. In declining places the big problem is a lack of employment opportunities relative to population. As we have argued above, traditional policy has not proved very successful at addressing the problem of a lack of employment suggesting that some shift of emphasis to the population side of this imbalance may be warranted.

## 4. Conclusions

Urban and regional policy in Britain has been too focused on public expenditure to “turn around” declining places. We have argued that these policies have not been very successful:

- i) RDA's did not significantly improve regional growth. Relative to previous arrangements RDA's are a good delivery mechanism only if we have been spending less on regional policy (and vice-versa). This assessment is complicated if, over the last decade, private sector growth fell in all regions – in which case we need to know why.
- ii) At smaller spatial scales reasonably well-funded Area Based Initiatives may have an important role to play in public good provision (e.g. better parks, lower crime) but they have not, on average, improved individual economic outcomes in targeted areas.

Given the need to cut public expenditure, we have to identify priority areas of expenditure and consider more radical changes – in areas such as land use planning – to help address issues arising from spatial disparities. These interventions should be judged on the extent to which they benefit *people* living in declining places:

- i) Skills need to be improved in declining places. For most places this should mean focussing on the less skilled. We need to resolve who decides on and delivers skills policy, whether it focuses on local employment needs or general skills and how it should be funded when newly skilled people may move away from declining places. As the gains are long run and mobility means they are not restricted to declining places, local government will under invest in education.
- ii) There is evidence that increased expenditure on disadvantaged children is likely to improve educational outcomes. The evidence is less clear on organisational reforms.
- iii) The policy of attracting skilled people to declining places has proved highly appealing. However, the benefits to *people* in declining places are almost certainly overstated and the role of city centre living greatly exaggerated. It is hard to see the policy as sensible for all but a small number of places that are already proving attractive to skilled people.
- iv) More work is needed on the relative costs and benefits of public sector employment as a prop to disadvantaged areas. The Lyons and Smith reviews make clear that more local pay setting is crucial to realising any likely benefits. Regardless, the numbers involved are small so that it is hard to see this policy benefiting many declining places.
- v) Total housing supply should not be increased in declining places.
- vi) National guidelines on city centre first, higher density, brownfields and mixed use have raised costs and delivered developments that are not, in general, popular with households (particularly families). This makes them inappropriate for many declining areas where a more innovative set of policy tools could be used to

lower, not increase, housing densities and address the problems generated by decline.

- vii) Stringent building regulations decrease the incentives for owner occupiers to invest in their properties when house prices are low. The charging of VAT on renovation has a similar effect. More attention needs to be paid to these disincentives for private sector investment in improving housing stock in declining areas.
- viii) Government needs to introduce mechanisms that will help commercial and residential property supply expand in successful places. This will lower local costs for existing residents, and will also remove the most important economic barrier to greater mobility from declining to more successful places. There are distributional consequences, but on average expanding supply increases productivity and raise living standards. In successful places higher density and brownfield building are more appropriate, but more Greenfield building is also needed. This is not just an issue for London and the South East but also for many relatively successful places throughout the UK.
- ix) Government should put more emphasis on pricing (e.g. impact fees) to achieve national objectives and less emphasis on binding national guidelines. This is as important for formulating appropriate land use policy in declining places as it is in growing places.
- x) Government needs to introduce mechanisms to ensure that local people are appropriately compensated for allowing new development. This will reduce (or eliminate) the need for top down plans which have consistently proved highly unpopular and ineffective. Existing proposals for the New Homes Bonus are unlikely to deliver sufficient incentives.
- xi) Government should consider the role of housing vouchers, rather than direct or subsidised provision, in improving housing conditions for the poor in declining areas. If these vouchers were allocated to people in declining places but could be spent anywhere this also gives people increased choice about where to live.
- xii) We need to increase understanding of the way in which the benefit and social housing system effect work incentives and develop policy responses that address this problem.
- xiii) Overall, policy should focus on encouraging labour market activity and removing barriers to mobility. This means expanding housing supply and reducing costs of living in relatively successful places. This will require a softening of restrictive planning and national top-down guidelines. Decentralisation of decisions needs to be accompanied by large enough incentives for local authorities and compensate existing residents to ensure development is agreed.

# **What Should be the Long-Term Strategy for Places with Patterns of Decline and Underperformance?**

**Professor Pete Tyler**

## **1. Introduction**

The objective of this paper is to stimulate debate on what should be the key elements of future HM Government strategy to tackle the problems of areas that experience sustained decline and underperformance. The aim is to challenge and develop thinking as to the most appropriate policy response. It is important that the development of new approaches builds upon what is known about the causes of local area decline and the factors that impede regeneration. They should be based on a realistic interpretation as to what can be achieved and the timescales involved. It is also necessary to reflect on what is known about the strengths and weaknesses of previous policy. Much has been learned, particularly from the research undertaken over the last twenty years and key messages should not be lost.

New initiatives that seek to help underperforming areas are now operating in a relatively harsher economic climate with somewhat slower growth than that experienced in the earlier part of this century and with constrained public finance. The Credit Crunch has affected the viability of the traditional funding model used in much local area regeneration (Parkinson et al, 2009). It relied on a relatively buoyant housing market, significant elements of retail development, a fairly favourable environment in terms of the growth of public expenditure and in some cases relatively high levels of assistance from the Structural Funds.

However, the need to investigate new approaches does not only arise because of difficulties in the economic environment within which local area regeneration operates. There are a number of other reasons and I examine each in turn in this paper. I use Birmingham and the inner city neighbourhood area of Aston as a case study to illustrate the points being made.

In this paper I am concentrating mainly on strategy to tackle the *economic performance* of under-performing areas because I see this as being of prime importance in understanding why places under-perform. The paper thus adopts a rather overly economic interpretation of local area problems.

## **2. Worrying Trends in the Nature of the Problem**

Pronounced and persistent spatial disparities in the incidence of low incomes have been a prominent feature of the United Kingdom for many decades. However, powerful global economic forces, combined with trends in population movement and features of local housing markets, are continuing to produce significantly differentiated spatial outcomes that are concentrating people with low incomes in specific places. If anything, in some key respects, I believe the pace of adverse change is accelerating.

Moreover, public expenditure over the medium term is being seriously reduced. The actual impact of this on relatively under-performing areas is difficult to gauge and will depend on the relative incidence of expenditure reduction across UK society. However, every effort must be made to try to minimise the impact on the most vulnerable groups and places in society. Otherwise we could return to the position faced by the United Kingdom in the early 1980s. I discuss this issue further in section 4.

The argument for having a regeneration policy is the belief that the actions of the market and mainstream service providers will not change things significantly within an acceptable timetable without such intervention. The extent to which this is true depends on the circumstances facing an individual area. In some places the balance of relative opportunity is such that following the loss of their traditional industries they adjust relatively quickly to attract new industries that promote jobs and income. However, in other cases the burden of the past weighs heavily, there are significant market failures and it is very difficult to bring about the required change. The ability of areas to adjust and the factors that appear influential in the process has led to significant interest in the concept of resilience (Christopherson et al, 2010, Simmie and Martin, 2010).

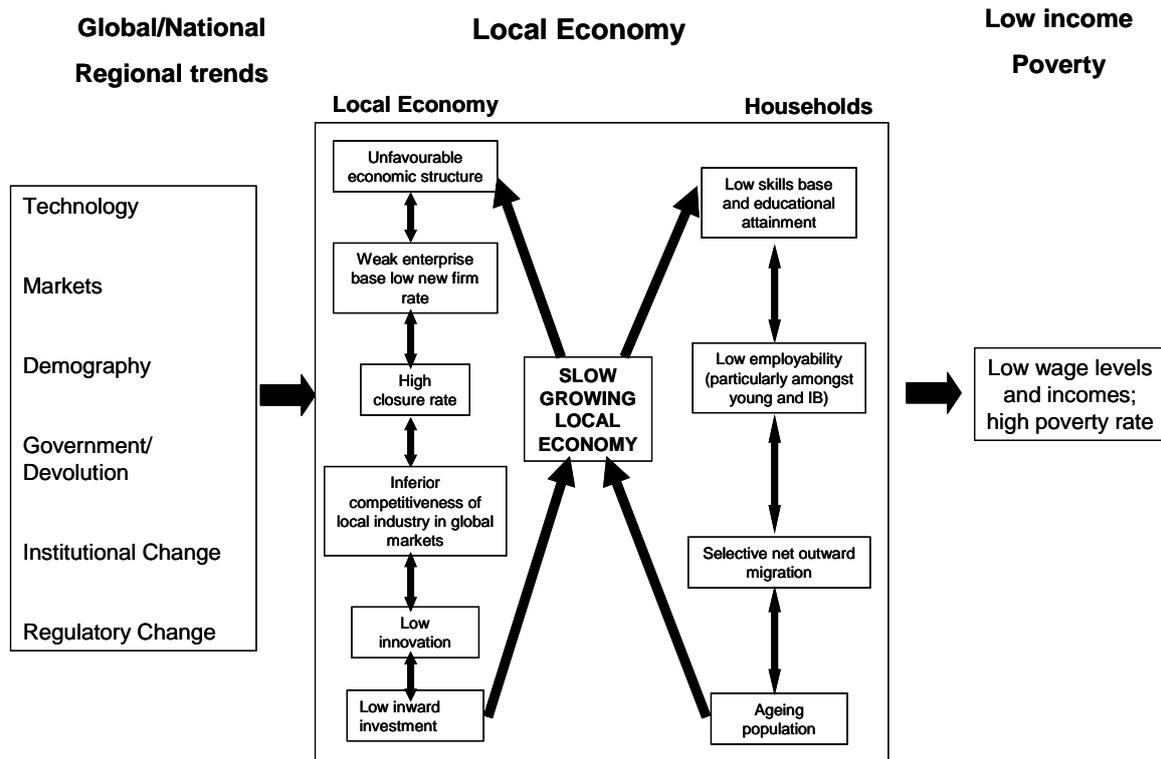
In general it is my view that there are very few places where the nature of economic decline is such that it is not possible to bring about regeneration. However, the extent to which it is possible to produce sustainable and long term change depends on the resources committed and, importantly, whether a strategic approach is adopted that builds on the assets of the area and its residents. The approach has to remove the impediments that are preventing the actions of the market and mainstream service providers from engaging positively with the problems of the area and its residents. The idea of writing-off places is generally not acceptable on grounds of equity and perhaps economic efficiency-despite the rather off-the-wall suggestions made by some.

I find it helpful to describe the broad processes at work that produce spatially variations in income using the simple framework set-out in Figure 1. In general the level of economic vitality of a local economy is affected by its economic competitiveness and that of its traded sector. During the post war period many areas across the United Kingdom have suffered economic decline as their staple industries have lost competitiveness. A cycle of decline has often set-in characterized by an unfavourable economic structure, firm closure, weak enterprising behavior and low rates of R&D/ innovation. These have all interacted to perpetuate economic decline.

Relatively unfavourable growth has been reflected in labour market outcomes that lead to, and reinforce, relatively low household incomes. Evidence from research that I am currently involved in (Gardiner et al, 2009) points clearly to the effect on local incomes of employment change, worklessness, employment in low-wage sectors, those with no qualifications, and the population of young and retired people.

Within cities a number of factors associated with housing, infrastructure and the historic patterns of land use tend to concentrate the most disadvantaged and those on low incomes in particular neighbourhoods. Such concentrations of the most disadvantaged put disproportionate demands on the provision of public services in these areas, which then find it hard to adjust, and are often overwhelmed. There are associated problems of crime and ill health that reinforce cycles of disadvantage.

**Figure 1: Understanding the factors at work in under-performing places that drive down incomes**

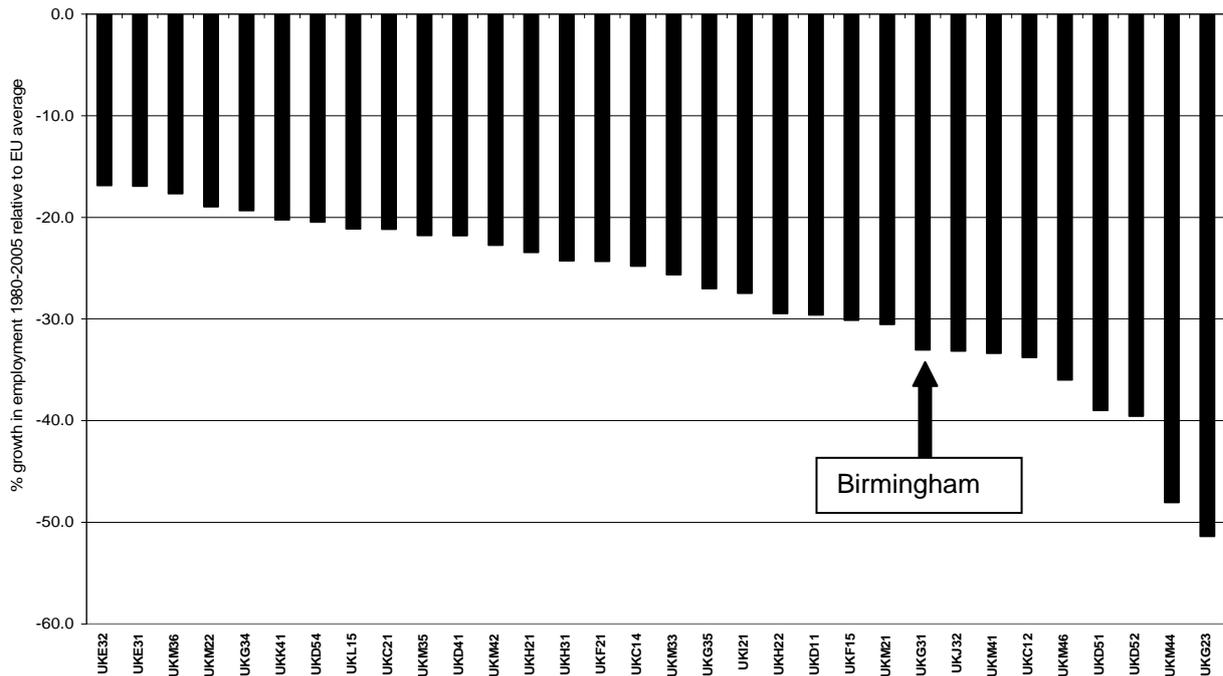


Source: Gardiner et al, (2009).

I believe that Birmingham and its respective neighbourhoods illustrate these processes at work. For much of the 19<sup>th</sup> and early 20<sup>th</sup> century Birmingham experienced a fairly rapid growth in its jobs and incomes underpinned by its strong trading position. However its performance in recent years, and particularly since the beginning of the 1970s, has been quite different. And there appears to have been a very significant worsening in the position recently.

Firstly, Figure 2 shows what has happened to the growth of jobs in Birmingham relative to the EU average. The growth in employment over the period since 1980 has been over 30% below that of the EU average. Birmingham is amongst the worst of the poorest performing places in the United Kingdom shown in Figure 2.

**Figure 2: Growth in employment 1980-2005 relative to eu average – places in the United Kingdom finding it tough going (NUTS 3)**

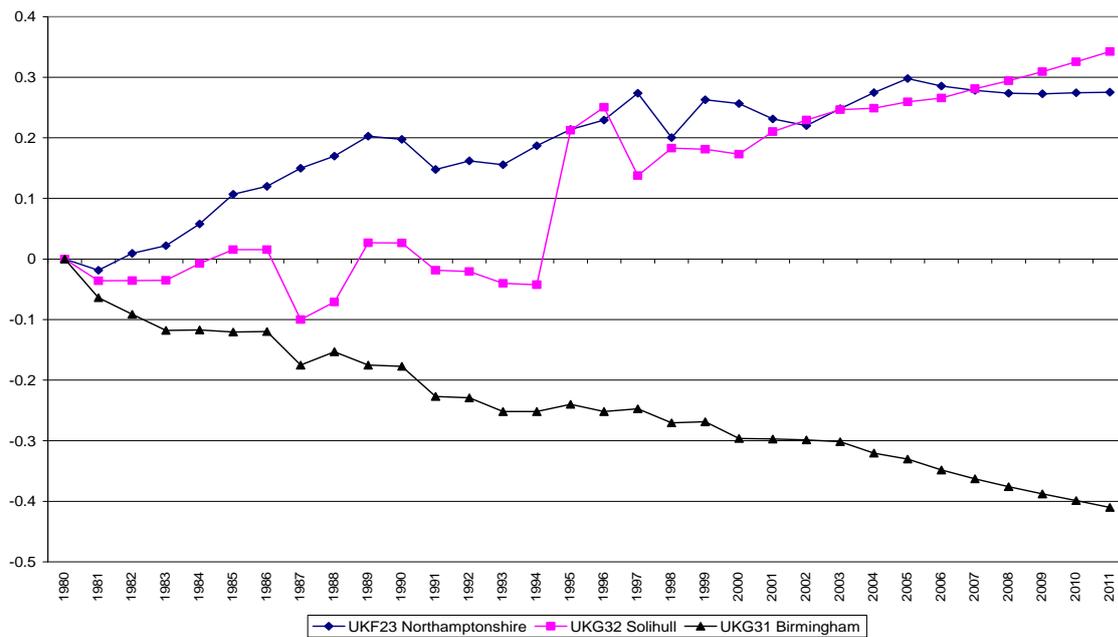


UKE32	Sheffield	UKM33	East Ayrshire and North Ayrshire Mainland
UKE31	Barnsley, Doncaster and Rotherham	UKG35	Walsall and Wolverhampton
UKM36	North Lanarkshire	UKI21	Outer London - East and North East
UKM22	Clackmannanshire and Fife	UKH22	Bedfordshire CC
UKG34	Dudley and Sandwell	UKD11	West Cumbria
UKK41	Plymouth	UKF15	North Nottinghamshire
UKD54	Wirral	UKM21	Angus and Dundee City
UKL15	Central Valleys	UKG31	Birmingham
UKC21	Northumberland	UKJ32	Southampton
UKM35	Inverclyde, East Renfrewshire and Renfrewshire	UKM41	Caithness and Sutherland, Ross and Cromarty
UKD41	Blackburn with Darwen	UKC12	South Teeside
UKM42	Inverness and Nairn, Moray, Badenoch and Strathspey	UKM46	Shetland Islands
UKH21	Luton	UKD51	East Merseyside
UKH31	Southend-on-Sea	UKD52	Liverpool
UKF21	Leicester City	UKM44	Comhairle Nan Eilan (Western Isles)
UKC14	Durham CC	UKG23	Stoke-on-Trent

Source: Cambridge Econometrics.

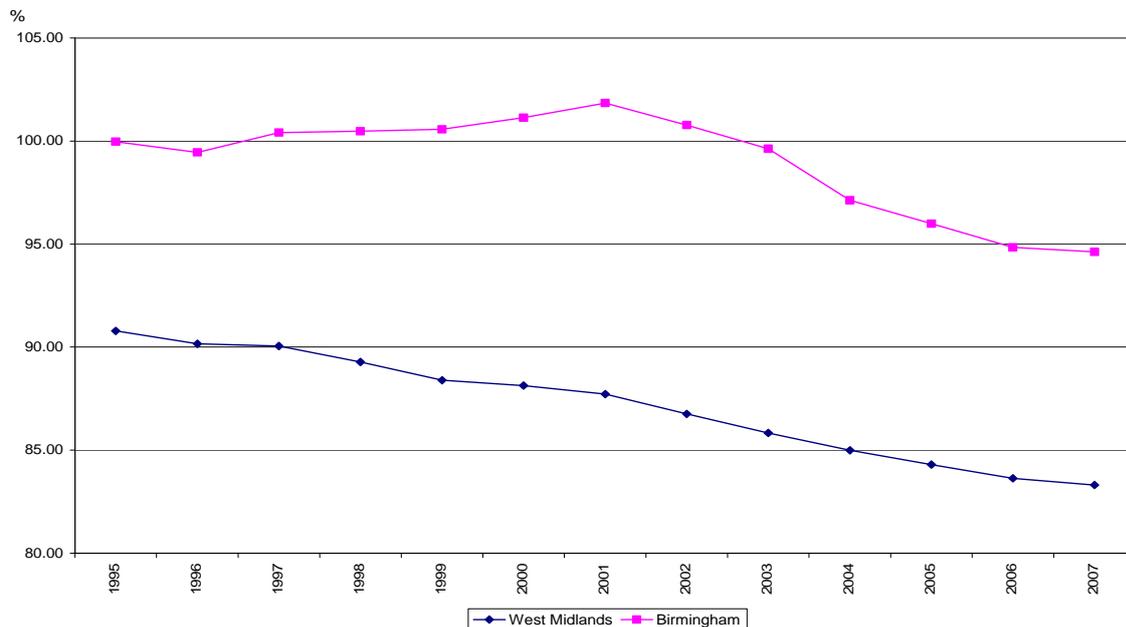
Figure 3 presents figures on what has happened to the growth of jobs in the district of Birmingham relative to the neighbouring district of Solihull and an area outside the region in the neighbouring area of Northamptonshire to show how different things can be. The places are worlds apart in the economic circumstances they have experienced. Figure 4 shows the growth of GVA per head in the region of the West Midlands and the district of Birmingham relative to the England average since the mid 1990s. The relative decline, particularly since the turn of the century, is clear.

**Figure 3: Employment relative to EU 15 for selected NUTS 3 areas**



Source: Cambridge Econometrics and Land Economy calculations.

**Figure 4 – GVA per head in the West Midlands and Birmingham as a percentage of GVA per head in England**

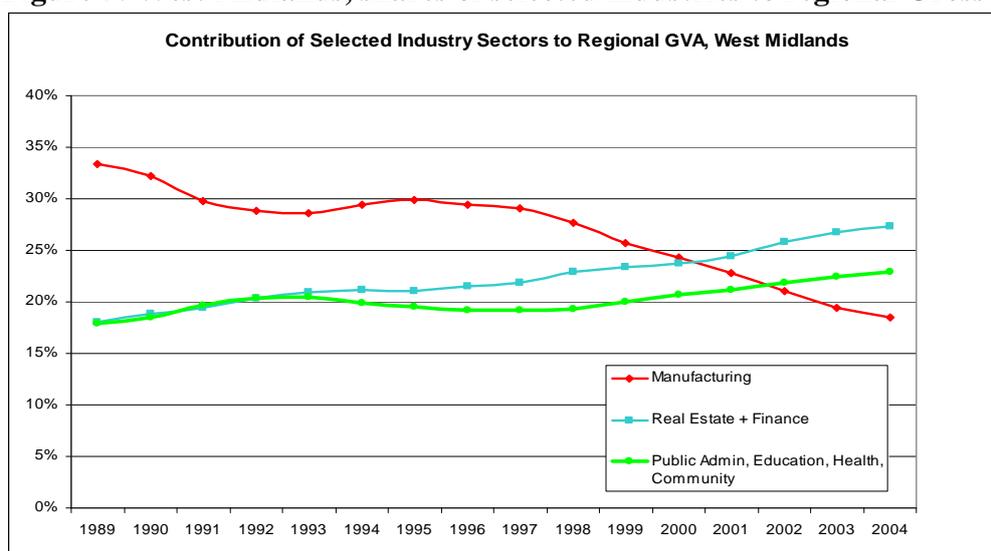


Source: ONS.

Figures 5 and 6 draw upon work from a recent study into why neighbourhoods stay poor in Birmingham (Fenton et al, 2010). Figure 5 shows the nature of the economic restructuring that has been taking place. The data is for the West Midlands but the pattern is representative of the position in Birmingham. Essentially what has been happening is that the contribution of manufacturing has been falling away. The relative share associated with manufacturing has halved in just under fifteen years. The relative contribution of activities like real estate and finance and the public sector has increased.

Economic restructuring in Birmingham has led to a relative decrease in real incomes, particularly amongst those who have traditionally been amongst the lowest paid. Figure 6 shows median and lower quartile gross weekly wages in England, the West Midlands and Birmingham and allows for inflation. Birmingham has experienced a 3.5% fall in real wages between 2001 and 2008 as the economy has continued to de-industrialise with jobs in manufacturing being lost and new jobs appearing in the relatively low paid sectors of retail, wholesale, hotels and catering.

**Figure 5: West Midlands, shares of selected industries to regional Gross Value Added**



Source: ONS Regional Accounts. Fenton, et al, (2010).

**Figure 6: Median and lower quartile gross weekly wages in England, West Midlands and Birmingham, and change after inflation**

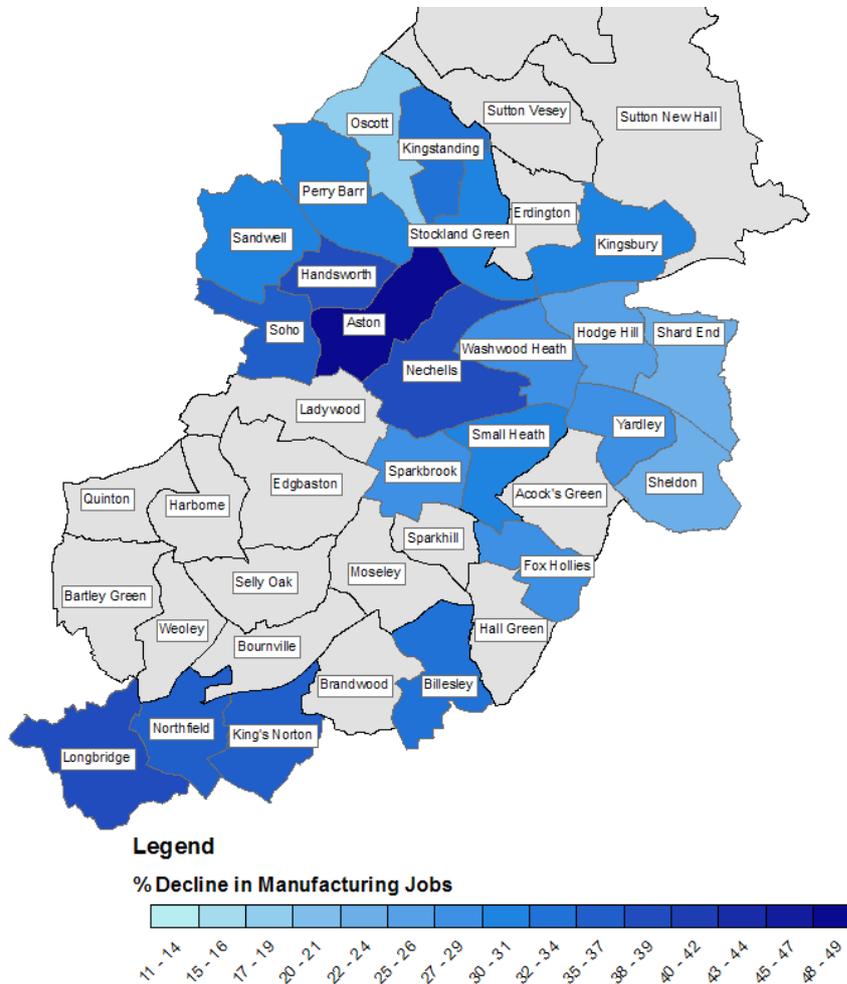
	2001	2008	Change in real terms
<b>England average</b>	£324.8	£388.4	-0.5%
<b>West Midlands average</b>	£309.4	£367.1	-1.3%
<b>Birmingham average</b>	£312.3	£362.4	-3.5%
	2001	2008	Change in real terms
<b>England bottom 25%</b>	£198.8	£238.3	-0.3%
<b>West Midlands bottom 25%</b>	£191.9	£229.6	-0.5%
<b>Birmingham bottom 25%</b>	£200.3	£230.0	-4.5%

Source: Annual Survey of Hours and Earnings; Bank of England GDP deflators. Fenton, et al, 2010).

Within Birmingham the process of economic adjustment has been disproportionately concentrated in particular areas. One of the most affected neighbourhoods is Aston. At the turn of the 20<sup>th</sup> Century Aston was an economic powerhouse in the City-so much so that there was talk of having the Birmingham's City Council chambers there. However, its economic position has declined dramatically in the post war period and over the period 1991-2001 the

number of jobs in manufacturing fell by nearly 50%. The new jobs that have been created have been in the public and private sectors, often with relatively lower value added.

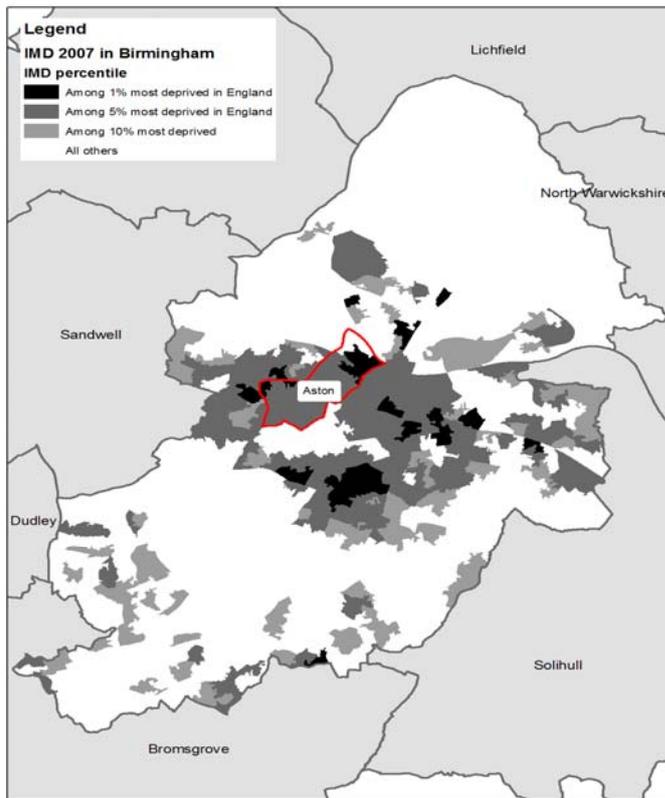
**Figure 7: Decline in manufacturing employment in wards where manufacturing employment greater than 25% in 1991**



Source: Census 1991; Census 2001; Fenton, et al, 2010.

The incidence of income and work related poverty make a significant contribution to the position of Birmingham’s wards in the 2007 Index of Deprivation. Figure 8 shows the Index of Multiple Deprivation 2007 in Birmingham (Fenton et al, 2010). The areas shown in grey are within the 10% most deprived wards. Those with the darkest grey the 1% most deprived. The ring around the City Centre is clear, as is the severe problems faced by Aston. Figure 9 shows the high levels of worklessness in Aston and suggests some relative convergence with the City average in the recent years when it has been a NDC.

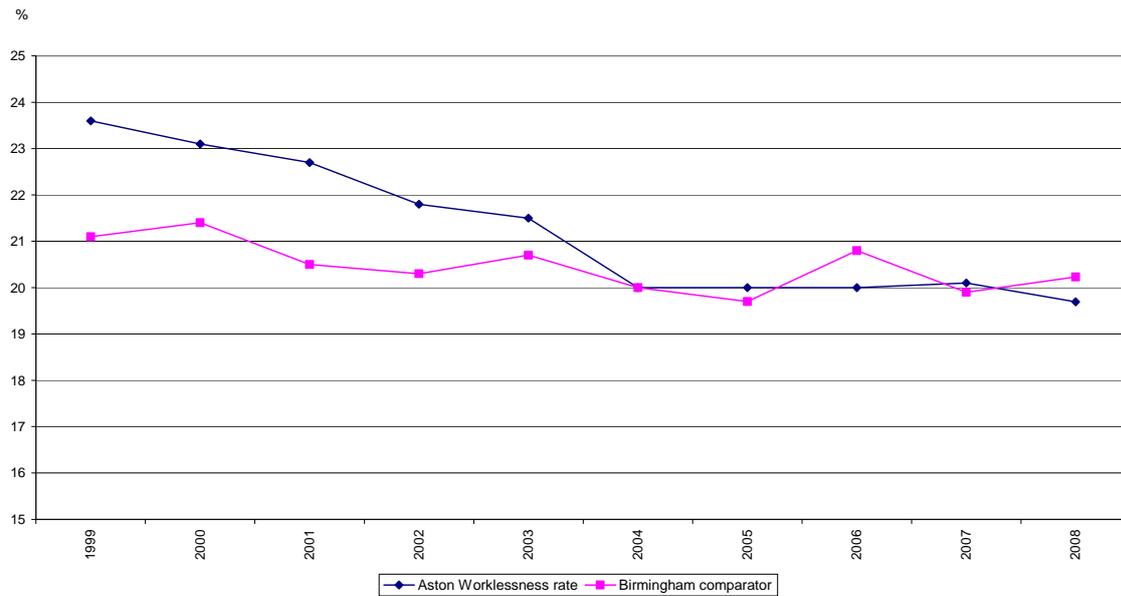
**Figure 8: Index of multiple deprivation 2007 in Birmingham: IMD percentile**



Source: Fenton, et al, 2010.

There is one further observation that I would like to add in relation to the economic issues facing inner city areas like Aston in Birmingham and that relates to the characteristics of the people who have been moving between areas. Figure 10 adds support to the view that the movement of people adds its own dynamic to the concentration of those on low incomes in the most deprived wards of Birmingham. The figure shows net migration by social class for wards grouped according to their relative work status. In the most work-poor wards there was net *inward* movement of those of people who had routine or manual occupations or had never worked and were long-term unemployed. And net *outward* movement of those with better paid occupations. The least work poor wards experienced the opposite. (For more evidence and discussion on this see Fenton, et al, 2010.)

**Figure 9: Worklessness rate in Aston compared with Birmingham**



Source: NDC database.

### Summary

In Birmingham the legacy of the past lingers on. Given the problems of economic restructuring that it faces Birmingham and its most deprived neighbourhoods are under-performing. They thus provide a good case study with which to investigate the key features of a policy response.

Opinions differ on what the precise instruments of policy should be and how they should be delivered. However, one thing is clear. A substantial volume of resources is needed to transform land use, overcome dereliction and provide new infrastructure to meet the needs of industry and people in the New Age. Resources are also required to train and re-skill the workforce. The majority of these resources will have to come from the private sector. Coming back to my observation in the earlier part of this paper it is thus essential to pay particular attention to the ability of policy initiatives to *lever* these resources.

**Figure 10: Net migration by social class, Birmingham Ward 2000–2001**



Source: Census Migration Statistics. Fenton, et al, 2010.

### 3. A Time For a Review of the Traditional Policy Response

In deciding what might be the best policy options to assist Birmingham and its most deprived neighbourhoods to revive their economic fortunes it is helpful to review the policy responses that have been tried over the last twenty years and to take-stock of the factors that appear to have influenced their relative effectiveness. Some key issues stand out which I cover very briefly in this section.

#### Unrealistic expectations

There have often been wholly unrealistic expectations about what local area regeneration can achieve given the resources spent on it. There has been a poor appreciation of the scale of the problems being addressed and, importantly, how they *continue to change* and evolve to the detriment of the places concerned. Area based regeneration initiatives operate at the *margin* to bring about change. The *average* position is determined by the actions of the market and the state. Policy initiatives, and indeed whole strategies, have differed in the ways they have sought to *lever* a more substantial contribution from the private and public sectors so that the required thresholds necessary to bring about real change can be achieved. But in my opinion too little attention has been given to understanding whether the leverage is *big enough* given the scale of the challenge and the *linkages* that exist between the declining area and the surrounding economy of which it is a part.

The big picture, and the ability to turn-around the fortunes of under-performing places, is determined by how successful policy is at inducing business, mainstream service providers and ultimately households (through their consumption and housing decisions) to put more investment into under-performing places.

The success of a policy initiative should be measured by its ability to bend the actions of the agents of change in a relatively favourable way to the longer term economic advantage of the area and its residents. However, the evidence is that in most cases the *incentive* to change behaviour has been too weak, too diffused or insufficiently targeted. As a result the relevant outcomes have not been altered sufficiently.

As a result businesses and residents in under-performing areas have remained disillusioned (reinforcing the oft quoted view from the High Street that policy initiatives on the part of Government are merely a quick fix). Moreover, external perceptions of the area have remained adverse which has further deterred investment from the private sector, as well as making the area concerned an unattractive place for people to want to buy housing. Main public service providers have become consigned to the view that they will have to continue to spend disproportionately on tackling the consequences of low incomes in the area concerned rather than the underlying causes.

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

Policy initiatives have often paid insufficient attention to how the places being assisted relate to other places around them. The three key elements here are displacement, leakage and population churn.

The displacement of activity between areas can arise when regeneration initiatives are targeted on an under-performing area. It is important to try and minimise this. A lot is now known about how displacement tends to vary by type of regeneration policy and new initiatives have to consider this evidence. Good evaluation guidelines are now available (BIS, 2009). It is also the case that policies that provide outputs in an area like new jobs or training places usually have no direct control on who benefits from them. In urban areas the economic benefits of regeneration in one neighbourhood may well benefit the residents of other neighbourhoods and again this is a further factor to consider in designing policy.

A further issue in both designing and assessing the impact of policy is to recognise the effect of population movement between areas. Thus, policy initiatives may enhance the skill base and thus average incomes in an under-performing area. Those benefiting may then be able to secure better jobs outside the area. At the same time more population may be moving into the area with relatively lower skills. This is exactly what is happening in the most deprived wards of Birmingham at the present time.

*A lack of a strategic approach and insufficient attention to capacity*

Finally, in reviewing what has been learned about the policies we should not lose sight of a core finding from much of the recent evaluation work. 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. There is much to discuss here.

*Bringing it all together*

My general conclusion is that if regeneration policy is to make sustained in-roads into the problems faced by under-performing places like Birmingham and its most deprived neighbourhoods then it is necessary to find ways to attract more investment and income into them over a substantial period of time and in such a way that a relatively high proportion is retained. New ways have to be found to finance a range of transformative infrastructure projects including that related to transport that can assist in the economic restructuring of cities and their deprived neighbourhoods.

Given that local authorities are the relevant elected bodies with a Duty of Economic Responsibility and in the light of logic contained in the Sub National Level Framework (HM

Treasury, 2007) and the forthcoming Localism Bill they should take the lead in the process discussed above. However if they are to be successful there are at least three requirements. The first is to increase their *understanding* of how local economies work and how expenditure by Government (central and local), households and business impact on relatively under-performing places at the level of the city and across its individual neighbourhoods. It is essential to know more about how well public services are targeted on the problems in deprived areas.

The second is to find ways of delivering actions on the ground that will help to enhance the ability of declining places and their residents to regenerate and which build on what we know about effective delivery vehicles. The third is to ensure that the mechanisms exist to put sufficient resources and incentives in place to bring about the required change. The remaining sections of this paper address these questions.

#### **4. Empowering Local Authorities to Understand What is Required and the Move to Total Place**

I argued in Section 3 that I believe that one of the reasons why regeneration policies historically have met with less success than might have been expected is that they failed to understand enough about how local economies work and 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 offer a way in which this can be addressed.

The Total Place Agenda was launched in Budget 2009 following the recommendations of the Operational Efficiency Programme. The approach is designed to indicate how places in England could benefit from Smarter Government commitments on de-ring fencing, streamlining funding and reducing burdens (HM Treasury Total Place, 2010).

Moves by HM Government to change the way in which the funding of public services is managed, directed and coordinated at the local level in England is taking place against a desire on the part of Government to see a more devolved approach to the delivery of services including regeneration as highlighted in the Sub-National Review and to be outlined in the forthcoming Localism Bill from DCLG.

The Total Place Agenda provides an ideal opportunity for a city like Birmingham to understand more about what drives its economy and the contribution of individual sectors overall. It also enables a better understanding of how the flows of economic activity affect the relative well-being of its most deprived areas and what are the options to influence this to the positive advantage of these areas.

Thus, at the present time as a Total Place Pilot Birmingham has been able to provide a financial mapping of the level of public funding that flows into the city and how it is being used to deliver services.

The next step is to consider worklessness and to build on the innovative approach adopted by the Aston Pride NDC and the City Council to begin to understand more about the causes of high levels of workless across the City and importantly how a *city wide* approach can seek to address the problems.

In the years ahead Birmingham City Council will be using the Total Place approach to consider how the actions of a wide range of service providers affect the level of economic activity across the City and the quality of life of its inhabitants. The Total Place Agenda should ensure that the economic regeneration of the City and its constituent parts is an integral part of its work.

Interestingly, the Total Place approach to regeneration as it affects the targeting and focus of regeneration activity is reflective of the early thinking that underpinned the development of the Single Regeneration Budget in England in the early 1990s. In the Single Regeneration Budget the 'budget' element emphasised that if there was to be a sustainable improvement in the well being of an area then the budgets of all of the mainstream service providers would have to be focused on the particular needs of the deprived area for some considerable period of time.

## **5. Possible New Directions in Funding and Incentivising Local Regeneration**

This paper has argued that the Birmingham economy is currently under-performing and the consequences of this is that the city as a whole is experiencing a relative fall in the real incomes of its residents and particularly those on low incomes and in the most deprived neighbourhoods. There is much evidence to suggest that such economic decline, if left unchecked, feeds into a number of problems relating to crime and ill health that impair quality of life, particularly in the most deprived neighbourhoods and amongst the young and most vulnerable groups in society (Rhodes et al, 2003). Economic decline in relatively underperforming places like Birmingham is reinforced by adverse movements in the movement of population, the inability of mainstream service provision to respond adequately to the socio-economic problems created and a number of demographic factors.

At the present time it is not clear what form local and regional regeneration may take in the years ahead and how this may differ from existing approaches in terms of the existing institutional delivery format in England. Nor is it clear how the instruments of policy currently in place and the volume of resources devoted to them might change.

What is perhaps somewhat clearer, as emphasised in this paper, is that local authorities are increasingly being tasked as the relevant bodies that should lead, oversee and coordinate local area regeneration. In this respect the position is similar to that which existed in the late 1980s/ early 1990s with the adoption of the City Challenge and Single Regeneration Budget and before the RDAs had been created (CLG, 2007, Department of Land Economy, 2009). I would make the following comments as to some of the key elements that might feature in new policy responses.

Firstly, at the present time policies that are seeking to regenerate the economy of Birmingham and its most deprived areas are struggling to make sufficient progress to turn things around given the scale of the new investment required in land reclamation, new transformational infrastructure, and people.

Better understanding of the problems faced and how the actions of the public and private sector can affect them is required. There are encouraging signs in this direction with regard to the actions of the public sector through the Total Place Agenda discussed in the previous section. The momentum behind this initiative needs to be maintained but given a keener economic regeneration edge. Something the Treasury could build more explicitly into the initiative at the present time.

There has also been much valuable work undertaken by Birmingham City Council to understand more about how best to target actions in the labour market to address worklessness in the most deprived areas. The forensic analysis approach developed by the City Council that builds on the pioneering work undertaken by the Aston Pride New Deal for Communities helps to identify the characteristics of those who are workless in the most deprived neighbourhoods like Aston and the parts of the City where there are job opportunities that could match their requirements (CLG, 2009). At the same time every new

major infrastructure initiative or major employment opportunity needs to be considered for the potential it has to provide jobs for those who live in the most deprived areas. And with severe reductions in public expenditure being planned it is also important that they are profiled for their adverse impact on those who live in the most deprived areas of Birmingham like Aston.

Secondly, new ways have to be found to increase the volume of resources that can be levered in to transform the economy of Birmingham and I believe that there are a number of elements to this. There is an urgent need to speed-up the pace at which land reclamation and new transformational infrastructure projects for the City as a whole and its individual parts are being undertaken. The current pace rate of progress is just too slow. One option is to allow the larger cities like Birmingham to adopt Tax Increment Financing (TIF) for schemes with a strong-targeted regeneration focus. Recent announcements by HM Government are to be welcomed in this respect (HM Treasury, 20<sup>th</sup> September, 2010).

The elements of a Tax Increment Financing scheme can vary considerably but the basic principle is that the anticipated *future* increases in tax revenues in a local area that may arise as a result of new economic development are used to finance *present day* shortfalls in infrastructure provision that may currently be constraining the economic development of the area. In the United Kingdom a local authority would borrow from the Public Works Loan Board to secure the finance required to undertake the desired infrastructure investment. Other variations involving public and private partnerships are possible. The loan is repaid from the increased tax revenue available in the area as a result of the investment in new infrastructure that is possible from the TIF inspired flow of funds. In the most deprived areas of Birmingham rental values are relatively low and they are thus prime candidates for there to be appreciation on the back of favourable development.

Where private finance is used investing in a bond can be made more attractive to investors through an incentives package that is often tax based. These can take a variety of different forms, but in practice usually enable the investor to reduce the tax they pay on income received from their investment and there may be scope for the HM Government to use capital allowances that proved extremely powerful in Enterprise Zones in attracting new flows of investment funds into areas that had historically been constrained.

If tax based schemes do not find favour with Government then there are advantages in returning to the approach adopted in the Single Regeneration Budget (SRB) whereby central government allocated funds to bring about large scale regeneration (sometime worth over a £100 million) and with extensive flexibility in how the funding is delivered but with a Challenge Fund mechanism in its allocation. The SRB approach worked well. It tended to encourage in the best cases good partnership working and the delivery of a strategic approach to the economic regeneration of an area. SRB secured relatively high levels of private sector leverage, although it was weaker in bending mainstream funding. The recent launch of the Regional Growth Fund (RGF) is to be welcomed in this respect (BIS, 2010). However Government regeneration funding is made available it is important to ensure that the potential benefits are valued to ensure Value for Money (See Tyler et al, 2010 forthcoming).

Secondly, alongside initiatives to secure funding for large scale development projects with their substantial land and infrastructure requirements (including transport) there is also a need for funding for a range of policy initiative that promote positive structural adjustment and investment in innovation. A whole new package of incentives is possible here, particularly as they relate to the development of knowledge based assets and the strengthening of Spatial Innovation Systems (Baxter, et al, 2007).

Thirdly, it is necessary to consider the best institutional formats with which to deliver urban and neighbourhood based regeneration. There has been much learned as to what makes for good partnership working and what should constitute the nature of the required strategic

response. There has been much success across the United Kingdom in developing Urban Regeneration Agencies that are able to bring the right partners together to deliver land and property based regeneration. The role of such a body in Birmingham would be as a strategic industrial investment agency that would bring together core expertise around fund raising, land assembly, skills, enterprise and the knowledge economy. Part of its core agenda could also be to promote economic inclusion. In a city like Birmingham such a body would also have a City Centre Promotion agenda. Clearly, with the recent announcement of the first wave of Local Enterprise Partnerships there is much to be done here (DCLG, 28<sup>th</sup> October, 2010).

## **6. Summary Reflections**

This paper has focused on the economic problems faced by Britain's second city and its most deprived neighbourhoods in adjusting to the consequences of adverse economic structural adjustment. Continued deindustrialization and a failure to attract sufficiently higher value added industries to replace declining sectors means continuing relative reductions in average incomes in Birmingham, particularly amongst its most deprived citizens in its most deprived neighbourhoods. The inability to remove dereliction, enable new infrastructure and to incentivise investment sufficiently in people and business-based investment is preventing adjustment at the rate required.

There is an opportunity to work with a range of possible new funding initiatives to secure the resources needed and incentivise the investment decisions of both the public and private sectors. It is important to build on what is known about the success and failures of previous initiatives and on the current desire to empower local authorities to take the lead in the economic renaissance of their economies. It is an opportunity that should not be missed.

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