

The Third Sector and Physical Regeneration in Deprived Communities



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1. **Introduction and Definitions**

1.1 **Introduction**

PNE was commissioned by One NorthEast (ONE) to identify the perceived and actual barriers to greater voluntary sector engagement in investing in the regeneration of deprived areas.

The aim of the study was to help inform ONE's investment stance regarding regeneration in deprived areas and promote understanding of the risks faced by the Third Sector. The report's intention is to recommend approaches which facilitate and encourage investment in physical regeneration through the Third Sector.

1.2 **Definitions and Rationale**

1.2.1 **Deprived Areas**

This report uses a wide definition of Deprived Areas, based upon characteristics rather than Government indices or postcodes. The characteristics of these areas are:

- Low levels of economic activity and concentrations of worklessness.
- Poor housing, poorly managed environments and a failure to address anti-social behaviour which creates unstable communities.
- Key public services such as health and education performing poorly, so that the most deprived areas receive the least support.

These areas can be in both urban and rural areas and are often the result of economic restructuring or closure of a key industry or trade.

1.2.2 **Third Sector**

For this report, the Third Sector consists of non-Governmental organisations that are value driven and which principally invest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, co-operatives and mutuals. Organisations vary from local lobby groups to substantial asset backed organisations. Most importantly the Third Sector is independent of, although often reliant upon, local and national Government.

1.2.3 **Physical Regeneration Activity**

For the purposes of this report, Physical Regeneration Activity refers to all activities classified as capital expenditure and which are mainly focused upon land, buildings and environmental improvements. Potentially these could be new build or conversion projects on brown or greenfield sites. It could cover a wide range of uses from town squares to business units or sports centres.

1.2.4 **Why Are Deprived Areas Attractive to the Third Sector?**

Deprived areas are attractive to the Third Sector for the following key reasons:

- (a) It is often where the demand and need for their services is strongest.
- (b) Their ideology/purpose encourages them to attempt difficult challenging tasks that the private sector and public sector have rejected.
- (c) Land and buildings are often low cost and financially within grasp.
- (d) Things are often not as bad as they appear, public transport is often good, planning permissions are easy and occupation reduces anti-social behaviour.
- (e) There is an upside to investment if the project works which in the long term might be valuable.
- (f) A building which is owned by a public body, remains empty and is a cost to that public body, whereas it may be an asset to a Third Sector organisation which can use it.
- (g) There is always a strong fit with the values and culture of the Third Sector.

2. Current Position

We have collected a snapshot of information and statistics as a measure of activity from a variety of sources including:

- Direct Survey of Third Sector organisations with experience of physical regeneration;
- The Development Trusts Association's Regional Performance Table;
- Published Indices of Building Costs and Tender Prices;
- Local Authorities;
- Funding bodies and their funding records;
- Third Sector infrastructure organisations;
- Making Assets Work: The Quirk Review of Community Management and Ownership of Public Assets (see Appendix I);
- Local Strategic Partnerships.

2.1 Key Player Activity

Using the Development Trusts Association regional performance table (below) for the period 2003/4 to Jan 2007 as a guide to capacity, the North East's Third Sector outperforms the UK national average in the areas of membership growth, income growth and earned income growth, however it underperforms in terms of asset growth, with a 16% growth rate as opposed to the UK's 27%. This suggests that there is an appetite to do things and many organisations that are willing to take a chance, but that corresponding asset growth is not occurring. The actual current values behind the percentages show that the significant growth still leaves the North East well below UK averages for income, earned income, and asset values.

Performance of Development Trust Movement North East vs National Average 2003/4 – Jan 07

	N.E	UK
DTA Membership Growth	24%	15%
Income Growth	49%	-15%
Earned Income Growth	75%	12%
Assets Growth	16%	27%

Values at January 2007	N.E.	UK Average
DTA Members	38	32
Income	259,000	618,591
Earned Income	91,562	215,611
Assets Average	210,527	1,009,283
Assets Total	8,000,031	32,297,056

In conclusion, we have in the North East more trusts than the average but they are smaller in terms of income and assets. We have outperformed the average in all areas except asset growth, albeit from a low base. This of course is only the Development Trusts Sector and there are major players

who fall outside of the sector, but it is indicative of the position that we have plenty of organisations but not enough growth in terms of assets.

The Development Trusts Association however represents only a small percentage of the sector. Standing outside the Development Trusts Association, Alnwick Garden Trust £28M, North East Civic Trust £10M and Project North East £10M are serial developers. Furthermore, if you include the housing sector, the figures become even more substantial.

At the other end of the spectrum there are hundreds of smaller organisations which are carrying out small but nevertheless vital capital projects every year. This is illustrated by the number of applications submitted to the major funders.

In 2007 the Northern Rock Foundation Better Buildings Grant Fund received bids from 103 organisations for around £12.6M of funding. Around £1.7M was offered, but the remainder were not taken up, mainly due to failure to meet the Fund's green criteria.

In 2007 the Community Building Lottery Fund received 108 applications from the North East, of which 14% were advanced to stage two. The Community Assets Fund received 25 applications from the North East of which 24% were successful; the limited funds available restricted the number of successful applicants in both cases.

2.2 Indications of Intervention Rates Required

Based on One NorthEast's own performance figures on investment in deprived areas, the level of public sector intervention was 47% in 2006/7 for the market as a whole.

European funds also provide a guideline, over the last programme grants have ranged from 15% to 50%. Not-for-profits have averaged around 30 to 35% with in excess of one hundred projects receiving substantial grant funding where in excess of £150M was available.

Together, these probably represent a simple but sensible indicator of the intervention rate required, suggesting that 30 to 50% would be the required intervention rate in most cases.

3. Barriers

There are two key types of barriers, those resulting from reality and those arising from perception. In undertaking the research for this report, we have tried to separate the two. In this section, we look firstly at the realities and secondly at the perceptions.

3.1 It's Difficult Whoever You Are!

Deprived area physical regeneration is difficult for a number of reasons, whether you are in the Public, Private or Third Sector.

- (a) Deprived areas suffer from crime, vandalism and anti-social behaviour, the initial appearance of these areas is poor and there tends to be a negative image attached to them.
- (b) Contamination is a factor in many ex-industrial area as there can be hidden complications under the ground. The industrial legacy of those areas with heavy metals, mine workings, asbestos and pre 1940's diesel can substantially add to costs.
- (c) Building costs have risen substantially in the last three years as illustrated by the published Building Cost and Tender Price indices of year-on-year growth (presented below).

	Building Cost Indices	Tender Price Indices
2005	4.9%	5.2%
2006	5.9%	2.6%
2007	4.5%	6.3%

Some of the movements have been significantly more dramatic in recent years. For example, in Quarter 4 of 2004 there was an increase of 15.4%! This volatility makes it extremely difficult to estimate costs 12-18 months ahead.

- (d) Financial risks are high due to:
 - (i) Low valuations affecting the end asset value of the development.
 - (ii) Unwillingness of lenders to meet full costs.
 - (iii) Low rental returns.
 - (iv) Potential shortfall of income-generating end users.
 - (v) Potential of cost overruns due to (a), (b) and (c) above.
- (e) Occupation costs can be higher due to:
 - (i) Higher insurance premiums.
 - (ii) On going security costs.

- (f) Developments tend to be small and therefore lack economies of scale. In built-up areas, land and premises available for development tend to be restricted in size; in rural areas, the potential population to be served can be limited.

3.2 **View From Above**

During the course of this research we interviewed funders, infrastructure organisations, local authorities and Third Sector organisations. These discussions have helped us to represent here a simplistic view of prevailing perceptions.

On one side there are people in the private and public sector who do not think the Third Sector are up to the task of developing and managing public assets. They find it difficult to understand people who are not doing it for profit, they do not see the value in social returns and perceive a high risk factor with which they are not comfortable. They see the problem as a lack of capacity rather than lack of money. They also have a view of the market based upon economic indicators/statistics and current valuations.

On the other side, the Third Sector contains grass roots organisations seeing social change as it happens on a daily basis. However, they are unable to provide concrete evidence of the impact of this micro level social change on the bigger economic indicators recognised by their private and public sector counterparts.

The Third Sector also perceive the Government as being top heavy on strategy, structure and largely weighted down with bureaucracy, with not enough activity at the funding level. Such things as multi-page application forms and offer letters, constant auditing, concepts such as EU procurement policy, state aid and market rents, all add to the frustration in unlocking the money. "There are more people trying to stop you doing things than helping you", is a common cry from social entrepreneurs.

The reality is somewhere between the two views but some facts are clear.

- (a) Third Sector legal structures, particularly the old traditional ones are not easy to work with i.e. charitable laws relating to property and personal liability.
- (b) Lack of resources are a problem in the Third Sector, given that most activities are done on a cost recovery/not for profit basis, organisations do not have big resources. Capital development requires planning, time and money which are not often available.
- (c) The speed of the property market in a non-recession economy is often too quick for the Third Sector to respond to and opportunities are lost.
- (d) Its difficult in a small organisation where it might take four years from idea to opening. Key individuals have to do their job and more, sometimes they simply run out of energy after a journey of worry and sleepless nights.

- (e) The risks are high, social entrepreneurs usually risk their organisation every time they undertake a capital project.
- (f) Access to the relevant level and breadth of skills and expertise needed to deliver a successful capital project is usually difficult and can be costly.
- (g) Capital funders fund project outcomes based around the actual physical development and calculated on a fixed output, such as, “one building developed”. In reality, the investment will have broader and longer term impact across the local community, but this can be lost as there is no mechanism for capturing the ongoing added value to the social development of the local area. This makes it extremely difficult for Third Sector organisations to produce justifications for investment as the outputs they can generate do not show immediate relevance to funders’ needs or may not appear as cost-effective.

3.3 Barriers to Development

The Quirk Report provides a good overview of the barriers or risks (see Appendix II) associated with Third Sector capital development projects associated with community management and ownership of public assets nationally. These were investigated for their relevance and applicability to the North East.

During the course of the research we have interviewed a number of social entrepreneurs and tried to identify the barriers to physical development at a more micro level. Respondents were asked to identify issues encountered during the delivery of capital projects, and barriers which had specifically prevented them from embarking on projects in the first place. In each case, they ranked them on a scale from “not an issue” to “major problem”.

Barriers or hurdles preventing projects getting underway:

	<i>Major Problem</i>	<i>Awkward</i>	<i>Minor Concern</i>	<i>N/A</i>
Local Authority Red Tape	76.50%	17.60%	5.90%	0.00%
Property Ownership Issues	44.40%	22.20%	5.60%	27.80%
Access to Funding	43.80%	31.30%	12.50%	12.50%
Other Legal Issues	37.50%	12.50%	12.50%	37.50%
Funders’ Red Tape	31.30%	25.00%	18.80%	25.00%
Communication Between Parties	31.30%	6.30%	37.50%	25.00%
Other	25.00%	0.00%	12.50%	62.50%
Inaccurate Costings	18.80%	25.00%	18.80%	37.50%
Someone Outside Made Mistakes	18.80%	6.30%	12.50%	62.50%
Lack of Available External Expertise	6.30%	18.80%	18.80%	56.30%
Lack of Key Skills in My Organisation	5.90%	35.30%	23.50%	35.30%
My Organisation’s Own Rules	0.00%	0.00%	31.30%	68.80%
Someone In-house Made Mistakes	0.00%	6.30%	18.80%	75.00%

Overall, a third of respondents reported having been put off from undertaking their own physical regeneration projects by the above range of factors, with Local Authority Red Tape – chiefly planning permissions and building regulations – the key barrier. Looking at projects which were carried out (below), we see that these issues still arise, but that they fall below Access to Funding and Funders' Red Tape at that stage.

Barriers or hurdles encountered during projects:

	<i>Major Problem</i>	<i>Awkward</i>	<i>Minor Concern</i>	<i>N/A</i>
Access to Funding	40.60%	25.00%	21.90%	12.50%
Funders' Red Tape	29.00%	25.80%	22.60%	22.60%
Local Authority Red Tape	24.20%	24.20%	33.30%	18.20%
Inaccurate Costings	19.40%	16.10%	29.00%	35.50%
Other Legal Issues	19.40%	16.10%	29.00%	35.50%
Property Ownership Issues	18.80%	12.50%	25.00%	43.80%
Someone Outside Made Mistakes	16.70%	10.00%	26.70%	46.70%
Other	13.60%	27.30%	0.00%	59.10%
Communication Between Parties	12.50%	25.00%	50.00%	12.50%
Lack of Available External Expertise	6.50%	12.90%	35.50%	45.20%
Lack of Key Skills in My Organisation	6.30%	18.80%	40.60%	34.40%
Someone In-house Made Mistakes	3.20%	6.50%	16.10%	74.20%
My Organisation's Own Rules	0.00%	0.00%	25.80%	74.20%

3.4 Barriers to Funders

We also approached a number of funders or managers of funds and tried to identify barriers to helping Third Sector organisations.

The following areas cover many of the issues raised.

3.4.1 Inaccurate costings due to two main features

- (a) Lack of professional advice i.e. budgeted costs based on outline rather than detailed plans.
- (b) Items missing from the costings i.e. VAT, professional fees etc.

3.4.2 Complexity of Legal Issues

This can be divided into leasehold properties, where third party permissions are often required and alterations are involved, and freehold property acquisitions, which are often difficult to progress on the timescales of vendors and funders.

3.4.3 Capacity of Project Management

Many organisations have no idea of the problems ahead and are simply not resourced for the management of a construction project. Many organisations do not have the ability to brief the architect/design team, let alone control all aspects of a building project. This potentially means plans are changed as the project progresses, which inevitably leads to increased costs.

3.4.4 Quality of Operating Cost Projections

Often current operating costs are simply transferred to a new building. New items such as lifts are not included and often the new premises are substantially larger.

Long term sustainability is the key to any project and the production of sound short, medium and long term cashflow and profit and loss projections are essential to a capital building project.

The importance of long term realistic income generation cannot be underestimated.

3.4.5 National Policy Context

The current national policy context aims to favour Third Sector involvement in the delivery of public services. However, in practice, the mechanisms for enabling this to happen are not always conducive to the needs of the whole sector. In particular, tendering arrangements are more readily dealt with by larger organisations, whereas small, local organisations might already be better placed for delivery but unable to respond to the tendering process.

4. **Good Practice**

Through the course of the project we have collected good practice case studies which illustrate a range of key points.

4.1 **The Big Idea**

In 1993, residents of the Phillips neighbourhood of Minneapolis founded the Green Institute after a 12 year battle against a rubbish transfer station that had been proposed for the neighbourhood. The Institute received its first grant of \$7,500 from Headwaters Foundation that year and in 1994 hired its first Executive Director and moved into a small office in Phillips.

This struggle for environmental justice evolved into a strategy for job creation, materials recovery and energy conservation, and environmental and community sustainability. Now a \$3.4 million non-profit organisation, the Green Institute leads community based initiatives that impact the entire region and draw national and international attention.

Since its inception, the Green Institute has developed a number of programs, including the ReUse Center and DeConstruction Services, the Phillips Eco-Enterprise Center, the Community Energy Program, Greenspace Partners, and the Green Buildings Program. In total, these projects represent over \$10 million in economic development for the Phillips neighbourhood, with the Green Institute employing 25 staff members and providing many other intangible community building benefits to the neighbourhood.

They have had the honour of accepting a number of national and international awards including the National Award for Sustainability from the President's Council on Sustainable Development, the Energy Star Award for the U.S. Environmental Protection Agency, and the Bremen Partnership Award (Germany).

4.2 **Sound Management, Well Worked Up Proposal, Award Winning Design**

Northern Print Studio knew that they would have to move premises and planned well ahead at both strategic and operational levels. Despite the fact that their first option went wrong they were able to regroup and make the big move at the right time. They knew what they wanted at the operational level and with high level input from their board they were able to achieve a project which won first place in the small scale development category of the Lord Mayor's Design Awards.

4.3 **Sustainable Long Term Effect**

Design Works opened in 1987 as the Regional Centre for Excellence in Design with offices, exhibition and conference centres in Felling, one of the worst wards in the UK in terms of social deprivation. 20 years on, the project is home to over 70 businesses which employ over 300 people. Around 30% of these come from within a four mile radius. Life has never been easy but

surprisingly crime has not been a problem, the involvement of 200 locals in a building training scheme may have some bearing on this. Today the site is the largest concentration of employment in the Felling ward, represents over 33% of the VAT registered businesses in the ward and has helped replace inevitable job losses in the heavy engineering sector.

4.4 Strategic Intervention

The Grainger Town Initiative was formed as a direct response to a major part of Newcastle becoming a deprived area due to the relocation of the legal and professional sector to the Quayside. The Initiative was funded through a number of complementary sources. Five major funders worked together for the first time to put a package of support in place which was creative and flexible enough to support the Initiative.

The strategy was focused upon accommodation and housing both of which were seen as high risk to the private sector. Home Housing, North British Housing and North East Workspace three Third Sector organisations led the way and carried out projects that were seen as unviable. However, the heritage led conservation area quickly proved to be lettable and the value of a two bedroomed flat rose from £27,000 to £160,000. The net result was that the private sector developed the confidence to invest and Grainger Town has continued to redevelop beyond the main grant period.

4.5 Availability of Capital Grant and Cross Subsidy

The Galleria, Pennack Road, London is a new artist studio block designed and built in partnership with Barratt Homes consisting of 50 self contained studios (260-500 sq ft) over lower ground, ground, first, second and third floors. The studios form part of a mixed use development which includes private and affordable residential apartments. Opened in 2006 the Galleria was established as a 'planning gain' development in partnership with Barratt and is part funded by Arts Council England's Grant for the arts-capital programme.

4.6 Key Characteristics

When identifying the key characteristics of successful capital projects in deprived areas, it would appear there are a number of key components at the micro level.

- (1) A strategic context. Working in isolation is dangerous; with a strategic framework such as a "Grainger Town" Initiative there is a combined effect that makes it just that little bit easier to succeed.
- (2) A driver of the demand for goods and services, i.e. an expanding economy or a restructuring economy driven by for example a new road, the internet or a new product/theme.
- (3) Sound, enthusiastic management from all levels. From the board room to the operational managers who are willing to keep on when the going is almost impossible and are not upset by long hard days.

- (4) Access to large scale capital grants which effectively keep the cost of capital down, such grants need to be flexible and responsibly managed.

Allied to these four key elements there is a bit of luck, i.e. a high growth tenant, an unexpected sponsor and a drop in interest rates.

At the micro level the following are also very important:

- (5) Capacity in terms of money and time to develop the projects details and to engage professionals when and where required.
- (6) The use of professional or project managers who understand the “Third Sector” and do not assume unlimited finance.
- (7) Previous experience within the organisation is also a big advantage, even the professionals need managing and keeping under control.
- (8) Strong local need and support for the project.

5. **How We See the Picture Developing**

5.1 **Increasing Role for the Third Sector**

Nationally the environment is very positive with lots of encouraging strategies from central government which highlight an increasing role for the sector. The lessons from the Quirk Report are being used to move the idea of asset transfer to the Third Sector up the agenda nationally.

Regionally, the BASIS Lottery programme is working with the sector to deliver a range of targeted capital development projects. The Regional Development Agency, One NorthEast, commissioned this report as a way of exploring the current environment within the region and as a means of disseminating knowledge and experience.

Locally, the restructuring of local Government in Durham and Northumberland will provide an increasing market opportunity for the Third Sector to deliver local projects. In the larger city areas some local authorities may decide to become more strategic/commissioners rather than delivery vehicles. This could well increase opportunities for the Third Sector especially in the more deprived areas where the private sectors are less keen to operate.

However there will be casualties. Organisations will need to change rapidly to cope with a more demanding and commission driven approach. The sector will need to become more focused upon income generation than grant support and it is likely we will see polarisation of small groups relying on volunteers and bigger groups being created by mergers and acquisitions. Community Interest Companies may be the new vehicle for the next decade being more designed for risk and borrowing.

Working with the public and private sectors still remains a challenging area for the Third Sector and in many cases there is still a “them and us” mentality on both sides. Blurring of the boundaries is being encouraged by the government via the procurement agenda and the sector strives to maintain its funding and its independence against the odds.

5.2 **Changes in Funding Regimes**

The potential end of the sub-regional partnerships will be a big blow to the sector as they have provided both a sounding board and an interface for accessing finance from ONE. The new Regional Strategy is very much “Regional” with emphasis on vast investments in what are potentially prime investment sites. The leverage target is increasing to over 70% private sector. Whilst these investment sites are often located in deprived areas or adjacent to deprived areas, the prospect of any connection is difficult to envisage. This change in investment policy allied to the new ERDF programme, and the end of the Northern Rock Foundation Better Buildings Fund does not bode well for the future. However, there are new funds which have potential but are largely investment/loan based and which could suit some projects. Generally it is hard to see where the grants are going to come from, even the large London based trusts are moving away from capital grants.

5.3 **New Funding Methods**

Most of the innovation around appears to use the cross subsidy model, i.e. planning gain, Section 106 agreements and the Community Infrastructure Levy. However, the competition for Section 106 monies is intense within local authorities making it more so for external organisations. Whether Section 106 agreements can work in deprived areas seems questionable as we know investment is usually marginal anyway. The Housing Sector does show us some examples but in deprived areas there is usually a big Government subsidy available. If you compare house end values at the Great North Park where there is a Section 106 agreement with house values in Felling, you can see there is a difference of over 100% in values, hence the ability of developers to fund Section 106 agreements.

Intelligent procurement and an approach to true community benefit need to be encouraged. For example, developers should be persuaded to include real gains such as community centres or sports facilities when applying for planning approval.

5.4 **Housing Might be the New Opportunity for the Third Sector**

Several reports have indicated in recent months that housing is actually a better business proposal than workspace/community buildings. As:

- (a) Increases in value have been better; in Grainger Town values increased from £27,000 for a two bedroomed flat to well over £150,000 within ten years.
- (b) Housing allows an element of genetic social engineering, e.g. you can introduce creative people into an area, or immigrants.
- (c) There are numerous models in existence for releasing capital, mortgages, shared equity and common ownership.
- (d) Developments can be sold off in small lumps.
- (e) Generally they are more viable than commercial office schemes and can be small scale.
- (f) Lots of partners about.
- (g) Off the shelf solutions available for construction.
- (h) Residents get votes, businesses do not.

Obviously this does not create jobs, tackle problems of economic deprivation or address the ONE/Government agenda. If the sector is hungry it will either go where the money is, which could distract it from more socially beneficial activity, or it will cease to exist in its current form.

5.5 Demand in Deprived Areas will Remain an Issue

Given the size of some of the key investments in the Regional Economic Strategy there are implications on demand in deprived areas. The last Government intervention of this size, the Urban Development Corporation, had a major distorting effect upon Newcastle and Middlesbrough; in that most of the end users were pulled from the core of the cities and relocated into new prime space creating “new deprived areas”. Creating genuine new growth in a mature economy is difficult, the greater the choice the less likely the deprived area will succeed.

There are dangers that, in the quest to become more competitive in the global economy, we further deprive our worst areas. Somehow we must keep a balance in our society.

5.6 Building Costs will Continue to Rise

The increasing global demand for materials and the lack of skilled labour allied to more challenging building and planning controls will mean that construction costs for one-off buildings will continue to rise for the foreseeable future in excess of inflation.

Additionally the requirements of funders are increasing in terms of accessibility, environmental and general quality which means that there are additional costs above the projected inflationary costs.

5.7 Partnership will be an Opportunity

The Quirk Report has outlined a number of models and clarified the rules relating to local authorities and public bodies wishing to transfer assets to the Third Sector. Nationally we see this as an area where funding for partnerships may be made available and there could be big potential growth, particularly in areas/activities where state aids are less of an issue e.g. sport/leisure facilities.

There are currently a number of pilot projects. Of particular note is the Advancing Assets programme, which has come out of the Quirk Report. In the North East, North Tyneside and Tynedale piloted the programme over 2007/8 and Newcastle and Gateshead are amongst the participants in 2008/9.

6. **Some Solutions**

In the future it is unlikely to get any easier to successfully develop physical assets in deprived areas.

Generally speaking the Third Sector players can be split into three sections.

- (a) Those that should not be doing it.
- (b) Those that should do it in partnership.
- (c) Those that with a bit of help could manage the process themselves.

Obviously organisations could move between the groups largely depending on the management and staff they have at a particular time.

6.1 **Strategic Direction**

If ONE wants to grow the sector and activity levels some strategic direction is required. If for example, the objective is to grow the Development Trusts Association to the national average from the current base it would require investment of around £30-£40M over the next three years. Solutions need to be simple and lead to an independent sector which can progress under its own steam in due course. The framework needs to be ambitious and raise standards in the quality of buildings and the sector

6.2 **Project Development Funding**

A number of the successful schemes we have examined have had amounts of up to £60,000 to develop the case for the project. Given the complexity of planning, environmental considerations etc on a £1M plus capital project this is probably necessary to talk seriously to grant funders. Third Sector organisations often learn as they go along and project development funding allows staff rather than consultants to develop projects. There is a need for learning and experiences to be disseminated, perhaps through the development of a course or open learning module, so that the sector can learn from itself.

It is important that this development funding addresses the importance of income generation in the end product. The long term robustness of the operating plans is ultimately what will decide whether the project succeeds in the long run. Pump priming of projects is also important if the level of activity is going to increase.

6.3 **Capacity Building**

Given the size and experience of the sector some level of capacity building is essential.

We have looked at various models and think that there are a number of opportunities.

- (a) Some of the larger developers could be encouraged to join the Development Trusts Association as they clearly have the experience and expertise to help/mentor others.
- (b) Some of the existing support programmes need extending, these type of physical developments take 4/5 years, the support/development programmes need to last as long. As an exemplar, One NorthEast's Third Sector Capacity Fund has reduced the complexity of the application process and has provided funds for three years with an option of an extension, to make the Fund as accessible and responsive as possible.
- (c) Simple ideas such as factsheets/stories/blogs of successful projects/partnerships and lists of people willing to talk about their experiences are all good ideas that can help.

6.4 Capital Funding (Third Sector Challenge Fund)

Based upon our investigations most projects in deprived areas need around 50% grant aid, if this was provided, organisations with other assets could probably raise the other 50% from commercial sources if the buildings were free of grant conditions. Given that funding is likely to be limited, a twice a year challenge fund which only selected the top points scoring projects might provide a good mechanism to encourage innovative projects.

It is important that any grants carry no charges/restrictions on the assets, have a limited clawback period (not more than 5 years), schemes need to have quality thresholds, such as BREEAM, but not be too excessive.

Generally speaking the Government has shown excessive caution about State Aid rules and they have been used as an excuse. Given that the majority of projects will be in deprived areas where there is market failure this should not be seen as a stumbling block. Recent UK response to the latest consultations was to propose an exemption for small businesses operating on a not for profit basis. Hopefully this will provide some clarification for this type of fund.

6.5 Management of Funds

There is no doubt that the standard Government appraisal process is often complex and therefore tends to discourage potential applicants.

Any Fund Manager has to be prepared to:

- (a) Ensure face to face contact with applicants on a need basis.
- (b) Show a willingness to listen to the problems.
- (c) Be flexible with a contingency approach, it is irresponsible not to do this.
- (d) Have simplified decision making processes which are transparent.

- (e) Be prepared to give feedback on unsuccessful projects and suggest improvement plans for marginal projects.

6.6 **Measurement of Activity**

The Development Trusts Association provides an important set of baseline activity and is a good indicator, however there are other organisations that could be included. By encouraging others to join, the gathering and aggregation of statistics could be conducted on an annual basis fairly simply. This would allow a mechanism for evaluating strategic aims into the future.

6.7 **Justification**

There is no question that recognition of the Third Sector's contribution to social and economic regeneration exists at all levels. In the July 2007 HM Treasury Report '*The future role of the Third Sector in social and economic regeneration*', it is stated that:

"The Third Sector makes an enormous contribution to our society, economy and environment. Hundreds of thousands of organisations and millions of volunteers make a practical difference in communities, from working with young people to developing new ways of recycling household waste. The contribution of volunteers alone is estimated to be equivalent to over a million people working full time.

Third sector organisations also drive and energise many of the most important changes in our society, from campaigns such as Make Poverty History to encouraging people to quit smoking. Further, the sector makes an increasing contribution to our economy. For example, social enterprises now account for around 5 per cent of all businesses with employees, and have a turnover of over £27 billion a year. As a consequence of these activities, the sector brings people together from different backgrounds, helping strengthen the social fabric of communities and the country. "

Developing a strong independent Third Sector which is asset-based allows local organisations to survive the whims of central Government changes. Such changes often have little concern for local circumstances. A strong Third Sector helps to raise the aspirations of local people, leading to increased confidence, better local services, the strengthening of communities and the cultivating of enterprise.

It also builds for the future, in the USA there are long established trusts which are now generating surplus finance for new activities, housing trusts providing training for residents or even TV channels for residents. It will take time but there is the potential for this to happen in the North East.

At the current time there is no shortage of applicants as demonstrated by the Northern Rock Foundation Better Buildings Fund but there is a financial barrier.

7. **Conclusions and Recommendations**

7.1 **Conclusions**

1. There is a lot of activity in the Third Sector, and there are a lot of capital projects trying to raise money. Research suggests that around 15% are successful in raising money from the main sources of finance.
2. Geographically, Northumberland and Tyne and Wear have a more developed Third Sector and possibly a richer policy environment and a better infrastructure to support and develop projects.
3. The main barriers to Third Sector organisations' involvement in physical regeneration are Development Control issues, finance and capacity. The main barriers to funders are grant criteria, quality of applications and the lack of available funds.
4. Successful projects have a strategic context, capital grants, a growing market and good management. At a micro level, they also have a sound business plan which looks at the long term revenue costs.
5. Successful projects are NOT one-offs – they go on generating outputs for a substantial period, and as such their impact on the economy is far greater than originally envisaged. However, data on long term impacts is rarely captured as the capture of this data is usually not accounted for in project costs.
6. There are massive potential threats to the sector's ability to raise money due to the reduction in EU funds, end of the Northern Rock Capital Grants and the new emphasis of One NorthEast on large scale projects.
7. Property development is not for all organisations. Whilst there are those who can do it themselves and those capable of doing it in partnership with others, there are also those which should not be doing it at all.
8. There is a danger that lack of funding will induce a loss of capacity in the sector within the region, with capable people moving on to other activities if they are unable to make things happen in the areas they are in now.

7.2 **Recommendations**

7.2.1 **For the Third Sector**

1. Sponsors of projects need to develop links with key strategic players, such as Local Authorities and sub-regional partnerships, at an early stage. If there is no local strategy, they might need to develop one to provide a context for their proposal.
2. It is important to ensure that sufficient resources are allocated to leading and implementing the project, and that the project has the support of the whole of the organisation from community members to board level.

3. Preparing a long term business plan to ensure sustainability is key. Accounting for revenue requirements past the capital development period is vital. Third party input on this could help improve the final version.
4. Ensure that professionals supporting the project (architects, quantity surveyors, etc) have experience of working on similar types of project with Third Sector organisations.
5. Ensure appropriate communication processes are in place with all relevant stakeholders in the project – and don't be afraid to ask for help.
6. Seek advice on Planning and Building Regulations to ensure the project is technically feasible before investing too much time and energy.
7. Ensure costings are as accurate as possible. Build in inflation; and include VAT, professional fees and contingencies where relevant.
8. Spend time establishing criteria and requirements for the capital development before selecting a building or site. Develop lists of essential and desirable features, so that cost reduction exercises are easier to handle.
9. Ensure any legal agreements are scrutinized thoroughly by an appropriate person acting on your behalf at an early stage.
10. Be prepared for a long, up hill struggle that may take you 4 or 5 years before your project is complete.
11. Look for other Third Sector organisations which have successfully completed projects and learn from their experiences.
12. Third Sector organisations with successful projects should publicise their success so that others may learn from it. Local infrastructure organisations, including VONNE, PNE, the Development Trusts Association and local CVS/VDA are ideal routes for sharing success stories with the rest of the sector.

Next Steps

- a) Infrastructure organisations within the Third Sector should offer training to local authorities on working with the Third Sector in order to involve Third Sector organisations as a key partner in regeneration.
- b) Work needs to be undertaken to demonstrate the benefits of supporting Third Sector activity, by agreeing methods for accounting for both short and long term impact, outputs and outcomes.

7.2.2 For Local Authorities

As Local Authorities are often the first port of call for help, they need to:

1. Have an appropriate person who is the nominated first point of contact for the Third Sector. That person should have an

understanding of both the Third Sector and property development, and must have links across departments within the Local Authority – particularly with legal, land and property services. They should also have sufficient authority to be able to facilitate the development process.

2. Have clear policies to deal with the issues arising out of the Quirk Report (see Appendix I) and any asset transfers. Awareness of the Quirk Report outside of a few key personnel in most Local Authorities is still very low, even in pilot Authorities. This suggests a need for a process of informing Local Authority personnel about the Quirk Report's recommendations and disseminating lessons learned from the Advancing Assets programme.

Next Steps

- a) Local authorities need to seek training on how to effectively encourage the Third Sector as a key partner in regeneration and disseminate that knowledge.
- b) Examples of successful partnerships and their key success factors need to be disseminated across local authorities.
- c) The lessons from the Advancing Assets programme need to be shared across all local authorities and key aspects implemented wherever possible.

7.2.3 For One NorthEast

1. The future of the Sub-regional Partnerships is important to the Third Sector. Currently, they provide a good vehicle for Third Sector organisations to access funds. Their strategies are also clearly important to the sector, as are the outputs they aim to achieve. The July 2007 sub-national economic development and regeneration review, carried out as part of the comprehensive spending review, declares the Government's intention to refocus powers and responsibilities down to lower levels to promote and encourage economic growth and the reduction of deprivation. This should offer increased support for interventions involving Third Sector organisations and local authorities.
2. Provision of funds: One NorthEast is the only organisation with the resources to fund significant physical regeneration activity by the sector in the North East. If it diverts its funds to larger projects, the Third Sector's involvement in physical regeneration projects will most likely begin to dry up. This will impact on the Third Sector's ability to help meet RES objectives and attract in other sources of investment finance. Lack of funding resources, rather than lack of good quality projects is a significant reason for bids being unsuccessful. A new, standalone fund, running alongside a continuation of Sub-regional Partnerships' support for smaller projects is the ideal. Any standalone fund should be flexible in both its remit and its funding limits. The balance of capital and revenue funding allowed should be determined by the

merits of the individual projects. The fund's management should be in a position to advise Third Sector organisations and arrange capacity building support for them, as appropriate.

3. In the approaches to point 2, management of the funds is key. Our research indicates that Northumberland Strategic Partnership is far more accessible than other such vehicles. The Third Sector often sees Local Authorities as a block on Third Sector development and One NorthEast as being too remote. Having funds which are flexibly managed and accessible is beneficial. At present, it appears the systems being used take little or no account of the people trying to access the money, as they are not the professional bureaucrats the systems are designed for. The Third Sector Capacity Fund shows signs of movement in the right direction as it now has a simplified application process and less stringent rules and regulations.
4. A standalone fund, along the lines of the Third Sector Capacity Fund, would enable One NorthEast to encourage a bottom-up approach to physical regeneration activity by the Third Sector. Otherwise, the emphasis on strategic approaches is heavily top-down in nature and goes against the current ethos of seeking bottom-up inspired interventions.
5. Capacity building is also an important area. If the conversion rate of 15% of bids into national funds being successful could be increased to 30%, double the money would flow into the North East from these sources. All the research shows that bidding into the new funding streams is expensive, time consuming and requires a great deal of patience; some form of input towards these costs would no doubt be highly beneficial.
6. Information and data: Collecting data has not been easy. One NorthEast's input, either directly or via Strategic Partnerships, into the Third Sector has been significant. However, putting firm figures to the amounts, outputs and leverage has proved impossible. We suspect there is a positive story, but it appears that data is held in incompatible formats and not collated in such a way as to be readily pulled together to answer questions. In future, recording structures for programmes need to have common databases which can be queried successfully.

Next Steps

We recommend that One NorthEast:

- a) Disseminate this report as widely as possible using a range of vehicles (including VONNE, Ignite, Sustaine, voluntaryskills.com, local CVS/VDA networks) and sponsor a conference on this report's findings. Target audiences to include:
 - Local Authorities' staff who need to know about the Quirk Report, positive regeneration case studies and how to work with the sector;
 - Infrastructure organisations;
 - Third Sector practitioners;

- Other stakeholders.
- b) Aim to achieve a consensus of opinion on the link between Third Sector regeneration activity and longer term outputs and outcomes (beyond any capital funding period).
- c) Promote a consensus on the valid and acceptable use of a range of measures of the benefits of this activity (e.g. Social accounting), ideally without imposing heavy administrative burdens on project managers to capture relevant data.
- d) Use Ignite and Sustaine to disseminate information around Third Sector physical regeneration. Ideally, a series of case studies and factsheets on the topic should be commissioned as part of the dissemination process, to make the information accessible and digestible.
- e) Move to develop a flexible standalone fund for Third Sector projects. This should be flexible enough to make many small investments in Third Sector physical regeneration and aggregate the outputs to demonstrate their contribution to One NorthEast's larger outputs. The model could be based on the Arts Council England, North East's Cultural Sector Development Initiative, which takes responsibility for larger outputs and apportions funding to smaller projects which each then contribute towards the outputs.
- f) Find ways to maximise the effects of its programmes. The core themes of Business, People and Place often overlap, but an inclination to consider each theme as a separate strand of activity can obscure cross-theme synergies.

Appendix I: Summary of Issues from the Quirk Report

The following is a direct quotation from pages 7 and 8 of the Quirk Report:

As a review team, we drew heavily on past work in this field, on submissions from and discussions with a wide range of stakeholders, on the advice of officials from across Communities and Local Government as well as the Office of the Third Sector and HM Treasury, and from own personal experiences, spanning local government, the voluntary and community sector and social enterprise, Registered Social Landlords and academia.

We were driven to three firm conclusions:

- assets are used in service of an array of social, community and public purposes. Any sale or transfer of public assets to community ownership and management needs to realise social or community benefits without risking wider public interest concerns and without community purposes becoming overly burdened with asset management.
- the benefits of community management and ownership of public assets can outweigh the risks and often the opportunity costs in appropriate circumstances. And if there is a rational and thorough consideration of these risk and opportunity costs, there are no substantive impediments to the transfer of public assets to communities. It can be done, indeed it has been done legitimately and successfully in very many places.
- there are risks but they can be minimised and managed – there is plenty of experience to draw on. The secret is all parties working together. This needs political will, managerial imagination and a more business focused approach from the public and community sectors.
- We considered these in relation to the whole spectrum of community management and ownership of assets. The stake that community-led organisations have in particular asset extends from short-term management agreements, through to leasehold ownership on leases of varying lengths and freehold ownership. It also stretches from small volunteer-run village halls and community centres to multi-million pound, multi-purpose community enterprises. We recognised that the greater the stake, the greater the financial and legal responsibility the organisation takes on, but also the greater the freedom to exploit the asset's potential.

As a result, we concluded that five key actions could be a decisive difference.

- the publication of comprehensive, up-to-date and authoritative guidance on all aspects of local authority asset management, including within it detailed and explicit guidance on the transfer of assets to community management and ownership.
- the publication of a toolkit for local authorities and other public bodies on risk assessment and risk management in asset transfer to communities.

- much greater access for local authorities and community organisations to expert advice and organisational development support relating particularly to the transfer and management by communities of land and buildings.
- the smarter investment of public funds designated for community-led asset-based developments, where permissible, through the involvement of specialist financial intermediaries with expertise in the field and the ability to achieve high leverage ratios.
- a major campaign to spread the word, through seminars, roadshows, training, use of the media, online and published information, and the dissemination of good practice, as well as promotion of “bottom up mechanisms” such as the proposed Community Call for Action and the Public Request to Order Disposal (PROD) scheme.

‘Making Assets Work: The Quirk Review of Community Management and Ownership of Public Assets’, by Barry Quirk CBE, Stephen Thake and Andrew Robinson MBE. Crown Copyright 2007- Pages 7 to 8.

Appendix II: “Risks” Identified in the Quirk Report

In looking at the submissions they had received, the Quirk team were presented with a range of “Risks” that provided cognitive barriers to the process of transferring assets from local authorities to community organisations. However, the team’s view (expressed on Page 19 of the report) is that *perceived risks need not be a barrier to action, as long as appropriate steps are taken to assess and manage the risks involved.*

The Risks identified are:

1. Organisation does not have the capacity to take over and manage the asset;
2. Community organisation cannot raise the cash needed to purchase or refurbish the asset offered;
3. The ability of public bodies to support a particular project is limited by State aid rules or other restrictions;
4. Inability of community organisation to manage asset effectively;
5. Asset not used in public interest, taken over by an unrepresentative or unaccountable minority, access to asset not inclusive;
6. Community organisation is not able to invest in the asset to meet its longer term liabilities for upgrading and cyclical maintenance;
7. Reliance of smaller receiving organisations on volunteers through lack of resources for professional/support staff;
8. Fragmented ownership of assets across an area could impair strategic objectives of local authority and/or its LSP partners;
9. Confusion and lack of awareness over roles, responsibilities and liabilities between landlord and community organisation;
10. Conflict between competing community organisations for use of, ownership or management of asset.

The Quirk team identified actions to address all of these risks. The actions are highlighted in their report, reading of which is highly recommended. The report can be downloaded from:

<http://www.communities.gov.uk/documents/communities/pdf/321083.pdf>

‘Making Assets Work: The Quirk Review of Community Management and Ownership of Public Assets’, by Barry Quirk CBE, Stephen Thake and Andrew Robinson MBE. Crown Copyright 2007- Pages 39 to 43.