



House of Commons

ODPM: Housing, Planning,  
Local Government and the  
Regions Committee

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**ODPM Annual Report  
and Accounts 2005:  
Government Response  
to the Committee's  
First Report of Session  
2005–06**

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**Fourth Special Report of Session  
2005–06**

*Ordered by The House of Commons  
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## The ODPM: Housing, Planning, Local Government and the Regions Committee

The ODPM: Housing, Planning, Local Government and the Regions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Deputy Prime Minister and its associated bodies.

### Current membership

Dr Phyllis Starkey MP (*Labour, Milton Keynes South West*) (Chair)

Sir Paul Beresford MP (*Conservative, Mole Valley*)

Mr Clive Betts MP (*Labour, Sheffield Attercliffe*)

Lyn Brown MP (*Labour, West Ham*)

John Cummings MP (*Labour, Easington*)

Greg Hands MP (*Conservative, Hammersmith and Fulham*)

Martin Horwood MP (*Liberal Democrats, Cheltenham*)

Anne Main MP (*Conservative, St Albans*)

Mr Bill Oler MP (*Labour, Nuneaton*)

John Pugh MP (*Liberal Democrats, Southport*)

Alison Seabeck MP (*Labour, Plymouth, Devonport*)

The following members were members of the Committee during this inquiry.

Mr Jim Cunningham MP (*Labour, Coventry South*)

Mr Mark Lancaster MP (*Conservative, North East Milton Keynes*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/parliamentary\\_committees/odpm.cfm](http://www.parliament.uk/parliamentary_committees/odpm.cfm).

### Committee staff

The current staff of the Committee are Jessica Mulley (Joint Committee Clerk), Elizabeth Hunt (Joint Committee Clerk), Charlotte Littleboy (Second Clerk), Ben Kochan (Committee Specialist), Ian Hook (Committee Assistant), Ian Blair (Chief Office Clerk), Emma Carey (Secretary) and Laura Kibby (Select Committee Media Officer).

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## Fourth Special Report

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1. On 26th January 2006, the Committee published its First Report of Session 2005-06 as HC 559, on the ODPM Annual Report and Accounts 2005. The Government's response, in the form of a memorandum to the Committee from the Office of the Deputy Prime Minister, was received on 29th March 2006.
2. The Government's response is published as an Appendix to this Report.
3. Also appended to this special report are two additional memoranda submitted by the Department. Appendix 2 is a supplementary memorandum from the Department on the Resource Accounts 2004-05. Appendix 3 is a supplementary memorandum from the Department on state aid issues following-up on the Deputy Prime Minister's appearance before the Committee on 7th February 2006.

## Appendix 1: Government Response

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### *Introduction*

We are grateful to the Select Committee for its inquiry into the Annual Report for 2004-05 and for producing its report. We have considered the Committee's comments carefully.

### *Response to the Committee's conclusions and recommendations*

**Recommendation 1: We welcome the commitment to Parliamentary scrutiny demonstrated by the Department's Ministers and senior officials, but we regret Mr Prescott's absence from our inquiry.**

As the Committee's Report acknowledges, the Deputy Prime Minister was required to take on additional responsibilities in relation to the UK's Presidency of the EU. He met the committee Chair, Dr Phyllis Starkey MP, on October 31 and apologised for the fact that his Deputy Prime Ministerial duties prevented him from giving evidence in the Annual Report inquiry.

The DPM also appeared before the Committee in February to update them on the EU Ministerial Informal meeting held in Bristol and on its outcome, the Bristol Accord. The DPM also discussed with the Committee some of the other issues that were raised in the Committee's report on ODPM Annual Report 2004/05.

**Recommendation 2: We believe that the most senior Minister in a Department should make himself available to a parliamentary select committee when his presence is sought.**

The DPM is committed to a constructive dialogue with the ODPM Select Committee, and attended the Select Committee and discussed a range of issues with it on 7 February in a session lasting an hour.

Although the DPM could not attend on 25 October because of other commitments, he ensured that David Miliband, Yvette Cooper, Phil Woolas and Jim Fitzpatrick all appeared before the committee for a full session. This was explained to the Chair of the Committee in a personal interview with the DPM on the work of the department and she accepted this and the DPM's commitment to appear at a later meeting of the Committee. As the Committee is aware, David Miliband is a Cabinet member and supports the DPM across the full range of the ODPM's responsibilities.

### *The Department and the Committee*

**Recommendation 3: Mr Housden agreed that the Department should respond to the Committee's requests for information fully, swiftly, and in a form which meets the Committee's needs. We welcome this assurance that in the future the Department will engage positively with the process of scrutiny.**

The Committee's position is noted.

### *Format of the Annual Report*

**Recommendation 4: We welcome the changes made to the structure of this year's Report, which have made it more accessible.**

ODPM welcomes the Committee's remarks and will continue to seek its suggestions for further improvements to the format of the annual report.

**Recommendation 5: It is essential that readers of the Department's report should be able to determine whether the Department's resource allocations properly support its objectives and represent value for money. The current report does not allow readers to do this. We urge the Department to look further at ways in which it can clarify the links between its detailed spending plans and its Public Service agreements in future annual reports.**

ODPM will look at ways of presenting more clearly the link between its spending and PSA target delivery and will consider any specific suggestions from the Committee on this.

**Recommendation 6: Double-counting is unacceptable and the Department must ensure there is absolute clarity about its resource management in future reports.**

ODPM rejects any accusation of double-counting. It was explained to the Committee, at the officials' oral evidence session on 17 October, that ODPM has been set a number of targets. It has one for efficiency gains in ODPM central programmes, and one for gains delivered by local government. There is no overlap between these. A third target, for social housing contributes to both the central programme and the local government targets. ODPM's evidence made clear that, of £835 million total efficiency gains on social housing, £355 million, delivered by Registered Social Landlords, counted towards the ODPM central target (£620 million); the balance contributed to the £6.45 billion local government efficiency programme. ODPM undertook that next year's annual report will make absolutely clear the relationship between these targets.

**Recommendation 7: We recommend that future reports contain a short glossary of technical terms. The Department should take particular care in proof-reading financial tables and charts.**

ODPM accepts and is acting on the Committee's recommendations on both points.

**Recommendation 8: We are pleased that this year's Annual Report sets out both successes and problems in programme delivery so that they can be understood. We criticise the Department for an unjustifiably favourable presentation of its achievements, which is counter-productive.**

ODPM drafts its annual reports in accordance with HMT guidance and seeks to present a balanced picture. We are happy to engage with the Committee on how effective we are in reaching this balance.

**Recommendation 9: We agree with Mr Housden that the Department should ensure transparency and simplicity in its communications, both internally and externally. We look forward to a clear demonstration of the greater effectiveness of the Department's communications in its next annual report.**

ODPM recognises that both internal and external communications are critical in delivering its objectives, and that the annual report is an important tool in this regard.

### *Delivery*

**Recommendation 10: The £6.45 billion saving required of local authorities is hugely significant to the Department in reaching its efficiency targets - as well as being a major challenge for local authorities themselves. We are not satisfied with the audit process as it was finally set out for us. If the scrutiny process and the support for local authorities are inadequate, authorities under pressure may ultimately be tempted either to reduce services rather than striving for ever greater improvements in efficiency, or to label changes in internal priorities as efficiency savings when they are nothing of the kind.**

ODPM has made it very clear that simple reductions in funding for services will not count as efficiency gains. Our policy is to encourage and support local authorities to use the resources available to them more effectively, not to cut their budgets for frontline services or reduce their quality.

Annual efficiency statements are subject to considerable assurance to achieve this aim. They are:

- Authorised by the Leader of the Council, Chief Executive and Finance Directors of councils;
- Subject to an initial check by ODPM and other relevant departments; and
- Returned as part of councils' Use of Resources assessment (a key element of the CPA process) by auditors appointed by the Audit Commission.

The second check allows ODPM and other departments to query points made in statements. Councils are given the opportunity either to review their statement and provide additional information to give assurance or to recalculate their gains.

The third check provides for more assurance than the Committee has given credit. While the auditors appointed by the Audit Commission will not be auditing the efficiency statements, they will be undertaking a formal review of them. This is in the context of their audit of the procedures taken by local authorities to achieve value for money. Councils will need to get this right to avoid a negative impact on their CPA assessment.

The scrutiny process was drawn up in consultation with local authorities, the Audit Commission, Chartered Institute of Public Finance and Accountancy and the LGA. It recognises the need to obtain robust figures from local authorities, while minimising the burden on councils in terms of additional reporting and audit fees.

This year, we will also be publishing revised guidance to councils on how to measure and report efficiency gains, which will clarify some of the more technical aspects of measurement. Our main focus is on helping local authorities to identify the opportunities for efficiency gains and obtain them. If councils continue to engage with the work that is underway by ODPM, the Regional Centres of Excellence and other change agents, then they should continue to deliver the gains expected from them.

It should also be noted that the target for £6.45bn efficiency gains by the end of 2007/08 applies to local government, which includes gains obtained by councils, schools, the police and fire authorities. Councils are expected to deliver £3.1bn of the target, and expect to have achieved £1.9bn by the end of this financial year, which would represent substantial progress towards the full SR04 target.

**Recommendation 11: The Department should investigate the recent reports that thresholds to access adult social services are being raised, and develop plans to work more closely with local authorities and the Audit Commission to ensure that efficiency savings are genuine and that the term "efficiency savings" is not being used to camouflage service cuts.**

We agree that service cuts are not branded as efficiency gains and that people understand the very real difference between 'cuts' and 'efficiency'.

We have made it very clear, including through guidance, conferences and workshops to both officers and members, that simple reductions in funding for services will not count as efficiency gains.

Revised guidance to councils will provide additional clarity on what is an efficiency gain. The auditors who review councils' efficiency statements will use the definition for efficiency used by Sir Peter Gershon and will be checking that the processes councils have in place respect this definition.

In terms of adult social services, the Department of Health have worked closely with the Local Government Association, the Commission for Social Care Inspection, the Association of Directors of Social Services and ODPM to look at practical ways of

improving efficiency without detrimentally affecting the quality of care. Some of this work is about the better use of new technology and streamlining of processes.

In addition, it should be borne in mind that councils retain the resources released from efficiency gains and can choose how to reallocate them, whether to invest them in frontline services or use them to hold down Council Tax. Thus, adult social services could be a net beneficiary of efficiency gains delivered in other parts of the council, though clearly this would be for local determination.

### *Sustainable Communities*

**Recommendation 12: We recognise that the sustainable communities agenda sets a significant challenge for the ODPM, in achieving its objectives through the agency of other Departments. Ministers, senior officials and other staff throughout the Department are enthusiastic about this challenge. Nonetheless, like other external stakeholders we remain to be convinced that the Department will be able to ensure the co-ordinated Government action needed to meet its goals.**

Other Government departments are fully involved in delivery of sustainable communities. The Comprehensive Spending Review will include a cross-cutting review across Government of infrastructure spending for sustainable communities. Departments are already spending considerable sums on infrastructure - and not just in the Thames Gateway.

The Department of Health, for example, have introduced a Growth Area Adjustment to revenue for relevant Primary Care Trusts. Amongst other factors, this led to the PCTs in the Growth Areas receiving funding increases of £860m in 2006/07 and £970m in 2007/08 (an increase over the two years of 20.8% compared to a national average of 19.5%).

The Department for Education and Science is also fully involved in delivering sustainable communities. It has introduced a "safety valve" mechanism, whereby Local Authorities, in exceptional circumstances (including rapid growth), can apply for additional capital support to meet new school places not otherwise covered by DfES "basic needs" or other funding systems. Cambridgeshire and Milton Keynes have benefited from £5.7m and £3.5m safety valve allocations for 2005/6.

The Department for Transport is investing heavily in the Growth Areas. Latest estimates of recent and planned spending on major LA, Government and Highways Agency schemes in our growth areas total around £3.5 billion - consisting of around £1.3bn for the Thames Gateway, £1.323bn for Milton Keynes South Midlands, £811m for London-Stansed-Cambridge-Peterborough and £50m for Ashford, Kent.

### *Staff management*

**Recommendation 13: We welcome ODPM's commitment to consulting its personnel on their experience of work and we congratulate it on its success in encouraging participation in the 2005 staff survey.**

**Recommendation 14: It is essential that those at the top of the organisation are visible and actively communicating to staff the importance of delivering the Department's goals.**

**Recommendation 15: We note Mr Housden's efforts to open up a dialogue with ODPM staff, but we believe it will take time to see whether staff themselves perceive a wider, genuine and lasting change in the Department's senior leadership.**

Peter Housden and the ODPM Executive Board have put in place a significant change programme, with a strong focus on leadership, talent development for all staff and Board visibility.

ODPM will continue to track progress on these issues through the Permanent Secretary's intranet forum and through staff surveys.

**Recommendation 16: The Department should take steps immediately to reinforce the message that bullying and intimidation is unacceptable. It should ensure that all staff are aware of the procedures for reporting unfair treatment and that all staff are confident such reports will be taken seriously.**

ODPM does not tolerate bullying or discrimination, and takes this issue very seriously. A programme of skills and awareness training has already been put in place for all senior and middle managers, to ensure that the organisation creates a positive climate for all staff. This is in addition to ensuring that the right procedures are in place to deal with cases where staff feel they are not treated with dignity and respect.

**Recommendation 17: Staff rationalisation should be managed in a way that does not diminish Departmental effectiveness.**

Service delivery is key to the success of the Office and this needs to be maintained in handling staff reductions. Our skills strategy, more flexible forms of organisation and tighter programme accountability arrangements will enable ODPM to maintain effectiveness as staff numbers fall. We have just completed an early release scheme which will release just over 100 staff primarily from areas identifying surplus staff. Any further reductions in headcount will be handled sensitively and with full consultation with the trade union side. We also aware of the need to follow the Cabinet Office Protocols which set out the policy for all government departments on the handling of surplus staff.

**Recommendation 18: The Department has made a start in listening to its staff and identifying their concerns. The challenge facing Mr Housden and the Board is to find practical ways of delivering internal change, in particular in the areas of senior leadership, tackling unfair treatment, addressing poor performance and maintaining morale. As Mr Housden noted, the buck stops with him: we intend to return to these matters in twelve months time to review progress.**

Following discussion, led by the Board, with staff across the Office on how we can improve leadership and our working environment, at all levels of the organisation, a new package of measures was announced by the Permanent Secretary 20 January:

- A new objective to be introduced from 2006-07 for all staff with line management responsibility which will hold managers accountable for developing their staff and managing performance.
- Training on coaching and a self-awareness/360-degree feedback tool for all senior and middle managers
- Workshops on treating staff with dignity and respect for senior and middle managers to help them recognize and deal with inappropriate behavior in the workplace.
- New measures to improve objective setting and performance management this year and a new Task Force to review the existing system and make recommendations for next year.
- A strong set of actions to mainstream equality and diversity throughout management practice and culture.
- Implementing Professional Skills for Government across ODPM to provide a clear framework for leadership, core skills and professional development.

ODPM welcomes the opportunity to discuss with the Committee the progress made in 12 months' time.

## Appendix 2 – Additional response from the Department regarding the Resource Accounts 2004-05

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Thank you for your letter of 14 December in which you ask four questions on matters arising for the Office's resource accounts for 2004-05. The answers to your questions are:

### *1) DEL underspend*

The DEL programmes underspend of 5% was mainly due to:

- a) the slippage of a large and complex capital acquisition (English Partnership's NHS land deal worth £200m) from March 2004 to April 2004; and
- b) an underspend of £182m (resource investment) on gap funding for Large Scale Voluntary Transfers. This programme was established, with the agreement of the Treasury, by means of an in-year transfer from Annually Managed Expenditure to the Departmental Expenditure Limit. It was never expected to spend significantly during 2004-05 as few transfers of social housing units from Local Authorities to Registered Social Landlords that required gap funding support as part of the transfer agreement, were expected to be signed in that year. We have always been planning for the End Year Flexibility earned to be used to support the programme's funding in future years.

These underspends in 2004-05 have had no impact on the Office's programme objectives. The English Partnerships expenditure was only delayed by a few days and, as indicated, the Office never expected to incur significant expenditure on the Gap Funding programme that year.

In view of the poor spending record of the Office's predecessors, the Office has made performance and financial management (including spending to budget) a priority - including at Board level, and also take a pro-active role in positive managing of budgets - including allowing a certain measure of over programming but also some reduction in budgets to avoid overspending. As a consequence DEL underspending of 14.2% by DTLR in 2001-02, and 10.8% by the Office in 2002-03 has been reduced to 2.6% in 2003-04 and 5% in 2004-05.

Local Management Accounting Teams, headed by qualified staff, are now being established in each of the Office's Groups. It is intended that this will lead to further improvements in monitoring of budgets and spend by those dealing directly with the expenditure.

Finance training is available to those that need it with an increased emphasis on recognized professional training.

### *2) Financial irregularity*

The Committee asked how the financial irregularity arose and over what period of time funds were misappropriated. Also, for details of any action plan in place to address the

weaknesses identified in the system of internal control following the incident. The reply below seeks to answer these questions without prejudicing the outcome of criminal proceedings against the alleged perpetrator of the fraud.

An internal review by Civilian Resilience Directorate (CRD) staff highlighted a number of suspicious payments to a housing association. There was no business reason for CRD to be making payments to such an organisation.

ODPM internal audit (IA) was notified in March 2005 and undertook an urgent investigation into the suspected fraudulent payments. IA discovered how the fraud was carried out and the alleged perpetrator. The fraudulent payments amounted to £867,200.

This was a carefully planned fraud apparently executed by someone who had been employed for his knowledge of the relevant accounting system and used this knowledge to carry out the fraud. Nevertheless, it is recognised that the systems in place ought to have been able to prevent the fraud or, at the least, detect it before the loss had reached the amount it did.

A comprehensive action plan has been put in place to avoid a repetition of the fraud. These provide an almost full assurance that a similar fraud would be detected quickly and a reasonable to good level of assurance that such a fraud could not be repeated.

Two people have now pleaded guilty to charges relating to the fraud, and ODPM will be asking the court to make a compensation order against them.

### *3) Movements in Working Capital*

a) How working capital is managed throughout the year.

The significant elements of working capital comprise debtors and creditors. Movements in these balances are monitored centrally on a monthly basis as part of the analysis of the Balance Sheet. Significant movements are reported monthly to the Board and the movement in working capital is reported in the quarterly resource accounts.

The Office is currently performing a review of cash management forecasting, including forecasting movements in working capital and net cash requirement. The introduction of senior accountants at Group level, during 2006/7 will also help to improve the quality of data.

b) Why such a large amount of National Non-domestic Rates, collected by the Office from Local Authorities, had not been paid over to the Consolidated Fund at year end?

The usual procedure is that receipts received in one month are paid into the Consolidated Fund on the eighth banking day of the following month. However, to avoid problems with year end accruals, our practice is to pay over the March receipts before our accounting system closes in March. Although the intention was to do this in March 2005, it inadvertently was overlooked and the payment was made on 12 April.

This transaction concerns the transfer of money between two central government accounts at the Bank of England. As at 31 March 2005 the National Non-domestic Rates (NNDR)

requiring payment to the Consolidated Fund was £824m. As it was year end, the amount received was lower than the usual monthly amount, which is typically about £1.6billion.

As the payment in April had not been forecast, ODPM may incur a Treasury penalty from the cash management incentive scheme in 2005-06. This will depend on the forecasting performance of the Office throughout the whole year.

Procedures have been put in place to ensure that this oversight will not happen again and that future relevant payment will be made in March.

#### **4) Note 25 Commitments Under Leases**

The figure of £369,463m for 2004-05 for Commitments under Leases set out in Note 25 to the Resource Accounts represents the total liability under all the Office's leases up to 2020-21. Some of these leases will come to an end before that date and may or may not be renewed. The figure of £39,317m for 2003-04 only represents the liability for the year in which the relevant lease ends. The method for assessing liability for 2004-05 is the proper accounting treatment for this type of liability.

No material new leases were entered into during the 2004-05 year. A number of material leases were renegotiated and extended during the 2004-05 year.

## Appendix 3 – Additional response from the Department regarding the inquiry into the EU Informal Summit

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7 March 2006

At the Committee's hearing on Tuesday 7 February of evidence on the Ministerial Informal Summit on Sustainable Communities, I undertook to write to the Committee about the current position with regard to State aid issues.

First of all, I should say that the Department for Trade and Industry has overall lead for the UK on State aid issues, although my officials liaise closely with DTI officials particularly where ODPM policies and programmes are directly concerned, as with the ongoing review of the Regional Aid Guidelines (RAG) to be applied from the end of 2006. They also liaise closely to influence the overall direction of the Commission's State aid policy, to meet the UK's policy needs and interests.

Some members of the Committee will be aware that the Government had particular difficulty with the European Commission in 1999 over our arrangements for funding regeneration via English Partnerships, under the "Partnership Investment Programme" (PIP). Indeed Clive Betts specifically referred to this when asking about progress with State aid issues. The Commission's concern was that the remit given to English Partnerships for the PIP was too broad: there was no guarantee that aid given by EP to any individual development project would only cover a market failure, so not distort the relevant land or property market and not be an illegal State aid. They therefore said that the proposed PIP scheme was "incompatible with common market" – that is, illegal. So we had to rethink our regeneration funding policy.

Instead of the PIP, the Commission advised us to develop purpose-specific schemes, which would clearly identify the purpose for which an aid was to be used, the justification for it and the end beneficiary. We subsequently put forward a number of such schemes, including the Partnership Support for Regeneration (1): Support for Speculative Developments (N 747/A/99); the Partnership Support for Regeneration (2): Support for Bespoke Developments (N 747/B/99); Support for Land Remediation (N 385/2002); and the Historic Environment Regeneration Scheme (NN 95/2002). All of the separate schemes were approved by the Commission, but, as Clive rightly said, the approvals all expire at end 2006. Although we are required to report annually on the use of State aid under the approvals, and have done so, it is too early to say whether they enabled EP and the Regional Development Agencies to fully meet the original PIP objectives. Nonetheless, to ensure some certainty for developers as to the rules applying post 2006, I have just agreed that officials should renotify these schemes, without amendments, and seek extension of the approvals until about 2013 (ie the period to which the new RAG will apply).

The European Commission has been consulting on the post 2006 RAG since May 2004, when it issued a first draft of its proposals. This would inter alia have significantly reduced the population coverage in the UK's State Aid Assisted Areas from 30.9% to less than 10%. Whilst this would have been consistent with the Lisbon Council agreement on "less and

better targeted" State aid across the EU, we were concerned that the reduction was too great and the safeguards (to ensure better targeting) too few. The DTI led a public consultation on these proposals, and responded to the Commission in the light of the responses received, in September 2004. The Commission then issued a further revise of its proposals in January 2005. However, the revised text was little different from the first; so the UK made a demarche to the Commission, together with France, Germany and Austria, noting in particular the need for a filter mechanism which would better identify those areas really in need of aid.

In response to these and other Member States' comments, the Commission issued a further text July last year, to which they invited Member States' responses by mid September. This text was a definite improvement from the UK perspective: it increased the UK's permitted population coverage ceiling to just over 20%, and it introduced criteria for identifying areas of lesser but specific economic need (the Tier 2 areas, under Treaty Article 87(3)(c)). We were therefore broadly content with this version, which the Commission subsequently adopted on 21 December last year.

The RAG itself only defines the Tier 1 Assisted Areas (these are the regions having per capita GDP of less than 75% of the EU25 average.) It is for individual Member States to now put forward proposals to the Commission for designating Tier 2 areas in their territories, complying with the various criteria identified in the RAG. For the UK, because of the reduction in permitted population coverage, this will mean a significant reduction in such areas. The DTI has therefore just launched a public consultation on the proposals, inviting views on which of the current areas should maintain the Assisted Area designation, on any areas which might now be designated and on any other criteria which might identify other pockets of deprivation in need of aid. The consultation document is available on the DTI website at [www.dti.stateaid](http://www.dti.stateaid)

The Commission has set no deadline for submitting these proposals. However, to ensure that developers, investors and other stakeholders have certainty about the position post 2006, this stage of the consultation will close just after Easter (19 April); DTI will then draw up proposals on the basis of responses to it and, after consulting again on those draft proposals, plans to submit them to the Commission in July. My officials will be actively involved in consulting ODPM stakeholders for their views, and to ensure that the eventual proposals do not adversely affect current ODPM policies and programmes.

I should also mention that the present European Commissioner, Neelie Kroes, confirmed shortly after her appointment in November 2004 that she intended to carry out a strategic review of the current State aid rules and frameworks. The scope, key points and timetable for this review were set out in the "State Aid Action Plan" which the Commission published last June. The UK welcomed this plan, because its objectives fit with what we have been seeking for a long time: that is, fewer detailed, complicated rules, more flexibility for Member States particularly with lesser amounts of State aid, and a better Commission focus on those aids which have a significant impact on the EU single market as a whole. The UK's response to the Plan (also available on the DTI State aid website), which we submitted last August, included an annex giving our views on how the rules relating the funding of land and property redevelopment might be improved. This text was drafted in consultation with all ODPM's stakeholders, particularly English Partnerships, English Heritage and the Regional Development Agencies. A copy of this annex is attached.

ODPM and DTI officials have had an initial discussion with Commission officials to discuss the UK response; action now lies with the Commission to draw up proposals in response to both the UK and other Member States' comments.

Finally, as you may be aware, the Commission has just issued a "vademecum" (that is, a ready reference document) on "State aid control and regeneration of deprived urban areas". This sets out their position on allowable State aid for regeneration. We will be responding to them on this document in due course, as it does not set out as much guidance as we would have liked; but at least it shows they have been listening to us about the need for it!

**JOHN PRESCOTT**

Reply to the European Commission's Review of State Aid: UK Proposals for Reform of Rules Relating to Land and Property Redevelopment

### **STATE AID SUPPORT FOR LAND AND PROPERTY REDEVELOPMENT IN SUSTAINABLE COMMUNITIES: UK PROPOSALS FOR REFORM**

#### **Introduction**

1. Many parts of the UK, and of other Member States, currently suffer from physical, economic and social deprivation. These areas are usually characterised by communities with a weakened economic base, with large concentrations of under-skilled, unemployed and socially disadvantaged residents who are surrounded by a poor physical environment. They are typically areas of high crime and high levels of social exclusion. These deprived communities can be small and localised, often found within relatively prosperous as well as disadvantaged regions and often outside the Assisted Areas designated in the EU Regional Aid guidelines.

2. Overcoming deprivation involves creating a built and natural environment in which people want to live and work by providing amenities, tackling degradation and safeguarding natural and built heritage. It should, in turn, also assist in meeting economic objectives – in achieving self sustaining economic growth which leads to job creation and sustainable improvements in economic performance in all areas – and social objectives – in meeting peoples' social needs by promoting social inclusion, neighbourhood renewal, building social capital, promoting stronger communities, better health and access to services and recreation.

3. The UK's Sustainable Communities agenda, which is committed to delivering "thriving, vibrant, sustainable communities", is designed to tackle these issues. The key principles of this policy include encouraging the economic development of urban and rural areas suffering from severe (and often multiple) local difficulties, making affordable and decent housing the norm throughout the country, improving the local environment at all levels including at community level, empowering and strengthening the communities themselves and also the protection of the environment. The Sustainable Communities complements EU Cohesion Policy, which of course has been recognised as a key policy dimension underpinning the objectives of the Lisbon agenda.

4. Improving the physical appearance and infrastructure of these areas – tackling **physical deprivation** – is a high priority. Good quality, well-designed and affordable housing and other buildings, as well as other improvements to the environment and the development of high quality public space, can make a huge difference in combating deprivation. Poor quality, ugly or derelict neighbourhoods, by contrast, reinforce despondency and breed crime and disaffection.

5. Communities in these areas often need assistance to mobilise themselves to create organisations for mutual support, including charitable activity and voluntary sports and recreational facilities – tackling **social deprivation**. Small-scale, community-based economic activity often has a valuable social function as well as developing entrepreneurial skill-sets and contributing to economic development within the area .

6. A major contribution can also be made by encouraging entrepreneurship and small-scale business activity and by combating the market failures which lead to **economic underperformance** in these areas. This does not mean large-scale investment aid for large or even for small and medium sized companies. Rather it involves providing a business service “infrastructure” – financial advisory services, business incubation facilities, suitable business premises, which the market might not deliver by itself. Very low intensity tax incentives may also play a part in encouraging business to invest in a deprived area, rather than elsewhere, yet without distorting competition to any significant extent.

7. Many of the UK's most deprived areas lie within otherwise relatively prosperous regions. General regional development may not be the problem so regional investment aid is not the solution. What is needed is precise targeting of joined-up investment in physical, social and economic infrastructure to combat market failures in these pockets of deprivation. Business investment will then take care of itself.

8. This paper focuses on the changes needed in the rules and frameworks affecting investment to tackle physical deprivation. Examples of cases where such changes are needed, because the present rules prevent or hinder appropriate public sector intervention, are set out in the attached Annex.

#### **Background: Existing Approvals**

9. The Commission has already approved what forms a suite of measures underpinning the physical redevelopment of sustainable communities in the UK. This has enabled the United Kingdom to support a range of measures, which have facilitated individual redevelopment schemes in compliance with the State aid rules.

10. In particular, the Commission's positive decision on the UK's Support for Land Remediation scheme was very helpful. Directorate General Competition themselves considered their approval of the scheme to be a landmark case with Europe-wide significance. The approval has provided the UK with the flexibility to support the remediation of derelict and contaminated land, within certain parameters but wherever the UK sees the need to do so, without the risk that such support might be challenged and considered an unallowable state aid.

11. Also, the Commission has approved schemes which allow the limited funding of property developments on the basis of the regional aid guidelines, the remediation work on

heritage buildings and sites, and provision of social housing. These approvals, although not as broad as that for land remediation, still went some way towards providing the UK with clear guidance and discretion as to what could be supported in regeneration projects inside and outside the designated Assisted Areas. Background on these schemes is set out at **Annex A**.

12. Other approvals have helped, for example the Community Development Venture Fund, the Coalfield Enterprise Fund, the GRO and Credit Unions projects in Scotland and the Stamp Duty Exemption Scheme.

13. The UK has used these approvals to support a number of programmes and the benefits of these are already being felt. However, it is timely to take stock given that both the current approvals and the regional aid guidelines will expire at end December 2006. The next section looks in more detail at the need to continue or change the existing rules, and what further guidance is needed particularly to enable support for tackling physical deprivation.

### **Issues: Using State Aid to Tackle Market Failures**

14. Deprived areas can be subject to a range of market failures. The Commission has acknowledged the existence of problem areas where incidences of market failure are high<sup>1</sup>. As a result of these market failures, areas remain socially distressed, land is derelict or under-used, and economic activity is much less than would otherwise be the case.

15. Market failures can arise from a complex web of interrelating factors. Policy interventions need to take account of this complexity and address individual facets of it in a way that will contribute to an overall solution. The Commission has endorsed the view that the public sector should be able to support a package of measures combining the rehabilitation of obsolete infrastructure with economic and labour-market actions to combat social exclusion and to upgrade the quality of the environment<sup>2</sup>. There is a major role for the private sector to play, as it offers significant additional resources that are otherwise unavailable, and can bring in project design and management expertise to specific schemes. Interventions must be in compliance with the principles of fair competition, but there is real potential to improve prosperity in all regions if horizontal measures are used to target specific communities in need and complement measures for large geographical areas. Targeted interventions will include a range of measures that are not affected by State aid rules, but many desirable interventions are caught, because of the very wide definition of State aid which has been developed by the European Courts.

16. Socially deprived communities can be of any size and occur in any area, including otherwise prosperous ones. Within a region which performs well overall, there may be specific local pockets (e.g. at NUTs 4 or 5 levels) where there are serious problems of dereliction and deprivation. The UK has identified its 2000 most deprived “wards”<sup>3</sup>, a number of which are located in otherwise well performing regions which do not qualify for

<sup>1</sup> In “The programming of the Structural Funds 2000-2006: an initial assessment of the Urban Initiative”, Brussels, 14 June 2002, COM(2002) 308 final.

<sup>2</sup> Communication from the Commission to the Member States of 28 April 2000 laying down guidelines for a Community initiative concerning economic and social regeneration of cities and of neighbourhoods in crisis in order to promote sustainable urban development (URBAN II): OJ C 141, 19.5.2000, p8.

<sup>3</sup> NUTS 5 level areas, roughly equivalent to the size of an urban “commune” or a small town.

Assisted Area status under the current Regional Aid Guidelines. Even fewer will be Assisted Areas under the revised Guidelines from 2007.

17. Member States need the flexibility to target support in such areas so as to be able to develop specific schemes to remedy the problems. Otherwise, investment would be focused away from these areas and they would suffer further decline.

18. The UK accepts that large-scale investment aid in pockets of deprivation within otherwise affluent regions cannot be accommodated under the Regional Aid Guidelines. But the UK believes strongly that horizontal aid frameworks should be designed to permit the targeting of the market failures in specific pockets of deprivation. The market failures are not in regional development, they are rather in very local physical, social and environmental conditions. Remedying these will not distort competition as long as end users pay market rates for its use, the intermediaries needed to deliver the improvements are chosen competitively where possible and they are paid the minimum necessary for their work.

19. The horizontal state aid rules covering aid for employment, training, venture capital, aid to SMEs, aid for SGEIs and aid for environmental protection, allow for important interventions in under-performing areas which can tackle failures in labour and capital markets and achieve social and environmental policy objectives.

20. However, there is much less clarity about what measures can be used to tackle market failures affecting land and property. The presumption has to be that any aid in this area is not allowable unless it is covered by an existing approval, whatever the potential benefits. Yet bringing back long-term vacant or derelict property into use may yield environmental and health benefits, reduce crime and vandalism as well as reducing 'visual blight' – externalities which are not captured by the developer. It will also reduce pressure on greenfield sites. Data shows that market prices do not adjust downwards to take account of the additional costs of renovating long-term derelict properties, and that once properties have been vacant for a year or more, they are more likely to remain vacant

21. Following the withdrawal of the Deprived Urban Areas Guidelines in 2002, the Commission stated that "it would be helpful to examine whether there was a need for an additional, specific instrument dealing with state aid for undertakings in deprived urban areas, and what the basic features for such an instrument would need to be"<sup>4</sup>. Whilst noting that needy pockets of deprivation are not restricted to urban areas, the UK believes that such an instrument should be part of the modernised state aid regime needed to support the EU's Lisbon agenda.

### **Drawbacks and gaps in existing approvals**

22. As described above, the UK has secured a number of approvals relevant to tackling these issues. But there are problems. This section sets out issues with the schemes as a whole. **Annex B** gives examples of specific schemes which have been affected.

23. The Land Remediation Scheme has enabled the redevelopment of a large number of brownfield sites containing derelict buildings and contaminated land. But a site may also

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<sup>4</sup> (EUROPEAN CONFERENCE OF MINISTERS RESPONSIBLE FOR REGIONAL PLANNING, 79TH MEETING, 25 OCTOBER 2002)

lie idle because the high cost of development in relation to the potential end value means that the land has a negative value. The barrier to developing the land lies not in its dereliction or contamination, but rather in its location and possibly in restrictions placed upon its use under the system of Planning for land use (e.g. a town centre site cannot be used for warehousing or parking because of transport issues). In such cases, the current landowners will frequently decide to leave the site vacant rather than paying for its development or accepting an inevitably very low price for someone to take it away from them. The present scheme does not enable the payment of grant to stimulate physically, socially or environmentally desirable development in such cases.

24. This means that public authorities frequently resort to buying plots of land in deprived areas and developing it themselves as so-called “direct development”. This is often an inefficient use of public funds – more could be achieved by leveraging in private finance. It is also hard to understand why support payments for private sector-led land regeneration is unacceptable, whilst the same activity by the public sector is permitted, especially in view of Article 295 of the EC Treaty and the wide definition of “undertaking” given by the European Courts.

25. Another drawback in the existing approvals is in the housing gap funding approval. This approval, which permits grant to cover the difference between the cost of housing development and its end market value, restricts such support to a maximum of 60% of eligible costs. Not only was this a very arbitrary and uncertain limit – it is far from clear what in every case constitute eligible costs - the UK’s experience suggests that it is over-bureaucratic and unnecessary.

26. The important point in both the above cases is that the payment must be the minimum necessary to overcome the market failure. If it is, there will be no advantage outside the normal course of trade to the developer. The imposition of an arbitrary cap and/or restriction to Assisted Areas only makes sense if the payment distorts competition.. But these payments should not distort competition because they merely offset the specific market failure. The amount needed to enable a social housing project to go ahead may be 25% of development costs in one case and 75% in another. To pay 50% in both cases would in one case create a massive distortion of competition and in the other be inadequate for the project to go ahead.

27. The UK believes that the Commission should focus in cases like this on ensuring that Member States have transparent and robust procedures for ensuring that the market would not deliver the desirable outcome by itself (proving the market failure) and ensuring that the minimum necessary is paid. The principle which governs aid for SGEIs is also valid in these scenarios. In both cases Government is engaging undertakings as intermediaries to deliver an outcome which the market would not otherwise supply. In both cases there is only an advantage to the undertaking involved if it is paid beyond the normal course of trade.

28. The UK government’s proposed Business Premises Renovation Allowance, which is currently before the Commission for approval, represents another potential instrument for triggering economic regeneration through physical redevelopment. It would provide a 100% first year capital allowance for the renovation of any business premises in the 2,000 Enterprise Areas which have been vacant for more than one year.

29. The UK accepts that a state-wide tax incentive such as this inevitably fails to calibrate exactly the minimum necessary to overcome the relevant market failure in each case. However, this measure's administrative efficiency and very low aid intensity allow it the potential to have a substantial impact at low cost to the Government and with very little risk of significant distortion of competition.

30. For regeneration to be really effective, more certainty, coherence and co-ordination is needed. Simply relying on those approvals already gained, important as they are, is not enough. In any case, the validity of those approvals expires at end 2006. This is too short a time horizon for most developers even to design a scheme, especially if land has to be purchased and/or reclaimed, let alone see it to completion. So certainty needs to be given that aids for such land and property development schemes, if allowable up to 2006, remain allowable at least until 2013.

### **Way Forward: General Approach**

31. The UK believes that horizontal measures are the way to tackle the issues set out above. The Commission road map has set out a philosophy for horizontal measures based on tackling market failures. The Commission's recent decision on Services of General Economic Interest, which the UK welcomes, adopts this philosophy.

32. In the context of promoting physical regeneration, the UK would suggest that this philosophy is applied on the basis of the following principles:

- Physical redevelopment can bring wider social, economic and environmental benefits, which should be recognised in considering whether public support is necessary and appropriate. Support should be provided only where there are wider benefits to be gained.
- Where the market will not develop the land, public support and incentives to secure private development are appropriate where there are clear wider benefits resulting.
- Such support should, of course, be limited to the minimum necessary to overcome the market failure.
- After land has been developed, use of that land should be subject to market mechanisms (end users should pay the market price).

33. This general approach sets out an economic rationale to underpin policy and inform the assessment of specific proposals.

34. In terms of specific future policy development, the UK would wish the Commission to address the following areas.

### **Clarification of existing approvals**

35. As well as having existing approvals extended beyond 2006, it would be helpful to have guidance on how aids based on different guidelines and approvals may be combined. Tackling deprivation cuts across existing guidelines and block exemptions as well as specific approvals, and would benefit from consolidated guidance. Whilst it is sometimes

possible to develop schemes that maximise the use of different guidelines and approvals covering different eligible costs, it is a very cumbersome approach, and it is always uncertain whether the Commission will agree that the rules have been correctly applied. More clarity could be obtained through publication of a Vade Mecum explaining how all the existing rules may be joined together to facilitate the desired economic growth outside the Assisted Areas.

### **Aids not significantly affecting competition**

36. The UK believes there is scope for increasing Member States' discretionary use of support which does not significantly affect competition. This issue has wider application than just tackling deprivation, but can be particularly significant for it. The UK welcomed the proposal put forward by DG Competition concerning Lesser Amounts of State Aid (LASA), which would have allowed Member States such increased discretion to a clearly defined extent. The UK is disappointed that the measure was not approved by the Commission, and considers that there is a growing need for Member States to be able to allocate State aid that, whilst of significance to the recipient, demonstrably does not have a significant impact on competition within the EU.

37. This could be achieved through expansion of the Block Exemptions, including raising the "De Minimis" threshold (with perhaps a higher threshold for social economy organisations, based on their delivery of greater social benefits) and by adopting some of the LASA principles within the horizontal guidelines. Revised guidelines should be much more economic data-based, as the Commission has itself now proposed; and their enforcement in relation to relatively minor payments to undertakings could be left to Member States and the market itself, so that the Commission need only consider larger aids which threaten to distort competition seriously.

### **Review/renewal of guidelines and approvals**

38. We would like to build on, and extend, the existing approvals and guidelines to enable Member States to take a more holistic approach to regeneration. There are four strands to this policy:

- Extending the scope of existing approvals to tackle the gaps described in paragraphs 22-30 above.
- Ensuring that existing horizontal guidelines enable the holistic approach described above, and to make any changes which may be needed to enhance their effectiveness in tackling problems of deprivation. The UK will comment in detail as the specific reviews are undertaken.
- In this respect, the impact assessment required under the SGEI decision could usefully be used to help the need for any further broader guidance on horizontal State aids.
- Developing a clear policy rationale to inform future decisions, either on future guidelines, or specific approvals, relating to physical redevelopment. This should be based on a clear recognition that the problems of market failure apply in the context of physical redevelopment. The 'road map' sets out the basis for this

philosophy: the principles set out at paragraph 32 above could be adopted to develop it further. It is for consideration whether there should be a clear statement by the Commission on this. The UK believes there would be great benefits in terms of transparency and consistency in its doing so.

### **Procedural issues**

39. Another problem which the Commission itself has recognised is the uncertainty as to the time needed to gain approval for an individual proposed aid. This is true even where the aid is relatively small and the Member State itself is clear that it will not distort the European market. The Commission does have a two month deadline for its own response to any notification, but this is suspended as soon as any response is given – and that is usually more queries, rather than an approval. It might help to streamline the process if, for instance, the Commission were to consider a block exemption for proposed aids exceeding the de minimis level but below to another limit, subject to their being published in the OJEC and not objected to within a limited period of up to perhaps 3 months.

40. This would enable the Commission to focus on larger amounts of aid, and only intervening to ensure equality of application across Member States in the most distortive cases.

### **CONCLUSIONS**

41. The need to regenerate the most deprived areas of the European Union in order to provide the benefits of economic growth for all its citizens equally, is undisputed. The guidance on State aids rightly aims to ensure that government intervention does not jeopardise that aim by unfairly distorting competition. However, there is also a clear need to give greater certainty and extension of scope, subject to suitable constraints, to Member States' governments to allow them to tackle market failures wherever these occur, in order to assist the redevelopment of deprived areas within the EU.

42. At present, investment aid is quite properly largely restricted by the Commission's regional aid guidance to the designated Assisted Areas. Significant market failures in land and property development and in social, community and enterprise development exist, however, outside as well as inside Assisted areas.

43. The existing guidance and approvals on state aid have gone some way towards helping clarify at least what may be done within and outside the assisted areas. Yet the Commission has on occasion treated payments to offset market failures as if they were subsidies, even where clear evidence can be and has been provided of the scale of the market failure concerned. And even existing levels of certainty will be lost post 2006, unless the current guidance and approvals are formally extended.

44. The UK would therefore recommend

- (1) that the Commission consolidate the approvals it has to date given to the UK and other Member States to facilitate land remediation and property redevelopment, and extend their approval of them to at least 2013;
- (2) that the Commission helps to clarify and streamline the approvals process, by inter alia raising the de minimis limits, removing arbitrary ceilings on

eligible costs and introducing a “market approval” process for smaller aids in a margin above the de minimis threshold; and

- (3) that the Commission consider the need for extending the scope of existing approvals in the light of a clear policy rationale, which could be expressed in the guidance on horizontal State aids in the light of the statistical data they have received to date from Member States about their use of State aids, and with a view to the longer term economic impact on the EU as a whole.

45. It is important to consolidate the advances made in previous years with state aid rules that avoid distortions to trade and competition, but that will foster social progress and economic growth by encouraging investment in weaker areas, so that more and more deprived areas across the European Union can be brought up to an acceptable level of prosperity. If deprived areas can be given a decent physical environment, improved social cohesion and encouragement of indigenous entrepreneurial potential, they should have the basic infrastructure to attract market-based business investment, without the need for investment aid.

## Annex A

### CURRENT UK APPROVALS

1. In 2001-02, the UK put forward a number of individual schemes for approval following the Commission's decision that the Partnership Investment Programme (PIP) did not comply with state aid rules.

#### (i) Support for Land Remediation

2. The land remediation scheme enables the payment of grant to developers to meet up to 100% of their costs incurred in bringing derelict land back into use. A further 15% of costs is permitted where the land has been polluted and the original polluter cannot be found. The land may be anywhere within the UK: the Regional Development Agencies are responsible for administering the scheme in their areas, and grant aiding developers direct.

#### (ii) Supporting Heritage Related Sites

3. The UK's Historic Regeneration scheme enables funding bodies to support all the heritage-related costs associated with the repair, restoration and rehabilitation of designated historic buildings, conservation areas, ancient monuments, and historic parks and gardens where this would not happen through market forces alone. This is clearly of benefit in areas where the development value of the land on which a heritage building is located may be considerably greater than the value of the land net of the maintenance cost of the buildings on it.

4. Being able to support the extra costs associated with a building's designation as a heritage asset is most helpful when combined with other forms of state support. The Commission's approval restricted the use of the grant towards meeting the maintenance cost of the heritage building; it did not allow the costs of redevelopment of the building into e.g. office space. Nonetheless, the scheme has enabled a number of heritage sites to be

at least maintained, since the landowners receive the grant support towards such costs even if the building does not generate other income. Moreover, support for a heritage building's maintenance may be combined with support for other aspects of a redevelopment scheme, if for instance it includes social housing, or business units for SMEs.

(iii) Support for Housing Developments

5. The UK's "Partnership Support for Regeneration" scheme aims to increase the stock of housing available for owner occupation. Owner-occupation tends to stimulate a demand for improvements in local public services and the local environment, thereby contributing to the overall regeneration of the area.

6. The costs of providing owner-occupier housing in deprived areas can be greater than the value of housing, particularly if the land is contaminated or derelict, however. This scheme provides the minimum grant necessary for private developers to be able to meet the difference between the cost of building and the open market value. There has been significant take-up of the scheme; but the UK still has a significant shortfall in good quality housing stock.

7. The UK welcomes the Commission's recent Decision on State aid support of Services of General Economic Interest (SGEI), and the specific inclusion of social housing within its scope. This will enable much more specific and targeted support for social housing without the need for separate notification to the Commission.

(iv) Stimulating business establishment and property development

8. Two approvals for bespoke and speculative property development allowed the UK to support the redevelopment of land and property for commercial purposes, where the costs of the redevelopment or refurbishment would exceed the value of the redeveloped or refurbished land or property. These were key approvals to trigger the necessary physical conditions for economic regeneration (even though support for large development companies was not permitted outside the Assisted Areas).

9. In addition, the stamp duty exemption for disadvantaged areas removed the requirement for businesses to pay stamp duty (4% for most transactions) for commercial property transactions in the UK's 2,000 most disadvantaged areas (called Enterprise Areas). The aim of the scheme was to encourage business establishment and property development in disadvantaged areas by tackling market failures which lead to dereliction and abandonment, lack of local services and community dislocation as residents commute to find work. The rate of transactions for commercial property is around six times lower than the rate for wards in the rest of the UK. Hence there is inefficient price formation in the market which this measure aims to overcome. The stamp duty exemption scheme has since been wound up and is to be replaced by the "Business Premises Renovation Allowance" scheme, currently being considered by the Commission.

10. In addition, the Commission has approved two further regeneration-based schemes, the "Support for environmental regeneration" scheme and the "Community / voluntary (neighbourhood) regeneration" scheme. These schemes allow government support of environmental work linked with regeneration and small, locally based schemes put forward by voluntary groups and operated on a not-for-profit basis.

## ANNEX B

### EXAMPLES OF PHYSICAL LAND REGENERATION PROJECTS CURRENTLY PUT AT RISK BY THE STATE AID RULES

#### **Northampton Joint Initiative, Northampton, Central England**

The area for proposed development is made up of three sites, located in or adjacent to the flood plain of the River Nene, which make up a total area of approximately 97ha and are located west and south east of Northampton town centre. The main issues in relation to these sites are the poor quality environment, including two former landfill sites; poor access; and fragmentation and under-utilisation of the current facilities. Land ownership is currently shared by various public and private landowners.

The proposed approach is to develop the three sites together, as this will generate benefits which the sites individually cannot do. A feasibility study for the project identified that development had not taken place due to the interaction of “multiple market failures”, including redevelopment costs exceeding the likely financial return and too many stakeholders with conflicting interests.

The high redevelopment costs meant that it was unprofitable for any one landowner to develop their own site, without further development on related sites and provision of the necessary transport infrastructure. In order for redevelopment to take place, landowners would have had to come together and co-ordinate their actions, which they were unwilling to do.

The rationale for government intervention is therefore based on generating positive external benefits to society that would not otherwise be realised. The need is as great as any pocket within the designated UK Assisted Areas, but because it is outside those areas, the permitted intervention rates are low and the necessary private sector investment may not be levered in.

#### **Bickershaw Colliery, Wigan, NW England**

The former Bickershaw colliery site extends to 18ha in size and is located on the western edge of Leigh, two miles from Leigh Town Centre and five miles from Wigan Town Centre. The former Bickershaw colliery site comprises two distinct areas:

- Plot 1, to the north is 11.8ha of despoiled land and was previously used for operational colliery buildings and storage. The site is now cleared of previous structures. To the north of Plot 1 is a significant colliery spoil area and partly reclaimed land known as Bickershaw North, owned by Wigan Council and the NCP.
- Plot 2 is 5.5ha and was the former pithead area, with five capped shafts located in the central area. Two of these are fenced and vented to allow gas monitoring by the Coal Authority. Roughly triangular, the western boundary lies close to a group of disused buildings in private ownership, formerly used for commercial purposes associated with the colliery.

The proposed project involves comprehensive reclamation of the 18ha site making available some 15ha of residential land, 1,000 sq m of retail space, together with a 4,000 sq m marina. The marina is crucial because the Leeds-Liverpool canal is an increasingly important link to the wider inland water network. Private sector development of the site has been hindered because of the uneconomic costs of land the necessary land remediation, and the difficulty of securing all the land from its various owners.

State aid was therefore needed to

- deliver benefits to the local population and wider sub-region through reclamation of the site;
- to provide local communities with access to enhanced open space provision and recreational opportunities;
- to improve access to a wider choice and diversity of housing and local employment opportunities, particularly for residents in the adjoining estates, which are characterised by deep seated socio-economic problems.

But although these needs are very great, only limited State aid is permitted (Wigan is a currently a designated Art 87(3)(c) area) and it will be very complex to make use of the several relevant State aid approvals in combination. Even so, the aid will probably not be enough, because of the social character of much of the land use, yet it is very hard to see how such payments would distort competition to any significant extent in any relevant market.

### **Snowdown Colliery, Amersham, Kent, SE England**

This site is in a prosperous part of the SE region of England; well outside any designated Assisted Area. But as at Bickershaw the problems of market failure apply: the land is derelict, due to subsidence from the mine workings, and the associated community has run down because the former colliery workforce is now largely unemployed following the closure of the coal mine. There are only poor transport links to surrounding communities, and the mostly social housing is in large rundown estates. Because of its geographical location, the site cannot benefit from the necessary levels of State aid required to attract private sector investment – the costs of land remediation and necessary social housing significantly reduce the site's attractiveness to any would-be developer in the region.

### **Chatterley Whitfield Colliery**

Chatterley Whitfield Colliery is a 80 ha site located in Stoke-on-Trent, a Tier 2 assisted area in the West of England.

It is the aim of the local community and several regeneration bodies to preserve this colliery as a heritage site and to convert existing buildings into viable commercial office space. It must first overcome several obstacles, such as the need to reclaim much of the land (which is currently dangerous and at various stages of decline) and the necessity to find private sector support for the schemes.

The area surrounding the Colliery has been in steady decline since its closure in 1976. Housing stock is of very poor quality and the citizens of Stoke-on-Trent are among the

most disadvantaged in the UK in terms of unemployment, health and education. Its need is therefore comparable to a site within the Art 87(3)(a) area of West Wales and the Valleys, but because it is in the relatively more prosperous region of Shropshire and Staffordshire, [the relevant NUTS 2 region] only limited State aid support can be given, which is insufficient to lever in the necessary private sector investment.

### **Manningham Mills, Bradford , West Yorkshire, England**

This is a very large site in a part of the former industrial heartland of the north of England. It is a heritage site of industrial archaeological interest. Like the former colliery sites, the costs of bringing the site back into use are greater than the potential redeveloped value. Again, being outside the Assisted Areas, the levels of permitted State aid are too low to attract the necessary investment. However, the Historic Regeneration scheme should enable at least the maintenance costs of the site to be met. What is less clear is what other development –perhaps the provision of work units for SMEs, for example – might also be supported as a part of a single scheme to regenerate the buildings and immediate area, rather than the building alone.

Manningham Mills is an example of a scheme which would benefit from the clarification of the State aid rules, and additional guidance on how they may be applied together.

## Reports from the ODPM Committee since 2004

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The following reports have been produced by the Committee since 2004. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2005-06

First Report	ODPM Annual Report and Accounts	HC 559
Second Report	Re-licensing	HC 606
First Special Report	Government Response to the Committee's Fourth Report of Session 2004-05, on the ODPM Annual Report and Accounts 2004	HC 407
Second Special Report	Government Response to the Committee's Eleventh Report of Session 2004-05, on the Role and Effectiveness of The Local Government Ombudsmen for England	HC 605
Third Special Report	Government Response to the Committee's Seventh Report of Session 2004-05, on the Role and Effectiveness of the Standards Board for England	HC 988

### Session 2004-05

First Report	The Draft Regional Assemblies Bill	HC 62-1 ( <i>HC 459</i> )
Second Report	Annual Report to the Liaison Committee	HC 149
Third Report	Homelessness	HC 61-1 ( <i>CM 6490</i> )
Fourth Report	ODPM Annual Report and Accounts	HC 58 ( <i>HC 407</i> )
Fifth Report	The Role and Effectiveness of CABE	HC 59 ( <i>CM 6509</i> )
Sixth Report	Electoral Registration (Joint inquiry with the Constitutional Affairs Committee, First Joint Report of Session 2004-05)	HC 243-1 ( <i>CM 6647</i> )
Seventh Report	The Role and Effectiveness of the Standards Board for England	HC 60-1 ( <i>HC 988</i> )
Eighth Report	Empty Homes and Low-demand Pathfinder	HC 295-1 ( <i>CM 6651</i> )
Ninth Report	Ward Boundaries	HC 315 ( <i>CM 6634</i> )
Tenth Report	Local Government Consultation	HC 316-1
Eleventh Report	The Role and Effectiveness of the Local Government Ombudsmen for England	HC 458 ( <i>HC 605</i> )