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Executive Summary

Neutral Growth Point Impact

There is no hard evidence that growth in Central Lancashire and the corresponding vitality of its housing markets has adversely impacted upon Pennine Lancashire; whereas it is clear that their contrasting economic fortunes have, independently of each other, shaped their respective housing market positions.

Furthermore, it is unlikely that the level of housing supply envisaged by the Central Lancashire and Blackpool Growth Point will be achieved between now and 2017, nor will annual RSS targets for Central Lancashire be met until after 2013. The root of such a pessimistic outlook is the financial crisis of 2007/8, the short to medium term implications of which are now starting to become clear; that is, a constriction of city centre and brownfield development pipelines, and a fundamental change to the viability paradigm.

In any event, housing numbers in Central Lancashire do not themselves present a problem, provided that they are managed within the bounds of what the functional market and the public sector can sustain, and the evidence suggests that there are checks in place to ensure that a situation of oversupply doesn’t arise. For Central Lancashire, the drawbacks of oversupply would far outweigh any benefits to what is essentially a buoyant and well balanced housing market area.

Imperative: A Competitive and Connected Pennine Lancashire

Our analysis shows that the overwhelming constraint on Pennine Lancashire market progression is the sub area’s own structural weaknesses, most particularly in respect of value added and the workforce productivity gap articulated in the MAA. The key issue for Pennine Lancashire therefore, is to be more competitive in its own right by continuing to develop its people and places. In this way, it will become more attractive as a residential location of choice for people working in the neighbouring major conurbations of Leeds and especially Manchester, with whom significant links already exist, albeit that they are restricted to the fringes of both economic areas at present.

Despite their proximity and principal linkage via rail and the M65, there is only limited interaction between Central and Pennine Lancashire. Of greater significance is the beneficial relationships that both sub areas have with the rest of the North West, albeit that it is currently confined to the fringes of both areas and in Pennine Lancashire's case it is in the context of total net outflows whereas in Central Lancashire it is in the context of total net inflows.

In terms of Pennine Lancashire aspirations, connecting more effectively with neighbouring, buoyant, functional markets represents a key area for action. As well as seeking to generate beneficial links with Preston, the far greater scale, absolute and relative growth of Manchester City...
Emerging Market Conditions

Whilst results and confidence are improving in the housebuilding sector, growth remains constrained by an unclear economic outlook, a lack of mortgage finance and political uncertainty. Activity in the market is confined to low risk sites and low risk markets where a quick return on investment can be made. This favours the development of traditional family homes on sites with permission, services installed and without the encumbrance of remediation, making greenfield sites particularly attractive and representing a shift away from flatted developments.

The implications of the above conditions are as follows:

- Development programmes will be slipped by three to five years, in line with economic and housing market forecasts
- Five and possibly ten year strategic housing land supply deliverability is questionable and requires ongoing monitoring and review
- RSS driven housing targets are in danger of moving out of sight
- The pressure is rising to both to release and develop greenfield sites and bring forward a new development model that takes a longer term view
- New approaches are required to sustain market progression
### Recommendations

#### Recommendation 1: Increase Cooperation between Central and Pennine Lancashire

There is an overarching case for dialogue and cooperation between Central and Pennine Lancashire, in order to exploit commonalities and underpin a more competitive platform in relation to neighbouring conurbations in respect of:
- The sub regional housing market offer
- Aerospace and high value manufacturing
- RS2010

#### Recommendation 2: Take Action to Enable Development

Where possible, the following stalled development site actions should be taken:
- Reconfigure brownfield sites to make them more attractive to developers
- Divided up into smaller more appetising plots
- Addressing remediation and infrastructure up front
- Allowing flexibility over housing mix and densities

#### Recommendation 3: Prioritise Strategic Interventions

Over the next 3 to 5 years, development will be constrained by viability issues and austerity measures, giving rise to the need to prioritise a smaller number of interventions capable of delivering the greatest strategic impact:
- Maximise agglomeration effects through the concentration of investment around strategic employment sites and transport nodes with adjacent housing land
- Focus on delivering a small number of well connected growth hubs, for example around Whitebirk and Burnley Bridge
- Allowing an appropriate quantum of greenfield development on adjacent sites that are attractive to developers now and will support the process of balancing the housing market
- Enabling better access to Manchester City Region and also growing the local economy

#### Recommendation 4: Investigate new Funding Models

It will be important to investigate, evaluate and bring forward new development models to secure long term investment. Such a model will need to have the following attributes:
- An investment model as opposed to the traditional development model
- Based on the future value of developments and clear distinctive propositions
- But with the local authorities taking the risk and guaranteeing an acceptable and periodic return on investment
1.0 Introduction

1.1 About this Study

The original purpose of this study was to provide advice on the potential impacts of the Central Lancashire and Blackpool Growth Point on the economy and housing markets of Pennine Lancashire. It is intended that the findings will inform strategy and policy development for both areas including the consultation responses of partners to RS2010 and the Single Integrated Lancashire Strategy.

The study is intended to assist partners in developing a shared understanding of the opportunities and challenges presented by growth and renewal in the respective areas and in particular the impact upon the plans for continued growth and renewal in Pennine Lancashire. To this end it has sought to identify opportunities to maximise benefits and minimise disbenefits from growth in Central Lancashire and Blackpool.

The assessment process has been as follows:

- Desk-based comparative assessment of Central and Pennine Lancashire economies and housing markets
- Dissemination and consultation with key stakeholders and professionals
- Identification of key issues, implications, opportunities and recommendations
- Reporting

Two briefing papers were produced in December 2009 which compared and assessed the economic housing market performance of Central and Pennine Lancashire over the last decade, as well as seeking to quantify and qualify the key assets and opportunities going forward.

At that time, a considerable amount of uncertainty surrounded the deliverability and timing of both employment and housing land. In fact, production of the initial briefing papers and subsequent consultations coincided with a fuller appreciation of the impacts of the financial crisis and a corresponding pause in planning and delivery momentum whilst deliverability is addressed at the local and sub area level.

Accordingly, the original focus of the study has shifted from almost exclusive attention on the impact of the Growth Point, to encompass the impact of recession on Pennine Lancashire’s plans for renewal and growth, its relationship with Central Lancashire and the adjacent city regions.

The recession has fundamentally changed the dynamics of both sub areas and its fallout has effectively eclipsed the Growth Point programme of development. Plans remain in place for the sustainable growth of Central and Pennine Lancashire, but it is becoming increasingly apparent that the accelerated housing provision envisaged will not be realised under current conditions.
1.2 About this Report

The purpose of this report is to present the key issues, implications, and recommendations arising from our analysis of Central Lancashire's and Pennine Lancashire's respective economies and housing markets, including consultations with stakeholders and professionals.

As discussed, the critical issue is the impact of the recession on both areas and moreover, the impact on housing supply, given the fundamental change in development viability dynamics being observed across the UK.

Whilst the impact on housing delivery is most readily observable, for the same fundamental reasons new commercial schemes also face uncertainty. However in respect of the recession, this report focuses on the impact on housing supply.

Pennine Lancashire's approach to market progression and Central Lancashire's drive to sustain economic growth will be impaired by the viability or deliverability of its housing land supply. Accordingly, both areas will need to revise their respective strategies and housing trajectories, affording the opportunity for dialogue between the two areas, and to develop joint approaches as and where appropriate. This report is intended to support such processes by supplying the following:

- Key findings in respect of the comparative analysis of past trends
- The impact of the financial crisis, recession and its legacy
- Implications and recommendations

The remainder of this introduction provides a brief overview of the conditions that led up to the credit crunch and the key monetary policies that were then put in place.

1.3 Prelude to the Financial Crisis

The boom in the housing market over the last decade was underpinned by a corresponding period of cheap and easy credit. Low interest rates and the availability of debt finance on benign terms fuelled economic growth, rising employment, wage inflation, housing development, house buying and house price inflation – albeit that housing supply never threatened to meet demand. Indeed, effective demand, swelled by the availability of credit, helped sustain upward pressures on prices at least until mid 2007 when the first cracks began to appear in the US sub prime market.

The five years between 2003 and 2007 saw affordability ripple out from the traditional hot spots, even into areas of low demand in the midlands and north of England as speculative investors, many new to the property market, ventured into emerging markets in search of a spectacular return on investment.

Such were the levels of confidence, that speculative development of city living apartment schemes across long neglected residential markets took place, with the public sector shouldering part of the
risk in many early schemes. Whilst the desire was to see owner occupiers take up residence, a buoyant property market that was out performing the stock market saw investors snapping up discounted units off plan and a new breed of buy to let investor was born.

This unintended and unforeseen outcome then drove city centre residential development pipelines forward. It provided a quick return for the developer, satisfied the bank lending on the scheme and represented a sound investment for the buyer. But it all relied on the availability of credit which was inflating values. When the credit stopped, the bubble burst.

The impact of the credit crunch on the UK housing market was significant and in the summer of 2007 it underwent a sharp downturn. In direct response to the collapse in the US sub-prime lending market, the UK financial lenders started to apply restrictions to UK borrowers with poor credit histories, which in turn led to a restriction on the availability of mortgage funds.

This move saw a significant drop in the number of mortgage products on offer from 13,027 in August 2007 to just 3,748 a year later. By January 2009 the number of mortgages approved was half the amount that had taken place in January 2008. The position has since recovered so that in November 2009, 53,000 loans for house purchase were approved, but it has remained flat since July 2009 and whilst the November figure is some 20,000 more than in November 2008, it is still about 25,000 fewer approvals than in November 2007.

1.3.1 Interest rates and quantitative easing

The last decade can be characterised as a period of relatively low and stable interest rates, providing the conditions to reduce the effective price of loans and mortgages. As the UK's central bank, the Bank of England sets the price of money using official interest rates to regulate the economy. The Bank Rate radiates out into the economy and affects the cost of loans to developers, the cost of mortgages to households and the return on savings.

In March 2009, as the recession took a firm hold, the Bank Rate was reduced to an unprecedented low of 0.5% in an ongoing bid to stimulate lending in the wake of the credit crunch. However this action alone failed to make an impact, so in March 2009, at the point when interest rates had effectively reach zero, quantitative easing was introduced as a further stimulus.

At the time of writing, the Bank Rate had remained at 0.5% for 12 months (at the time of writing the next Monetary Policy Committee (MPC) meeting was scheduled for 5 March 2010). Over the same period, £200bn worth of asset purchases have been made by the Bank of England, effectively by increasing the credit in its own account by the same amount and so creating 'new money'.

The measure of the success of the MPC in both governing the Bank Rate and now quantitative easing is how effective the measures are in maintaining low inflation and meeting the government's

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1 The Credit Crunch and Regeneration: Impact and Implications, An independent Report to CLG, January 2009
stated inflation target of 2%. Since upward pressures are now evident, the likelihood is that the base rate will rise over 2010 and beyond.

1.3.1.1 Availability of Finance

The process of repairing balance sheets, decimated by exposure to toxic debts and write downs, is ongoing. Until there are clearer signs of growth, far more vibrant than the anaemic performance of Q4 2009, and greater certainty about how the budget deficit will be tackled and who by, it seems unlikely that lenders will wish to significantly re-enter markets that have any shadow of doubt about them.

Whilst the number of mortgage approvals is starting to grow again and lending criteria is softening, the market still retains its post credit crunch highly risk averse character, favouring relatively low loan to value ratios and so requiring big deposits.

There is clear evidence of the loan criteria softening, with the average standard variable mortgage marketed at about 4% at the end of 2009 (down from over 6% in 2008). 90% mortgages are on the market again, but they are not widely available and their interest costs are prohibitively high at up to 7%. This is significantly more than the interest costs associated with lower LTV products. A key ‘ask’ of the house building sector is the return and wide availability of a 90% mortgage for first time buyers in order to stimulate demand, but there is as yet no evidence of its imminent return.

Despite a year of historically low interest rates, quantitative easing and the unprecedented bank bail out, it is evident that lenders are neither prepared nor able to expand their operations as yet. This hesitation is linked to the considerable uncertainty surrounding both the state of the UK economy and that of the Eurozone, which is likely to take at least another 12 months to play out.

Lenders therefore are approaching with caution, steadily consolidating their position, but are still not out of the woods. There are concerns of a dip in the housing market in 2010, which to some extent explains a reluctance to increase LTV ratios in the event that prices are once again artificially inflated. Furthermore, there is uncertainty about how the massive public deficit will be addressed and by which political party, albeit that there is general understanding that spending will be reined back over the next parliamentary term and that public sector job cuts will follow.

This leads us to conclude that access to finance will be constrained for a number of years to come, in line with forecasts that predict housing market recovery from 2012 onwards. It is only after that point that we would expect mortgages to become more widely available.

However the memory of the credit crunch is likely to be engrained in the psyche of lenders for many years to come and, combined with better regulation, we are unlikely to see a return to profligate lending. Self-certification and 125% mortgages are therefore things of the past. Consequently, whilst we can expect that gradually LTVs and interest costs will reach a more affordable balance and become more widely available, we anticipate that long term, mortgage finance will be accessible to fewer households than was the case before 2007.
2.0 Key Findings of the Pennine and Central Lancashire Functional Markets Review

2.1 Overview of Past Trends

From the review of past trends, it is evident that Central Lancashire benefitted more than Pennine Lancashire from the favourable macro economic conditions that characterised most of the last decade. This is most readily observed in employment growth over the period and resonates through to work force skills, employment structure, occupational profile, and housing market performance.

Over the period, Central Lancashire has been more successful at modernising and ultimately growing its economy than Pennine Lancashire and to this end it has benefitted from both a stronger baseline position and greater accessibility, in particular the confluence of motorways and mainline rail ensuring shorter journey times to key regional and national markets and destinations.

Consequently, the housing markets of South Ribble and Chorley have broadly sustained strong price performance over the last decade, benefitting from their accessibility to the Manchester and Liverpool City Regions as well as Preston. As high quality and sought-after residential locations they have met the needs of mobile higher earning knowledge workers from these areas as well as wealthy retirees.

As the Central Lancashire administrative centre and transport hub, Preston has benefitted from its well-off catchment area and its relatively high-skilled labour pool. Whilst of itself the housing market is somewhat less desirable than its neighbours, the city has been able to develop a thriving service sector and attract investor interest in major new residential and commercial development, albeit that some of this development has now stalled.

The expansion of both the business and financial services sector and the public sector has driven a large absolute rise in Preston's total employment as well as high relative rises in employment for both South Ribble and Chorley. This has meant that employment across Central Lancashire increased by 25% between 1998 and 2007.

A decade of growth in Central Lancashire has strengthened its economy and housing markets to the extent that they are in a reasonably robust condition to face the austerity years that will follow the UK's longest and deepest recession since records began.

2.2 Pennine Lancashire Regeneration Rationale and Development

By contrast, the legacy of Pennine Lancashire's industrial past, the sheer scale (and subsequent decline) of manufacturing employment there, its vulnerability to international competition and its
relative isolation from regional and national markets combine to present more deep-rooted structural weaknesses that will inevitably take longer to address.

Accordingly, the accelerated growth that Central Lancashire experienced compares to a growth neutral position that Pennine Lancashire maintained, underpinning in 2007 the rationale for a Growth Point bid to maximise growth in Central Lancashire and the market progression model and accompanying inter-authority approach to stabilise, renew and ultimately grow Pennine Lancashire’s housing markets and economy.

Partners in Pennine Lancashire have long recognised the testing conditions that they face in restructuring the economy and housing markets and this is reflected firstly in the Elevate Pathfinder to tackle low demand within the urban areas of Blackburn with Darwen, Burnley, Pendle and Rossendale and more recently in the Pennine Lancashire place making partnership and accompanying Multi-Area Agreement.

The latter including investment in the capacity to manage and deliver major cross boundary strategic projects, the evolution of Elevate into Regenerate Pennine Lancashire and coordination across the policy, planning and economic development functions of the constituent local authorities.

As might be expected, there is a clear correlation between the structural issues alluded to here and the objectives of Pennine Lancashire's MAA which target an uplift in accessibility, jobs, skills and value added. It is these issues that have combined to weaken the sub area's appeal to private sector investment and aspirational households, requiring public sector investment to kick start the processes of renewal and ultimately growth.

To this end, intervention in both housing and economic markets has been a key feature of Pennine Lancashire over the last five to ten years and effectively put it on the regeneration map as a cohesive entity. However the long term nature of the planned turnaround, with the expectation of growth between 2016 and 2026, has meant that Pennine Lancashire was not able to fully capitalise on the favourable macro economic conditions that characterised the 'noughties'.

Pennine Lancashire’s uncommonly large manufacturing sector, whilst containing some notable strengths such as aerospace, also comprises a long uncompetitive tail. This part of the sector is characterised by a low- and semi-skilled workforce, employed in non-specialised production which makes a relatively strong contribution to value added, but which is terminally uncompetitive on the global stage.

Accordingly, between 1998 and 2007, manufacturing employment in Pennine Lancashire declined by more than 20,000 jobs, overshadowing the 8,000 jobs created in the public sector and 8,300 jobs created in business services and finance. Despite the decline in manufacturing, the sector employed nearly 25% of the workforce in 2007 and remains a key priority for intervention and a key opportunity in terms of local wealth creation.
2.2.1 Assets and Opportunities

Addressing productivity factors is the activity projected to make the single biggest contribution to wealth creation in Pennine Lancashire. The MAA calculates that this gap alone is worth £1.5bn, which is three-quarters of Pennine Lancashire’s output gap. Shifting the workforce up the skills and occupational scale and in turn increasing competitiveness and specialisation, alongside higher level of private sector investment is identified as fundamental to bridging the productivity performance gap.

This is the case for all sectors represented in the sub area, including the visitor economy, the nascent financial and business services sector and the public sector, but especially the manufacturing sector, because of its relative size and greater value added potential.

In terms of creating the right physical offer for business, Pennine Lancashire has identified a number of strategic and prestige sites about which the economy can be restructured and grown. These include the Blackburn Knowledge Zone, the 80 acre Whitebirk employment site in Hyndburn east of Blackburn at junction 6 of the M65 and the 70 acre Burnley Bridge brownfield site in Burnley at junction 9 of the M65.

In addition Samlesbury, situated on the boundary of South Ribble and Ribble Valley near Blackburn presents an existing and expanding modern aerospace manufacturing and assembly facility. BAE has investing in new plant and facilities to support its latest aircraft programmes and have been supported by NWDA who have invested in infrastructure works to improve access to the site.

The significance of BAE Systems site at Samlesbury extends to its supply chain, much of which is based in the North West and indeed Lancashire. In 2009, three out of the four companies selected as suppliers to the aircraft programme were Lancashire based, one being based near Accrington, another at Bamber Bridge and the third at Blackpool. This illustrates the significance of the County as a whole to the manufacturing sector and presents a key area for cooperation between Central and Pennine Lancashire.

At the same time as investing in the physical offer, public sector investment is being sought through the MAA to improve rail and road access to Preston, Manchester and Leeds, to support improved access and shorter journey times to markets for Pennine Lancashire businesses and commuters into the major conurbations of Manchester and Leeds.

Key routes include the Clitheroe to Manchester line to improve rail services and journey times from Blackburn and Darwen through to Manchester; the reinstatement of the Todmorden Curve to secure shorter journey times from Burnley to Manchester via a direct rail service; the M65 to relieve congestion between junctions 5 and 9; and the A56 Villages Bypass scheme from the M56 at Colne through to the A59 to improve access to North and West Yorkshire.

As well as their benefit to trade, such improvements are intended to elevate the attractiveness of new residential development in Pennine Lancashire to knowledge workers; that is those
households with high incomes whose residential search radius extends furthest from their place of work. Manchester, Leeds and Preston are particular targets in this respect. These groups are intended to be attracted by the high amenity value that Pennine Lancashire has the latent capacity to supply, including thriving town centres, good schools and a desirable residential offer.

2.2.2 Housing Market Renewal

In terms of housing market intervention, Pennine Lancashire has focussed its attention on the inner urban areas of Blackburn, Darwen, Accrington, Church, Clayton-le-Moors, Brierfield, Nelson, Colne, Bacup and Stacksteads, and the process of market renewal initiated by Elevate. These were, by definition, low value, and low demand areas due to the predominant type and condition of the properties. Affording limited choice and quality they effectively filtered out aspirational households, initiating a process of polarisation and eroded the vitality of the towns that they serve, undermining their attractiveness as places to live, weakening their labour markets and threatening the viability of Pennine Lancashire as whole.

Such housing markets need to be developed through phases that reflect their capacity to attract and provide for particular markets. For example by initially targeting first time buyers with a competitive starter home offer; then providing access to the first rungs of a reinvigorated open housing market ladder and supplying a wider choice of dwelling types and tenures alongside the necessary infrastructure/amenity improvements.

This approach is fundamental to the market progression model that underpins the MAA. In essence, it seeks to match the housing market offer with the capacity of the market and the evolution of the economy over time. Critically the housing market has to keep pace with changes in the socio economic structure and vice versa. This means progressively raising the housing market offer over time. Therefore in the latter stages we would, for example, expect to see the development of detached family homes with gardens and garages to feature more prominently.

2.2.3 Retaining and Attracting Knowledge Workers

This implies that the spatial focus will also change over time, for example outwards from the inner areas into more suburban or fringe locations that afford suitable land as the market progresses. That is not to say that existing prime areas will be entirely held back until the market as a whole moves forward, rather that the overall market balance will be addressed according to the market progression model.

Indeed, it will be important for a measure of development to keep pace with market progression throughout Pennine Lancashire. The growth of Manchester and Central Lancashire, whose economies are relatively more advanced, will continue to generate demand for attractive locations in Pennine Lancashire, particularly if more the area benefits from shorter journey times and better transport services as a result of the MAA.

Such places include, in Ribble Valley, the high value residential corridor, bisected by the A59, between Blackburn/Burnley and the area of outstanding natural beauty (AONB) serving Blackburn,
Burnley, Preston and further afield. Other sought-after residential locations are found at Barrowford in Pendle and Rawtenstall in Rossendale for example. Land at the fringes of Blackburn and Darwen have also been identified as possible urban extensions/attractive areas suitable for high quality executive housing. Such sites will also meet the growing local need for such a product under MPM, and will also support the vitality of the sub areas main towns.

The time critical nature of market progression, combined with the fragile state of what is (at least initially) a pathfinder focused housing market presents a significant challenge. Such markets have proven to be at the limits of viability, even in a favourable macro economic context with equally benign funding and lending conditions.

2.3 Central Lancashire and Blackpool Growth Point

This underlying fragility explains why the prospect of RSS plus housing growth to 2017 Central Lancashire caused concern. This originated from the disputable standpoint that both areas can only tap into a finite level of demand. If this was the case, Growth Point driven ‘plan plus’ supply in Central Lancashire would erode demand and in turn switch off supply in Pennine Lancashire – effectively choking off market progression there, before it has a chance to take root.

In the event, it is now unlikely that the level of housing supply envisaged by the Central Lancashire and Blackpool Growth Point will be achieved between now and 2017, and nor will annual RSS targets for Central Lancashire be met until after 2013. The latest estimated housing supply trajectory is as per figure 2.1 overleaf, which has been arrived at following a recent ‘deliverability’ review of the sub areas 15 year strategic housing land supply.

The root of such a pessimistic outlook is the financial crisis of 2007/8, the short to medium term implications of which are now starting to become clear. The crisis and its impact on the housing market are considered in the following section. Notwithstanding the crisis, it worth noting that there is no hard evidence of past growth in Central Lancashire and the corresponding vitality of its housing markets adversely impacting upon Pennine Lancashire; whereas it is clear that their contrasting economic fortunes have, independently of each other, shaped the current respective housing market positions.
Figure 2.1

Central Lancashire SHLAA Brownfield/Greenfield Split (does not include 'suitable but with policy restrictions')

![Graph showing housing completions per year from 09/10 to 23/24.
- Joint Central Lancashire Greenfield SHLAA sites
- Joint Central Lancashire Brownfield SHLAA sites
- Central Lancashire Growth Point
- RSS annual target including undersupply]
2.4 The Functional Relationship between Central and Pennine Lancashire

Despite their proximity and principal linkage via rail and the M65, there is only limited interaction between the two sub areas. This is evident from census based commuting patterns and more recently, through annual migration patterns between 2004 and 2008.

The latter coincides with a period of substantial economic growth in Central Lancashire as opposed to a period of restructuring in Pennine Lancashire that effectively resulted in 'net neutral' growth. As such, this period should also provide an indication of the push pull relationship. From the evidence, the pull from Central Lancashire has been relatively weak, accounting for about 80 net household movements from Pennine to Central Lancashire each year, which is about 13% of Pennine Lancashire's total net annual outflow.

Of greater significance is the beneficial relationships that both sub areas have with the rest of the North West, albeit that in Pennine Lancashire's case it is in the context of total net outflows whereas in Central Lancashire it is in the context of total net inflows. Rossendale receives some 1,500 households from the fringes of Greater Manchester each year, accounting for most of Pennine Lancashire's annual net intake of some 400 households from the rest of the North West1.

Similarly, Chorley drives Central Lancashire's annual net intake of over 400 households from the Manchester and Liverpool City Regions. More significantly, gross flows between both sub areas the North West's principal city regions account for over 20% of gross annual household flows, making them second only to flows within each sub areas constituent authorities, that define about 40% self containment in Pennine Lancashire and about 30% self containment in Central Lancashire between 2004 and 2008.

In order of significance, the 'top 5' hierarchy of Pennine Lancashire's links with other areas based are as follows:

- Rest of the North West (principally Manchester City Region) 21%
- Rest of England 13%
- Yorkshire and Humber (Leeds/Bradford influence) 9%
- Central Lancashire 7%
- Rest of Lancashire 5%

For Central Lancashire the position is as follows:

- Rest of the North West (Manchester and Liverpool City Region) 22%
- Rest of England 17%
- Rest of Lancashire 11%
- Pennine Lancashire 9%
- Yorkshire and Humber 6%

1 Excluding Lancashire
The above analysis highlights the far greater significance of Manchester in particular compared to that of Central Lancashire. Whilst dated, analysis of census based travel to work flows reflects the migration based analysis. In particular the relationship between the fringes of both Central Lancashire and Pennine Lancashire and the adjacent districts of Greater Manchester. In contrast there are no significant flows\(^1\) between Pennine Lancashire and Central Lancashire, with the exception of Ribble Valley into Preston.

As is the case with migration based analysis, the travel to work analysis reveals the relatively higher level of containment in Pennine Lancashire, compared to Central Lancashire. A key feature of Central Lancashire is that even in 2001 Preston imported a high proportion (60%) of its knowledge workers from its near neighbours, including it is fair to assume, Ribble Valley, but not to as significant a degree as South Ribble and Chorley.

The growth of Central Lancashire's economy since that time, which has outstripped the growth rate for that of the North West as a whole, has been a clear pull factor. This has resulted in annual net in-migration to the sub area over the last 5 years, albeit that it adds less than 0.2% to the population each year. More significantly it exhibits an especially weak relationship with Pennine Lancashire, leading to the conclusion that Pennine Lancashire has not been able to capitalise on its neighbour's growth – a missed opportunity.

2.4.1 Implications going forward

In terms of Pennine Lancashire aspirations, connecting more effectively with neighbouring, buoyant, functional markets represents a key area for action. As well as seeking to generate beneficial links with Preston, the far greater scale, absolute and relative growth of Manchester City Region makes it a key target, and for the east of the sub area, the same applies in respect of the Leeds City Region.

Clearly the objective is both to anchor growth locally while at the same time connecting with wider opportunity. South Ribble and Chorley are perhaps a good model for this, with significant travel to work flows both into Preston and into the two major conurbations of the North West facilitated by the relatively high proportion of residents employed in high skilled/knowledge occupations.

Such households are able to absorb the costs of commuting further, can afford greater choice in the open housing market than their lower skilled counterparts and accordingly have the greatest mobility. Paradoxically, shifting Pennine Lancashire up the skills and occupational scale will subject its labour pool to greater competition or pull from outside the sub area.

However, if these aims can be achieved in line with the growth of added value occupations in the main towns, and combined with the more favourable housing market conditions that this will engender (alongside the unique and inherent qualities of the area), such potential losses will be offset by equivalent gains.

\(^1\) Amounting to 5% or more of the resident population
As, for example, Blackburn becomes a more successful attractor, offering a greater proportion of well paid employment opportunities, it will become more successful at graduate retention, attract graduate trainees into its firms and so forth.

2.4.2 City Region Considerations

From a Lancashire or Central Lancashire City Region perspective, this prospect offers considerable advantages, not least of which would be a more competitive economy and housing markets. Greater mobility between the constituent areas will stimulate demand and ultimately generate more choice across a wider range of quality and distinctive residential locations.

In turn this will increase the wider sub region’s attractiveness to households working in the adjacent conurbations of Liverpool, Manchester and Leeds. In combination, Central and Pennine Lancashire would be a more competitive entity, distinguished by its unique combination of business sectors, quality and diverse residential offer and varied environmental assets.

Notwithstanding the ongoing need to prioritise fragile economic and housing markets for intervention and the need to use the planning system to manage growth and development so that it is appropriate and sustainable, the key to unlocking Pennine Lancashire’s potential is to open it up to greater interaction and competition by developing a more competitive and inherently distinctive offer there.

This is perhaps self evident, but is distinct from seeking to constrain sustainable growth elsewhere, effectively until Pennine Lancashire catches up. In our view, this is a false premise. As a general principal, the pattern of flows suggests that the beneficiaries of such an approach would be the adjacent conurbations and other parts of the UK, whilst Lancashire/ Central Lancashire City Region would be constrained by a cap on growth, undermining the competitiveness of both Central and Pennine Lancashire.

This point is made in the context of how growth across the City Region/Lancashire could ideally be managed, that is within its capacity for sustainable economic growth, and also reflects our understanding and observations of the Central Lancashire approach to managing the Growth Point programme of development.

2.4.3 Growth Point Composition and Rationale

It should be noted that the identified Growth Point supply arises from the sub areas available strategic housing land and in this respect it is indistinguishable from the supply which will deliver against RSS targets. It is, quite literally, quicker development of the same sites, reflecting upgraded forecasts of demand arising substantially from economic growth potential. Accordingly,

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1 As defined in the current RSS for the North West and comprising Central and Pennine Lancashire alongside Blackpool, Fylde and Wyre
2 by which we mean increased housing supply and essential associated infrastructure in line with economic growth with core functional market areas
some sites that were already at an advance stage of planning in 2007 are corralled under Growth Point (for example the new urban village at Buckshaw.)

Moreover, the Growth Point locations in their entirety could be delivered within RSS determined levels, through a combination of phasing over an extended period, prioritising them ahead of other sites and or swapping for example.

The Growth Point sites are situated along the built up spine of Central Lancashire, exploiting a number of sizeable brownfield sites situated in readily accessible, potentially viable and sustainable locations. Such sites are clearly orientated towards the economic growth potential of Preston and its catalytic impact on the sub area.

As is the case with the urbanised area at present, the Growth Point is buffered from adjoining areas by both physical barriers such as the M6/M61 motorway alignment and a swath of countryside and parishes.

The purpose of the Growth Point sites is to deliver a suitable supply of affordable and open market housing alongside infrastructure, including new schools and services, in order to meet the needs of employers at all points on the occupational spectrum in a manageable way and in turn meet local household growth. A significant need for affordable/low cost market housing has been identified relating to employment growth in administrative occupations arising from the business and financial services sector for example.

This feature has also been identified in the Leeds and Manchester city regions where the service sector is understood to generate a roughly equal number of jobs at the administrative end of the occupational spectrum to those at the technical and professional end, which is expected to result in a trend towards income polarisation amongst the economically active.

The Growth Point sites add to a relatively high concentration of residential and employment land and have been proposed alongside the development of key employment areas at the city centre and the Cuerden regional investment site for example. As is the case in Pennine Lancashire, the target is value added, through the growth of financial and business services and advanced manufacturing.

Although comprising over 70 individual sites with a theoretical capacity per site ranging from 15 and over 1000 dwellings, the principal development locations from north to south are at Cottam to the north west of Preston, Preston city Centre, around the Leyland and Moss Side sites at Leyland and at Buckshaw between Chorley and Leyland. These locations account for the greater part of potential or latent Growth Point supply and include plans for about 1,500 apartments (subject to their deliverability).

2.4.4 Growth Point Delivery

Within the parameters set by current planning policy and the emerging LDF, the actual scale and pace of development is being determined by a number of interrelated factors, which effectively act
as a safeguard against over or unsustainable supply and are over above the necessity for individual site viability. The guiding principals for managing sustainable housing growth within the Central Lancashire economic footprint can be summarised as follows:

- To maintain and indeed enhance the inherent attractiveness of the sub areas housing markets, and sticking to the ethos as 'a place to breathe'
- To support projected (critically tested and periodic reviewed) natural and economic growth, alongside addressing ongoing need
- The need to keep pace with and operate within the capacity of key services and infrastructure both now and taking account of their potential to be grown in the future (for which the Growth Point affords limited funding)
- To respond to unforeseen circumstances

Accordingly, whilst it is clear that Central Lancashire has a significant latent supply of housing land, there is clear ambition to carefully manage the pipeline of residential development so that the market remains buoyant and balanced, is able to more effectively meet ongoing need/demand and remains within the capacity of local and sub area services and infrastructure. This should provide an effective check on unfettered housing growth. The latter point – unforeseen circumstances – applies to the shock of the financial crisis, which effectively brought development to a shuddering halt and is likely to have permanently changed the world of finance in general and lending in particular. The following section considers this in more detail.
3.0 Impact of Recession on the Housebuilding Sector

As discussed in the introduction, the global financial crisis and the downturn in the world economy has led to a significant downturn in the UK housing market, which has been evident since the summer of 2007.

At the national level the economic downturn has affected all aspects of the housing market, including the public and private sectors, the major urban areas and rural communities. A review of recent relevant literature has reveals that:

• A collapse in the city centre apartment market which had reached (and some would argue exceeded) saturation before the current downturn has occurred in many cities such as Leeds, Manchester, Birmingham and Liverpool. Given the significant drop in values and the squeeze on financing for speculative led developments, the extent to which this market will recover, either in part or whole must be questioned, particularly when considering the contribution that the number of city centre units has made toward the achievement of overall RSS housing numbers.

• A significant slowdown in private development and investment across all tenures. It should be noted that this factor is not solely restricted to housing for sale, but is also impacting upon major regeneration schemes in predominately public housing areas.

• Impact on the top end of the market, which in previous recessions has been relatively resilient in past times of difficulty; however, because this downturn has impacted on the banking and financial services sector that resilience is significantly reduced. This is likely to have implications for both Central and Pennine Lancashire, where job losses are anticipated in the financial service sector. Whilst historic evidence shows that this group is more likely to re-enter employment, retrain and broaden their work search (locations and types of work) there is a crisis of confidence and uncertainty that will impact on new mortgage transactions (including remortgaging), sales transactions and home improvements.

"Housing and the Credit Crunch", a report published in February 2009 by the House of Commons, noted that the government is unlikely to meet the ambitious housing targets set out in its Green Paper. Nonetheless, the report strongly advocates retention of those targets because they continue to reflect levels of need and demand. The report advocates that the target for new social rented homes should be increased.

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1 Vulnerable Places in the North identified by Government Offices for the Northern Regions, Source CLG.
2 House of Commons Communities and Local Government Committee, 2009. Housing and the Credit Crunch: The Third Report of Session 2008-09 - HC101. Published by The Stationery Office
3 DCLG, July 2007. Homes for the Future; more affordable, more sustainable. Published by Crown 2007
Parkinson et al (2009) in "The Credit Crunch and Regeneration: Impact and Implications" see the financial crisis as impacting on a financial model that has underpinned regeneration in recent years and argue that pressure on the sector is likely to get more intense. They conclude that the impact is mixed. Many projects already underway are continuing especially where the public sector is involved, although some have slowed, stalled or reviewed their position. Projects yet to begin are at risk. Economically marginal projects are increasingly less attractive and the North and Midlands have been affected more than the South East.

Most commentators initially predicted a recovery in the market, possibly to and above 2007 house price levels within the next 5 years; however, subsequent debate has not only questioned how long it could take the market to recover to 2007, but whether the market will recover to this level at all. In July 2008, Sir James Crosby predicted that the shortage in mortgage finance would persist throughout 2008, 2009 and 2010. Research from Capital Economics, completed in February 2009, suggests that lending volumes had “found a floor”. However, they also state that “a significant recovery in mortgage lending is unlikely before 2010”.

There have been some positive signs of short term improvements to the housing market. Recent data from the Bank of England suggest that mortgage approvals for home purchases increased in September 2009 by 6%, which is their highest level since March 2008. Data from Hometrack has also suggested that the average number of weeks that a property is on the market before it sells has fallen from 12 weeks to approximately 8.5 weeks. A number of factors have led to an increase in sales over the duration of 2009, these include an increasing consumer confidence in house prices believing that prices will increase more over the next 6 months.

However, there is a possibility that the recent rise in house prices could have been fuelled by a combination of equity rich buyers, declining interest rates and a paucity of second hand supply. In addition, although house prices may have risen over recent months the volume of sales and start of new homes are below levels which can be typically associated with a market recovery. In the medium term there are significant risks to market recovery for example, rising unemployment, repayment of Government borrowing, low earning growth, an increase in interest rates and increased regulation of the mortgage market.

The lower end of the residential market is always most adversely affected by economic downturns, especially the current and expected rises in unemployment and increase in the number of workers operating to shorter working weeks. It is this market where access to credit is most difficult and

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4 Mortgage Approvals for Homes purchases, Bank of England, 2009
5 Hometrack National Housing Market Survey available at [http://www.hometrack.co.uk](http://www.hometrack.co.uk) (accessed online January 2010)
6 Nationwide Consumer Confidence Survey, Nationwide Building Society, 2009
costly (relative to money borrowed) and where re-possessions are highest. Going forward, even when mortgage funding is restored, more stringent terms will limit effective demand from investment buyers, first time buyers, and those on lower incomes.

The over-riding consensus amongst commentators is, however, that the contraction of the construction and developer sector will take some time to re-adjust once an economic recovery period is underway. This could result in a slower recovery than may have been anticipated. There is also a danger that when the market starts to recover, there will be a further increase in the gap between housing supply and demand, raising prices even higher\(^1\) (primarily because levels of capacity within the construction sector to develop new homes may be restricted and latent demand will exceed supply).

In considering the future levels of development, what is clear is that the level of public funding available for regeneration and housing will be dramatically scaled back. Britain will be carrying high levels of public sector debt for the foreseeable future, resulting in a much lower budget available – around 50% lower than present – for capital investment from 2011 (This is likely to last a full parliamentary term regardless of which party is in power post General Election). This will mean that fewer capital resources will be available for investment in housing and regeneration schemes. In addition, the RDAs have had to re-focus their budgets towards business support with less for physical regeneration and community development. The Homes and Communities Agency (HCA) and other key agencies will also be facing budgetary constraints in the future.

3.1.1 Residential Land Values and Trends

There is a strong correlation between house prices and land values; however changes in land values are more volatile than house prices. Prior to the credit crunch and the subsequent downturn, the continued strong activity within the domestic housing market alongside a general shortage of supply, resulted in strong demand for residential land. Following the credit crunch, residential land values have reduced substantially and as a result many landowners are holding onto sites until values start to increase. House builders have reduced their land acquisition programmes with some having stopped completely or actively seeking land disposal as a means of releasing capital.

In order to reduce their exposure to the declining market, developers are making efforts to concentrate on existing developments and re-working planning applications to build more traditional schemes which have most appeal to buyers. The situation is much worse for city centre development schemes which have large elements of apartments and where demand was driven by the investor and buy to let market. The current state of the construction industry and the lag on house building activity will impact upon the ability to deliver future RSS numbers.

\(^1\) House of Commons Communities and Local Government Committee, 2009. *Housing and the Credit Crunch: The Third Report of Session 2008-09 - HC101*. Published by The Stationery Office
### 3.2 Implications for House Building Activity

There is significant uncertainty over the supply of housing especially in an era of falling land values and house sales, as well as a drop in housing starts and completions. The speed of house building post economic recovery will depend upon the ability of the house building sector to recover and restore to its previous capacity.

The consultations that were held with representatives of the development sector revealed that following the previous recessions in the 1980s and 1990s, the major house builders were quick to recover and able to return to previous high levels of production within a period of two years. Where the smaller / independent builders or speculative developers have either already or are more likely to cease to trade.

Despite the findings of the Calcutt Review\(^1\), which in 2007 suggested that the housebuilding sector could meet the longer-term house building targets, it is difficult to predict when and if housebuilding will return to former levels with any great certainty. Given that some housebuilders have contracted their operations some stakeholders feel that many of the skills within the industry will be lost.

What was clear from the consultations that were undertaken is that the housing building industry is understandably cautious. During 2009, there were signs that some housebuilders were showing signs of recovery. Over the past 18 months many organisations have refinanced and consolidated and are now actively seeking land.

However, there is real pressure upon them to seek sites that can be quickly developed and sold on. There is an interest for small sites (less than 5 acres), to develop traditional family housing in strong locations, which have existing planning allocations and can be developed out in the short term (2-3 years).

There is clearly no appetite to develop apartments. Some schemes have been mothballed as the banks have withdrawn financing. The Buy-to Let Market could be said to have been the surrogate for effective demand in the city centre and supplied a proportion of pre-development sales and leveraged bank funding. Outside of London, there is still no sign of a successor as the build to let market has little appeal to investors, although the latest commentary from Savills suggests investor interest in the private rented sector is growing.

### 3.3 Assessment of the ability of housebuilders to return to post 2007 levels of activity

Depending upon who you speak to there are differing views about what factors are constraining the supply of new housing. For example, some commentators feel that there is an adequate land supply available where as some feel that the supply of land is not in the right place to match

\(^1\) Less Could Mean More: Streamlining the Development Process to achieve better Results. The Calcutt Review of House Building Delivery, J Calcutt, 2007
demand. There is also a strong view amongst developers that there is too much emphasis on brownfield land allocation, which is high risk and costly to develop (particularly in the current climate) and a lack of greenfield and easily developable sites in the more sought after locations. Another factor, which some commentators feel has impacted upon the supply of new housing, is the business model adopted by the house building industry, whereby the construction industry restricted the level of supply to gain profit from inflated land values.

However, there is a general agreement across all sectors that the availability of finance is affecting the housebuilding sector’s ability to develop housing. Consultations have revealed that despite an upturn in the housing market (particularly the second hand market) and an increase in land values over 2009, the availability of finance is a key constraint affecting the development of new housing supply. This contraction of finance has impacted upon the completion of many schemes, particularly the large regeneration-led schemes and city centre apartment developments in both the North West and Yorkshire.

Current borrowing levels are in the region of 5 and 7%, therefore developers are seeking a 20-25% profit on the overall gross development value, well above the level that preceded the financial crisis, and which reflects the current lending requirements from the banks.

For activity to return to its former levels, it is clear that there will need to be a fundamental change to how schemes are financed. Some sources\(^1\) claim that the housing business models that underpinned the housing boom during the 1990s (i.e. increased provision of city centre apartments at the expense of more family type housing and related infrastructure), will not work this time round, and that the current financial crisis has only served to underline the weakness of such models.

The current credit restrictions imposed upon many borrowers (i.e. housing developers) and the reliance on constrained public sector funding will require a radical rethink of the business models used to deliver housing development and the need to move away from more traditional models. What has been witnessed particularly with regards to some key regeneration projects is the shift from short to long term financing methods with a greater level of equity sharing between the public and private sector\(^2\).

### 3.4 Post Recovery Housing Market Prospects

The long-term prospects facing the housing market are difficult to forecast, given the ever-changing nature of the economic picture and the severity of the recession. In addition, the financial institutions will take some time to recover and will take a more cautious approach to lending.

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Taking into account these factors, it is not possible to comment on the likely long-term recovery of the region’s house building and whether this will achieve 2007 levels and beyond.

As previously stated there is a general consensus that the economy and the housing market could take up to 5 years to recover to levels seen in 2007. Previous research\(^1\) is of the view that at both the national and regional level it could be 2013 before the housing markets starts to show signs of recovery and 2014 before moderate growth is witnessed. More recently, Savills\(^2\) anticipates that inflation adjusted house price growth will be in the region of 40% to 45% over the next 10 years, that is 20% to 30% lower than over the last 10 years. They go on to comment that this decade’s average will mask quite significant variations across different sectors of the market, possible the biggest legacy of the noughties.

Furthermore, Savills is sticking to its prediction for a ‘double dip’, that is prices falling again in 2010 as they did in 2008. The North West is forecast to house price inflation of -6.7% in 2010, 1.7% in 2011, 2.6% in 2012, 6.3% in 2013 and 4.8% in 2014. Prime regional markets are expected to suffer less of a decline in 2010 (-1%), returning to strong growth thereafter.

The double dip in house prices reflects what many commentators feel may happen to UK economic growth, particularly in the light of increasing concern over public sector net debt, which stood at £870bn or 62% of GDP as at December 2009, and the latest (February 2010) estimate of consumer debt at £1.46tn, up from £700bn in 2003.

The current housing market and economic conditions will make it difficult to deliver against regional RSS targets in the foreseeable future. What is clear from the evidence that has been gathered is that in order for the sub region to stimulate housing growth there will need to be a strategic change in the way that housing is delivered.

- The current models used to deliver housing will need to change. The provision of high density developments has played a key role in achieving high housing completions. However, there is no longer an appetite for speculative high density developments other than demand from niche market such retirement homes. It is unlikely that the city centre apartment market will return to previous levels of development and this will need to be factored in to current planning permissions and site allocations. A new model for providing lower density urban developments will need to be considered.

- The recession has created changes in development models in particular the shift from short term to long term financing methods and a greater level of equity share between the public and private sector. The delivery of housing –led regeneration schemes and related infrastructure will require increasing public sector subsidy as current land values make it unprofitable for the private sector to deliver such schemes.

\(^2\) Savills Residential Property Focus, February 2010
• It is clear that there is no single approach to developing a new model. However, it is clear that previous model adopted by the house building industry, whereby the supply is restricted to gain inflated land values, will fail to deliver the level of supply required. A new model which does not rely on increasing land values needs to be sought. However, it is likely that any new models for intervention will require more public funding which is already facing increasing strain on resources.

• One developer suggested that the profits from greenfield land developments could be ploughed back into the development of more unviable sites (i.e. brownfield/regeneration sites) however this would rely on more greenfield land allocations which would go against the underlying principles of the RSS and the need to create more sustainable communities. Alternatively, it has been suggested that developers should adapt their business models to one that achieves a 15-20% return and look to gain capture value later in the process. The development of such a model would require a reduced profit return from the lending institutions, which is currently 20-25% of GDV.

The sub region’s local authorities may have to reconsider the future deliverability of their planning pipeline and land supply in light of the viability of high density and regeneration linked housing schemes.
4.0 Overall Impacts, Implications and Recommendations

4.1 Conclusions

4.1.1 Neutral Growth Point Impact

The financial crisis of 2007 to 2008, ensuing recession and a radically altered development landscape have eclipsed the thorny issue of 'RSS plus' Growth Point housing supply to 2017 in Central Lancashire and it now apparent that Growth Point targets will not be reached. In terms of managing housing growth, the big issue is now ramping supply back from historically low completion rates during 2009, in the face of significant viability constraints across city/town centre and inner core markets.

In any event, housing numbers in Central Lancashire do not themselves present a problem, provided that they are managed within the bounds of what the functional market and the public sector can sustain, and the evidence suggests that there are checks in place to ensure that a situation of oversupply doesn’t arise. For Central Lancashire, the drawbacks of oversupply would far outweigh any benefits to what is essentially a buoyant and well balanced housing market area.

4.1.2 Key Priorities for Pennine Lancashire

Our analysis shows that the overwhelming constraint on Pennine Lancashire market progression is the sub area's own structural weaknesses, most particularly in respect of value added and the workforce productivity gap articulated in the MAA. The key issue for Pennine Lancashire therefore, is to be more competitive in its own right by continuing to develop its people and places. In this way, it will become more attractive as a residential location of choice for people working in the neighbouring major conurbations of Leeds and especially Manchester, with whom significant links already exist, albeit that they are restricted to the fringes of both economic areas at present.

In addition, it will be in a stronger position to grow its own economy, particularly at the high value end such as in advanced manufacturing and aerospace where it already has a strong foothold both in terms of existing businesses, premises, strategic and prestige developments. Ultimately, the sub area will then become both more successful at retaining and attracting aspirational households, and more resilient in the face of boom and bust – a feature of long run economic growth that clearly has not been dispelled. However, it will now have to do so in the context of its current position relative to the more resilient economies of the neighbouring conurbations of Manchester and Leeds.

4.1.3 Aftermath of the Recession

The recent recession is distinctive by virtue not just of its depth and duration, but its wide ranging impact. In the North West as a whole, job losses have been experienced in manufacturing, construction and unlike previous recessions, business and financial services. Given their
respective sectoral structures, both Central and Pennine Lancashire will have been adversely affected. However it is generally recognised that the higher skilled an economic market is the more resilient it will be and faster it will rebound. The corollary of this point is that the divide between the least and most resilient economies is likely to increase over the short to medium term.

The impact on public sector jobs is likely to play out over a longer period. Tackling the budget deficit will be a priority of whichever political party wins the next election, and whilst 2010 is likely to be relatively insulated by spending commitments, 2011 onwards will usher a sustained period of austerity measures and in turn potential public sector job cuts. That being said, there is still a commitment from Whitehall to migrate civil service employment northwards, and austerity will provide extra impetus to what is ultimately a drive to reduce cost and increase efficiency. Accordingly, public sector relocations are likely to remain an opportunity for Pennine Lancashire post recession, albeit in the face of stiff competition from other areas.

Although unemployment has been less severe than expected, as the economy comes off the public spending life support system that it has benefitted from over the last 12 months and banks have to start repayments under the bank bail out, an aftershock of business closures and further unemployment could occur. This could mean that, for example, the worst effects on the financial and business services sector may have been deferred until this year (2009/10).

As the UK economy emerged from recession in Q4 2009, service sector performance continued to lag behind that of manufacturing. Thus far the recovery has been export led, UK manufacturing being helped by a weak Pound compared to both the Euro and the US Dollar. Notwithstanding the structural issues facing the sector in Pennine Lancashire, its manufacturing-heavy economy should be well placed to benefit.

As previously stated, the advanced manufacturing base is distributed across Lancashire, with both sub areas seeking to grow this sector, both sub areas tied into the same supply chains, both sub areas developing new assets to support it and so forth. This provides a clear basis for cooperation to grow the sector in a coordinated way, on the basis that cooperation will produce a combined impact greater than the sum of their separate effects.

Aside for the impacts on employment and economic growth, austerity measures are likely to act as a constraint on expanding public service provision at the local level. Local authorities will need to adopt ever more efficient ways of working to maintain standards, with less headroom for growth than was previously the case and reduced access to capital. It follows that this will act as a further safeguard against the prospect of oversupplying new build housing, in relation to the capacity of the market and places over time, as opposed to housing targets.

4.1.3.1 Key Impacts on Housing Market Progression

Whilst results and confidence are improving in the housebuilding sector, growth remains constrained by economic uncertainty, a lack of mortgage finance and political uncertainty. That being said, developers are actively seeking land across the region. After a period of relative inactivity, the pressure is on to find sites that can be developed now. As such, land agents are
seeking sites in the region of two to three acres and a resultant two to three year construction and sales period.

As a rule of thumb, anything over five acres that cannot be easily sub divided is unpopular as it locks in the developer for too long. Accordingly, the recovery, such as it is, is being led by small, low density sites and a fall back to traditional family homes. In this way, developers are able to realise the quickest possible return on investment.

Such an approach favours both low risk sites and low risk markets. This results in a search for sites with permission, services installed and without the encumbrance of remediation, the latter point making greenfield sites particularly attractive. Such searches are focused on the most resilient markets, such as about the major conurbations and prime markets of Ribble Valley and South Ribble for example. Over time, recovery is expected to ripple out from such areas, but for the short term at least, the emphasis is on viable permission sites. As Savills¹ have recently stressed "difficult to promote and infrastructure hungry sites are likely to bump along the ground for several years"

For existing permissions, a process of renegotiating planning consents is ongoing, to offset falls in gross development value through reductions in section 106 contribution and in altering the mix of house types away from flats and towards family housing. Where values are high enough for development to proceed, contributions to affordable housing and infrastructure are being reduced. Low value areas, typically inner urban brownfield sites, are most likely to no longer to be viable, with the exception of some schemes for whom funding was secure prior to the full impact of the financial crisis. Apartment schemes have been particularly hard hit, given the scale of funding required, accompanying risk and collapse of the buy to let market. Build to let is being perused by HCA and is currently being initiated on HCA sites in London

4.1.3.2 Sub Regional Impacts
The implication of the above factors is as follows:

- Development programmes will be slipped by three to five years, in line with economic and housing market forecasts
- Five and possibly ten year strategic housing land supply deliverability is questionable and requires ongoing monitoring and review
- RSS driven housing targets are in danger of moving out of sight
- The pressure is rising to both to release and develop greenfield sites and bring forward a new development model that takes a longer term view
- New approaches are required to sustain market progression

Both Central and Pennine Lancashire are in the process of reviewing their strategic housing land supply, the latter in the context of producing a spatial plan for Pennine Lancashire. As discussed earlier in this document, Central Lancashire have produced a revised housing supply trajectory,

¹ Savills October 2009
reflecting developer pessimism and uncertainty over city centre apartment schemes in particular, allied to knowledge that some well advanced brownfield sites are in a position to maintain development momentum. Buckshaw is a key site in this regard, and, assuming conditions do not deteriorate, is expected to underpin RSS annual target achievement after 2013/2014. Growth Point targets however will not be reached, and RSS targets may never be exceeded overall.

This position filters through to our understanding of Central Lancashire thinking on RS2010. Whilst Strategic Option 2 (focus on economic opportunity) is favoured, the indicative 10% of regional housing provision is not. This presents the opportunity for a negotiated Lancashire wide position that seeks to distribute growth in support of the areas key sectors and to promote the diverse and unique range of residential locations for example.

4.1.3.3 *Key Implications for Pennine Lancashire*

Under the auspices of the MAA, Pennine Lancashire has articulated a shared approach, key priorities and asks of government that will be fundamental to addressing market failure, engendering growth and enhancing its competitiveness in the long term. However the financial crisis, recession and its legacy lead us to conclude as follows:

- Pennine Lancashire will lag behind the resurgence of Manchester, Leeds and to a lesser extent Liverpool and Central Lancashire
- The corollary is that Pennine Lancashire will feel the effects of recession for longer than the norm
- Complex inner urban/brownfield developments will remain out of scope for longest, possibly for more than 3 years
- Given the current focus on inner areas across Pennine Lancashire, there will a be a significant knock on effect the delivery of infrastructure and affordable housing, as funding from both the private and public sectors remains in short supply over the next parliamentary term
- There is a risk that the gap between Pennine Lancashire and the best performing areas in the region is increased over a long term
- It is likely that the number of trips will have reduced, potentially undermining the business case for improved transport infrastructure
- The risk to the market progression model is significant
- The current programme of development needs to be revisited in order to take account of new viability dynamics and to maximise impact

The sequential nature of market progression in Pennine Lancashire, the greater part of which is founded upon inner urban housing markets presents a significant challenge. Such markets were at the limits of viability, even in a favourable macro economic context with benign funding and lending conditions. Under austere prevailing and prospective market conditions, the delivery of market progression, as currently envisaged, is questionable and will require refinement and adaptation to a new set of development dynamics.
4.2 Recommendations

4.2.1 A case for cooperation

There is an overarching case for dialogue and cooperation between Central and Pennine Lancashire on a number of fronts. Essentially the case for this is based on exploiting the city region/ Lancashire’s commonalities. Notwithstanding the fact that they have their own distinct economic footprints, both the aerospace supply chain and knowledge workers seeking desirable places to live have been shown to interact across much wider areas for example.

In the Central Lancashire City Region, the economic assets that will allow for such specialism are in relatively close proximity to each other, for example Cuerden, and Whitebirk and orientated towards key sub regional points such as BAe at Samlesbury (being particularly central) and Rolls Royce at Barnoldswick.

Growing such value added specialism is fundamental to the long run growth aspirations of Central and Pennine Lancashire, reinforcing both the 'greater than the individual parts' argument for collaboration and the need for joint dialogue with regard to RS2010 and the optimum approach for both sub areas.

Moves to strengthen the city region in a joined up way will underpin a more competitive platform in relation to neighbouring conurbations, whose economies are likely to have suffered less and recover more quickly, creating a significant draw on scarce resources in the future.

4.2.2 Pennine Lancashire Actions

Protecting Pennine Lancashire's dual strategy of enabling economic growth and connecting to adjacent conurbations is of paramount importance in order to stave of the worst effects of the recession alongside the ongoing need to raise the sub areas competitiveness and long run sustainability. The following are presented as high level options for Pennine Lancashire to consider, subject to fuller evaluation/appraisal:

4.2.2.1 Site specific actions

- Reconfigure brownfield sites to make them more attractive to developers
- Divided up into smaller more appetising plots
- Where possible addressing remediation and infrastructure up front
- Allowing flexibility over housing mix and densities

4.2.2.2 Revised Strategic Approach

Doing so will inevitably require investment over a longer period than has traditionally been the case and given the constraints on funding going forward, necessitate prioritisation of a potentially smaller number of developments. This being the case, and given the need to support key commercial developments the following should be considered:

- Maximise agglomeration effects through the concentration of investment around strategic employment sites and transport nodes with adjacent housing land
• Focus on delivering a small number of well connected growth hubs, for example around Whitebirk and Burnley Bridge
• Enabling better access to Manchester City Region and also growing the local economy
• Allowing an appropriate quantum of greenfield development on adjacent sites that are attractive to developers now and will support the process of balancing the housing market

4.2.2.3 New funding models
If possible, developer contributions from greenfield sites could then be levered into the inner area renewal priorities for example, to provide impetus to the housing market renewal process. In any event, it will be important to investigate, evaluate and bring forward new development models to secure long term investment. Such a model will need to have the following attributes:

• An investment model as opposed to the traditional development model
• Based on the future value of developments and clear distinctive propositions
• But with the local authorities taking the risk and guaranteeing an acceptable and periodic return on investment