The UK2070 Papers

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Series 2: September 2020

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The UK2070 Papers are a collection of think pieces and essays produced for the UK2070 Commission since the publication of our Final Report in February 2020. For more information and contact details please visit our website - www.uk2070.org.uk

The UK2070 Commission is an independent inquiry into the deep-rooted spatial inequalities that exist across the UK, chaired by The Right Honourable, The Lord Kerslake. It published its findings in its Final Report published in February 2020. This Report drew upon a substantial body of evidence submitted to the Commission or research commissioned by the Commission. These documents can be found on our website - www.uk2070.org.uk/publications

1) Following the money - how the COVID-19 crisis could drive changes to Local Government funding

Dr. Mark Sandford, House of Commons Library
Writing in a personal capacity

Introduction

The UK2070 Commission's Final Report *Make No Little Plans - Acting At Scale For A Fairer And Stronger Future* proposes a wholesale economic transformation in the UK. It cites better public transport between core cities and marginalised towns as a means to delivering on 'levelling up'; a spatial plan for England integrated with housing policy; a zero-carbon transition plan; and investing in skills to drive up productivity. Amongst its proposals lies "implementing a Comprehensive framework for inclusive devolution." As with many of the UK2070 Commission's ambitions, little opposition can be found to this aspiration. It dovetails neatly with the Johnson government's aspiration to 'levelling up' between the regions and localities of the UK.

But the past is littered with governments that have been defeated by the complexities involved in these types of ambition. That challenge is compounded by the effects of COVID-19. The UK2070 Commission's demands amount to a much more assertive management of the UK's economy. But one feature of the world after COVID-19 is that the shape and character of the UK's economy is currently hard to make out. This is true of the impact on *places* as much as on industrial sectors.

The UK2070 Commission's Final Report emphasises that its recommendations require a significant local focus. Many of the articles within *Series 1 of the UK2070 Papers* explore policy options that could form part of the transformation that the UK2070 Commission advocates. The purpose of this article is to explore how the mechanisms of local government finance could assist or obstruct these types of change. The structures of local government finance, the sources and flexibility of revenues, are a critical element of the capacity of local and devolved government to exercise its powers and responsibilities. This factor is too often ignored in favour of blanket demands for more powers and money for local areas; with little exploration of the purposes of funding or the balance between centrally-raised and locally-raised revenues.

This question is critical now not least because English devolution suddenly has a lot of friends. In addition to 'usual suspects' such as the New Local Government Network and the Local Government Association, support has been signalled in mid-2020 by the Confederation of British Industry ('turbo-charged devolution'), the Financial Times, and the Times. These interventions commend, amongst other points, a recovery plan that is tailored to local variations, with additional revenue-raising powers. The Institute for Fiscal Studies have shown that the effects of COVID-19 can be expected to vary markedly across England. Those will also be layered on top of pre-existing variations in economic strengths and weaknesses, which would provoke variations in policy response.

There are also signs that devolution is seen as a complement to other current political priorities. Sir Paul Collier's powerful July 2020 piece in *Prospect Magazine* associates 'devolution of political authority' and local tax revenue retention with the project of 'levelling up', a connection integral to the UK2070 Commission's report. Devolution has also begun to appear unprompted in related discussions: for instance, in an *Institute for Government* seminar in July 2020, the ex-permanent secretary Philip Rycroft mentioned it as a natural complement to potential future policies to disperse the civil service.

Local government funding: crisis and recovery

In short, these would seem to be auspicious times for devolving political power. However, in the short-term English local government faces a more immediate threat: a funding crisis brought on by the UK's response to COVID-19. Even before the pandemic, English local government was already facing a wide range of pressures. Throughout the 2010s, rising costs, falling transfer grants, and static property tax revenue subjected local budgets to huge pressures, and this has driven councils to seek unconventional additional sources of income.

In the short term, the Government has provided a battery of emergency grants, and has faced ongoing demands to add to them. It has made £3.2 billion available in emergency support and has deferred the receipt of some business rates payments from local authorities. But it cannot be overemphasised that the effects of COVID-19 on the income streams of local authorities are on a different scale from previous challenges. The Local Government Association has estimated a total funding shortfall for the 2020-21 financial year of up to £11 billion. SIGOMA, the Special Interest Group of Municipal Authorities (who represent a group of metropolitan authorities), estimated a £1.2 billion shortfall for its member authorities, *after* the Government's support packages. The *Institute for Fiscal Studies* has estimated a shortfall across England of £1bn-£4bn for 2020-21 after current Government support, based on current local authority forecasts.

Councils from all parts of England, counties and districts, wealthy and deprived alike - are facing funding difficulties. Issuing a section 114 notice has been floated by authorities across England, including North Devon District Council, Windsor and Maidenhead Borough Council, Croydon London Borough Council, Leeds City Council, Wiltshire Council and Eastleigh Borough Council. The nature of the impacts of COVID-19 differs in different areas, as set out in a recent report from the *Institute for Fiscal Studies*. For instance, many upper-tier authorities are anticipating rising demand for services to vulnerable people, whilst some face uncertain levels of council tax and business rate income. On the other hand, a number of shire district councils in wealthier areas face plummeting income from fees, leisure centres, commercial income and parking: for some councils, this amounts to a significant proportion of revenue. For instance, Luton Borough Council has already begun plans to reduce its budget after its income from London Luton Airport (which it owns) fell from £20 million in 2019-20 to a projection of zero in 2020-21.

The prospect of a systematic overhaul

It is one thing for Government to provide emergency grants to address an unprecedented situation. Permanent alterations to the local government finance system – to assist the UK2070 Commission's plans, or any other major policies – are much harder to achieve. The poll tax debacle remains imprinted on Whitehall's collective memory: no meaningful changes to local government finance have been attempted since. It is no accident that the Government's Fair Funding Review remains becalmed after four years.

But the longer-term effects of COVID-19 on the shape of local economies could make a more systematic overhaul of local government funding unavoidable. Patterns of work and leisure may change, affecting the transport and tourism sectors. The impact on the number and range of retailers on high streets is difficult to predict. The pattern of business location may change substantially in particular localities, with a knock-on effect for business rates revenues within those authorities. This could be exacerbated at the next revaluation, now scheduled for 2023. Council tax collection rates may be hit if unemployment rates rise. Councils that obtain substantial proportions of their revenue funding from commercial property holdings could be highly exposed to business insolvency, followed by loss of both rent and rate revenue. Commercial revenues have been a matter of controversy in recent years, most recently addressed by the *Public Accounts Committee* in July 2020.

The exact blend of these types of challenge varies considerably between places, as shown in an *Institute for Fiscal Studies* report from June 2020. In particular, high street retail was already facing severe challenges, and large-scale closures and unemployment could ensue. This has knock-on consequences for the character of places: there are links between the local retail, environmental and urban environment and the public health of local inhabitants.

These impacts will accelerate the already existing challenges for local government funding. Government policy since 2010 has been to increase local authorities' dependence on locally-raised revenue, with some degree of equalisation between authorities to keep in place the capacity to deliver core services. In the immediate future, individual local authorities' revenues may shift or reduce significantly. That would increase their dependence on central grant funding to allow them to participate in any policy aimed at 'levelling up' – working against the intention of increasing reliance on locally-raised revenue.

The sources of revenue, and the degree of local control over its spending, will affect decisively the nature of any implementation of the UK2070 Commission's recommendations. Local government funding is the engine room of local democracy. The quantity of funding, how it is distributed between areas, and the flexibility with which it can be used, each underpin how local government can in practice make use of its (considerable) powers. Thus the stunted quality of exploration of the subject in the UK is an under-remarked obstacle to policy delivery. Several proposals for new sources of revenue for local authorities have also been aired in recent years – tourism tax, sales tax, or the assignment of a portion of income tax, VAT or national insurance. But very few alternatives have been sketched out in detail (one honourable exception is the 'Commercial Landlord Levy' set out by Richard Corlett *et al* in 2018). The absence of debate feeds through to public perceptions too: council tax and business rates, the main revenue sources for local government, have faced eroding legitimacy amongst taxpayers and commentators for some years, met largely with silence from politicians. The 'fundamental review' of business rates announced at the March 2020 Budget appears to be focused in practice on incremental reform.

The endurance of centralism

In any setting, where a 'window of opportunity' for change approaches, there are no shortage of policy prescriptions that might be advanced, in the spirit of never allowing a good crisis to go to waste. But when it comes to local government funding, these optimistic sentiments may be unrealistic. For many people, COVID-19 has led to dislocation, stress, the threat of poverty, or anxiety. It would therefore be understandable if the Government did not see income tax reform, or increasing local government's investment capacity, as leading responses to the crisis. A 'good crisis' is as likely to create a siege mentality amongst government and governed alike as to provide a golden opportunity to dust off transformative policy-making plans. It should also be stated that, despite many critiques, the Government has so far kept the existing system of English local government finance on the road. No local authority or service has yet collapsed, and additional funding has been found to address specific service pressures.

It should therefore not be assumed that the challenges arising from COVID-19 will necessarily complement the UK2070 Commission's aspirations to devolve power. At present, local government appears to have met the challenge of COVID-19 effectively. Many commentators have noted its leading role in joining up local responses and supporting local populations. Local leaders have spoken of boundaries between local organisations 'melting at speed' in the face of a common challenge. A number of local examples of novel local responses have been collated by the Local Government Association and the New Local Government Network, and the Secretary of State for Health, Matt Hancock, has acknowledged the importance of 'place' in the delivery of health and social care services.

But at the same time, there is much to indicate the endurance of traditional reflex centralism in UK governance. Commentators such as Arianna Giovannini, Emma Burnell, Jennifer Williams and Jessica Studdert have noted multiple instances, in the responses to COVID-19, of local government's expert knowledge and networking being bypassed in favour of centralised systems created from a standing start. Professor John Denham, writing in *Prospect* in May 2020, noted that:

> "Every failing response to COVID-19 shows the same features. Small numbers of people take all the decisions. The information on which they act is often kept secret (and often misrepresented in public). The central state won't properly engage with those who have to implement decisions and prefers to bypass them altogether. The statutory Local Resilience Forums, created as critical coordinating bodies during civil emergencies, have been marginalised, isolated and unable to plan effectively. Local public health officials who already track and trace infectious diseases have, until this week, been ignored. When the central state lacks capacity, it buys it from private companies rather than working with councils and others who could do a better job. The consequences are severe..."

This reflects a local government system that, in the words of Lord Blunkett, is "neither understood nor trusted" in Whitehall. Accusations of centralisation and lack of communication are not confined to elected bodies, or purely politically motivated. Local NHS and education officials have made similar criticisms, highlighting key data not being shared and central guidance rapidly changing. This suggests that a more systemic effect is at work.

Funding: the ghost in the machine

These divergent assumptions between central and local policy-makers do not provide a good starting-point for systematic reforms to local government funding. They flow from a broader obstacle: as Jonathan Carr-West, the chief executive of the Local Government Information Unit, stated in June 2020, "as a country we don't have a settled, strategic view of what we think local government is for." To take just two recent examples of this phenomenon, the Local Government Association's June 2020 publication *Rethinking Local* cast local government's role as "to address the stark inequalities the COVID-19 pandemic has exposed and that have remained entrenched for too long; to connect with people's identities and sense of community; to harness the energy and dynamism which have been the hallmarks of our response to this crisis; to rebuild the economy so that it benefits everyone." In contrast, the Secretary of State, Robert Jenrick, indicated on 14 May that central financial support could only be expected for "children's services; public health services; fire and rescue services; waste collection services; shielding the clinically extremely vulnerable people; homelessness and rough sleeping; domestic abuse; supporting the NHS; and managing excess deaths."

These two descriptions map on to two alternative visions of local government. The LGA's view is of local authorities as place leaders, with some public service responsibilities but within a broader role of strategic direction. This type of local authority would expect to take a leading role in the delivery of economic transformation, using what the UK2070 Commission calls "flexible revenue funding regimes." Local government could reasonably be confident of support for this type of change: recent surveys show very high levels of community support for councils emerging from the response to COVID-19. That supports the case for raising additional revenues locally, or for assigning tax revenues, creating a link between policy decisions and revenue levels (this was the original rationale for fiscal devolution to Scotland and Wales). Innovations like sales taxes and tourism taxes, or adjustments to council tax and business rates, would sit comfortably with a local authority with a broad 'stewardship' role taking in local economies, environment, and quality of life.

The statutory duties approach, on the other hand, implies a heavy emphasis on central grant funding in order to equalise public access to services on the basis of nationally-defined entitlements. High proportions of local revenue could be a distraction in this perspective, as it could lead to variations between places in services and capacity.

These two visions are ideal types. Any real-world system will contain elements of both, and it should not be assumed that the 'place leadership' model is inherently superior. For instance, it is possible to imagine a local authority that took on the delivery of statutory duties over a wide range of public services – health, education, housing – in the form of a 'public sector hub'. Another is the concept of a 'franchise' system, where local authorities in selected areas negotiate to take on the operation of services currently provided by central government (examples might include offender management, probation, or further education).

At present, there is little evidence that either central or local government has thought through the implications of either of these 'models' of local government for local government finance and funding. Explorations that have taken place of individual reforms - such as altering business rates, or introducing a tourism tax – lack context. That increases the risk that any upcoming changes to local government finance will be restricted to traditional 'solutions':

- **Unitary local government -** This has returned to the political agenda in mid-2020. Many two-tier areas considering requests for restructuring, some backed with reports estimating savings. However, the evidence for large-scale ongoing savings from restructuring is mixed, and it is not clear that any savings that do occur would match the scale of the funding gaps identified above;

- **Bid culture -** Regular large-scale grant schemes, with funds for a general purpose (e.g. the Transforming Cities Fund and the Getting Building Fund) either divided amongst all parts of England in advance, or subject to bids from local areas;

- **Infrastructure -** Contributors to *Series 1 of the UK2070 Papers*, such as Graeme Purves and Sarah Longlands, note a focus on 'big-ticket' infrastructure items, whilst suggesting that less visible and less costly policies may be more effective in the long term;

- **Short term grants -** Used routinely in the late 2010s to stave off financial difficulties in local government. Social care has been the most frequent recipient, due to its visibility and year-on-year increases in demand. But they are often made available with little notice, and thus are hard for authorities to rely on when planning.

All of these solutions do have effects. Few local authorities would turn down a grant, an opportunity to bid, or an infrastructure project. But their dominance in recent years reflects enduring centralism. A more robust system of local government finance would include numerous local sources of funding, bolstering the financial resilience of local authorities. In government, access to revenue brings access to power, and this is a critical element of achieving 'parity of esteem' between central and local government. Equally, there can also be a place for central transfer grants and for commercial investments in a finance system that facilitates the delivery of economic transformation. It is when single sources of revenue are asked to play too large a role that they generate controversy.

Concluding remarks

Is there a prospect of systematic reform to address the challenges to English local government funding? Would it prove attractive to the UK Government as a means to facilitate an effective policy of 'levelling up?' History counsels caution. "Make no little plans" is not a phrase with which the UK government is familiar. Parity of esteem – which I have previously argued is essential to an effective central-local relationship – is liable to be met with incomprehension as much as opposition within Whitehall. The UK Government has been slow to recognise the value of local expertise, awareness of networks, trust, and delivery experience in the provision of public services.

Both sides in the debate, however, rarely acknowledge the degree to which the system of local government funding frames how local government can use either new or existing powers. This is true of its response to an intense crisis such as COVID-19, and of meeting the challenges of aspirations such as 'levelling up' or the type of large-scale policy reset proposed by the UK2070 Commission. Any funding system embodies unspoken perspectives on the role of local government: how much funding and discretion it should have; the sources of revenue; and how it should be redistributed between authorities.

Significant reform to English local government finance may rise soon up the policy agenda, for reasons unconnected to the UK2070 Commission's aims. Now is therefore a good time for a broader – and deeper – debate on the financial options available and their implications for local government as a system.

2) Housing, national recovery and the uncanny return to regional inequality

Homes for the North (H4N)[1]

Evidence shows regional differences in how COVID-19 has impacted communities. Unequal access to quality homes is a driver of this unsettling geography. Housing policy will now determine whether the national recovery 'levels-up', or doubles-down, on spatial inequality.

The Final Report of the UK2070 Commission published in February 2020 recommended that "housing should be integrated as part of the critical infrastructure of the UK into wider national policies to support the economy and reduce inequality." A lot of ideas and agendas will not survive the political and policy upheaval precipitated by the COVID-19 crisis. But this headline recommendation of the UK2070 Commission is robust and must be reframed as a cornerstone of the national recovery.

Spatial inequality in the UK is persistent, complex and has deep roots. Serious efforts to tackle it also have a long and detailed history. But what is unfamiliar to most people alive today is the scale of this public health crisis and the scope of action taken by Government in response. We are now seeing the complex, and still only partially understood, impact of COVID-19 layered into familiar problems and debates around inequality. Regional inequality is still here. But it has also been rendered uncanny, in the sense that Sigmund Freud would have it*: "something new and frightening has led us back to something familiar and it is unsettling."*

Overcrowded homes, homelessness, a lack of affordable housing, poverty and poor public health: all of these blights appear to correlate with COVID-19 infection and fatality rates. Failure to provide enough good quality and affordable homes has continued in too many areas for a long time. COVID-19 has demonstrably hit these communities harder. A fundamental review of housing policy is now required to avoid what will otherwise surely be the story from here, which is that areas that have proved most vulnerable to COVID-19 are also those that will recover most slowly, falling further behind. This is why radical and ambitious action on housebuilding and place-making need to be at the heart of the national recovery if it is to be inclusive, rather than divisive.

No one is claiming that the housing crisis, or deprivation in its many forms, are unique to the North of England. Nonetheless, as Lord Kerslake has said, deep-rooted spatial inequalities in the UK are exacerbated by "an over-centralised system that fails to comprehend the reality of regional need and consistently comes up with policies that are either under-resourced, too fragmented, or too short-lived to make a difference." A truly inclusive national recovery must therefore reduce spatial inequality, rather than

[1] Homes for the North (H4N), is an alliance of 17 housing associations who want to see more quality homes delivered across the North of England. Collectively Homes for the North provides homes for almost one million northerners and adds £2.5 billion per year to the northern economy, alongside other direct work in the communities they serve. Its current chair is Nigel Wilson (Chief Executive, Gentoo).
Homes for the North passionately believe that improving the supply and quality of homes in the North of England will support economic growth, higher living standards, better tenant rights, increased home ownership and stronger communities where people can meet their aspirations. However, they also believe that not enough good homes are being built across the north.

widen it, which will mean fulfilling the ‘levelling-up’ agenda that the Government came to office with a mandate to deliver. Reform of housing policy must be sufficiently radical to rise to this challenge; ‘think big, plan big and act at scale.’

Homes for the North has two specific policy proposals to offer this wide and complex task. One of these is about housing investment, the other is about housing land supply. Both are about removing artificial barriers in order to share housing opportunity across the regions more effectively. These proposed changes are achievable in the short term, via modest interventions with the potential to deliver a more inclusive national recovery by reducing spatial inequality and ‘levelling-up’ the North of England.

The new Single Housing Infrastructure Fund must be spatially smart

The North of England needs more homes, many more. Research commissioned by Homes for the North found that two million new homes are needed in the North by 2050 to support the delivery of the transformative ambitions of the Northern Powerhouse Independent Economic Review, almost double long-term rates of housing delivery. The North currently has a 28% share of English households, but ONS predictions only have it contributing 18% of future demographic growth based on historic trends. In short, the North’s share of working age households is falling, and this trend must be reversed if we are to deliver a Northern Powerhouse economy based on attracting and retaining a wide variety of skilled workers. This will require an approach to planning homes that references an ambitious vision of the future, rather than a diminishing echo of what has gone before.

Further research commissioned by Homes for the North shows that the Northern share of national housing investment is dropping dramatically. Without a change in policy, economic and social growth in the North could fall further behind other regions, especially if it lacks the right homes to attract and retain skilled workers and their families. Looking at Treasury data over 20 years, the share of UK public expenditure on housing targeted at the North has reduced from 24% to 18%, which is now much lower than the Northern population share of around 23%. With about 75% of the new £5.5bn Housing Infrastructure Fund allocated, the proportion of funds heading to the north of England is just 12%. This structured and escalating inequality is being driven by two linked policy problems.

First, the Treasury Green Book, used across Government to determine spending decisions, is intended to drive investment to areas that are able to demonstrate that the taxpayer will get a good return. Even if one accepts that this premise should be king, it is far from certain that investment is not often supporting schemes that would happen anyway without Government support. Second, encouraged by Green Book guidance, Homes England channels investment streams to areas where affordability pressures are the highest and the potential for land value uplift is the greatest, albeit often without a clear case that public support will make the difference in whether schemes go ahead or not. Public money is thereby pushed towards the South East and away from areas in the North (and elsewhere); thereby entrenching regional disparities.

Following what is called the ’80:20 rule’, 80% of Homes England funding is set aside for five funding programmes that are targeted at ‘highest affordability pressure’ areas, which are identified using median house price to median income ratios. The problem for the North is that just 4 out of 72 Northern Local Authorities are in this category and able to qualify for the larger pot of funding. In addition, the Shared Ownership and Affordable Homes Programme (SOAHP) allocated to Strategic Partners highlights a similar pattern. The share allocated to the North is calculated at 22.4%, but when allocations to London are taken into account, the Northern figure falls to just over 11% of the national allocation. A crude and unspoken national spatial strategy for housing investment has therefore come into force. Driving public investment in housing away from the North, and towards the South East, this is not sustainable for a Government that is committed to 'levelling up' the North.

The spring announcement by the chancellor of an intention to review the Green Book to support 'levelling-up' is very welcome. Our view is that the focus of this reform should be to recognise 'levelling-up' as a formal strategic objective in spending decisions, whilst allowing the wider social value of better housing to be recognised. But it is crucial that emerging guidance is reflected in funding decisions made by Homes England. Specifically, the 80:20 rule should be scrapped and replaced with a housing investment strategy that matches economic rebalancing targets.

The proposed £10bn Single Housing Investment Fund (SHIF) planned for the Spending Review is a huge opportunity to make sure Northern areas can access funding to deliver new homes in the right places. Together with other housing investment streams, the SHIF must be distributed in a very different way to ensure that it supports 'levelling-up' objectives. This should start by allocating the cash to support ambitious sub-regional housing strategies, which are demonstrably aligned with wider growth ambitions set out in Local Industrial Strategies. Then individual programme and project funding decisions should sit with devolved mayoral authorities (where they exist), given the enhanced capacity to both devise strategy and appraise projects using a new Green Book 'levelling-up' methodology. Simplistic formulaic approaches should be avoided.

'Levelling up' housing land supply in the North of England

An inclusive national recovery will only be possible if sufficient land for new homes is identified by local councils across all regions of England. In 2018, Government put in place a new method for assessing how many homes are needed in local areas in England. The (very sensible) intention was to end technical arguments at Local Plan examinations about which of a number of methods should be used.

However, one upshot of the new housing need assessment method was to slash, overnight, apparent housing need across the North, which fell in Yorkshire and the Humber by 25%, in the North East by 20% and in the North West by 24%. In comparison, housing need assessments in the South East went through the roof. Much like decisions about the distribution of housing investment, the new assessment of housing need relies upon affordability ratios, which inherently disadvantage the North of England by adopting the crude assessment that housing need can be predicted by what has happened in the past; a logic that would simply not be entertained when planning for economic growth and transport investment, for example.

Government rightly points out that the national method for assessing housing need provides a minimum level of house building that local authorities are encouraged to go beyond. But this fails to address the obvious disadvantage that the North has been put at, as well as the abundant and growing evidence that many councils are rewriting their local plans to reflect the lower, minimum assessment and treat it as a target. Recent research commissioned by Homes for the North indicates a reduction of nearly 5,000 homes p.a. in local plans across the North between 2017 and 2020.

In response to concerns widely held across the home building industry in the

North, the Secretary of State has confirmed that the method will be reviewed as part of forthcoming planning reforms. This is a golden opportunity for the Government to encourage Northern councils to boost the supply of housing land to support economic and social growth and deliver an inclusive national recovery.

Homes for the North proposes that any alternative method of calculating local housing need should pass a number of key tests. Most importantly the method must guarantee that the Government will meet its own national housing targets, which currently is 300,000 new homes per year. Local need should then be weighted to reflect ambitious housing requirements identified through the powerful sub-regional housing strategies mentioned above; devised in full alignment with growth objectives set out in Local Industrial Strategies, in recognition that housing is an enabler of economic growth and not a consequence of it. In the longer-term, and as recommended by the UK2070 Commission, a National Spatial Plan for England would provide a proper strategic context for decisions about land supply.

Northern housing associations and the national recovery

Reforms to the regional geography of national housing need and funding should not be understood or pursued in isolation. Government must avoid repeating historic mistakes of fragmented and short-lived solutions to regional inequality.

A formal spatial development strategy for England would provide a powerful framework for driving up delivery across the regions, including where COVID-19 threatens to deepen social and economic spatial inequalities. It should tie into ambitious and detailed strategies for the Northern Powerhouse, the Midlands Engine and elsewhere; refreshed and renewed for the challenges of recovery. Housing delivery must be properly integrated with delivery of the local industrial strategies in place across the regions, with sub-regional spatial plans for new homes reflecting the economic ambitions routinely professed in these documents.

Against this background, more homes would be built in the right places to support communities and reduce spatial inequality as the UK climbs through recovery. Housing associations are ideally placed to act as partners to government at all levels in renewing northern communities and building an inclusive and rebalanced economy. Modern housing associations are mature and powerful institutions with deep roots in communities, going back decades and in some cases more than a century. We are simultaneously a safety net for vulnerable people and many on low incomes, as well as a springboard for those who aspire to own a home of their own.

Building more homes and better homes, will also deliver compound benefits across the economy and society. One example is the interesting work being done in the sector around grasping carbon reduction as a specific goal of place-based regeneration. In some cases, this is about embracing and, where possible, going beyond emerging energy and carbon standards for future homes. It is also about investing in improvements to older housing stock, safeguarding against fuel poverty and taking a further step towards a carbon-free economy.

Now is the time to remove the artificial barriers that are stopping enough good homes being built, in the right places, to reduce spatial inequality and secure an inclusive national recovery.

Postscript

Since the preparation of this paper the Government is consulting on proposals for changing the way that housing needs are assessed in local planning. Homes for the North are assessing the implications of this. Concerns have been expressed by others that this proposed approach will result in fewer houses being planned for in the North of England than has been delivered in the past, and does not take account of the ambitions for increased economic development of the North. This gives added urgency to address the concerns set out in this paper.

3) Innovating the residential business model: from short term to stewardship

Gail Mayhew, Charles Dugdale, Craig Beevers and Ben Bolgar
The Stewardship Initiative[2]

To support the provision of fully infrastructured new settlements and neighbourhoods in the UK on a strategic land & infrastructure investment model.

It is widely considered that the residential property market is 'broken', insofar that it is failing to meet the needs of society and market demand both in the volume of dwellings that are being developed, and in terms of the quality of new places that are coming forward. This perpetuates higher and increasing housing costs and is fuelling divisive inter-generational politics. Nor does housing, under present delivery arrangements, help to redress the sustainability of the UK's urban footprint with separated land use fuelling commuting, congestion, ill health and stress. COVID-19 has further underlined the need to deliver well served, resilient neighbourhoods.

Often the planning system is blamed. This paper sets out the view that it is the residential business model, rather than the planning system that requires reform.

We present a summary of a body of research and practice which supported the findings of the Building Better, Building Beautiful Commission[3] which suggests that a patient 'stewardship' approach to how both land and funding enters the development model could lead to substantially enhanced outcomes. Stewardship requires encouragement and the existing gaps in present funding arrangements need to be plugged with the creation of a Land & Infrastructure Investment Fund (Stewardship Investment Fund) to underpin development on a patient equity basis.

This has identified that the greatest obstacles to delivery of better and more high-quality neighbourhoods are:

- How land enters the development process.
- Funding of early stage project optimisation (land assembly, technical studies, master planning) where the land interest or local authority wishes to take a patient equity position (as opposed to selling following the grant of planning permission).
- Funding of site and community infrastructure.
- Funding of mixed-use elements.

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[2] The Stewardship Initiative was founded in March 2020 by Gail Mayhew, Charlie Dugdale and Ben Bolgar. Craig Beevers is expert in infrastructure and property finance, and has supported the development of the stewardship patient capital proposition.

[3] See www.knightfrank.co.uk/research/building-better-building-beautiful-commission-cost-value-2020-7017.aspx and www.knightfrank.co.uk/research/building-better-building-beautiful-commission-building-in-beauty-2020-7018.aspx

1 The Problem

There is a common misconception that there is no shortage of funding for quality residential-led development. Our research indicates that though there is no issue with the *quantum* of funding available to the development and construction community, there is a very real problem with the *distribution*; with constraints around which phases in the project cycle can be financed, impacting on the nature of projects that are being brought forward. This is particularly so within areas in need of 'levelling up', however it is a problem across all UK property geographies.

As a result, the quality of many schemes under delivery [fails to meet the full 'place potential'](#) of locations. This leads to communities challenging proposals, causing delay, uncertainty and increased cost. Many schemes which are ultimately approved under such a cost-pressured regime - and which are currently under development - are further *building-in* unhealthy lifestyles through the need for excessive car journeys to service daily life due to the lack of local amenities. This is driven by the lowest cost, highest short-term profit model which most house builder developers must follow to make returns for investors and shareholders.

We have learnt from lockdown how important local servicing and amenities are to maintaining resilience and healthy communities. We must act decisively, learning from this experience to innovate the residential business model to secure the balanced new neighbourhoods the country needs and wants.

Nor do single use housing estates reflect an optimal long term investment for householders, as there is increasing evidence that developments by market participants wholly focussed on building homes do not support job creation, community development, or build homes that hold their value. By contrast, schemes developed under the stewardship model are focussed on building long-term value, stimulating economic activity and thriving communities.[4]

In areas in need of 'levelling up', we further observe that at present there is no source of funding for imaginative schemes that might operate to transform the perception of places and unlock their potential; and that the present drive for housing numbers, coupled with an absence of targeted regeneration funding, is serving to lock in underperformance and low quality human and built environment outcomes.

2 Background

Through research undertaken to support the Building Better Building Beautiful Commission (BBBBC) we considered the full development cycle of optimal and standard residentially-led schemes to review how funding currently flows into development over what timeframe, whether debt or equity; expected return on capital level, and typically, from what source. Our review has further considered how present funding arrangements impact on the overall objective of delivering more, higher quality well-infrastructured new settlements and regeneration. Finally, the research exercise considered a number of exemplary schemes and reviewed what the common characteristics of these schemes were from a funding perspective along with what lessons might be learnt.

It became apparent to the BBBBC that the method of land disposal is both the cause of the prevalent house building model, as well as the potential silver bullet to reform the

[4] Cost & Value, Report to the Building Better Building Beautiful Commission, Knight Frank 2020

outcome.

Some referred to the profit motive, others to being answerable to shareholders, but it was evident that the crystallisation of land value requires a return within a timeframe. As a corollary, housebuilders preferred to phase their land investment through options, deferred payments, or through land drawdowns within development agreements. There exists a clear tension between landowners seeking up-front land receipts and housebuilders seeking to defer payments to enhance their return on capital employed. Privately-owned land interests are encouraged to sell outright by the tax regime, and publicly-owned land interests are encouraged to sell outright by the best consideration legislation. Before we consider what might happen if they were encouraged not to sell, it is important to appreciate how this need to pay for land has knock-on consequences:

- The cost of financing land purchases reduces the amount of affordable housing or community investment.
- Housebuilders only want to buy a certain amount of land at time, thereby shortening their time horizon.
- Financing land purchases using large balance sheets accesses cheaper finance and makes it impossible for SME developers to compete for the larger projects.

The BBBBC noticed that the best examples of placemaking followed situations where the landowner had decided not to sell, but instead adopt a ‘stewardship’ role. This engendered contrasting outcomes to those observed elsewhere:

- The reduced cost of financing land enabled greater proportions of affordable housing and significantly higher levels of community investment.
- Through longer-term involvement, stakeholders became motivated to create income streams, such as those emanating from affordable housing and employment.

Removing the up-front cost of land provided a level-playing field for SMEs to compete with housebuilders on quality and placemaking attributes.

Hypothesis - Short Term vs Long Term: In order to achieve a radical shift in delivery and practice, the BBBBC identified that there is a need to remodel the delivery arrangements for new neighbourhoods and settlements so that stakeholders are aligned towards a longer-term investment time horizon. The development of the land and infrastructure, which is a long-term activity, requires patient capital as provided by the stewardship land model.

Our research indicates that a common characteristic of a range of exemplary large-scale schemes reviewed is that they have been brought forward under a patient, stewardship-based commercial arrangement.[5] Longer-term delivery models have precedents within the UK, being the arrangement under which many of the historic London urban estates; Edinburgh’s New Town and South Side plus Edgbaston in Birmingham were all developed. More recent experience at Cambridge, Poundbury (Dorchester), Oakgrove (Milton Keynes), Newquay, Purfleet, Newhall (Harlow), Tornagrain (Inverness), Chapelton of Elsick (Aberdeen) and Coed Darcy (Llandarcy) show that this development rationale can be refreshed to produce high quality - often contemporary - fully fledged neighbourhoods.

Funding Scarcity: House building is a short-term activity and generally financed using

[5] Delivering Sustainable Urbanism, The Princes Foundation for the Built Environment 2010

the readily available debt markets. The prevalence of short-term funding is reinforced by funding available through Homes England, which focuses on time frames below ten years; permissioned schemes; and housing delivery targets - as opposed to placemaking. While there is no scarcity of funding for house building, this model offers no longer-term motivation to build to a high quality, or recourse if housing fails to stand the test of time. It has not been shown to be capable of producing the new high amenity, mixed-use neighbourhoods the country so desperately needs. Equally the Letwin Report underlined the ceiling on demand that standard housebuilding suffers, which limits the potential scale and speed of delivery.

Under the stewardship land model, the landowner is encouraged to provide a platform for all stakeholders, including the local authority, to be aligned in a mutual motivation to build lasting value and to nurture local economies that allow communities to flourish. Time and patience become the critical commodities. Well-conceived new urban extensions and settlements require a longer time horizon funding approach given the long-term nature of placemaking activity (10 years plus), and a different business and risk model where land value is extracted over time on a patient basis.

Returns will be enhanced through placemaking bringing together housing, commercial uses and amenities; to create place value and more closely matching the residential offer of traditional neighbourhoods that tend to attract a price premium. We have seen this approach operate successfully across a range of market situations, whether driven by a single long-term land interest; a collectivity of land owners coordinated by a master developer or by a local authority; whether through their powers to bring land into a partnership through purchase/compulsory purchase, or as the development agency.

Whilst the stewardship model may be the silver bullet to the current housing crisis, it requires encouragement. The current examples of stewardship are few and far between and research has suggested that this is down to the significant obstacles to stewardship, as opposed to a lack of potential 'stewards'. The obstacles lie in the tax regime, and the availability of placemaking funding to support planning activities and longer-term infrastructure investment. *Such long-term funding is extremely hard to come by.*

3 The stewardship land model

Under the stewardship model, the critical requirement is that the landowning entity adheres to a set of standards we have identified as a potential 'stewardship kitemark' and maintains a beneficial interest throughout the project. This exploits a rational self-interest in promoting long-term value. The project is managed and financed to optimise returns and place-making on a stewardship basis over an extended time period. Its returns are derived from the crystallisation of land value deferred until the latest possible moment: either the completion of homes, or beyond construction through holding income producing assets (residential of all tenures and commercial). By deferring land value realisation, value is embedded into the scheme, allowing available capital to be invested into placemaking and a quality product.

The stewardship entity takes on the placemaking activities, whilst offering a platform for house building partners to maximise their returns by deferring land investment. Stewardship does not seek to replace any market participants, but it promises to engender different behaviour within the housebuilding sector.

This stewardship role could be led by a number of different bodies: a private or corporate landowner, including a master developer or housebuilder; or by a public authority (which might bring both their powers and access to Public Loans Works Board funding); or any combination of these through a partnership arrangement. The stewardship approach will be aligned with a societal benefit, and in doing so allows for closer alignments of interest, between the land interest and the community, and also with the local authority.

Placemaking activities adopted by the 'steward' include the role of achieving permission for the land and managing development quality in line with a master plan. The masterplan would be developed collaboratively with a local authority, community and other stakeholders; together embedding the economic and social infrastructure required to support a mixed-use walkable community as a core element of the business model. Effectively, stewardship development is 'enabling' development, insofar as the starting point is to identify a full place proposition including amenities and infrastructure, as the quantum of housing enables the delivery of the placemaking and social net gain.

4 Funding gaps

There is no shortage of short-term debt to fund permissioned, small-scale housing schemes - and this is redoubled by funding currently available via Homes England. Equally there is abundant funding to support land promotion exercises which price-in the high level of risk, an uncertain time frame, and which anticipate returns coming from the sale of land following the award of planning permission. It should be recognised that promotion activity has a significant influence on the high level of pricing of permissioned land and is a source of frustration for many local authorities, who often find themselves having to renegotiate permissions with subsequent housebuilder purchasers.

There is considerably less availability of funds to finance the early stage of stewardship projects, which intend to follow the long-term route and resist capitalising on the acquisition of planning permission. Bank loan officers and credit committees are typically far less comfortable with the idea of holding loans against strategic scale enabled land (that is, a site with planning permission, infrastructure or other enabling works) as their end "realisable asset" because there is a much smaller universe of potential buyers in a forced sale scenario or market downturn. To a bank or private equity fund focused on short-term returns to meet quarterly reporting requirements, long-term stewardship investments are currently unattractive.

A longer term, patient investor who is prepared to ride market cycles, and which understands how value is generated through placemaking is required.

Annuity pension funds have historically had this sort of investment profile, but increasingly they are benchmarked against traditional asset classes, with relatively little of their portfolios committed to multi-cycle economic investments. Even their private equity investments typically have a five year realisation or revaluation cycle. The problem then becomes one of capital aggregation: although a large number of annuity funds each have a relatively modest amount of capital available to invest in long term assets, it is difficult to aggregate this so that sufficient capital can be deployed in one go to fund larger "new community" developments. No pension fund wants to deploy all of its long-term allocation to a single project, and historically the funds have not demonstrated a willingness to partner up into multi-firm syndicates.

5 A Stewardship Investment Fund

This paper proposes the establishment of a Stewardship Investment Fund (SiF) to finance a reformed approach to the delivery of new neighbourhoods with high quality economic and social infrastructure, and regenerative development with similar high quality attributes. This could adopt the model of the English Cities Fund, which was created by English Partnerships to pioneer institutional investment into regeneration - which would bring together government seed capital to be invested on a long term basis, alongside funding from institutional and other sources which are content to pursue an absolute value long term return - to support the creation of new high quality neighbourhoods across the UK.

Through such a measure, we propose that delivery of housing in the UK could be transformed to support high quality new neighbourhoods.

As set out above, although there is arguably an excess of financing available with the property industry as a whole (certainly pre COVID-19), it is neither uniformly nor appropriately distributed to ensure optimum delivery of quality product. Capital chases well understood, relatively short-term 'pigeon-holed' investment types, which are suitable for aggregation onto banks' balance sheets with relatively low capital charges, or for packaging into capital markets products.

When the funding landscape is interrogated more closely however, the available funding tends to reinforce the flow of un-optimised single use schemes, reflecting single land ownership scenarios. To give but one simple example, an informal poll of six major lenders suggested that all would struggle to get approval to fund a 60:40 mixed use scheme of £10-£50 million Gross Development Value, because the residential finance team were not allowed to underwrite commercial property, and vice versa.

This situation means that an optimal development landscape cannot be supported as developers have to carve up sites to suit finance providers, rather than to support optimal placemaking.

Such funding-led constraints on placemaking not only means that best practice community building is unlikely to emerge in high volumes, but the development is likely to be more expensive because of the artificial constraints caused by funders' needs - which do not consider placemaking over ease of definition of a security package. Where a scheme involves complex placemaking with a high level of infrastructure and mixed use, the time horizon of available funding (up to ten years from HE sources, shorter from many other funders) does not accord with the placemaking timeframe of ten to forty years.

Funding Gap 1 – early stage equity

There is presently a lack of funding to support the early stage development of land and infrastructure projects on an optimal 'stewardship' basis (as opposed to on a land trading basis), which enjoys funding from high risk high return sources and anticipates an onward sale of land at receipt of planning permission.

For many landowners, land often forms by far the largest part of their asset portfolio; they are asset rich but relatively cash poor, at least for the kind of sums needed to take agricultural land through planning, placemaking and infrastructure development. For that reason, they need an additional capital provider if the land is to be developed.

There is a potential role for a Stewardship Investment Fund to bridge this gap, and through encouraging the emergence of strategic partnerships operating between the Counties/Unitaries/Mayoralties (who can access Public Works Loan Board funding, or other public funding sources), landowners, and long-term stewardship developers. Funds committed would be invested on a commercial basis and look for returns over a patient timeframe.

Funding Gap 2 – big-ticket long-term infrastructure funding (post OPP)

While a small number of master developer entities enjoy access to long term institutional funding to support the improvement of land and delivery of infrastructure, these are limited both in number and their sphere of operation. Their geographical range specifically tends to preclude regeneration areas and non-South-East geographies – which are the areas where the delivery of quality new neighbourhoods is so necessary to rebalance opportunity and quality across the whole UK and to help move towards a more sustainable mixed-use urban footprint.

Similarly, there is an issue with 'ticket size'. Many long-term funders, for entirely rational reasons, do not look at small to mid-size investment opportunities, pointing out that the opportunity cost is too high – it takes approximately the same amount of expensive, skilled human resource to underwrite a £1bn investment as a £50m investment. For this reason, unless a fund has the pipeline and capacity to fund many such deals, it is unlikely that it will devote resources to learning the skills necessary for such underwriting. A specialist fund could develop the necessary expertise to create such a portfolio, creating diversification through geographic spread; stage of project in its pipeline and inventory; and project characteristics.

Funding Gap 3 – funding speculative development of employment land

It is notoriously difficult to fund the mixed use elements of large new build schemes, and this is intensified in areas where the market is fragile - ironically, often the areas where mixed use elements are most needed to provide affordable local facilities and reduced travel costs/localised access to jobs; and to support market transformation where areas are in need of 'levelling up'.

6 Proving the market – a new investment category

A Stewardship Investment Fund should be set up to pilot a new category of investment property activity focused on a blended 'land and infrastructure' investment proposition. The fund should be substantial enough to leverage a portfolio of schemes across a spread of geographies across the UK and project scales, and should be conditioned through its aims and objectives to support sustainable, high quality placemaking, and beautiful homes, within a mixed-use walkable neighbourhood.

Through a pioneer fund configured in this way, there is potential for a new investment market segment in 'master planned strategic land and infrastructure' to emerge to support the creation of a generation of fully infrastructured new settlements and neighbourhoods across the UK, once the case and business model is established. (N.B. A similar funding gap, which once existed in investment in regeneration areas, was approached in this way through the setting up by *English Partnerships* of the English Cities Fund, which operated to pioneer that market).

This would reform the flows of capital into opening up land and infrastructure to achieve more equal access to land for builders of all scales, and the delivery of high quality, mixed-use and mixed-tenure neighbourhoods. It may also operate to stabilise the volatility of the UK residential market, taking some pressure off the weight of money on an international basis that wishes to participate in UK residential real estate diverting it from purchasing standing assets to building new prime neighbourhoods.

As the market and operational arrangements for this approach are proved through the Stewardship Investment Fund it is envisaged that an institutional investment market in this area would emerge.

7 Removing barriers to the emergence of the Stewardship Delivery Model

Key Barriers to Delivery
Six fundamental issues need to be addressed, which are presently operating as barriers to the emergence of stewardship driven development of new neighbourhoods in the UK:

- a) Enabling arrangements to *ease the process of land-pooling and assembly* to bring together land essential for an optimal scheme within the same entity and to neutralise ransoming (HMRC).

- b) *Removal of the present perverse fiscal incentive* for land interests to 'sell short' – enabling land to be vested as equity, and to encourage 'patient equity' position to be assumed by the land interest.

- c) Identification of an *efficient 'wrapper' – a Stewardship Investment Trust -* to bring together land and infrastructure investment within a structure with satisfactory tax treatment for all parties, and encouragement to maintain a patient equity investment position neutralising the preferential tax treatment of option/sale arrangements and avoiding the potential for 'dry' taxes becoming liable ahead of returns.

- d) Funding to create a set of *innovative tax, legal, tech and financial structures and instruments* to support the emergence of this new area of market activity.

- e) Identification of new sources of early stage equity and patient long-term capital through a *Stewardship Investment Fund* to sit alongside land interests and expertise to open up land and deliver infrastructure to sites on a stewardship model.

- *f)* Adoption of high-level commitment in *planning guidance to favour 'the right development in the right place'* and for this to be beautifully conceived to win public support, and support broadly defined net gain – through a stronger definition of what constitutes 'sustainable development' and 'good growth' - in the NPPF.

- *g)* *Adoption of good growth and placemaking as central objectives of government* on a cross departmental basis, with relevant adjustments to department and agency targets in accordance with this new priority, particularly MHCLG and Homes England.

- *h)* *Establishment of a stewardship kitemark* to operate to quality control developers and landowners aspiring to deliver stewardship schemes. Only by committing to a set of measurable KPIs will the benefits of the proposed tax treatment and access to funding be available.

By putting in place these critical measures a new environment will be created to support placemaking, to support ‘levelling up’ and to underpin the delivery of significant housing numbers, particularly those in affordable tenures.

Stewardship could be as close as we can get to a silver bullet to solve Britain’s housing crisis. It embraces a tried and tested model of development, which created our highest value and most popular traditional inner urban suburbs. A group of pioneering land interests have shown that this model is just as relevant today, and is capable of delivering the quality neighbourhoods so essential to quality of life, that should be readily available to new home purchasers across the UK.

4) Household stocks and flows: planning to manage uncertainty

Alan Wenban-Smith, Proprietor, Urban & Regional Policy[6]

The problem

Housing is the highest profile and most hotly contested field in planning, but planning has not delivered what successive governments have wanted from it: more affordable housing. Central government policy since 2007 has been to seek an increase in new housing for sale by compelling local authorities to give more planning permissions. This is intended to benefit new households in two ways: indirectly through the 'trickle down' of additional supply depressing prices, or directly by cross-subsidising an 'affordable housing' component.

However, while the number of planning permissions has comfortably exceeded the national annual target of 300,000 for several years, the number of new homes provided has continued to fall far short.[7] There is no good reason why a further increase in the target will produce a better result, but it has nevertheless recently been proposed to increase the target to 337,000. The expectation of different results from the same actions was Einstein's definition of madness. The policy itself is thus failing to deliver more new houses, but even if it worked in this sense, there is a serious mismatch between policy ends and means.

Growth of housing needs flows overwhelmingly from formation of new households in younger age groups (see next subsection). House prices have continued to rise faster than incomes of would-be first-time buyers. Help to Buy loans seek to bridge this gap, but while loans totalling over £10bn have been made since 2013, this has benefitted only about 6.5% of newly forming households.[8] The volume builders have probably built more than they would otherwise have done, and have definitely increased their profitability, but have mostly not responded with better designs, better value, more accessible locations or more affordable prices.

The national focus on provision of land for new homes for sale provides very little benefit to new households, and at great expense. They depend primarily on decent, affordable homes becoming available for sale or rent from turnover of existing stock. Regeneration and direct social provision would be better ways to help meet their needs, and would also benefit them (and others) in terms of social inclusion, economic productivity, transport emissions and environmental quality.

Estimating needs – flows not stocks

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[6] Alan Wenban-Smith was responsible for planning and transport policy at Newcastle, Tyne & Wear and Birmingham Councils from 1973-1996, and is a former Visiting Professor of Planning at Newcastle University and Birmingham City University.

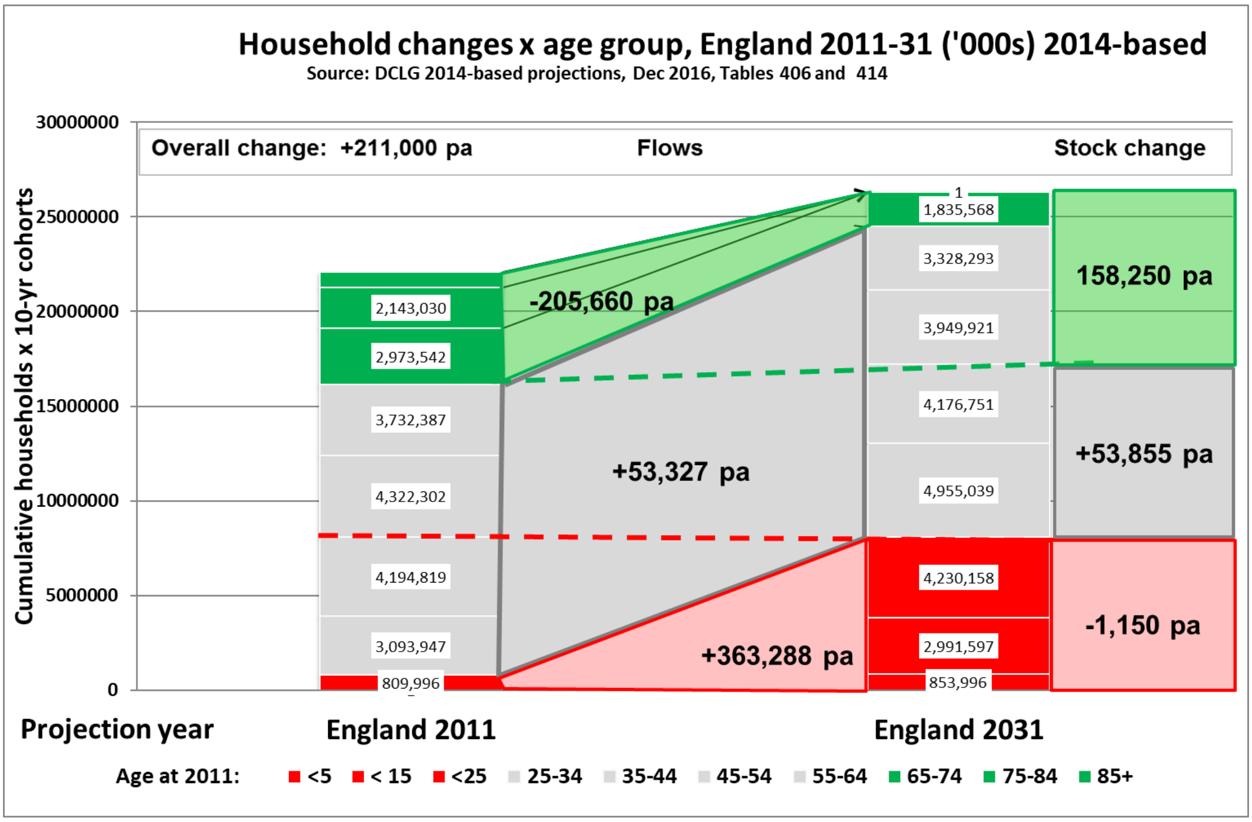
[7] E.g. in 2016/7 there were 313,000 planning consents and an additional 19,000 permitted development, but output was only 217,000 (including 34,000 conversions).

[8] Over the period 2013-18 about 2.1 million new households formed, but there were only 137,000 first time buyer loans. They have taken on high levels of debt, and because only the first buyer of a new house is eligible, are immediately in negative equity. In uncertain times this could trigger another subprime crisis.

Conventional methods of housing need analysis compare 'snapshots' of the stock of households at projected start and end-dates. An alternative approach analyses the same projections, but as a flow, reflecting the dynamics of household evolution as they age over the projection period. *Figure 1* presents the results of both approaches applied to the Government's preferred household projections (2014-based) over the 20 years 2011-31:[9]

- Household stock snapshots locate growth of housing need overwhelmingly in the older age groups: over 65s increase by 158,000 pa (75% of 211,000 pa overall growth), while the number of households under 45 shrinks.
- By contrast, examination of household flows shows that new households are overwhelmingly formed in the younger age groups: out of 417,000 pa new households, 363,000 pa are from the youngest age groups (87% from those under 25 at the start). The oldest age group at the start (65+), on the other hand, shrinks by more than 205,000 pa

Figure 1: Household flows and stocks



It should be no surprise that the needs of newly-forming, younger households drive the whole system of planning for housing, but this is obscured by the conventional stock change approach. The projections themselves are already past their sell-by date,[10] and

[9] The period chosen makes relatively little difference within any particular projection.

[10] The 2014-based projections preferred by government were carried out in-house by MHCLG, while the 2016-based projections were carried out independently by the Office for National Statistics. The ONS work reflects how economic change has reduced household formation rates in younger age groups, and projects a much lower overall household growth (160,000 compared with 211,000). This offers less support to a housing target of 300,000 (or more), providing an example of policy-led evidence-making. However, both assume that household formation returns to the pre 2008 trend in the medium-term, for which there is at present no evidence – and without different policies, no reason.

will have to change further and radically because of the social and economic shocks from COVID-19, from Brexit, from ‘levelling up’ and from climate change, but as discussed in the final subsection of my chapter, the dynamic described above will remain central.

Implications

Priorities: new stock vs whole stock

Almost all of the increase in housing needs over the next 20 years will come from those presently under 25. Trends in levels and security of income make this group increasingly dependent for decent homes on the quality of the cheaper end of existing stock. Thus meeting housing need is not simply a matter of new build equaling the growth in numbers of households: the provision of social housing and the number, quality and price of homes from churn of existing stock (around 90% of the housing market) are much more important.

Additional land to meet increasing local targets is mostly greenfield, though large scale greenfield housing development meets needs in only a limited niche, with any contribution to meeting wider needs depending on ‘trickle down’. Such needs could be met more quickly and directly through regeneration of existing communities and neighbourhoods. These are being damaged by the single track focus on new build. A ‘whole stock’ approach[11] is more joined-up, with potential not only to meet housing needs, but also to manage transport demand and assist operation of labour markets. If ‘trickle down’ is to work then this is essential.

Location: greenfield vs brownfield

During the currency of the ’brownfield first’ policy (1997-2007) the proportion of new homes on brownfield sites increased from 53% to 74%, while at the same time output of new houses grew from 149,000 to 177,000 (excluding conversions). Like household formation, brownfield land is a flow, and the stock of brownfield land suitable for housing increased at the same time as more was being used. However, this result required strong planning policies, and public resources for site preparation, infrastructure and services. Over the last decade, without these policies, the contribution of brownfield land has diminished, and additional provision of land through the planning system has mostly been greenfield.

Regeneration and place-making

New homes form only about 10% of the annual volume of housing choice, but they have a significant effect on choices throughout the whole stock. This arises in two ways: first, dispersed greenfield development is more demanding of resources for infrastructure and services, and as these resources are limited (and seldom fully met by planning gain or CIL), existing areas are starved of investment and become run-down. Second, as a result, such areas become less attractive to households, limiting choices, driving further dispersion and increasing travel demand in a vicious circle.

[11] Pre 2007 the objective of housing policy was expressed as ‘a decent home, in a place where people want to live, and at a price they can afford’. There was no assumption that only new housing could provide this.

Whatever the level of new house building, it needs to be balanced with regeneration of existing stock. This needs to embrace the whole place-making agenda: jobs, services, physical and social environment.

Transport

Over the last 30+ years most of the increase in travel demand; the accompanying shift to car-dependency; and 70% of the increase in personal surface transport emissions results from dispersion of housing choices within the whole stock.[12] As outlined above, this dispersion is driven both by new development and the consequent pre-emption of funds for regeneration and service renewal in vulnerable existing neighbourhoods.

There are important direct impacts on greenhouse gas emissions, local air quality and health. At the same time, increased congestion reduces the productivity benefits of agglomeration, and drives further dispersion in a vicious circle. This is particularly damaging in the context of escalating concerns about climate change and the health impacts of local air pollution.

The impact of COVID-19 on public transport use has been dramatic and will continue as long as the risks of infection remain serious (pending vaccines – possibly some years). City-region labour markets are highly dependent on public transport, especially in and around London, and their economic, social and cultural contributions will be severely damaged.

Planning for uncertainty

Until the early 1980s the government would not even admit to carrying out household projections: along with strategic spatial planning generally they were branded as an 'outdated concept of the 1960s.'[13] More localised and harder edged economic and property-based 'blueprints' took over from strategic planning, and the job of planning shifted from steering environmental, economic and social change to creating certainty for the development sector.

The shift was well-established in the 1980s, but the tempo increased after 2007, when following the Barker Report on Housing, the principal aim of housing policy changed from 'decent housing' (a qualitative, place-based concept) to 'new housing' (a quantitative, development-based concept).[14] [15] The usefulness of a national system of household forecasting for managing this change became recognised by Government. Its use to enforce compliance by local authorities has become ever tighter: initially through targets at regional level, in Regional Spatial Strategies. In the current NPPF (2018 revision) specific output targets are now centrally proposed for each Local Plan area, with an array of inducements and penalties to secure compliance. The Government is currently consulting on further changes to the planning system,[16] briefly reviewed in the final subsection of this chapter.

Increasingly centralised command and control comes at a time when uncertainty has seldom been greater. Although seeming volatile at the time, the past seems a period of

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[12] Alan Wenban-Smith (2016) *'Land-use drivers of transport emissions – revisited'*, ICE Transport Journal.
[13] Michael Heseltine, 1979 address to RTPI
[14] Barker,K. (2006), *Final report – Recommendations (Barker Review of Housing)*, London, HMSO.
[15] DCLG (2007) *'Homes for the future: more affordable, more sustainable'*, Cm7191
[16] MHCLG (2020) *'Planning for the Future'* HMSO

calm continuity compared with what is now upon us: COVID-19, Brexit and climate change. It is paradoxical therefore that Government policy places so much weight on trend projections, implying that continuation of past trends is either inevitable or desirable (or both). However, it is now quite clear that (regardless of the planning system they are plugged into) present projections cannot stand, and the actions flowing from them are no longer valid.

Research commissioned by the Government from as long ago as the 1960s demonstrated that uncertainty cannot be eliminated.[17] Now, more than ever, planning must be seen as a means of managing uncertainty, rather than creating certainty. In the early 2000s such an approach emerged briefly as 'plan, monitor and manage', the then Government's attempt to deliver a better-managed supply of housing land.

Rather than the illusory certainty of the 'blueprint', it proposed to combine a strategic sense of direction with a flexible tactical process for implementation and monitoring. The sense of direction was endorsed centrally but implemented and monitored mainly locally, in accordance with the principles of subsidiarity. Uncertainties about long-term aims, the changing physical and economic context, and roles of the agencies involved were resolved through public participation, research, and inter-agency consultation respectively, shared publicly through Annual Monitoring Reports.[18] [19]

With COVID-19 we are finding out the significance of local control and response the hard way. By guiding devolution of responsibility and managing commitments, strategic choice might allow us to grapple more effectively with 'levelling up' and climate change as well.

'**Planning for the Future?'**

The Government's White Paper on '*Planning for the Future*'[20] is almost wholly irrelevant to either the conceptual problems of planning to manage uncertainty, or to meeting the challenges we now face. Some initial comments follow:

1. Everything is viewed through the lens of property development, but there is no vision of what kind of country is contemplated in terms even of the 'hardware' of physical and economic geography. Completely absent is any notion of the accompanying 'software': how communities and individuals will be able to make best use of the whole places that result.

2. The critique of the planning system is focused at the micro level. 'Planning' is treated as synonymous with District Council responsibilities for producing Local Plans and deciding planning applications. The role of spatial policy at national, regional and sub-regional levels is neglected, though these are crucial to meeting present challenges, particularly climate change and 'levelling up'.

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[17] Friend J and Jessop N (1969), *'Local Government and Strategic Choice: an operational research approach to the processes of public planning'*, Institute for Operational Research, Tavistock

[18] Alan Wenban-Smith (2002) '*A better future for development plans: making 'plan, monitor and manage' work'*, Planning Theory and Practice, Vol 3, No 1, pp33-51

[19] Successful practical examples were developed in Strathclyde and Tyne & Wear in the early 1980s, but wider adoption foundered on the hostility of builders, landowners and parts of Whitehall to the significant managing role of local authorities. This might in future circumstances come to be seen as an advantage.

[20] MHCLG (6 August 2020), 6 weeks consultation ending 17 September

3. Each time ‘wider than local’ structures have been put in place to handle such issues they have been dismantled by subsequent administrations. And each time they have had to be reinvented – painfully, slowly and imperfectly. The overall decision-making structure is an inescapable responsibility of central government, but the White Paper offers nothing in regard to this accountability.

4. The proposed three-way categorisation of areas as ‘Growth’, ‘Renewal’ or ‘Protection’ is both naïve and inadequate:

    - The singular focus on new build numbers is an inadequate, expensive and damaging distraction. The analysis in this paper demonstrates that meeting housing needs depends mainly on regeneration of existing stock and place-making, both on a strategic spatial scale.

    - The ‘Renewal’ category is simply not up to the task: large areas of cities and towns will need much more than ‘gentle infill’ to offer decent homes in places where people might want to live and work.[21] Without strategic oversight, developer demand for inclusion in the ‘Growth’ category areas will be excessive and opportunistic, while ‘Protection’ will be a forlorn hope for any except the rich and well-connected (so much for ‘levelling up’).

    - The proposed flat rate Infrastructure Levy is naïve, particularly when combined with a commitment not to consider site viability: development profitability is enormously variable. A flat rate that captures enough money to meet off-site infrastructure costs (let alone additional costs of public services) would prevent much necessary development from proceeding in less profitable locations. Even with assessments, Government has shown a sympathetic attitude to developers pleading non-viability - suggesting that without them the flat rate will be low. New young households, who might benefit from area regeneration and genuinely affordable housing financed by this means, will be particularly disadvantaged.

[21] The ‘enveloping’ programmes carried out in Birmingham in the 1980s provide an example of the scale and ambition needed to retrofit adequate energy-saving measures.

5) A post COVID-19 perspective from the East Midlands

Andrew Prichard, East Midlands Councils, writing in a personal capacity[22]

Introduction

This supplementary note provides a post COVID-19 commentary from an East Midlands perspective against the ten actions set out in the UK2070 Commission's Final Report: *Make No Little Plans – Acting At Scale For A Fairer And Stronger Future.*

Action 1: A Spatially Just Transition to Zero-Carbon - Ensuring there is an explicit spatial dimension in the UK's plan to become zero carbon by 2050.

The initial impact of the COVID-19 lockdown was a significant reduction in road traffic and carbon emissions, and very visible improvements to air quality, particularly in urban areas. However, the return to work has been largely car based because of the impact of social distancing on public transport – which has reduced effective capacity by up to 80% even when services are running normally.

The Department for Transport issued a discussion paper at the end of March, Decarbonising Transport - Setting the Challenge, which is designed to inform the publication of a Transport Decarbonisation Plan by the end of 2020 that in turn will help deliver the Government's zero carbon target by 2050.

In considering the paper, the Transport for the East Midlands board emphasised the importance of national leadership on issues such as rail electrification and the deployment of electric/hydrogen vehicles; but also of locally determined place-based solutions that reduce the need to travel and encourage walking/cycling/public transport.

There is a danger that COVID-19 'bakes-in' car-dependency and existing patterns of transport poverty. There will be a need to develop new business models for public transport that encourage integration between modes and geographies.

Action 2: Delivering a Connectivity Revolution - Creating a transformed public transport network between cities, within cities and beyond cities.

On the 12th April 2020 the Government gave HS2 Ltd formal 'notice to proceed' with the construction of Phase 1 of High Speed 2 between London and Birmingham. Up to that point HS2 Ltd had only been able to undertake enabling works. The 'notice to proceed' enables the four main civil engineering contracts to be mobilised – which will have a positive impact on the number of contractors and SMEs based in the East Midlands.

The delivery of Phase 2b will be taken forward through the development of an Integrated Rail Plan (IRP) for the Midlands and the North, to be published by the end of 2020. To inform the development of the IRP, the Government has asked the National Infrastructure Commission (NIC) to produce a *Rail Needs (HS2) Assessment*. The NIC issued a call for evidence on the 25th of March 2020 for this Assessment.

[22] The views expressed in this paper are the personal views of the author

The HS2 East partnership of councils, LEPs and chambers of commerce along the Eastern Leg of HS2 [commissioned Volterra to assess the collective economic and transport impacts of HS2 from the West Midlands through to the North East](). This work has now been made available to the NIC.

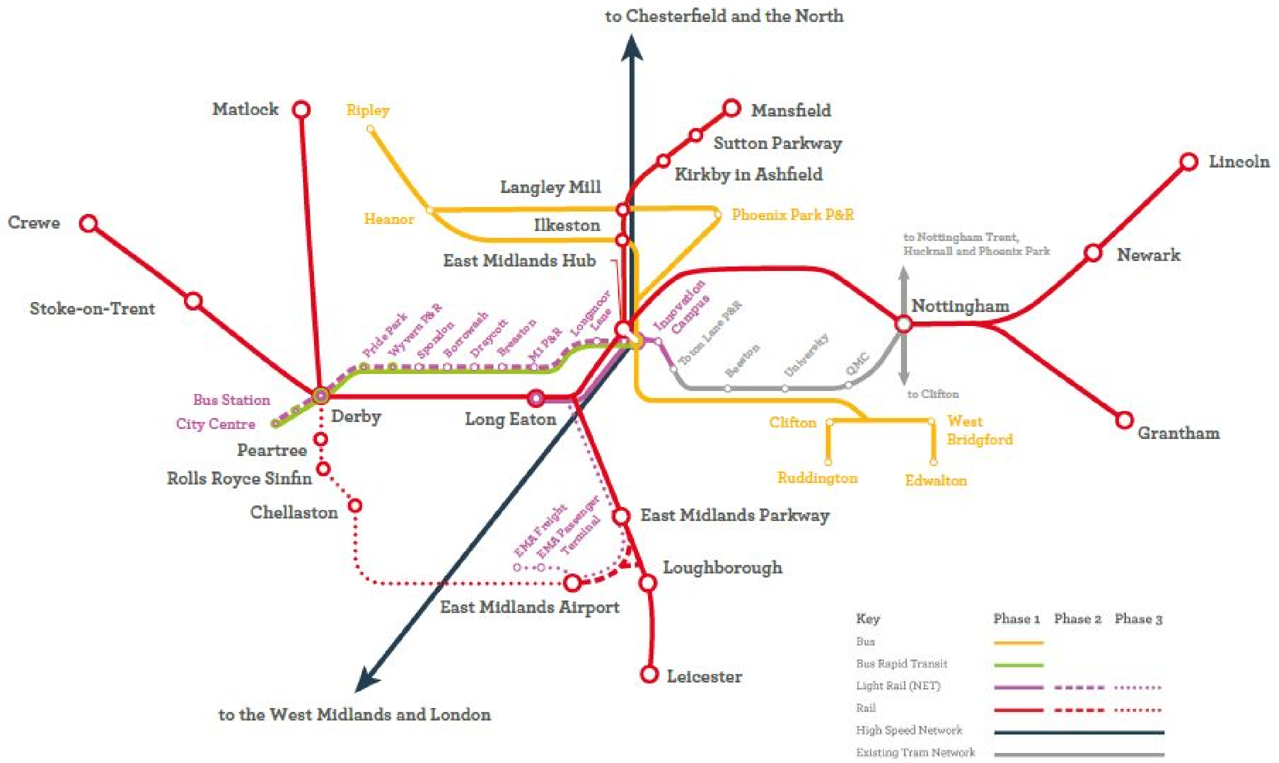
[An East Midlands submission was made]() to the NIC based around three core messages:

- *Deliver in Full:* The Eastern Leg of HS2 is critical to the long-term economic success of the East Midlands and UK plc and must be delivered in full. This must include the East Midlands Hub Station at Toton (with provision for city centre HS2 services via a conventional compatible connection), HS2 connectivity for Chesterfield and Sheffield, the Infrastructure Maintenance Depot at Staveley, and a fully upgraded HS2 Station in Leeds.

- *Deliver Early:* There are credible options for the incremental construction of the eastern leg of HS2 which would deliver wider network and local economic benefits much earlier than would otherwise be the case**.** These options should be developed further in close collaboration with regional and local stakeholders.

- *Invest Now:* Implement a '10 Year Plan' of investment that will improve local transport, support early development of key sites and prepare the way for HS2. This must include the full electrification of the Midland Main Line, removal of the Low-Level Rail Line in Long Eaton, and delivery of the Phase 1 Package of *The East Midlands Gateways Connectivity (Access to Toton) Study***.**

[The 'Access to Toton' Report]() sets out a three phased approach to addressing existing transport deficits, supporting growth, and preparing the way for HS2.



The Phase 1 package of measures is designed to be built over the next 10 years and are estimated to cost £455 million with a combined business case benefit cost ratio of more than 4 to 1 (transport user benefits only).

Action 3: Creating New Global Centres of Excellence - Harnessing increased investment in research and development to create 'hub and spoke' networks of excellence across the country to complement London and the Wider South East.

Key to our strategy is the delivery of a HS2 Hub Station at Toton which would be the centre of a series of interlinked developments: a garden village and innovation campus will demonstrate new ways and living and working sustainably; a Centre for Integrated Zero Carbon Futures which transforms a fossil-fuelled power station at Ratcliffe-on-Soar into a global centre for sustainable energy research; and the expansion of East Midlands Airport's freight hub, the UK's largest international air trade gateway – which could also be the location of the UK's first 'Inland Freeport'.

Ratcliffe-on-Soar is one of the last remaining operational coal fired power stations in the UK. As part of the Government's carbon reduction programme, it is set to cease operation by the end of 2025. The site is ready to make its new mark on the landscape.

Ratcliffe will become a next generation example of making, powering and innovating. In the immediate term, the region's world class universities will come together with the support of major industry players to create the Centre for Integrated Zero Carbon Futures, which will bring together the regional research expertise to produce a large-scale demonstration zone. The Centre will illustrate how to achieve a fully decarbonised energy system through transferring applied research and development to demonstration at scale. This will provide a national and international showcase for the technologies and systems required to achieve net zero carbon - driving ideas through to commercialisation.

Ratcliffe will become a place of learning and development with jobs for local people across the supply chain. It will drive social mobility, shaping a shift in aspiration and offering young people the next generation of jobs. An 'open hub' will allow learners, innovators and entrepreneurs to visit the site and see the next generation of innovation and creativity, all linked by excellent local transport and digital technology. Colocation of venture capital amongst researchers, scientists and entrepreneurs will help commercialise new technologies for the benefit of the world

Action 4: Strengthening the Foundations of Local Economies - Empowering local leadership in towns and local communities to deliver increased local economic growth and wellbeing.

One of the short-term impacts of lockdown is that many people have rediscovered their local neighbourhoods. However, the longer term impacts on retail and the high street are likely to be profound. The pre COVID-19 government response, through such initiatives such as the 'Towns Fund' appears under-powered and many places will need support to fundamentally rethink their role and purpose.

This will require Government support but can only be done by local leaders working closely with those communities and businesses directly affected. It cannot be managed from Whitehall.

Action 5: Rethinking the Housing Crisis - Recognising housing as part of national infrastructure and ensuring that supply of new housing meets the needs of the economy.

The initial impact of the lockdown was to freeze the housing market and stop almost all construction. The restrictions have also shone a light on the many people and families who live in cramped conditions with little or no outside space. Poor quality, high density living has also been seen as a contributory factor in the spread of COVID-19.

The COVID-19 crisis ought to result in a major national effort to improve the quality and quantity of housing stock and the built environment generally. Unfortunately, councils, who are best placed to deliver meaningful change on the ground, are likely to be financially worst hit by the economic impact of COVID-19.

In addition, the initial indications are that a key element of the Government's economic recovery plan will be a further deregulation of planning controls, including permitted development – measures which have contributed to existing problems of overcrowding and a lack of local amenities.

Action 6: Harnessing Cultural and Environmental Assets - Increasing the focus of policy and funding of assets outside of London.

One of the positive impacts of the Lockdown is that people have rediscovered the benefits of local greenspace - particularly, but not limited to, those who do not have access to a private garden.

Our proposals for growth around the HS2 Hub Station include a network of cycling and pedestrian routes, and the establishment of a strategic 'Wildway' which will integrate existing green and blue infrastructure into a new existing community asset. This kind of approach should become the norm in major development proposals from now on.

Action 7: Implementing a Comprehensive Framework for Inclusive Devolution - Allow different places to step up through different levels of devolution according to local ambition, need and capacity.

The COVID-19 crisis has demonstrated again the centralised nature of UK decision making, particularly in England, and the limitations of that approach when dealing with something as complex as a pandemic.

The Government has promised a Devolution White Paper during 2020. Early indications are that areas will need to accept provision for an elected mayor - which remains challenging in non-metropolitan areas – and local government reorganisation based around a unitary model.

The East Midlands, along with the South East, remain the only regions of England without a devolution deal. For this to change, the breadth and depth of powers and funding on offer will need to be more extensive than have previously been the case.

That said, the impact of the COVID-19 pandemic on council finances is already starting to drive serious consideration of moving to a single tier structure, which would radically reduce the number of authorities involved in reaching agreement on a devolved model.

Action 8: Future Skilling the United Kingdom - Develop a national plan to raise attainment levels, especially in future skill needs for all areas to achieve the levels of the best performing places.

The impact on young people, particularly from deprived communities, of school closures and a lack of social contact has been of great concern. Many low-skilled jobs in hospitality and entertainment which have helped young people into the labour market have disappeared, and may not fully return. Indeed, we may see the return to the kind of mass unemployment not seen since the early 1980s.

The need to give people the skills to succeed in a post-Brexit economy will become more pressing. If not, there is a real danger that social mobility will decline further and inherited poverty will become entrenched. As the East Midlands has previously been highlighted as an area characterised by low social mobility - this is an issue of particular concern.

Action 9: 'Levelling up' the Playing Field, Fairer Access to Funds - Triple the size of the Shared Prosperity Fund to £15bn per annum for 20 years, with clear spatial priorities; and change the way major projects and local priorities are able to be funded and assessed.

The emerging evidence suggests that the economic impact of the COVID-19 pandemic will be as great, if not greater, than the financial crisis of 2008/9 - and will hit some areas and sectors harder than others.

In the East Midlands, it has been major manufacturing companies such as Rolls Royce in Derby which have been amongst the worst affected. As a result, the COVID-19 pandemic is likely to further exacerbate the gross spatial inequalities already highlighted by the Commission. This makes the scale and focus of the Shared Prosperity Fund even more critical.

Action 10: Shaping the Future: A National Spatial Plan for England - Task the National Infrastructure Commission to create a national spatial plan for England and linking to those in Scotland, Wales and Northern Ireland, to guide investment and to support local and regional spatial plans.

The net economic and social impact of the COVID-19 pandemic would seem to be making an already very bad situation worse. As a result, it has reinforced further the need for the kind of large-scale interventions proposed by the UK2070 Commission in *Make No Little Plans – Acting At Scale For A Fairer And Stronger Future*.

The scale of challenge is such that only radical action can succeed. 'Business as usual' measures will not be sufficient.

6) COVID-19, Community and Public Policy: a big idea from a small place

Dr. Lowri Cunnington-Wynne[23]*, Professor Julie Froud and Professor Karel Williams*[24]

"Support the local leadership and action needed to 'level up' standards of life and wellbeing by embedding the foundational economy, as being developed in Wales."
(*UK2070 Commission, First Report)*

The UK2070 Commission recognized the limits of traditional per capita GVA measures of regional success and the importance of thinking more broadly about wellbeing. The UK2070 Commission also endorsed Welsh Government policy insofar as it focused on the importance of foundational goods and services - health, education, care, housing and utilities - which are the infrastructure of everyday life and sustain well-being. This is all well and good. But, what should we make of the aim of well-being through foundational goods and services after the COVID-19 pandemic? Here is a report from a small Welsh town which indicates the broader approach is more important than ever; and a policy suggestion that, as unemployment inevitably rises through the autumn, it may be sensible to rethink the conditions attached to unemployment benefits.

The first question here is, how to understand the impact of COVID-19 on disadvantaged places? And the answer to that question takes us back to the issues of indicators and forms of knowledge.

Official statistics offer a synoptic overview which allows generalization about such places and they also allow comparisons between places across time and space so that we can discriminate better and worse. But such statistics offer knowledge at a distance and we need different forms of knowledge through ethnography and surveys of particular places to capture the lived experience of communities. If we change the form of knowledge, then we often see a different pattern and our stories about place need to integrate both forms of knowledge.

Through the lens of official statistics, in studies by *The Institute of Fiscal Studies* and others, disadvantaged towns and cities are victim communities as the effect of COVID-19 is to intensify existing spatial inequalities and observed deficiencies. Disadvantaged places do have higher mortality and unemployment rates after the pandemic. Those living in the 10% of most deprived areas of England are twice as likely to die of COVID-19 because all of these are areas of poor health with older populations and some have vulnerable BAME populations. A subset of these districts, as in coastal towns, are unemployment black spots because of their dependence on shut down retail and hospitality: according to the *Centre for Towns*, Skegness had 55% of employees in shut down sectors and by June 2020 53% of the working age population were drawing universal credit.

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In consequence, early on in the present crisis, *The Centre for Towns* presented this wholly negative verdict on "the effects of the COVID-19 pandemic on our towns and cities":

> "Coastal and ex-industrial towns lack the existing resilience to be expected to cope well with the effects of COVID-19. Many coastal and ex-industrial towns already suffer from economic decline, social isolation, a lack of investment, under-employment and a lack of social well-being. COVID-19 might be expected to further exacerbate these challenges."[25]

The statistical facts are a dismal, important part of any larger picture and these problems of morbidity and high unemployment need to be addressed in any public policy response to COVID-19 and its aftermath. But we doubt whether they give the whole picture and would question any verdict on the effects of COVID-19 which simply lists the deficiencies of victim communities. In May and June 2020, our community survey in a small Welsh town turned up another kind of evidence which fits together to produce a different and much more positive picture of a disadvantaged place. Here COVID-19 has the positive effect of allowing an active community to perform its social values as neighbours and family look out for each other in lockdown.

The point is not that one story of the effects of COVID-19 is truer than the other, but that they need to be brought together to create a balanced view which can guide public policy both through and after the pandemic. Hence this short article first summarises our town survey and its revisionist findings about the effects of COVID-19 and then in a second section considers the implications of the survey for a broader view of unemployment policy and the benefit conditions which will become increasingly important as unemployment increases through the coming winter.

1 The survey and its findings

Our survey[26] covered the small town of Blaenau Ffestiniog and the valley of Bro Ffestiniog which are both the type of places that may be condescendingly described as "left behind" in economic terms. The district has a long history of de-industrialisation with the local slate industry in decline from the 1890s; after urban depopulation, Blaenau town now has fewer than 5,000 residents. The leading sectors of the surrounding economy are publicly funded education, health and care, plus a visitor economy around tourism. So, this is an area of low wages and precarious self-employment, partly buffered by modest house prices so that two median wage earners can afford to rent or buy a terraced house.

Nearly 250 adults answered our online community survey with open and closed questions about the impact of COVID-19 in the early stages of the lockdown in May and June. 80% of respondents were aged 26-65, with the old and young under-represented, so this is in effect a survey of responsible adults of working age in a de-industrialised Welsh valley. The community is culturally divided, as three quarters are Welsh speaking natives and the remainder are mainly English-speaking in-migrants. London based commentators talk of identity politics, but in Bro Ffestiniog two very different groups interestingly give similar answers about their attachment to the place and each other.

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[25] Centre for Towns (2020) *The Effect of the COVID-19 Pandemic on our Towns and Cities* https://www.centrefortowns.org/reports/covid-19-and-our-towns

[26] A more detailed account of the survey is available in English and Welsh, at the respective hyperlinks.

From our survey responses, family and community are what matters to all groups. For some it is specific people – family and friends – while for others it is more generally the sense of strong connections between people and what results from that.

Respondents value “strong community”, “close community” and “living close to family” in a place where “everybody knows each other.” When asked about the benefits of lockdown, the first most popular benefit, named by 38%, was “spending more time with the family.” When asked a more open question about the effects of COVID-19, 63% worry about missing family and friends and having to be socially distanced from them; when only 28% worry about “loss of income” and 23% worry about being “unable to work."

Intellectually, community is of course a very blurred, rhetorical notion. But, practically in Blaenau and the Bro everybody understands that community means mutual aid: “*We look out for each other*”, “*the community looks after its own” and “people are there for each oth*er." At the same time, many recognize that the Bro is not a Welsh idyll because closeness breeds friction, here reflected in judgmental attitudes about those who breach the rules and protocols of lockdown. One respondent was “disgusted at the parents sending children out alone." Another complained about “others ignoring social distancing, driving and seeing families and it made a mockery of what we were doing.” A third perceptively coupled lockdown “coming together” with “some friction” and a fourth talked knowingly about “the few who should know better.”

But, more generally, the COVID-19 lockdown gave the many who identified as members of the community a chance to perform mutuality through “little things such as helping with shopping” and “looking out for neighbours." Shopping for others was mentioned very often. Much help was informal and only a few mentioned structured support, like phone calls to Age Well group members and helping with formal community groups. In answers to an open question about the effects of COVID-19, the lockdown was therefore seen as positive because “the community has come together” and “this shows that people want to be part of the community.” At greater length, one respondent wrote:

> *“I feel that the atmosphere of the people of Blaenau has helped a lot for us as a family, neighbors chatting from a distance and looking after each other, everyone worried about each other and caring for each other. The closeness of this community has helped during this difficult and anxious time.”*

The collective belief is that others are helping more and many individual respondents themselves claim to be doing more for others. 85% believe that “people in the community” are doing more to help others and 71% report they as individuals have been doing more. We would note that a similar percentage report that they as individuals have not received more support during the COVID-19 outbreak. But that is entirely consistent with an able-bodied majority of respondents concentrating assistance on older people, those shielding because of health conditions and the socially isolated.

More broadly, the overwhelming impression is of a community grounded through social attachment to a place. As for the economic deficiencies which figure in statistical knowledge at distance, these are registered through a social lens. Respondents do not reckon on individual economic success but attach value to community resilience in economic adversity: “the community is unique and holds its own despite the neglect and poverty.” More than 70% of the respondents do not want to move away from what they see as their place in Blaenau or the Bro where at least one respondent argued that status and recognition are not tied to economic role:

> *"I am on disability benefits and unable to work, and everywhere else I have been, small-talk begins 'What do you do?' I have NEVER heard that question in Blaenau. People here are not obsessed with money and status; they take others as they find them. I feel safe and free and accepted here."*

This is a social relational place where most respondents were not thinking of Blaenau's many deficiencies in economic transactional terms. So that there were surprisingly few complaints about inadequate economic facilities, with only one complaint, for example, about how the nearest petrol filling station is 15 miles away. One respondent did describe Blaenau as a "dying town". But another, self-identified as an incoming English business owner, praised *"passionate people doing amazing work in town".* The schools, especially the secondary school, are the public institutions which get repeatedly mentioned positively. Significantly, respondents praise schools as social institutions integrated into the community not schools as economic institutions training a workforce.

It should be remembered that the survey was made in May and June 2020 when business failure and high unemployment were apprehensions about the future; not the present realities they will be in autumn and winter 2020. Thus, our responses include: "*my concern is for businesses (and) will they be able to survive"* or *"it is likely that many small businesses have been badly affected by the forced closure during the pandemic.*"

2 What are the public policy implications?

Before we consider policy implications, our readers may ask what weight can be attached to a community survey with 250 respondents in a small Welsh town. Very little according to those who believe in systematic empiricism and representative samples. If the fundamental point is that the Blaenau kind of survey knowledge cannot be judged by these epistemological standards, we would cheerfully admit that community surveys of the Blaenau kind in other times and places are absolutely necessary and would turn up different results; for this reason, we plan to re-run a Blaenau survey in late 2020 to see whether and how values and behaviour changes as the COVID-19 pandemic drags on.

Meanwhile, we would say that the results of this survey from Blaenau are coherent with what we know about Wales after and before the COVID-19 pandemic. The Bevan Foundation's July 2020 Report on Merthyr Tydfil found an active and innovative group and organisational response to the COVID-19 pandemic with "new forms of collaboration between business, communities and the third sector." Equally, the value of community emerged very clearly from our earlier pre COVID-19 study of an ex-industrial district, Morriston in South Wales. Here one of the main findings was that the local population valued social infrastructure; the free or cheap public facilities from parks to youth clubs which sustains the everyday social interactions that make community work.

The Morriston, Merthyr Tydfil and Blaenau surveys together reinforce the case for broadening (and changing) the objectives of local public policy for renewal in ex-industrial districts. Why not shift away from the economic development objectives of GVA such as growth and jobs, but shift towards foundational renewal policies of community support which are social and economic in nature?

For twenty years or more, the local authorities of Gwynedd and Anglesey (as in Merthyr Tydfil or Swansea) have lamented low GVA per capita and unsuccessfully pursued the objective of creating higher paid jobs through inward investment in big projects. Partly under pressure from community groups in the ex-slate valleys, Gwynedd council officers and councillors are now increasingly accepting that they cannot create high wage private sector jobs in volume; and, if they did by some miracle create those jobs, Gwynedd could hit the economic target and miss the social point. Instead, they should be thinking about how public policy can support the foundational basics of access to housing, eliminating fuel poverty, providing quality health, care and education services and leisure facilities (all of which would also support local, grounded enterprises). The challenge is how to renew this infrastructure which allows families and communities to get on with what matters for them.

And, more urgently, if a community has been formed through the first lockdown phase of the COVID-19 pandemic, how can we embed mutuality and helping others to create a new normal in a community which values these acts? From the responses to this last open question in our Blaenau survey, there is both hesitation and willingness to continue engagement in the community when the pandemic is over. A significant minority of respondents gave "not sure" or "don't know" answers; while a large number were more positive about "doing more work in the community" and "spending more time in the community." What structures and incentives would incentivize the willing?

This requires creative design at the community level to find more formalized constructive opportunities for individual volunteering and organizational innovation; and this would require supportive external conditions provided by the different levels of government. Here, central government can make the first move to sustain and encourage new behaviours in the post COVID-19 context of mass unemployment.

Mass unemployment is coming this winter to all our disadvantaged communities. Central government has been innovative so far in maintaining jobs through furlough schemes; but, as the furlough schemes expire, we have the same old policy response to unemployment, which is low benefits and job search conditionality. The cyclical peak could be 3,000,000 or more people out of work in 2021. Unemployment will then remain high through a combination of demand deficiency as households rein in consumption and COVID-19 accelerated structural change taking out jobs in sectors like retail. In response, the Department of Work and Pensions has already reinstated conditionality, and sanctions the benefits of anyone on universal credit who cannot show they are looking for work.

Effectively, financial support will be reduced or withdrawn if the claimant cannot provide evidence of looking for jobs, which by winter 2020-21 will not exist in the disadvantaged communities of Northern and Western Britain. Already, by the end of June 2020, *The Institute of Employment Studies* calculated there were more than 25 unemployed claimants per vacancy in the Tees Valley and more than 15 unemployed claimants per vacancy in Humber or the Black Country. When more discouraging figures were reported, a DWP spokesman could only say "work coaches will be calling all claimants to help them get ready for the world of work."[27]

Would it not be more constructive to create opportunities for some claimants to help in our communities which are places of spontaneous mutuality and organisational innovation? Why not allow evidence of social volunteering as an acceptable substitute

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[27] C. Jayanetti (2020) "More than 30 unemployed are competing for each job", *The Observer,* 26 July 2020

for evidence of job search? In this way social security could start to become a constructive way of respecting and supporting what matters to communities, not a mindless way of enforcing labour market discipline. That is a big idea from a small place. The local partnership of community enterprises in Blaenau, *Cwmni Bro*, has already proposed a pilot to give young people and adults the opportunity to undertake volunteering as well as training and work-based placements.

7) COVID-19 pandemic: putting universities at the heart of economic recovery of place

Kevin Richardson, Visiting Fellow, Newcastle University

Introduction

The government has committed repeatedly to 'level up' the country. It has specifically also committed to produce an R&D Place Strategy. Work was underway within departments but that has understandably slowed as the government is forced to focus all its efforts on addressing the COVID-19 pandemic.

It is too soon to have any real degree of confidence in predicting the scale and longevity of the economic crises that is now unfolding. The government is hopeful that demand will return quickly and there will be a 'V' shaped recovery, but it is mindful that other authoritative sources are already suggesting the recession will be deep and long. The sheer scale of its financial intervention in the market suggests it is concerned of the risks of the latter. Some important industries are effectively mothballed and their future is uncertain without further financial intervention by government.

Planning for the economic recovery will be a major task of unprecedented proportions for government at all levels. It will need to be informed by a deep understanding of how the economic crisis has impacted differently across the country. Place will matter much more after the crises so planning will need to involve a wide range of agencies and stakeholders both in London and across the regions. Universities as anchor institutions will need to be one important part of those national and local initiatives. But it is also too early to forecast with confidence how the COVID-19 pandemic will impact upon either the future sustainability or performance of individual universities.

Any new planning after the COVID-19 pandemic putting universities at the heart of economic recovery of place first needs to identify how those institutions related to their local economy before the crises. Understanding and basing proposals on sound conceptual frameworks and evidence, which identifies why, how and where performance differs across the country, is critical. Future plans need to be informed by the specific contribution of universities to both teaching and research across the country in the period before the crises. Proposals for their future contribution need to be soundly based on evidence and public policy that is both credible and deliverable.

This paper concludes that place will matter much more, not less, after the crises. The R&D Place Strategy will be a critical component of future planning. Building good research on how the crisis is affecting all parts of the country and being prepared to fundamentally rethink the basis of existing policies will be essential, but right now is not the time to finalise any plans.

Anchor universities and economies of place

A basic understanding of the role of universities as anchor institutions identifies the extent to which the relative scale of their activity drives increasing demand for goods and services in the local economy. Universities employ thousands of both high and low skilled local workers. Universities are fixed in their location and, unlike many other industries, their fixed capital is largely immobile. Universities in recent years have been stable institutions helping local places to manage economic shocks and downturns, and be more resilient through economic cycles. They are therefore viewed by local partners with many viewing them as crucial anchor institutions.

Recently, there has been a deepening understanding of the interdependencies between a university and its local place/economy. Graduates from more embedded universities provide a highly skilled workforce in response to the demands of employers. Student housing impacts directly on local property and housing markets. Academics in these institutions work with local firms to undertake research, drive innovation, develop new technologies and contribute towards higher productivity. Indeed, local firms articulate and drive demand for new programmes of research, and that research leads to new teaching and vice versa.

A more sophisticated understanding recognises the role of the university as a collaborative actor in the local state, with soft and fuzzy boundaries between it as an institution and the wider environment; other local institutions; the business community and wider civic society. These universities do not see these relationships and activities as 'third mission'. They understand that any notion of a 'trade-off' between research, teaching and local growth is false. They view local growth as integral to the success of their own teaching and research functions. They both contribute to, and benefit from, their role in local growth. They see themselves as *of* the local place not just based in the local place.[28]

A growing number of universities willingly subscribe to this widened agenda. Over 50 universities have committed to developing a new Civic University Agreement in collaboration with other local stakeholders. Those universities will be able to offer very practical examples of how engagement and collaborative delivery has been developed in recent years, but many within other institutions remain culturally averse, more narrowly focused instead on what they argue are the 'core' functions of only teaching and research within a national, spatially blind environment. For them 'excellence' is more important than place even if defining and measuring the term is highly problematic.

Understanding relative economic performance of place

Some argue that performance of place is irrelevant; it is simply the outcome of supposedly value free, informed and rational decisions within a free market, and the variations in performance across the country are the inevitable, even preferred, result of the 'sorting' of the factors of production; even if, in practice it is very difficult for some of these factors to make decisions to move from one place to another. Indeed, most government policies and investment programmes, at least by value, have for many decades, been spatially blind in design. The Higher Education & Research Act 2017 for example, was designed deliberately and predominantly to deliver a free market for teaching of higher education, backed with regulatory protection for students (but, notably, not for institutions).

Inevitably though, decisions made on this basis have had obvious spatial implications, including, for example, the distribution of research funding and the removal of the cap on student numbers at each university. The effectiveness of this spatially blind approach can and should therefore only be properly judged on its practical effect on all parts of the country.

[28] From Goddard et al, CURDS, Newcastle University.

Many economic geographers argue that disparities in economic performance across the country can be accounted for by factors important, and decisions made, many decades ago. The birth of the industrial revolution across much of the North, subsequent rapid deindustrialisation from the 1980s onwards, and then the rapid move to a largely service based economy - predominantly in London and the Greater South East - are massive structural drivers and pressures on both locations and their performance relative to each other.

The current performance of a place is therefore dependent as much on its previous ‘path’ and it is ‘locked in’ now by decisions made long ago. For example, the choice of the route, and stopping points of the first railway network was as economically critical in the Victorian era as it is now for the same choice of route and stopping points for HS2. Many new universities were established in the emerging northern cities during this period of industrialisation, often to service the skills and technological needs of the new local industries, but critical choices were made decades, if not in some place, centuries previously, about the fixed location, mostly in the south of the country, of what remains now the most heavily research intensive universities.

Those states which favour a more spatially informed and managed approach tend to have much lower economic disparities, and, critically, higher overall levels of productivity. Policies have sought to develop stronger exploitation of local endogenous strengths within a complicated matrix of integrated policy design, which recognises both the strengths and limitations of path dependence and ‘lock-in’, usually within the practical context and realities of complex multi-level governance of place. Such approaches increasingly emphasise the importance, strength and sustainability of hard and soft institutions and systems at the sub-national level. These approaches recognise the importance of local universities within those institutions and systems of governance and leadership, particularly their contributions to the local/regional economy, rather than the national economy.

The school of ‘New Economic Geography’ attributes much of the rise of agglomeration economies in cities to the way in which knowledge transfers more effectively within and across dense and complex networks in large, urban settings. Types of knowledge that are most important in the information economy cannot simply be codified and be transmitted through electronic networks. Instead it is the transmission of new and qualitative knowledge between people, face to face, that offers the most added value. Universities are key drivers in these urban networks. This school of thought though, does not explain why cities across the country perform economically worse than the overall national average performance; only Bristol, of all the cities outside London, outperforms that average. Nor do policies based on this school of thought speak to the needs and opportunities (and political importance) of other types of place where economic performance is often weaker.

Economic performance of place before the COVID-19 pandemic

Local partnerships will understandably want to take a positive view of their current and future economic potential of their place, but there is a real risk of unintended boosterism if plans are not built on a solid quantitative base of evidence.

Successive governments have made repeated attempts to reduce regional disparities, but the hard economic evidence shows that little real substantial progress has been made; indeed the absolute and relative performance of some local places was in further decline even before the COVID-19 pandemic. These places said to be ‘left behind’ have now become a mainstream political issue which can no longer be ignored by public policy.

Consistent economic evidence shows that disparities of economic performance across the country are now some of the very widest in the entire membership of the OECD. Authoritative research shows that levels of productivity in many local places across England are often similar or worse than some places in Central and Eastern Europe[29]. Many firms in those places are up to 4 times more dependent on EU markets than those in London / South East. Current trends suggest overall levels of productivity in many of these places continues to worsen.

Nor is it no longer a case of simple relative economic disparities in productivity. Senior economists speak of many local economies across the North, Midlands, and the South West simply 'decoupling, dislocating and disconnecting' from those in London and the South East.

Many of these local places lack resilience as they are heavily dependent on a limited number of sectors or large firms. Universities in many of these places, especially outside the main cities, are often not only the most significant economic actor but the only significant actor. The immediate and long-term futures of these local places is increasingly dependent upon the continuing spend, activities, anchor and civic roles of the local university.

As Andres Rodriquez Pose shows in his important recent international research[30] on 'the revenge of places that don't matter' these disparities are having clear political effects in many countries, at least in part, driving the growth of populism and nationalism across many states in the OECD. The intention of central government in the UK to 'level up' and its proposal to develop a 'place strategy' confirms that economic disparities of place were very clearly a political issue even before the COVID-19 pandemic crisis.

Universities, teaching and place before COVID-19

Universities are spread relatively evenly across the country. There are few places where a higher education institute is not readily accessible within a reasonably daily commute by public transport. Exceptions include larger, rural counties and some coastal areas including Northumberland, Somerset and much of Cornwall.

The growth in student numbers over the last decade or so more has been both impressive and a story of success. Numbers have continued to rise to unprecedented levels despite negative demographic pressures and world leading levels of tuition fees. Numbers could rise further in the short term due to an expected and significant upturn in overall numbers of young people. Further success in attracting ever growing numbers of international students has provided real economic stimulus locally and nationally. Both home and international students have proven to be important actors in local economies. They spend their cash in local shops and are major sources of income for local markets in arts, culture and sports. High levels of capital investment in purpose-built student accommodation helped maintain local construction markets and

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[29] E.g. McCann, Philip (2016). *The UK Regional-National Economic Problem: Geography, Globalisation and Governance.* Routledge.
[30] See blog on VOX CEPR Policy Portal by Andrés Rodríguez-Pose (06.02.2018) – '*The revenge of the places that don't matter*'

firms, particularly after the global financial crises and subsequent collapse of commercial property markets in many places.[31]

But the health crisis has only exposed a wider audience to the genuine structural weaknesses that have been very evident to many within the sector for many years. Unregulated fee income from international students has been used to subsidise other loss making activities elsewhere within universities, particularly research, and the teaching of some higher cost degree programmes.

But this does not mean that place is not important for the teaching of higher education. Some progress has been made in widening participation, and all universities have had approval by government for their future plans to widen further, but statistics shows very clearly that where a prospective student lives (especially if it is deprived community), remains very clearly an important factor that determines access, especially to the most selective universities. Any future contraction in the number of places following the crises could easily have a negative impact on those students and on the places in which they live.

Research and place before COVID-19

Overall levels of investment by the private sector before the crises in R&D were consistently low compared to international competitors and were so for decades. That is why the Industrial Strategy rightly set a target of 2.4% of GDP to be spent on R&D, with much of this increase being provided by the private sector, even if the target was more ambitious than deliverable in practice.

The government committed before the COVID-19 pandemic to double overall levels of public investment to complement and stimulate further investment by the private sector in research and innovation over the next few years. This clear intention was welcomed warmly by the wider research community.

But this overall analysis hides important sectoral and spatial differences which are critical in an understanding of how demand for research and the capacity to sustain existing performance can be maintained after the COVID-19 pandemic.

Progress towards the national target differs very wildly across the country. There are a small number of local places which have already reached and have surpassed that target. A small handful have reached 6% of local GDP. It is difficult to make a case for increased public investment in those places. Most places have reached 1.0%-1.5% of GDP and have been at that level for a number of years. There are also some places where performance is consistently and currently even lower. It is very difficult to envisage that the national target can be met unless many of these types of places can significantly improve levels of both public and private investment in research.

The current allocation of most funding for research and innovation is predicated on the basis of ‘excellence wherever it exists’ i.e. it is deliberately and explicitly blind in nature. Proponents of such an approach claim that such ‘excellence’ is broadly and evenly spread around the country. It is correct that there are some very strong research

[31] Should a large university in an urban setting be allowed to fail without a successful recovery plan being planned in advance and implemented at speed, the loss of these students would have an immediate and dramatic impact on the local economy. For example, the release onto the open market of thousands of apartments previously occupied by students would have huge implications for the remainder of the housing market.

institutions located in otherwise economically weak places e.g. Exeter, Durham, and Sheffield etc. But many other places with relatively poor economies perceive that they have no immediate access to such types and scales of research, or at least, to types of research which are designed to specifically target and benefit the economy of that place. These include many large rural areas; namely Northumberland, Cumbria, much of Lincolnshire, much of Cornwall, Somerset, Shropshire, Staffordshire, Tees Valley and parts of the Black Country. It also includes important politically many post industrial towns in the North located away from the main cities, fishing and farming communities. Many of these different types of place were suffering economically and which have become the clear focus of political attention before the crises.

COVID-19 and economic recovery

It is too soon to have any real degree of confidence in predicting the scale and longevity of the national economic crises. The government is hopeful that demand will return quickly and there will be a 'V' shaped recovery but it is mindful that other authoritative sources are already suggesting the recession will be deep and long. The sheer scale of its financial intervention in the market is of unprecedented proportions and this suggests it is mindful of downside risks. Some important industries are effectively mothballed and their future is uncertain without further financial intervention by government in the market.

But important research studies[32] have confirmed that there have been very consistent trends and patterns identified in past recessions over the decades. The scale of local impact, its duration, speed of recovery, and time taken to again reach levels of performance reached before the crises, are all dependent on local circumstances and the resilience of the local economy. Unsurprisingly, the evidence shows that it is the relatively poorer places which have been hardest hit and have taken the longest to recover.

The valuable comparative frameworks developed in these research studies can be easily extended to include the emerging short and longer term implication of the current crises.

After the COVID-19 pandemic: universities, students and place

It is also too early to forecast with confidence how the COVID-19 pandemic will impact upon either the future sustainability or performance of individual universities. Nor is it possible to suggest which classification of university, or indeed, where in the country, or in what types of place, universities are likely to be at most risk. The resilience of each university will depend on a range of factors; these include numbers of home students, numbers of international students, research grant incomes, commercial and collaborative research incomes from the private sector, levels of liquid / cash reserves, and other incomes e.g. student housing, commercial events etc.

Past performance suggests that inelastic demand for places from new home students is likely to stay strong for next academic year. Recent proposals made by UUK seek to reassure and to stress to government the need to maintain the same number of places and choices (in courses and institutions) for new students in the next academic year. UUK have proposed temporary limits on the ability of each university to attract students beyond that provided for in their recent plans submitted to the Office for Students. This

[32] Martin, R., Sunley, P., Gardiner, B. and Tyler, P., 2016. *How Regions React to Recessions: Resilience and the Role of Economic Structure*. Regional Studies, v. 50, p.561-585

could provide much needed stability for both institutions and local places if the proposal is accepted by the government and, importantly, if all universities adhere to a new form of 'fair' admissions practices.

We are now likely to enter a period of higher unemployment. History shows that demand for higher education, especially at postgraduate level, is higher when there are relatively few jobs available in the labour market.

The future market for international students and the income from their unregulated tuition fees is more uncertain and it is these numbers of these students which present the higher levels of financial risk. Publicly available data suggest that it is some of our most research intensive universities who are much more exposed to this risk, as it is that type that has generally been more successful in attracting international students.

After the COVID-19 pandemic: universities, research and place

Proposals from UUK seek a doubling from next academic of what is known as 'QR' funding for research. These are flexible funds distributed by formula to individual universities based upon the volume and value of quality research previously undertaken and assessed in planned national assessment exercises. The proposal to double QR funding appears radical and it is a sign of the perceived scale of the crises that the sector believes it is credible to make this ask of government without, apparently, offering in return any additional outputs or new activities. It can only assumed that these additional funds will be used instead to simply replace those costs of research which were previously subsidised with profits made from tuition fees, often in the majority part, from international students.

The proposals for QR are of real interest for research intensive universities but the majority of the sector will have relatively little interest if the same mathematical formula is used to distribute the cash, in the majority part by value to institutions in London and the Greater South East. But even in those institutions, should the QR funds be doubled, the financial benefit will be of little relative importance compared to the scale of the financial challenges faced in other departments. Simply put, a doubling of QR will not on its own sustain many institutions at wider risk.

Other major sources of public funding for research and innovation include the Research Councils and Innovate UK. These bodies issue open calls for funding with no spatial targeting. Funding is provided to what is judged as the strongest proposals regardless of location. Some reference is made in the proposals made by UUK to the spatial implications of the crises. The package includes a commitment that 'innovation funding' should be 'rebalanced' in some unstated way. But any such changes will be highly contentious within those universities which currently benefit the most financially.

However, most funding for research and innovation is provided by the private sector. Expenditure by that sector on R&D (BERD) in recent years has been provided by large firms in a handful of economic sectors. Research has been driven largely by aerospace, automotive, oil/gas/energy and pharmaceuticals. Three of these four sectors are facing severe challenges caused directly by the COVID-19 pandemic. Monitoring likely future levels of investment in research from these sectors will be of critical performance in understanding how research capacity can be maintained and in monitoring progress towards reaching the national target.

Universities and economic recovery of place

There are clear and obvious risks that individual universities, however well previously intentioned, because of their own individual financial crises, will be forced to retreat from playing a wider contribution to its local/regional economy. The reliance of some local economies though, on a handful of local firms or sectors means that, should these close or contract heavily, the *real politic* is that central government may well need to intervene, providing new financial incentives to sustain engagement by those universities.

Some universities will be at risk of closure unless early decisions are made to determine whether it is to be provided with public financial support, managed through the transition process proposed by UUK, or whether it will be allowed to 'exit the system.' Making such decisions on the basis solely of its own financial sustainability risks making unintended mistakes that will place the local economy under even further distress.

UUK have proposed a new Transition Fund to be provided by central government. The new fund would be invested over the next two to three years to '*reshape and consolidate through federations and partnerships or potentially merge with other higher education institutions, further education colleges or private providers*.'[33] This statement implies that the supply of higher education at the local level in some places should, or may need to be rationalised. Such a process will have obvious spatial implications.

The proposal by UUK for the Transition Fund assumes that there exists in many local places at that level a consensus on the collective purpose and role of individual institutions.[34] No detail is offered on how this process of rationalisation can be managed. It will necessarily need to involve the relevant agents of central government but these do not, at present, have the necessary sophisticated understandings of how individual institutions are performing, their relationships with external bodies, and indeed, of how local economies work in practice and how these are performing and recovering. The implicit notion that this difficult and potentially contentious process could be effective without the active engagement (and approval) of the leaders of other local anchor institutions, or indeed, local Members of Parliament and Ministers, is simply undeliverable.

The implicit working assumption appears to be that the sector believes individual institutions working alone, albeit with new finances provided by government, can contribute effectively to the 'recovery' and there is no real need for wider dialogue and an agreed, collaborative approach with other local anchor institutions, including, critically with local colleges of further education and local NHS bodies; for neither their role, their important sources of external funding, nor even their existence is acknowledged.

Importantly, the proposals leave unanswered also, the important question of on what basis such decisions could be founded. Is it the needs of students, the sustainability of institutions or the economic recovery of local places?

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[33] UUK (10 April 2020). *Achieving stability in the higher education sector following COVID-19* – this proposal was reiterated to the Chair of the Education Committee, the Rt Hon Robert Halfon MP in a letter sent on 28 April from UUK Chief Executive Alistair Jarvis.

[34] Important experience can be transferred from the recent process of Area Reviews of Further Education.

Supporting and encouraging universities to do more with their 'local place' to contribute to the recovery is not simply a matter for higher education policies nor for universities acting alone or collectively. Development of new approaches needs to be considered in the context of complex, multi-level governance at different levels, not by single government departments acting in silos in a top down manner.

More and wider forms of financial incentives provided by central government will be needed on a more sustained, programmed and necessarily targeted basis to support both individual universities, and groups of universities and their partners, to contribute both nationally and locally to the recovery.

The overall ability and performance of universities supporting their local places is as much determined by local/regional levels of demand and absorptive capacity for research & innovation, and effective institutional ecosystems and collaborative leadership, as much as by the performance of universities acting individually or collectively. Any financial incentive needs to target these external factors as well as well as internal capacities, hard and soft systems and internal cultures. Since new approaches to the role of universities in supporting local economies to recover need therefore to adopt a 'systems' or 'place-based' approach. If levels of financial support are to continue to be based on national assessment and determined through a mathematical formula, measurement of performance of individual institutions should be complemented with performance measurement and management also of systems and places.

But internal non-financial incentives are equally important e.g. allocated work time, status, promotion criteria, etc. Both types of incentive should seek to change organisational cultures and conduct.

Critically, government needs to develop a deep understanding of overall performance at the local/regional level. It needs a compelling narrative of why and how they intend to invest in specific places, and an explicit intervention logic of why their proposed new investments will lead to positive change towards a clearly identified strategic goal.

The potential scale and urgency of the crises means central departments and their agencies will need to consider potentially radical changes to how they operate and how they are structured to support these efforts at the local level. Central agencies can open up local/regional offices to help them build the sophisticated local knowledge that is needed but sometimes lacking, and/or senior leaders of national bodies can be usefully collocated with local partnerships and institutions. The proposal of HM Treasury to open up an 'economic campus' in the North provides good leadership that can be copied by other departments. As a minimalist approach, substantial and sustained funding can be provided to local and regional institutions and partnerships to help them understand and make clear proposals equally to both local leaders and to central departments. The funding by Research England and others of the West Midlands Regional Economic Development Institute is a good example that can and should be replicated in other parts of the country.

Summary

The importance of place mattered politically more before the COVID-19 pandemic and it will matter much more as the scale of the economic crisis unfolds. It will require a massive effort of planning at both national and local levels to map a realistic and successful way out of the crises. It will require a deep and sophisticated understanding of what is happening in both economic sectors and across all parts of the country. But any efforts which lead to sustained or even further widened disparities will constitute failure, as that can only perpetuate long standing problems of low productivity and increasing social tension.

Many different agencies and institutions at both national and other levels will need to engage fully in the collective effort. Universities, as only one sector, will necessarily need to be at the heart of those recovery plans. A new Place Strategy has never been more needed. It is the time to monitor very carefully what is happening around the country, to fundamentally rethink the underlying basis of public policy as it impacts upon place, to put in place a new and sustainable operating model for universities, and importantly to consider again not ‘what’ do universities do and ‘how’ well do they do it?, nor indeed ‘who’ are universities for?’ but, also, critically in the current crises, ’where’ are they for?

8) Creating colleges of the future for a fairer and stronger society

Lewis Cooper, Director of The Independent Commission on the College of the Future

Colleges, sitting in every community across the UK, have a critical role to play as we address deep-rooted regional inequalities that we see right across the four nations. It was therefore right and important that renewal of the role of further education was set out as a central call to action in the UK2070 Commission's Final Report: *Make No Little Plans: Acting at Scale for a Fairer and Stronger Future*.

The ongoing COVID-19 pandemic and its social and economic consequences now draws these issues into even sharper focus. The OECD anticipates that the UK economy could be hit particularly hard, projecting a fall in GDP of 11.5 per cent, and the impact on jobs looks set to be particularly high – disproportionately hitting the young and those already marginalised, and left-behind communities.

All of this is of course set alongside wider challenges – with many already anticipating a global recession ahead of the COVID-19 pandemic, and the UK grappling with the potential economic and social consequences of Brexit, alongside wider challenges of the climate emergency, demographic shifts and changes in the world of work.

At the Independent Commission on the College of the Future, we have spent the past year precisely reflecting what the strategic remit for colleges should be in dealing with this array of challenges, and the changes required to unlock the full potential of colleges.

We are clear that colleges are all too often under-utilised as public assets – and that they can and must play a more central role for people, productivity and place. This must see colleges acting as touchpoints for people right throughout their lives, in lifetime learning opportunities and as hubs where people can access support, guidance and resources. It must see colleges playing a much more active role across innovation, knowledge transfer and strategic support for employers – which is critical as we support employers with recovery, business change and transitioning to a net zero carbon economy. It must also see colleges having an acknowledged role as anchor institutions at the heart of their locality, supporting healthy and connected communities – including in addressing digital poverty and in coordinated health and wellbeing strategies.

Colleges cannot deliver for people, productivity and place by working in silos. To truly deliver the future we are calling for, colleges must work both together and within their broader education and skills system. Networks of colleges that talk to one another, plan strategically, and collaborate, are better able to meet the needs of their locality.

Recent reforms in Wales, Scotland and Northern Ireland have brought about increasingly cohesive college systems, which allow for a broader system focus. The six colleges in Northern Ireland coordinate specialisms as 'curriculum hubs', allowing for other parts of the wider college network to draw from this. Crucially, 'curriculum hubs' also provide a coordinated interface for employer engagement and strategic support – with colleges funded to support employers of all sizes in innovation as well as workforce development and planning. This model has real strengths and presents an opportunity which other college systems across the UK should seize upon.

Conversely in England, where the incentive structure and dire funding levels drive a high level of unproductive competition - both between colleges and across the wider education system; colleges are nonetheless starting to come together, to coordinate more systematically together in order to achieve greater strategic impact across their regions.

This can be seen notably in the example of West Midlands Colleges coming together to set out a coordinated strategy for the role they can play in driving regional growth – developing a coordinated plan for infrastructure investment across their collective estates. (See box below, written by *Colleges West Midlands*).

West Midlands Colleges – a case study

Colleges West Midlands is a formal partnership of 21 further education colleges situated in, and adjacent to, the West Midlands Combined Authority area. Every year our colleges support in excess of 250,000 students. 74,000 young people aged 16 to 18 participate in full-time programmes in our colleges, alongside 145,000 adult students and 27,000 apprentices. Collectively we support over 12,000 employers.

Colleges West Midlands recognises the need to raise the technical skills of young people and adults in full-time education, to support the upskilling of the region's work force and to promote inclusive growth. Core to achieving this is the creation of a regional skills ecosystem that is characterised by a depth of investment which coherently shapes future skills provision. Alongside there is a pressing need for both a heightened status for advanced and higher technical learning and the collaboration of education providers across sectors and specialisms to create a network of clusters driving innovation and skills aligned to regional priorities.

Recently the work of Colleges West Midlands has seen the publication of a prospectus for capital investment in the region's FE estate, collaborative working groups leading to new provision in priority sectors such as construction, advanced manufacturing and digital, development of new sector based work academies to fast track unemployed adults into work and a collaborative 'pledge' to ensure there is an effective regional response to Covid-19.

This can also be seen in emerging work across the Greater Manchester Colleges, who are developing a set of recommendations to support a managed system approach - enabling strategic coordination of specialisms, as a means of ensuring efficient investment to deliver high quality technical education across the region. It can also be seen in proposals to develop a Regional Skills Council across the Sheffield City Region – bringing together colleges, universities, local government and employers to deepen strategic alignment and new possibilities for collaboration.

Deeper strategic coordination and collaboration across the education and skills system is more critical than ever. Severe pressures on all parts of the education system, and particularly on university funding streams, risk fostering competition again, which must be resisted. The crisis also makes evident the need for a more holistic approach to education and skills policy more generally – ensuring people and employers are not faced with arbitrary boundaries, and that institutions work in a coordinated manner for the wider regional good. In a recent set of contributions alongside the launch of our vision, Lord Kerslake made a compelling case for deeper strategic collaboration between colleges and universities across the UK, in order to achieve civic good. In the same report Geoff Barton, General Secretary of The Association of School and College Leaders, highlighted the competitive pressures that exist between schools and colleges in all four nations, and the need to shift towards a sense of collective regional responsibility – including through deeper strategic coordination, but also developing a culture of trust, which is all too often lacking.

Across the four nations there is a real opportunity to take this agenda forward, supporting and amplifying more bottom-up collaborative practices within a more cohesive and connected wider education and skills systems. Governments across the four nations of the UK are rightly giving this significant focus, as they seek to assert the central role colleges can play within collaborative and connected wider ecosystems. This can be seen across the coming FE White Paper in England; the Scottish Funding Council review of the tertiary system; a recent OECD in-country study of Northern Ireland's skills system affirming the central role of colleges in Northern Ireland's economic development; and the 14-19 curriculum reforms in Wales set against the backdrop of the Hazelkorn Review recommendations to develop a single tertiary education system.

Colleges have a vital role to play in addressing regional inequalities, and the range of challenges and changes coming our way. It will only be through this systematic approach based on local coordination across all parts of the education system - alongside employers, local government and other agencies - that colleges within each of the four nations will be able to play their fullest possible role for people, productivity and place. Now is very much the time to seize this opportunity.

9) Sustaining the construction supply chain: protecting skills and promoting growth through the COVID-19 pandemic

Gareth Poole, Director of Contract Services, Turner & Townsend

Executive summary

- With low productivity and low margins, the construction sector has poor resilience to weather the immediate and long-term consequences of the COVID-19 pandemic on the economy.
- This weakness has major implications for future growth across UK industrial sectors which both support, and are supported, by the construction industry.
- Left unsupported, the collapse of industry supply chains poses a major risk to Government policy objectives around the 'levelling up' agenda, delivering net zero and driving the economic recovery across the UK's regions.
- As the industry's largest client, the Government is uniquely placed to support the sector's transition to a new, more robust, model through its intervention in key programmes in the aftermath of the COVID-19 pandemic.
- If this can be achieved, this transition will not only support immediate growth through the crisis, but establish the construction sector as a world-leading exportable proposition.

Why construction matters, and why the sector is so vulnerable

The construction sector is one of the UK's primary engines for supporting economic growth. Accounting for 6% of GDP, a unique combination of complex supply chains and an employment model which sees wealth from the sector distributed by 1.36m workers across UK communities, means that the impact of a downturn in our industry is felt across the country.

An efficient, productive construction sector also underpins the success of other industries – from life sciences to manufacturing and financial services. The major organisations in these sectors rely on construction to deliver their capital programmes efficiently, on time and on budget.

In many other areas, Government itself acts as a major player in the sector – through its investment in health, education, housing and infrastructure it is the industry's biggest client. For this reason, maintaining a successful and world-leading construction sector is essential to the delivery of many of the Government's major policy objectives.

However, the sector is also one of the most vulnerable. Productivity in the UK and global industry has been stifled by cyclical investment programmes driven by boom and bust. Analysis of the past three major UK recessions – in the 1980s, 1990s and 2000s shows that on average tender it takes 24 economic quarters for tender prices within the industry to stabilize. The lack of innovation within the sector is also crucially seen in its hierarchies, which play a leading role in maintaining vulnerabilities within the supply chain. Key factors in this dynamic are:

- **Price** – remains a critical factor in contractor awards, leading to a race to the bottom on cost. This perpetuates low margins – around 3% for tier one contractors – which hinder investment.[35]

[35] Turner & Townsend UK Market Intelligence, May 2019

- **Poor payment terms** – often of 90 days or even up to 120 days, dramatically affecting supply chain cash flow.

These vulnerabilities contribute to steady insolvency levels within the industry, which typically peak at times of wider economic recession. In the twelve months ending Q1 2020, the industry saw 3,077 company insolvencies – significantly outstripping figures seen in any other UK sector.[36]

The race to the bottom on pricing and payment – principal drivers

The principal drivers behind pricing in the construction sector come down to the nature of investment within different market sectors:

- Financing within the real estate market in particular remains dominated by shorter-term investment decision making. Bank or stock market-driven financing is used to identify development opportunities based on an expectation of high returns on completion and sale. This puts pressure on the contracting supply chain to put forward their best – and lowest – price.

- This dynamic changes where long-term institutional investors become involved. These institutions may have a larger portfolio and pipeline of work to bring to market, and will often be looking for long-term secure income following development. Quality of build therefore assumes greater importance relative to low input costs.

- These same principles are seen in the transfer of risk within the supply chain, which focuses cost liabilities – and therefore pressure to maintain low pricing – on the contractors, rather than the original investor.

- Poor payment terms by developers exist as a reflection of this hierarchical relationship where these risks are passed down the supply chain. Developers focused on securing target returns will often be reluctant to accelerate payment until they are certain project deadlines will be met.

- The nature of financial instruments used to fund development – especially debt financing – means that interest payments can be controlled through longer payment terms. Blue tape[37] will also interrupt cash flow. As funds are passed through multiple tiers in the supply chain, those in the lowest tier can wait a long time to see payment.

- Government programmes where departments and arms-length bodies act as client to the sector have sought to help address these challenges where they are able – including through the set - up of project bank accounts to accelerate payment within the supply chain. Where this is the case, it is important to ensure these measures permeate throughout all layers of the chain – so that lower tier suppliers also benefit.

[36] Page 9 of the following PDF https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/882091/Commentary_-_Company_Insolvency_Statistics_Q1_2020.pdf

[37] Extra burdens placed on business, by other business (or their industry groups).

The impact of the COVID-19 pandemic

The Government – as with many other sectors – rightly recognised these vulnerabilities and moved quickly to protect the supply chain with the onset of the COVID-19 pandemic. This has seen nearly 80% of construction businesses request support from the Treasury's furlough scheme during May.

Parts of the sector – notably for essential services in infrastructure and utilities – have maintained service during the UK lockdown. They are now being joined by many more firms on construction sites. However, the combination of economic uncertainty, delayed investment decisions and reduced productivity due to social distancing requirements will now begin to bite – risking insolvencies throughout the supply chain as businesses transition from the supportive regime we have seen during March, April and May, into an uncertain future.

Small and medium-sized enterprises, which form a critical backbone to the sector, are especially vulnerable, with three quarters of firms seeing projects delayed or cancelled.

The opportunity – delivering a new industry model

Faced with a choice between insolvencies on one hand and direct support on the other, there is a third way - which is for Government to drive the sector forward itself as part of the UK recovery, acting as a client.

By taking a lead, we see major policy opportunities for Government to:

- Facilitate accelerated investment in public services – including healthcare, housing and infrastructure.
- Support the 'levelling up' agenda to tackle economic inequalities across the UK, through greater connectivity, while stimulating local supply chains through regional investment.
- Drive behaviours in the sector which are exportable on a global stage, including championing new modern methods of construction and sustainability initiatives as part of the net zero agenda.

This last point – around behaviours – is crucial and can build on the strong foundations already laid through the work of initiatives such as the Construction Sector Deal, Transport Infrastructure Efficiency Strategy (TIES) and the Institution of Civil Engineer's Project 13. These collectively strive to establish a more productive industry which can deliver enhanced project performance, as well as acting as an investable proposition for private capital.

Five areas for Government to facilitate change and support the supply chain.

We have identified five priorities for Government construction programmes where we believe action can support the sector through the current crisis, while also accelerating progress to the benefit of the wider market.

- Protect suppliers through maintaining key programmes
  - To avoid a lag between the ending of support mechanisms for the supply chain that are currently in place, Government clients should bring impactful programmes to market quickly. Transparency over work programmes that can build confidence in the sector will be important to support capital flows.

  - Particular focus should be given to those programmes which are able to easily support SMEs and providing opportunities for this cohort should be seen as essential to business cases. While there is an essential need for major work streams including HS2, Northern Powerhouse Rail and for Highways England, these should be delivered alongside smaller programmes which cater for more regionalised needs.
  - Procurement for these programmes must be kept straightforward to keep bidding costs low and accelerate the path to market.

- Accelerate a more resilient industry
  - Establishing this pipeline of work is essential to avoiding the cyclical impact of past recessions. However, investment must not simply be a stimulus, but continue to be justified on economic, social and environmental grounds.
  - To achieve this, these programmes must adopt an enterprise model, focused on outcomes and not simply on outputs.
  - This model has been well-tested through the work of Project 13, which aligns the interests of owners, investors, integrators, advisers and suppliers to ensure that all parties have a long-term vested interest in the success of the project. Contracts are aligned to provide commercial incentives for collaboration which mitigate, rather than transfer, risk.
  - This model brings rewards in terms of productivity, improved outcomes and operation and support for a more sustainable, innovative and skilled industry.

- <u>Establish greater visibility and information on the supply chain</u>
  - Much of the supply chain is reliant on traditional financial processes which impede efficient payments. Paper-driven processes, purchase ordering, delivery tickets and change orders add bureaucracy and dramatically impact cash flow that in turn risks the success of a programme.
  - The disruption of processes caused through the move to remote working offers an opportunity to drive change. Government programmes must take the lead on this by demanding swifter payments and increased digitisation.
  - Supply chains must be designed to contain risks and avoid interdependency between subcontractors, suppliers and products. Visibility of suppliers' financial position, fragility and capability must be documented and tracked across the course of a programme lifecycle – not simply at the point of commission.

- <u>Sponsor supply chain innovation – making it more robust, sustainable and agile</u>
  - This greater visibility will encourage confidence and in turn allow fragile businesses to strengthen, and those with huge potential to upscale.
  - At the moment, the hierarchical industry model hinders innovation through a culture of top-down management and risk transfer. Instead, entrepreneurship must be nurtured through a culture of knowledge sharing, collaborative learning and continuous improvement.
  - Particular emphasis should be given to those businesses supporting the adoption of digital methods – including automation, the creation of digital design, manufacturing and delivery platforms. These will be critical to establishing a new generation of construction skills, with an exportable proposition.

- <u>Create a positive narrative for the construction industry and its programmes</u>
  - An outcomes-focused mentality in the delivery of Government programmes is not only important to foster industry collaboration, but to support the 'levelling up' agenda through the creation of strong regional industrial

economies where construction plays a key role.
    - Announcements through the Budget in March and prior to that around the establishing of new construction centres of excellence in the North of England must be followed up and delivered, reinforcing the role of a pipeline of major programmes in achieving these wider economic ambitions.
    - Doing so can help create a virtuous circle of investment, where a resurgent construction sector can attract bright new talent that can act as a calling card for the UK on an international stage.

Rewarding best practice in the private sector

The importance of the Government to the construction sector in its role of client should not be understated. A strong pipeline of Government work priced appropriately can help raise market rates for construction services and thereby the overall resilience of the sector.

Beyond this, considerations for Government to support more sustainable pricing in the private sector could include:

- Can the Government reward and encourage best practice by opening up partnership opportunities to private sector organisations which commit to better pricing and payment structures?
- Can the Government stimulate inward investment from financial institutions with long-term interests, which can be more amenable to fair practices?

Shaping a world-class industry

Across our global business, we see similar challenges in other regions grappling with raising construction productivity. Many of the problems we identify in this paper are common to comparable markets including North America, Europe and Australia.

Selling expertise and services into these markets is a significant opportunity for the UK construction sector. While there is potential for some trade in physical goods – for example component output from modular construction facilities – the main prize lies in the ability to offer expertise that can set up programmes successfully abroad.

The behaviours outlined above sit at the core of this offer. If, as a UK sector, we are able to demonstrate exceptional outcomes through better procurement, payment and management of the supply chain, this creates an exportable proposition for the UK industry.

Already we have seen expanded opportunities for consultancy and construction management services in specialist areas where the UK has built significant expertise, such as tunnelling – through programmes such as Crossrail International. In turn, the ability to export this technical expertise can open doors for UK inward investment into other regions, by bringing greater certainty of returns.

Providing support

The ideas in this paper are not new and are not born of the COVID-19 pandemic – but are objectives that have been long championed through the likes of Project 13 and through the work of the UK2070 Commission earlier this year. The major difference is the urgency with which change is required. We believe that this crisis provides a singular opportunity to shape a new industry model – backed by Government as the sector’s largest client – which will support a more productive, successful and exportable proposition for UK plc.