

Leeds City Region Housing Affordability and Need Study

*Connectivity and Policy Development:
A Discussion Paper*

August 2020



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Discussion Paper: Connectivity and Policy Development

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All errors and omissions of course remain entirely the responsibility of the authors.

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Executive Summary

1. This Discussion Paper explores the relationship between housing and transport costs and accessibility to jobs and employment. It identifies a number of disconnected places and illustrates their social, economic and housing market context through the development of neighbourhood typologies.
2. The research has been framed by long term shift in the economic geography of the city region. The last 70 years have witnessed a relentless process of decentralisation and suburbanisation- both of population *and* jobs. Initially encouraged through public sector intervention but more recently as a result of private sector investment.
3. A key finding of the research is that the decentralisation of employment has not led to greater accessibility for decentralised low income households. This is because of the affordability of transport, and the geography associated with the spatially unequal history of decentralisation across the city region over a number of decades.
4. The two typologies of neighbourhoods which were found to be the most likely to be disconnected from employment as a result of transport provision were traditional terraced areas which were located separately from town and city centre locations and peripheral social housing estates. When comparing the social and economic profile of these two neighbourhood typologies it is evident that the social housing estates are significantly more deprived.
5. Public policy and its fragmented nature appears to be a significant issue in worsening the outcomes for poorer households in respect of being able to use the public transport system and access employment. There is no clear evidence to show that rents adjust downwards to take account of employment accessibility for the most deprived people and places. Housing Benefit appears to support a floor to rents and yields in some locations. Additionally, transport policy tends to push prices higher as a result of price setting formulas and the need to generate revenue to subsidise discretionary fares policies.
6. For many low income households there is a trade-off between disposable income and transport expenditure. A significant outcome from that trade-off may be that poorer people with low levels of residual incomes may not renegade with the labour market and the cost to them and society is a relatively low levels of economic activity.
7. There is no “silver bullet” solution which mitigates the complex issues highlighted in this paper. Recognising that a fractured public policy framework at a national level is compounding social and economic exclusion caused by decades of urban change is a starting point to develop responses. This response will need to focus on policy coordination and integrated approaches to investment to address multifaceted challenges relating to people and place.

1 Introduction and Context

About this discussion paper

- 1.1 This discussion paper has been designed to assist a policy development workshop which will explore how transport policy and investment programmes can be shaped over a 20 year period to help to address the longstanding challenges of securing inclusive economic growth, increasing social cohesion and improving the quality of life for residents of the Leeds City Region. The workshop will also take as its context the new and emerging challenges arising from the climate emergency, an ageing population and early indications about the enduring impacts of the current pandemic and accompanying recession on social and spatial development.
- 1.2 The aim of the paper is not therefore to provide prescriptive policy solutions, but to identify the key issues which we need to take account of as we discuss the potential choices and sequencing of future interventions and the very real trade-offs between policy objectives and investment choices which will present themselves in the discussion.
- 1.3 The *Leeds City Region Housing Affordability and Need Study Technical Report 1: The Housing Market Baseline* provides a significant amount of evidence and analysis which demonstrates how the city region's spatial structure and housing markets have evolved over 70 years and how some of the negative market externalities of change have been concentrated in specific types of neighbourhood. Many of these neighbourhoods are also associated with the decline of traditional manufacturing industries and in some instances are physically distant from new growth nodes and employment agglomerations, despite a significant level of jobs decentralisation across the Leeds City Region.
- 1.4 The *Baseline* report, however, also notes that future projections of population change are as equally challenging as the legacy. A key line of enquiry is therefore the extent to which policymakers can address some of the issues from the past while managing proactively opportunities and challenges in the future. Listed below at the end of this section are ten key issues which are drawn from the Executive Summary of the housing market baseline report and provide the high-level context to the workshop.
- 1.5 The remainder of the paper is structured in the following way:
 - **Section 2** focuses on the overarching themes of connectivity and jobs accessibility, framed by the strategic pattern of land use in the city region. The analysis in respect of West Yorkshire provides a definition of connectivity and deploys the concept to illustrate the challenges in joining up employment and housing markets through transport infrastructure and investment across the conurbation.

- **Section 3** provides, through a case study approach, a description of the characteristics of disconnected places, with an emphasis on low income communities.
- **Section 4** looks at transport and housing costs and the extent to which they adjust to mitigate or exacerbate social and economic exclusion.
- **Section 5** summarises the current Government's investment and expenditure plans and its emerging economic recovery policy framework. This is supported by Appendices 1 located at the rear of the paper which provides more detail on the March 2020 Budget.

Summary of Key Issues

1.6 Our work, which is captured in *Technical Report 1: The Housing Market Baseline*, has yielded the following ten key issues which provide the context for discussion about policy options:

1. There are important **path dependencies to the direction of spatial development** in the city region, which reflect the distinctive eras of economic and housing developments outlined in sections 3 and 4. Whilst the economy and labour market have evolved, the structure of the city region's residential footprint has been more fixed. Over many decades planning policy has tended to consider housing and jobs independently, with a philosophical commitment to separation of land uses and a focus on enabling connectivity at the sub-regional scale.
2. The decades since the 1990s have seen a bifurcation of the city region's labour market. The overall position of the principle central business district (Leeds) has weakened as jobs – particularly lower-wage jobs – have relocated to peripheral industrial estates and business parks, whilst there has been an increased cultural appetite for out-of-town retailing and services.
3. The changes have paralleled processes of the spatial sorting of population. The location of jobs in higher socioeconomic classes (generally, north-east facing) differs greatly from those in lower socioeconomic classes (south-west facing).
4. There are very large differences in employment density across the city region. As well as Leeds and York, Craven and Harrogate have high jobs density which means they function as labour market magnets in their own right. These gaps yield large differences in job availability: despite having similar populations, York has over 25,000 more jobs than Calderdale, for example.
5. There are long term shifts in the economic geography of the city region, which have been nearly a century in the making. The last 70 years have witnessed a relentless process of decentralisation and suburbanisation – both of population *and* jobs – initially encouraged through public sector intervention but more recently because of trends in private sector investment.
6. As well as the broad shift of the city region's tectonic plates over the long term, important and rapid changes appear to be occurring within local authority areas, particularly as these tend to be 'over bounded' and therefore contain a wide diversity of social, economic and housing market circumstances within them.
7. Intense processes of spatial sorting through these long- and short-term processes have resulted in widening inequalities. To a great extent these explain the emergence of housing affordability issues throughout a city region which is not characterised by very high housing costs – in other words, income and cost of living (including transport costs) contribute to housing unaffordability.

8. Transport infrastructure has played a key role in shaping outcomes. It will continue to do so, although the specific outcomes will depend on the nature and location of new developments and investments in transport, as well as strategic decisions about the location of future housing and – especially – employment land release.
 9. Selective migration – i.e. the ability of certain sections of the population to move – will also fundamentally shift the age profile of the city region in the future. Partly because of affordability problems, the north of the city region will have a disproportionately older population – in the north the ratio of retirees to young people will increase to 1.5 by 2034. The proportion of young people will also fall in the west of the city region, whilst in Leeds and the east (Selby, Wakefield) key family-forming age groups (20-34) will increase.
 10. Emergent policy issues will likely include: the need to shift to a higher productivity economy to support a growing number of older people with fewer workers; the carbon implications of the city region’s long-run spatial decentralisation; housing adaptations in the light of an ageing population and the need for carbon reduction; and challenges to social cohesion and inclusion that the Covid-19 pandemic will present.
- 1.7 Technical Paper 2 *Affordability* looked in detail at the issue of Housing costs and Income across the Leeds City Region and Identified the following issues which are also directly relevant to this paper:
1. Disaggregating affordable need by key household types reveals that 28% of private tenants cannot afford a rent of £500 pcm and 33% cannot afford to buy a dwelling at cost of £100,000.
 2. Even higher proportions of social tenants cannot afford these rent/purchase cost thresholds.
 3. Fifty-seven percent of households in poverty in the City Region, that is with an income of less than 50% of the national median income, could not afford a rent of £500 pcm and sixty-four percent could not afford a house costing £100,000.
 4. Even when they contain at least one earner, thirty-six percent of households in poverty could not afford a rent of £500 pcm and forty-two could not afford to buy a house costing £100,000.
 5. Households in affordable need who are private tenants are concentrated in the inner urban areas of the region, and although lower rent accommodation is concentrated in these areas, the supply is inadequate. In many cases, private tenants are forced into overcrowding or intensive sharing to enable them to afford private rents.
 6. Households in poverty with affordability problems are widely scattered across the City Region but are mostly found in West Yorkshire. In the rest of the City Region they are mainly found in the larger urban centres.
 7. Affordable need from newly-forming households, as distinct from the backlog of affordable need within the existing population, also falls mainly in West Yorkshire, where younger people are more concentrated, both for educational and employment reasons and because the long standing nature of affordability problems effectively drives them out of higher rent and higher priced areas.

2 Employment and connectivity

Introduction

2.1 In this section of the paper, we consider the connectivity through the lens of the accessibility to employment it provides for households within the city region.

Definitions of accessibility and connectivity

2.2 It is important to settle on an accepted definition of accessibility. Throughout our analysis we draw on a definition of accessibility which simultaneously combines a measure of the quantity of opportunities (e.g. jobs) with the cost of getting to those opportunities (e.g. time, ticket costs, or fuel and parking costs).

2.3 Connectivity, on the other hand, is taken to refer to the ease in theory of travelling between any two locations. In contrast to accessibility, connectivity does not necessarily look at the number of opportunities at the destination (e.g. jobs) or the costs. It is normally a function of the *topology* of a transport network.

2.4 These distinctions are important in a complex, decentralised and polycentric urban system such as that in the Leeds City Region. Transport networks are *anisotropic* – or directional – meaning that they may favour mobility demands in certain directions over others. Typically, the existence of a fast, high capacity road (e.g. motorway) or a railway line will introduce non-trivial *anisotropy* into the network leading to spatial inequalities in accessibility, all other things being equal.

2.5 When considering accessibility, it is sometimes desirable to incorporate a *matching function*, which aims to look at the fit between the characteristics of the demand unit (e.g. household) and the opportunity (e.g. job). Thus, jobs accessibility may vary not only because of the network and the gross number of jobs in a given place, but also because the jobs are inaccessible to the population for other reasons (e.g. skills).

2.6 The foregoing results in significant theoretical discontinuities in accessibility to employment or other economic opportunities in many city regions. An important policy corollary is that whilst improving connectivity can markedly alter the topology of the network, its ultimate impact on accessibility will depend additionally on other factors, including:

- travel costs
- the spatial arrangement (location and density) of destination opportunities
- the suitability of the connected opportunities to those connected to them

Public transport

2.7 When considering public transport interventions, further qualitative aspects may influence accessibility over and above the presence of a transport link. These include:

- service frequency, reliability, capacity and quality
- availability and ease of purchase of the most appropriate and cost-effective tickets
- accessibility of the service's access and egress points (e.g. bus stops and rail stations) to the overall trip origin and destination

- 2.8 Recent qualitative work in the Leeds City Region has revealed that each of the above are cited as significant barriers to low income groups trying to access employment using public transport.¹

Active travel

- 2.9 The accessibility improvements of active travel interventions, despite typically offering very high benefit-to-cost ratios (BCRs) in transport scheme appraisals,² nevertheless may depend on a further set of factors, including:

- the perceived quality and safety of the overall route
- legibility of the route
- appropriate facilities, especially at the destination, for the storage of equipment (e.g. bicycles)

Impact of cost on accessibility

- 2.10 In all cases, including for private transport (e.g. motoring), the costs of travel are an important determinant of accessibility. How these costs are calculated obviously differs by mode. Just as importantly, households may also account for or internalise costs differently by mode. For example, for most households the purchase of a car represents a major sunk cost which then incentivises its further use to recover the outlay and bring the cost-per-mile down. Whilst the long term running costs of a car, including purchase, maintenance and depreciation, may in some case be higher than public transport, most households will consider only the marginal cost at the point of use (fuel and the capitalisation of possible time savings and convenience). High fares for public transport may therefore be equally off-putting for low income households and high-income households alike, although for different reasons. These behavioural insights help to explain why transport choice may not always reflect standard neoclassical economic assumptions.

- 2.11 There is an important interaction between housing and transport costs. As this paper goes on to explain, housing and transport costs together are the two most significant items of expenditure for typical UK households. The balance of these costs differs fundamentally across the income gradient. For most households there is therefore a *trade-off* – whether explicit enacted or observed *ex-post* – between where they live and how much they pay on transport. For some households, although not all, there may be an element of choice in residential location, which is traded off against accessibility (typically to a job, or jobs in multi-worker households). Whilst some households are able to exercise choice in this trade-off, others are more constrained as a result of land use policy which has shaped the location and density of housing, or employment sites, or both.

- 2.12 The *access-space model*,³ which is a theoretical model that uses the trade-offs between housing space (a proxy for distance from a city centre) and accessibility, has long been used to explain the tendency for cities to develop suburban sprawl and for there to be clear income and social gradients through space as the housing market equilibrates over the long term. Whilst intuitive – and to some extent backed up

¹ Richard Crisp, Ed Ferrari, Tony Gore, Steve Green, Lindsey McCarthy, Alasdair Rae, Kesia Reeve and Mark Stephens (2018) [Tackling Transport-Related Barriers to Employment in Low-Income Neighbourhoods](#). York: Joseph Rowntree Foundation.

² Department for Transport (2015) [Investing in Cycling and Walking: The Economic Case for Action](#). London: DfT.

³ After William Alonso (1964) *Location and Land Use*. Cambridge MA: Harvard University Press; and Richard Muth (1969) *Cities and Housing*. Chicago: University of Chicago Press. See Colin Jones, Mike Coombes and Cecilia Wong (2010) [Geography of Housing Market Areas in England](#) (Newcastle-upon-Tyne: University of Newcastle) for a summary of the key theoretical perspectives behind the access-space model.

empirically especially in some US cities – the model typically makes certain assumptions that are not reflected in the Leeds City Region. These are:

- The so-called ‘featureless plain’ assumption – in contrast the Leeds City Region has a number of significant geographic features, but most notably the impact of the Pennine topography shaping connectivity within Bradford, Calderdale and Kirklees.
- The single central business district (CBD) assumption – whilst Leeds occupies a key role and is by far the most significant single jobs cluster, it is by no means the only one. As we discussed in the WP1 Housing Market Baseline report, there has been a significant level of jobs decentralisation, on top of an already polycentric urban structure.
- Travel time and costs are directionally uniform and vary linearly according to distance. In reality, there is significant network *anisotropy* as discussed above. There are also important discontinuities in the price structure of transport – e.g. the enhanced road connectivity in east Leeds afforded by the A1-M1 link. Finally, some elements of the transport network have significant congestion or capacity constraints.

2.13 Perhaps the most significant departures from the access-space model in the Leeds City Region (as with most English city regions) lie in three factors:

- The historic planned development of significant quantities of non-market housing in various locations (for example, council housing estates), sometimes with poor connectivity to the central areas of employment.
- Planning and infrastructure policies and investments which have enhanced accessibility to certain types of opportunity in certain types of location (for example, out-of-town leisure and retail; or large business parks).
- The interaction of transport costs and housing affordability, rising housing costs (driven by a combination of social policies and market failures) and the resultant necessary prioritisation of housing expenditure over transport expenditure for low income households.

2.14 Each of these factors will be discussed in more detail throughout the remainder of this paper.

Transport costs and housing affordability

2.15 Although there is much focus on housing affordability, it is important to bear in mind that housing and transport costs together are the two most significant items of expenditure for the typical UK households – a fact that is indeed the case in most other countries in the world.⁴

2.16 On average, UK households spend approximately the same amount each week on housing (including utilities such as electricity and gas) and transport. In some parts of the country, spending on transport is higher than on housing. Indeed, this is the case on average within the Yorkshire and the Humber (Y&H) region, where average weekly expenditure on housing, fuel and power is £64.00 compared to weekly expenditure on transport of £77.30.

⁴ Gilles Duranton and Erick Guerra (2016) [Developing a Common Narrative on Urban Accessibility: An Urban Planning Perspective](#). Washington DC: Brookings Institution.

2.17 As such, the average Y&H household spends about the same amount per week on transport as households living in London, although it represents a much higher proportion of overall expenditure (15% in Y&H, and 11% in London). (See Table 2.1.)

Table 2.1. Household expenditure by category and selected region, 2018-19.

Category		Expenditure (£ / week)		
		England	Yorkshire and the Humber	London
1	Food & non-alcoholic drinks	60.80	54.40	65.80
2	Alcoholic drinks, tobacco & narcotics	12.30	11.90	10.90
3	Clothing & footwear	24.90	22.20	29.90
4	Housing(net) ¹ , fuel & power	79.20	64.00	129.30
5	Household goods & services	41.50	42.10	41.10
6	Health	7.60	6.00	8.20
7	Transport	81.50	77.30	78.20
8	Communication	18.90	17.50	20.90
9	Recreation & culture	76.70	74.20	65.90
10	Education	7.40	4.60	18.50
11	Restaurants & hotels	51.90	49.20	66.50
12	Miscellaneous goods & services	44.90	39.70	49.50
13	Other expenditure items	78.00	67.00	101.50
Total expenditure (£)		585.60	530.20	686.00
Average weekly expenditure per person (£)				
Total expenditure		243.90	234.10	261.60

Source: ONS [Family spending in the UK: April 2018 to March 2019](#) (data table A4).

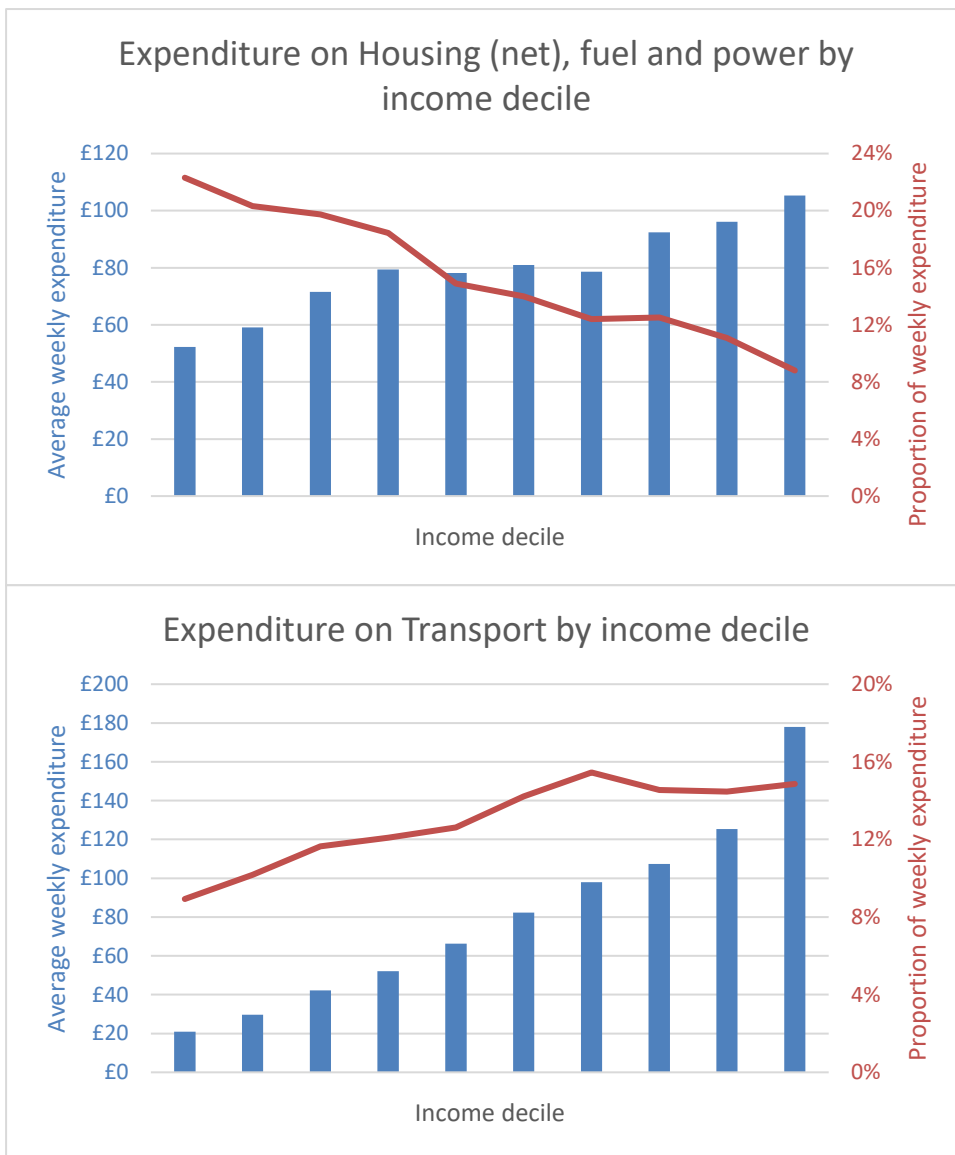
2.18 This likely reflects several factors, including:

- High housing costs in London, and comparatively low housing costs in Y&H.
- Significantly lower subsidy per head on public transport in Y&H compared to London⁵, with a higher proportion of public transport fares set commercially (although, as we note later, transport fares in London are comparatively high against global benchmarks).
- Lower average household incomes in Y&H.

2.19 Whilst useful, it is important to recognise that there are significant income gradients to the pattern of household expenditure, which means that these averages apply to very few households in reality. Specifically, those households that spend a high proportion of their outgoings on transport tends to spend a lower proportion on housing, and vice versa. This is shown clearly in the charts at Figure 2.1.

⁵ Estimates by IPPR for 2017/18 show that total public spending per capita on transport in London at over £1,000, against that in Y&H at just over £300. See Luke Raikes (2019) [Transport Investment in the Northern Powerhouse – 2019 Update](#). Manchester: IPPR North.

Figure 2.1. UK average household expenditure (value and proportion of total expenditure) for housing (top) and transport (bottom) by income decile, 2018-19.

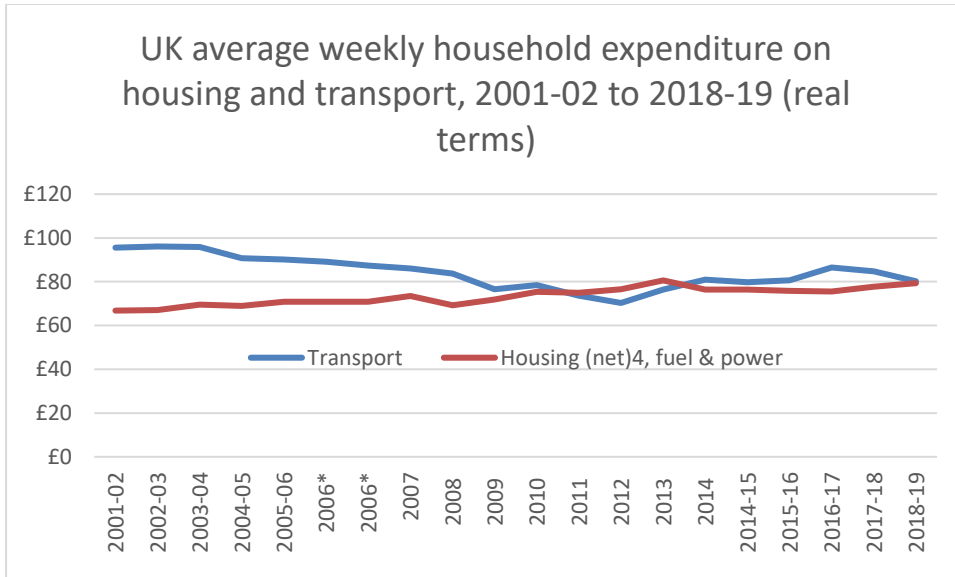


Source: ONS [Family spending in the UK: April 2018 to March 2019](#) (data table A4).

Finally, whilst on average housing costs have been rising in real terms for the average UK household, this is no longer being offset by reductions in transport spending (

2.20 Figure 2.2). Since 2012 average expenditure on transport has begun to increase and, since 2014 has been higher than or broadly equal to housing expenditure.

Figure 2.2. UK average household real-terms expenditure on housing and transport 2001-02 to 2018-19.



Source: ONS [Family spending in the UK: April 2018 to March 2019](#) (data table 4.1). *Note there is a small discontinuity in the data series in 2006 owing to an improvement to the methodology for the imputation of mortgage interest payments. All expenditure is at 2018-19 prices.

- 2.21 In sum, the evidence from this section seems to suggest that housing and cost-of-living pressures, coupled with stagnant or falling wages in recent years, have combined to affect the combined affordability of housing and transport. This has sharpened the trade-offs between housing and accessibility. As the possibilities for paying for transport become more squeezed, particularly for households with more significant income constraints, there are ramifications for jobs accessibility – and therefore for welfare spending, economic productivity and social cohesion.
- 2.22 Households on moderate-to-good incomes who are able to exercise the housing/accessibility trade-off may find themselves having to think harder about their choices – but given these tighter constraints the selective nature of improved transport connectivity may disproportionately influence residential location decisions. We think that the recent pattern of new housing construction and changes in migration patterns (which heavily favour places like Wakefield and Selby) that we discussed in our WP1 report are testament to this.
- 2.23 The choices available to households on low incomes will vary considerably according to their location and the occupational/skills part of the labour market that they are in:
- Low income households living in peripheral areas will find themselves increasingly unable to afford the transport to access more distant jobs, unless housing costs adjust downwards (we address this in Section 4 of the paper). This means that their spatial labour market will effectively shrink. Exceptions might be individuals

whose skills are suited to any decentralised jobs growth near them, even though the total number of jobs accessible to them will still fall in general terms. For some households, great efforts may be paid to acquiring the use of a car, despite the up-front costs. Access to a car – which will be very marginal for the poorest households when offset against housing costs – will be a big determinant in the inequalities of access to jobs for this group. There is some evidence that the concept of ‘forced car ownership’ is thus extending into urban deprived contexts.⁶

- Low income households living in more central areas may enjoy better accessibility to jobs, although the number of jobs suited to them in their locality may be steadily decreasing (as we discuss next in this section). Accessibility to more decentralised jobs may be especially poor, and the costs of doing so increasingly out of reach. Irrespective of accessibility to employment, this group may suffer disproportionate housing stress given the evidence we presented in the WP1 Baseline report of increasing population intensification in the most deprived neighbourhoods, often associated with more central locations and high proportion of private rented (PRS) housing.

The spatial structure of employment

2.24 As the previous sub-section indicated, changes in the spatial structure of employment may combine with changes to affordability to the disadvantage of certain groups (and advantage of others) in terms of overall labour market accessibility. The key trend is the decentralisation of certain types of jobs, at the same time as (at least until Covid-19) the resurgence of city centre agglomerations of creative occupations and knowledge intensive business services (KIBS).⁷

2.25 The commonly held hypothesis that increased decentralisation may lead to reduced levels of ‘excess commuting’⁸ and/or more efficient commuting patterns has not been proven unequivocally. Indeed, whilst studies recognise that most urban areas in the developed economies are moving towards some degree of multi-nodality or polycentricity, job decentralisation itself is not a sufficient condition for increased commuting efficiency.⁹ A number of factors can determine how responsive commuters are to changes in job location. These include the degree of jobs-housing balance at the local (e.g. suburb) level; the modal mix (e.g. car users have been able to respond more quickly than public transport users to changes in the relative locational advantage of different places¹⁰); the occupational mix of decentralised jobs; and household-level patterns of commuting and other trips (e.g. for school or caring responsibilities), especially in multi-earner households.

⁶ See, for example, Angela Curl, Julie Clark and Ade Kearnes (2018) Household car adoption and financial distress in deprived urban communities: A case of forced car ownership? *Transport Policy* 65, pp 61-71; and Giulio Mattioli (2017) ‘Forced car ownership’ in the UK and Germany: socio-spatial patterns and potential economic stress impacts. *Social Inclusion* 5 (4) pp 147-160.

⁷ Lena Tochtermann and Naomi Clayton (2011) [Moving on up, moving on out? Overcoming the jobs-skills mismatch](#). London: Centre for Cities.

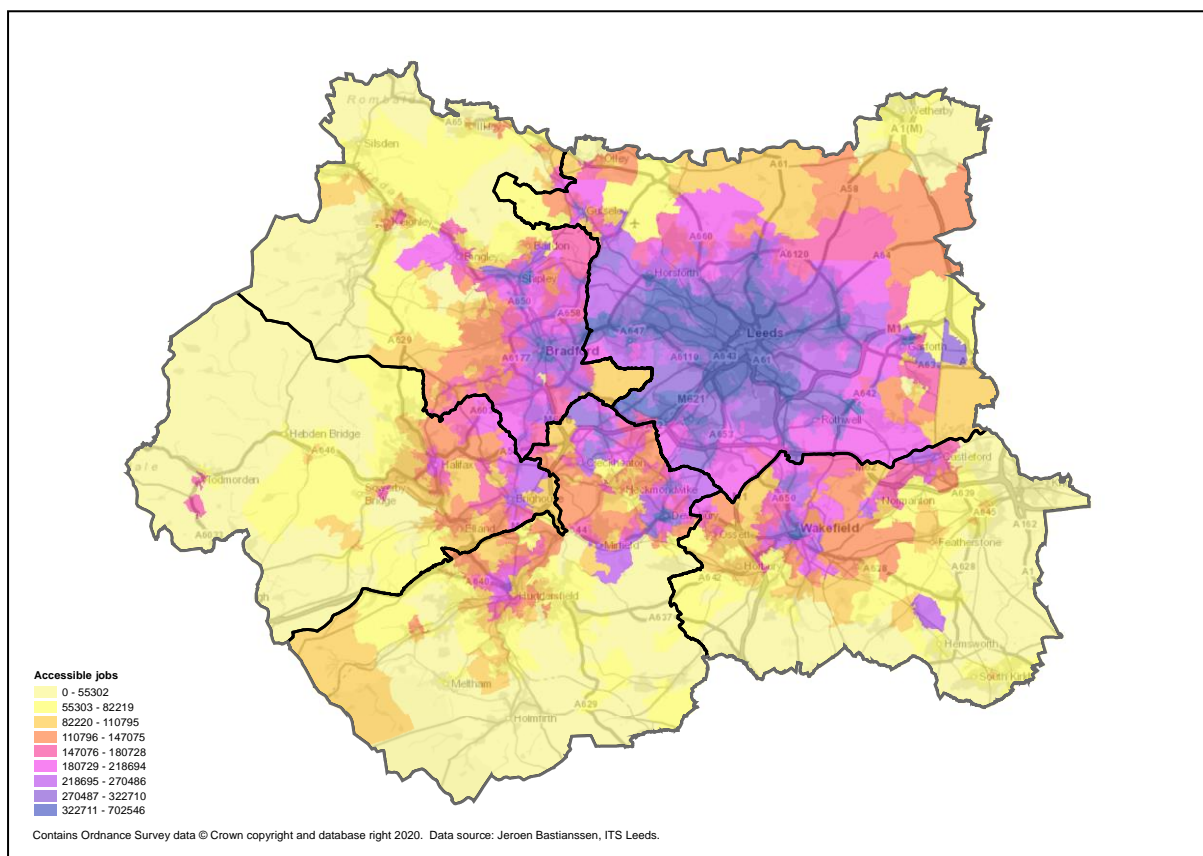
⁸ ‘Excess commuting’ is defined as the difference between actual total commuting distance as that which might arise from an optimal housing-jobs balance. See for example Kang-Rae Ma and David Bannister (2006) [Excess commuting: a critical review](#), *Transport Reviews* 26, pp 749-767.

⁹ Dennis Guth, Christian Holz-Rau and Markus Maciolek (2009) Suburbanisation of jobs and commuter traffic: does employment decentralisation lead to travel-reducing commuting patterns? Empirical evidence from Germany, 1987-2007.

¹⁰ Edna Murphy (2012) [Urban spatial location advantage: The dual of the transportation problem and its implications for land-use and transport planning](#), *Transportation Research Part A: Policy and Practice*, 46 (1) pp 91-101.

2.26 As demonstrated by analysis undertaken by Jeroen Bastianssen of ITS Leeds for WYCA, where a household lives heavily determines their aggregate access to employment, at least by public transport. The map at Figure 2.3 shows the number of accessible jobs using public transport, taking into account network topology (connection possibilities) and timetabling. The role of the radial connectivity to the key centres of Leeds city centre and some secondary locations like Bradford, Huddersfield and Wakefield centres can be clearly discerned.

Figure 2.3. Public transport accessibility to jobs (West Yorkshire)



Source: Jeroen Bastianssen/ITS/WYCA

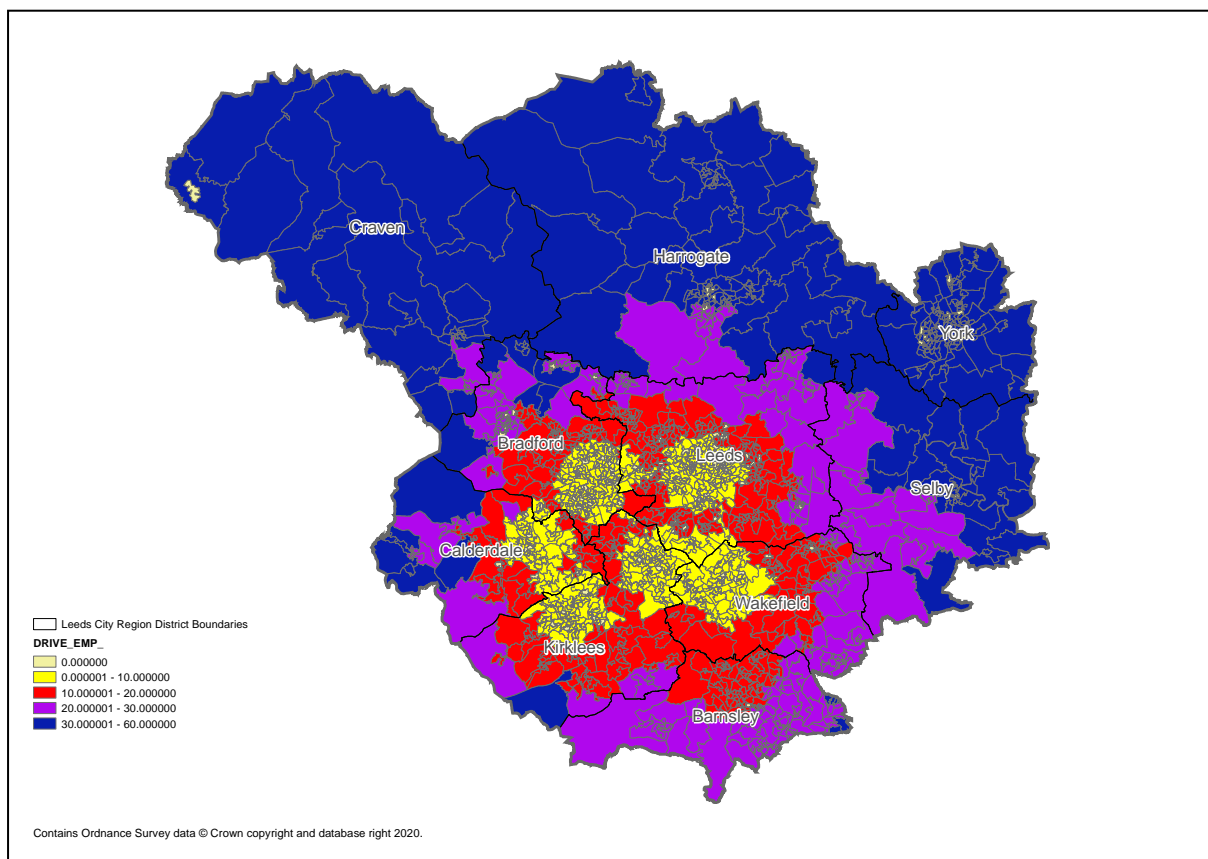
2.27 Several important observations can be made about public transport accessibility to jobs. First is that the level of variation in jobs accessibility is far from trivial, even if most planned housing locations might meet minimum standards in terms of accessing the transport network (e.g. being within 500 m of a bus stop). The most accessible neighbourhoods have an aggregate accessibility to jobs that is over ten times greater than that of the least accessible neighbourhoods.

2.28 Second, whilst many of the areas with low levels of jobs accessibility are sparsely populated, this is not universally the case. Many neighbourhoods in the least accessible decile have significant populations. In many cases – as will be discussed in the next section of this paper – this is as a result of historic planned medium density housing estates, built both privately and by local authorities. Largely speaking, these estates were planned and built in a different era both in terms of the location of jobs and – equally significantly – socio-cultural norms (often gendered) around which household members were in paid employment. Whilst public transport networks may

have provided similar routes and frequencies to those of the present day, fares would have been lower, reliably probably higher given less traffic congestion, and the cultural aspiration of car ownership less widespread or realised.

2.29 The size of the Leeds City Region geography also imposes constraints on jobs accessibility for users of private transport. There are five key clusters of contiguous neighbourhoods where there are more than 20,000 jobs within 2 miles. These are the centred on Leeds, Bradford, Huddersfield, Halifax and Wakefield. There are of course a number of important secondary employment centres throughout the city region, both in traditional urban contexts (such as Harrogate, Wetherby and York) and in more decentralised locations such as Thorpe Park (Leeds), Euroway Industrial Estate (Bradford), Sherburn-in-Elmet (Selby), or locations in the Dearne Valley (Barnsley). Indeed, as the map in Figure 2.4 shows, the most significant contiguous cluster of jobs lies in a relatively low-density arc from Wakefield city centre to Dewsbury, centred on the M1-M62 interchange and extending broadly around the A638 and A650 corridors. Best-case travel times to these clusters may be beyond 30 mins for many parts of the city region, with journey time variability typically very high, although arguably much easier than the comparative public transport accessibility.

Figure 2.4. Best-case drive time to key employment centres.



Source: Authors' analysis using Open Street Map / QGIS

Summary of Key Issues

2.30 In summary, this section of the discussion paper has set out the importance of considering accessibility and how this can differ significantly from connectivity. Two key factors which interact to determine jobs accessibility are the affordability of

transport -- especially when traded-off against housing costs – and changes to the geography of jobs. According to both of these measures, the situation will have worsened considerably for those on the lowest incomes, and the resulting patterns of commuting and residential location decisions are likely to have contributed to worsening patterns of socio-spatial segregation across the city region (as noted in our WP1 report), not to mention the air quality, carbon and environmental implications of greater levels of induced commuting by car. The West Yorkshire Transport Strategy evidence base clearly shows significant increase in the distance travelled to work in all West Yorkshire authorities between 2001 and 2011.¹¹ At the same time, levels of commuting by car and train grew, whilst travel to work by bus declined precipitously.¹² Both trends are consistent with our overall thesis of a geographically bifurcating labour market geography, with low income employment decentralisation paralleling a resurgent Leeds city centre for creative and KIBS jobs.

- 2.31 Policy makers will need to forge a clear understanding of the barriers to accessibility within deprived neighbourhoods and the where public interventions may make the most impact. For example Education, skills and training in some locations may have bigger impact on accessibility than transport costs, given the relationship between skills training and lifetime earnings. Although this example cannot assumed to be true without being accompanied by detailed analysis of the earnings offered in the locally accessible labour market.
- 2.32 Behavioural and social factors can influence the preferred transport mode for different types of household and communities, and qualitative information is an important tool of analysis .It would be essential to understand these behavioural issues to test the local impact of fiscal incentives to improve environmental outcomes such as congestion charges for example.

¹¹ Average travel distances rose by 14.4% for West Yorkshire residents (from 11.3 to 12.9 kilometres) between 2001 and 2011. Source: [West Yorkshire Transport Strategy Evidence Base](#).

¹² Ibid.

3 Characteristics of disconnected places: case studies

Introduction

- 3.1 Extending the analysis outlined in Section 2, we turn in this section to a selection of case studies designed to illuminate the specific challenges of disconnected places and communities. We do this by presenting a prototypical clustering of different neighbourhood characteristics (a neighbourhood typology), then analytically overlaying this against a jobs accessibility measure to isolate neighbourhoods of different types which are relatively poorly located with respect to jobs.
- 3.2 For a number of these 'disconnected' neighbourhood types, we present a pen portrait of their characteristics and seek to cross reference additional small area data sets to exemplify the housing and transport affordability challenges they face.

A typology of LCR neighbourhoods

- 3.3 As was discussed in Section 2, the 'pure theory' of the access-space model is subverted to a significant extent within the Leeds City Region (as in most cities) because the standard, restrictive assumptions of monocentricity and isotropy cannot be met. Instead, LCR is characterised by degrees of multi-nodality or polycentricity, shaped by physical geography, technological innovations and infrastructure investments over centuries.
- 3.4 Previous work has shown that, rather than there being a continuous price (or socioeconomic) gradient radiating out from the urban core, the housing market geography of the city region is complex and multi-scalar, with overlapping and nested housing market areas (HMAs).¹³ This reflects not only the 'tectonic shifts' in the economic-geography and function of places in the city region over time,¹⁴ but is also the product of distinctive patterns of historical urbanisation and development associated with distinct political and investment regimes.¹⁵ The 'peripheral' council housing estate is, if not the most important, simply but one of these distinctive archetypes.
- 3.5 To reflect the diversity of residential contexts in the city region and the fact that 'poor' neighbourhoods or those with affordability pressures can take different forms, we developed a cluster analysis of a selection of important housing and socioeconomic characteristics to derive a typology of neighbourhoods.
- 3.6 The input variables to the cluster analysis were: median house prices, median equivalised household income, property type (flats and semi-detached properties as respective proportions of all properties), housing tenure (private renting and social

¹³ Mike Coombes, David Bradley and Colin Wymer with Nathaniel Lichfield and Partners (2016) [Leeds City Region Housing Market Areas](#), Newcastle-upon-Tyne: CURDS, Newcastle University.

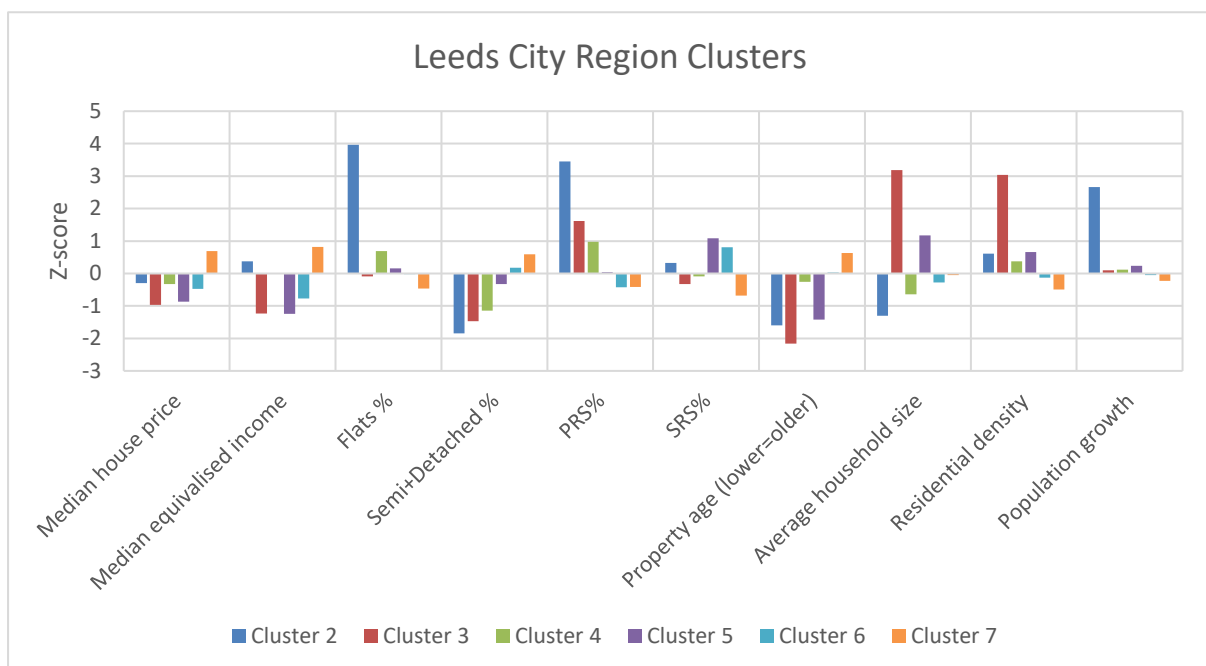
¹⁴ See *Leeds City Region Housing Affordability and Need Study Technical Report 1: The Housing Market Baseline* (chapter one).

¹⁵ See *Ibid.* (Box 3.1).

renting as respective proportions of all households), average property age, average household size, residential density (dwellings per hectare), and rate of population change. All measures were calculated at the neighbourhood level using lower super output areas (LSOAs), and were standardised using z-scores. After trying several different models, a seven-cluster solution using a *k-means* clustering algorithm was chosen as offering the most intuitive resultant clusters which also maximised distances between cluster centres. One of the resulting clusters described a single LSOA in Leeds City Centre and appeared to have spurious data on population growth and has been discarded from the typology.

3.7 Figure 3.1 shows the remaining six clusters (labelled Clusters 2-7) and their average standardised score on each input variable.







Figure 3.1. Neighbourhood typology cluster scores



A short pen portrait for each cluster helps to bring these resulting neighbourhood types to life a little (

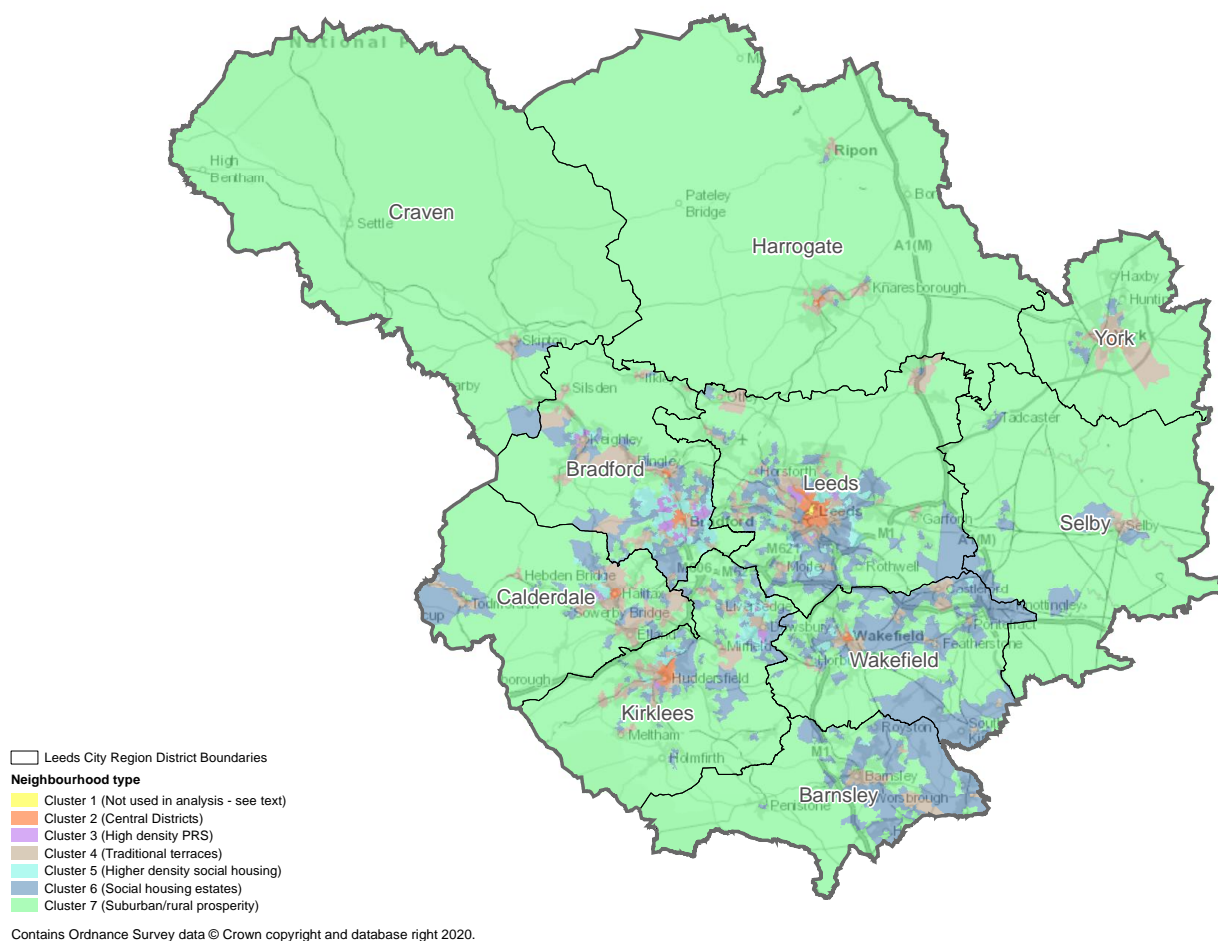
3.8 Table 3.1).

Table 3.1. Neighbourhood typology pen portraits

<p>Cluster 2</p>	<p>Central districts</p> <p>This neighbourhood type contains a disproportionate number of flats and has the highest prevalence of private rented sector (PRS) properties in the city region. Properties tend to be older. Whilst residential densities are not the highest in the city region, recent population growth in this neighbourhood type has been far higher than in any other type of neighbourhood. Households in this type of neighbourhood are the smallest of all neighbourhood types in the city region.</p>	
<p>Cluster 3</p>	<p>High density PRS</p> <p>Like cluster 2, the PRS is well represented in this neighbourhood type, although there is a fair degree of owner-occupation, too. Prices are low (although rents may not be – see section 4), and the typically terraced housing stock is within the central districts of key cities and towns and as such is amongst the oldest of the city region’s housing stock. These are the highest density neighbourhoods in the city region, and the housing stock is used intensively: very large households suggest that overcrowding is a big issue. Incomes are low.</p>	
<p>Cluster 4</p>	<p>Traditional terraces</p> <p>Although terraced housing is predominant here as in Cluster 3, household sizes are much smaller and incomes are higher. Overall, this archetype is less deprived, the housing stock is much newer and may be a mix of better-built, more generously proportioned terraces and more recent terraced/town house developments. This neighbourhood type is not restricted to central areas and may also be found throughout the city region in smaller settlements.</p>	
<p>Cluster 5</p>	<p>Higher density social housing</p> <p>These neighbourhoods are characterised by older social housing stock. These are among the poorest neighbourhoods in terms of average income, and property values are low. Household sizes are relatively high, and property may be overcrowded.</p>	
<p>Cluster 6</p>	<p>Social housing estates</p> <p>The key characteristics of this neighbourhood type are that household incomes are relatively low (but not the lowest), there is a relatively high proportion of social rented housing. The garden suburb style of large, peripheral council housing may predominate in these neighbourhoods, although there will be private housing, too. Densities are low, and the housing is not used as intensively here as in other social housing estates or traditional terraced areas.</p>	
<p>Cluster 7</p>	<p>Suburban/rural prosperity</p> <p>In comparison to all other neighbourhood types in LCR, these neighbourhoods have high property values, high average households incomes, more traditional housing (and fewer flats) – or new-built detached styles – and are dominated by the owner-occupied sector. Densities are low, and recent population growth tends to be fairly low. That said, these neighbourhoods have the youngest housing stock suggesting that they have expanded in a planned fashion through the creation of new private suburban estates.</p>	


- 3.9 As implied in the pen portraits, there is a spatial patterning to the distribution of these neighbourhood types, as depicted in the map in Figure 3.2. Some neighbourhood types which are characterised by low incomes can be found in comparatively remote or peripheral locations. This includes many neighbourhoods in clusters 4 (Traditional Terraces) and 6 (Lower Density Social Housing).
- 3.10 Indeed, when the map of the neighbourhood typology is overlain on the map of public transport jobs accessibility (Figure 2.3), it is possible to isolate those neighbourhoods which have low levels of jobs accessibility (at least by public transport) and have low incomes and/or other characteristics of social deprivation. The map in Figure 3.3 shows the results of this overlay.¹⁶

Figure 3.2. Map of neighbourhood typology.






¹⁶ Public transport data used within the accessibility model was provided by Metro and therefore only covers West Yorkshire. Consequently, this analysis only relates to the five West Yorkshire districts.

Table 3.2. Selected examples of disconnected neighbourhoods

Example	Number of accessible jobs by public transport ¹⁷	Travel time to selected centres (9am weekday start)	Travel time to selected centres (6am weekday start) ¹⁸	Ave. equivalised household income	Median house price
Disconnected traditional terraces					
Burnley Road, Todmorden 	39,542	1h 14 mins to Halifax (bus) 50 mins to Halifax (bus and train) 1h 24 mins to Leeds (bus and train)	50 mins to Halifax (bus and train) Not possible to Leeds	£27,213	£138,250
Leeds Road, Ilkley 	41,857	1h06 mins to Leeds (bus) 41 mins to Leeds (train)	Not possible	£33,243	£264,999

¹⁷ Modelled – this includes all jobs, not just vacancies. As a comparison, a typical low-income neighbourhood close to Leeds or Bradford may have c 300,000 – 500,000 accessible jobs.

¹⁸ Source: Google Maps. Includes required walking time to access bus stop or rail station. Transport timetables may reflect Covid-19 disruption and were accessed on 5 August 2020.

Example	Number of accessible jobs by public transport ¹⁷	Travel time to selected centres (9am weekday start)	Travel time to selected centres (6am weekday start) ¹⁸	Ave. equivalised household income	Median house price
Disconnected social housing estates					
England Lane, Knottingley 	48,860	1h 2 mins to Wakefield (bus) 1h 6 mins to Leeds (walking and train)	Not possible	£23,142	£120,000
Weston Lane, Otley 	12,356	1h 5 mins to Bradford (bus and train) 1h 2 mins to Leeds (walking and bus) or 1h 16 mins to Leeds (two buses)	Not possible	£21,393	£164,500
Leymoor, Huddersfield 	60,475	21 mins to Huddersfield (bus) 58 mins to Leeds (bus and train)	53 min to Huddersfield (walk). Not possible by public transport 1h 20 mins to Leeds (53 min walk then train)	£17,214	£109,000

Example	Number of accessible jobs by public transport ¹⁷	Travel time to selected centres (9am weekday start)	Travel time to selected centres (6am weekday start) ¹⁸	Ave. equivalised household income	Median house price
Braithwaite, Keighley 	45,389	55 mins to Bradford (bus and two trains) 1h 30 mins to Bradford (two buses) 1h 45 mins to Halifax (bus and two trains)	Not possible	£19,574	£144,995
Illingworth, Halifax 	72,982	26 mins to Halifax (bus) 1h 12 mins to Bradford (two buses)	29 mins to Halifax (bus) Not possible to Bradford	£19,067	£130,000
Tennyson Ave., Todmorden 	46,704	1h to Halifax (bus) 45 mins to Halifax (bus and train) 1h 18 mins to Leeds (bus and train)	47 mins to Halifax (bus) Not possible to Leeds	£26,212	£168,725

- 3.14 Second, the time involved in accessing jobs is difficult to monetise as an opportunity cost. But given that for many low-income households, levels of pay will be low (at or around the minimum wage), the economic benefits of applying for jobs will be marginal or in many cases negative. The complexity of the journeys involved, and the relative lack of forbearance among employers for poor punctuality, means that realistically households have very few job options unless they have access to a car. This is before the complexity of childcare and other priorities is factored in.
- 3.15 Third, accessibility falls off rapidly for early starts. For example, accessing a cleaning, manufacturing or logistics job with a shift pattern which could involve 6 am starts would be impossible, leaving households to rely on expensive taxis.
- 3.16 For more affluent households, the location of these neighbourhoods would be an attribute that is actively traded-off against the longer commute time involved. However, the significantly higher wages that those households might command, together with the flexibilities (e.g. for home working) that especially are found in KIBS occupations (and which are likely to increase post-Covid) mean that such trade-offs are normally countenanced readily.
- 3.17 There are several implications of this analysis which are worth considering further in policy terms. These include
- What can be done to mitigate or reverse – over the long term – the accessibility implications that arise from the planned peripheralisation of residential areas for those on low incomes
 - The implications for land release and incentives for new employment locations, and where these can achieve an appropriate balance of land use efficiency, economic feasibility, and accessibility to the widest possible population using public or active travel modes
 - Supporting and enhancing connectivity to areas currently poorly served by the traditional public transport model
 - Developing safer and more attractive active travel options, but balancing these against the behavioural and practical barriers that households may face (e.g. in terms of lifestyle change or integrating childcare journeys)
 - Factoring in realistic commuting costs to a minimum level of easily accessible jobs (e.g. over 200,000) as part of an approach to local affordable rent setting
 - Lobbying government for more flexibility over LHA and rents policy, including the possibility of rent caps for PRS properties in the poorest connected area

Summary of Key Issues

- 3.18 The typologies of neighbourhood highlighted here need to be considered along with the analysis of the impact of transport costs on low income households in Section Two.
- 3.19 Clearly there is a spatial and housing market dimension to accessibility and two typologies of housing neighbourhood have been identified as having particular issues. In both typologies there will be clusters of disadvantaged households, although this is more of an issue in peripheral social housing estates than in the terraced neighbourhoods identified. Nevertheless there are households in both typologies who are doubly disadvantaged by virtue of low income and neighbourhood location.
- 3.20 It should be noted however that most poor Households across the City –Region do not live in neighbourhoods which present barriers to accessibility to employment by virtue

of spatial location. Other significant barriers exist in better connected neighbourhoods, including transport cost, a factor which may reduce economic participation and therefore inhibit the optimum use of additional transport infrastructure such as a new metro system. This suggests that while Neighbourhood based interventions may be necessary to generate equitable and efficient outcomes from a city region transport system, *it is not a sufficient response on its own*. There are multiple barriers in relation to accessing employment and utilising transport infrastructure in an efficient, effective and equitable way. This suggests that there are multiple policy responses needed to achieve those goals as well.

- 3.21 City Region wide analysis of income distribution, transport cost, social and cultural preferences for transport nodes need to be assessed alongside objectives relating to the environment, economic growth and social cohesion. This analysis produces high level policy responses, which would include pricing and fiscal incentives. When this has been done then barriers which exist in disadvantaged communities and places will need to be addressed identifying a wide range of policy tools to connect all groups to the transport system.

4 Housing and transport costs: the role of markets and public policy

Do Housing Costs adjust for low levels of connectivity for low income households?

- 4.1 We have been following a line of inquiry to establish if market mechanisms adjust housing costs in the light of accessibility to employment and the transport costs associated with accessing large clusters of employment opportunities. We have approached this task by observing rentals advertised on *Zoopla* and *Rightmove* and compared similar dwellings in different locations using the maps and information highlighted in sections 2 and 3 of this Paper. Economic theory suggests that we should be able to observe a difference in rental structure between connected and disconnected neighbourhoods which prices in locational advantages and disadvantages in respect of access to employment opportunities.
- 4.2 This paper can only make preliminary observations as the extent to which rents are responsive to employment opportunities for low income groups. This issue warrants a deeper examination and a bespoke research project which addresses the issue that much of the data used for research into transport and housing costs is only available in regional data sets and therefore cannot take account of local issues which impact on connectivity and accessibility. The evidence highlighted in Section 2 and 3 shows that there are both *Inter and Intra* local authority inequalities in access to employment opportunities generated by the costs and availability of transport for low income groups in some locations. The issue we highlight here is that there is no firm evidence that an adjustment in rents occurs within and between local authorities which takes account of these advantages and disadvantages at a neighbourhood level.
- 4.3 Within the study area the possible exception to the observation above is Leeds. However, even in this City which has the largest and most varied rental offer it is questionable if the differences we observe at the Broad Market Area level covered by the LHA are based on a property offer comparable on a like for like basis. This is because of the scale of the Private Rented Sector and its recent history of dynamic growth. For example, due to the expansion of the City Centre market the housing offer available within the 30th percentile is constantly shifting. This happens because the rapid expansion of the rental market in the city centre automatically expands the supply of dwellings available at the 30th percentile across its urban geography and brings more dwellings into pool where the highest subsidy for Housing Benefit is paid. Additionally the huge student population in the city provides a public policy support for private sector rental demand which helps forge a rental structure which is not necessarily driven by the economy but is sensitive to accessing a service- i.e. Higher Education. This is not the case in areas such as Calderdale or Wakefield and in Leeds the occupation of inner-city space by students may increase the rents in relatively more disconnected localities. A case of education policy and publicly funded student loans reshaping where the low-income labour force can live.

- 4.4 Generally, in West Yorkshire not only is it hard to find rental difference between connected and disconnected low income areas within districts but the differences between districts outside Leeds are also small at the Lower Quartile level calculated by the VOA. In 2018 the LQ rental difference between Bradford and Calderdale and Kirklees was just over 2%. The spatial distribution of the PRS has more peripheral locations in Bradford but this seems to make no real difference to the structure of rents on offer when looking at current listings online. These three districts all have high vacancy rates of 4%, 3.3% and 3.8% respectively and given this high vacancy rate one would expect to see variations in rental levels between popular and unpopular low-income neighbourhoods. By comparison, Wakefield has a lower vacancy rate (2.9%) and generates a LQ rental level which is 8.4% greater than Bradford, and 5.9% more than Calderdale and Kirklees. However, looking at this in monetary terms this is a £5.75 per week premium to live in Wakefield compared to Kirklees, a relatively small payment to be connected to jobs growth on the east in a slightly more pressurised market.

Why Don't Rents Adjust?

- 4.5 The working assumption we have made is that the combination of rent setting in the social sector and LHA means that market adjustments do not occur to compensate for higher transport/connectivity costs. Public Policy is exerting a powerful influence on rent setting through nationally determined social sector rent setting formula and the calculation of the LHA, there is not an unconstrained market in operation. There is a further issue here that if LHA determines rents and yields in the PRS then it is also driving the capital cost of home purchase in some locations given the large segment of the market to buy appropriated by landlordism in the last two decades.
- 4.6 A further point here would be the extent to which the broad market area calculations for the LHA smooth out differences in rents over time as the size of the private rented sector has grown. Additionally, as the labour market has segmented making more PRS tenants dependent upon Housing Benefit the significance of the LHA as a mechanism to set rents rather than respond to them has increased. This may explain why rents have been flat in real terms as the LHA has been suppressed in recent years even though demand has demonstrably increased rapidly (see the market report which details the location of population increases and relationship to deprivation).
- 4.7 The tentative conclusions above do not suggest that market forces are irrelevant but that their importance will differ from place to place and by market segment. In respect of the impact of public policy on low income renters four typologies of place could be envisaged:
- **1. Areas which have high housing demand, high benefit dependency but also a large and more affluent competition for the lower value rentals-** the obvious area is London and parts of the South-East. This can lead to gentrification, and displacement of low-income communities to disconnected places (from inner London to Dagenham and Enfield for example in the Capital) as public policy mitigations are overwhelmed by high demand and increasing asset values. In the Leeds City Region York may be developing a housing market which most resembles this typology.
 - **2. High demand cities with a lower costs structure, but with a large and varied rental market** such as Leeds. Here public policy plays a role in mitigation of high costs, but the volume of the dwellings eligible for subsidy increases with the size of the city centre market- even though this has a completely different and separate function from the rest of the city's PRS. The higher rental charges

generated by students, international migrants and younger professionals can involve displacement accompanied by higher rents for less well-connected neighbourhoods.

- **3. Moderately prosperous areas with low benefit dependency.** An example would be Selby or Craven. Here Housing Benefit does not have the same power to set rents as there is enough market power in the labour force to pay rent in excess of the LHA and the number of people seeking a PRS let who need Housing Benefit is low as the social sector caters for most need. Being a lower income renter in the private sector in these circumstances with a dependency on Housing Benefit is likely to result in a hit to residual income as rents have risen as LHA was frozen.
 - **4. Relatively deprived locations with low pressure economies.** In areas such as Bradford and Kirklees the opposite applies - the level of benefit dependency is high across the rental tenures and in these circumstances Housing Benefit has a dominant position in determining rents. This may explain why in these areas it is hard to discern a rental structure which adapts to locational advantage or disadvantage. One would have to ask in these circumstances what would a Lower Quartile rent look like in the absence of Housing Benefit? The answer certainly would not be a relatively flat rent structure of £450-500 per month.
- 4.8 If these observations were to withstand a more rigorous research process it would demonstrate that market forces are only suppressed in some specific circumstances- but to the benefit of the landlord. In some areas Housing Benefit establishes a floor to rental values which a genuinely free market could not sustain, while in other areas market forces are so powerful they overwhelm the public policy intervention to the detriment of the poor as rents rise faster than the LHA cap over time.

Public Policy: Transport, Housing Costs and Wage setting

- 4.9 As demonstrated above transport costs are shaped by public policy with for example, the national taxation of fuel, the RPI plus formula for rail travel which when aligned with the impact of initiatives such as the discretionary fares policy have pushed up costs while earnings have been depressed. Earnings in turn at the lowest level are determined by national policies on minimum wages. The market does not therefore adjust across a range of policy areas to compensate for living in a relatively disconnected neighbourhood if the household is poor. The combination of the high costs of accessing work with a high rent structure which does not reflect location reduces the residual household income after accommodation, heating and transport costs. The spatial scale at which these expenditures are calculated in national and regional studies mask the differences in costs associated with being poor in a disconnected place from being poor in a connected place- again a smoothing out of data and impacts occurs. We suspect that the additional costs of living in a disconnected neighbourhood are simply too much for some and result in a disengagement from the economy and the real costs are transferred to the individual and society via economic inactivity.
- 4.10 The obvious way out of this public policy dilemma would be to provide free transport and then it would cease to be so important that housing costs do not seem to adjust downwards to compensate for the higher costs of disconnection although the opportunity costs associated with the time needed to travel would still be there.

Summary of the Key Issues

- Data capture on transport costs by income decile occurs at too large a scale to capture how metropolitan areas work - local research is needed;
- It would appear that public policy supports higher rents, yields and housing costs in relatively disconnected places.
- Unfortunately it would also seem that public policy leads to higher transport costs as well, through inflation plus settings for rail, and discretionary transport charging policies adding to the costs for working age bus users;
- For many low-income households there is a trade-off between disposable income and transport expenditure. A significant outcome from that trade-off may be that poorer people with low levels of residual income may not engage with the labour market and the cost for them and society is high levels of economic inactivity;
- One solution would be free public transport- but this only partial solution as the opportunity costs of travelling from some relatively disconnected places are high in terms of the additions to the working day and impacts on childcare for example;
- The location of employment land and future jobs growth is key to addressing this issue in addition to a more efficient and cost-effective transport infrastructure.
- Improved short range transport options is as important as longer commuting trips for many disadvantaged communities.
- Early indications of the impact of the Pandemic and the evolving economic crisis, suggests that for the second time in a decade real earnings are falling while there is increasing pressure for consumers or local tax payers to make additional contributions to keep public transport financially viable. Additionally, it is not yet clear if rents will adjust downwards although analysis here would suggest that at the lower end of the market this is unlikely to happen unless Housing Benefit support is reduced.

5 Public Policy: Growth, Planning and ‘Levelling Up’

Introduction and Summary of Position in August 2020

- 5.1 The public policy framework in the UK has endured a turbulent period over the last eight months. The Government was elected with a new mandate in December on a platform of delivering Brexit and “Levelling Up “ the UK, taking into account regional inequality, and increasing public expenditure on selected services going forward. These ambitions are supported by the largest public sector investment programme since the 1970s, with capital expenditure programmed to rise to 3% of GDP from just over 2% of GDP in the last year of the last Parliament.
- 5.2 The Budget held in March 2020 was the springboard to announce the scale of new financial support available and in some case re-announce commitments which had been made prior to the General Election. There was however little detail in the budget about *how* or *where* these new resources were to be spent over the course of the Parliament beyond a number of key spending pledges such as the £400m brownfield fund to be shared by Combined Authorities and some selective road and infrastructure schemes. This detail of the full Parliamentary expenditure programme was due to be announced in a Comprehensive Spending Review which was scheduled initially for this summer.
- 5.3 Following the rapid advance of Covid-19 in the aftermath of the Budget this carefully choreographed sequence of announcements and refinements of policy was blown off course. The Appendix to this document sets out the detail of the budget announcements and some of the subsequent issues which have emerged with the collapse of GDP, such as a massive public sector deficit and rising unemployment. The key issues from that Appendices are set out at the end of this section.
- 5.4 It is becoming clearer at least at this stage of the pandemic, that the Government has decided that the public health emergency does not need to lead to a whole sale re-evaluation of its General Election Strategy and commitments. Most of the additional expenditure being incurred by Government is deliberately short term and time limited, and with the resumption of growth and some higher levels of taxation it is assumed that the annual fiscal deficit can be contained and the huge rise in the volume of public sector debt can be serviced given historically low interest rates.
- 5.5 The problem the Government has is that it is very difficult to set a strategic direction when the emergency phase has not passed. No one knows if a second winter spike in infections will occur or how severe it will be. However a second spike looks more likely than not given the recent projections completed by the Medical Academy on behalf of the Government Office for Science. This matters because a second significant spike in infections will increase the economic damage at a time when those claiming employment related benefits is approaching 3 million, with the potential to be 4 million by Christmas if the UK does not claw back a significant amount of the output lost in the first half of the year.

Policy Making in an Era of Uncertainty

- 5.6 The enduring public health emergency and its impact on economic activity is now casting doubt over the Comprehensive Spending Review timetable. The announcement was initially expected in the summer and was shifted to autumn, it may however be moved again to the spring. There will however be a fiscal event in the autumn as the Chancellor has to announce a revenue settlement for Departments next year. There is also an issue about the scale of capital investment proposed in the Budget. The steep increase in spending was questioned by the OBR who thought that the capacity to deliver the scale of investment announced from a standing start was not well enough developed and significant underspend should be expected. The Capital programme is almost certain to under spend this year as a result of the recession and pandemic, and if greater clarity around delivery capacity and Government objectives are not forthcoming soon, it is likely underspend will occur next year as well.
- 5.7 It would not be unreasonable given the points made above to expect a greater clarity around the capital programme in the fiscal event in the autumn. But as is noted in the appendices, the investment will be largely back loaded in the north because of capacity issues and historic under investment in a pipeline of developed projects and programmes. There is another issue which is hampering local policy makers and that is “Levelling Up” has no definition and no objectives. It is very difficult to develop a local policy response to a national slogan, and more information is desperately needed.
- 5.8 In the short term, local policy makers have to rely on an interpretation of a list of approved spending programmes such as the Towns Fund, Carbon Neutrality investment streams and the Affordable Homes Programme, and a number of key policy announcements on planning such as the White Paper, the extension of permitted development rights, and the development of Free Ports. There is enough information in these piecemeal announcements when viewed as a whole to understand the direction of travel and the extent to which we are witnessing a coherent or fragmented approach to issues. It would not be unfair from the author’s perspective to characterise the approach thus far, as having strong economically liberal under tones with a focus on deregulation and market driven solutions. This approach however is tempered by silo based spending programmes which have widespread support (carbon neutrality) or focus on local issues such as town centre renewal which can apply to rich and poor places and delivers a levelling up by virtue that they all have a priority for resources. The “Levelling Up” does not appear to be outcome driven, but rather it is assessed by the distribution of inputs and making sure the perception is that “no one is left out” from the spatial distribution of public expenditure. This of course may change but at this stage we cannot be sure.

Transport Policy and the Impact of the Recession: The Challenges are becoming more not less difficult to overcome

- 5.9 The issues around levelling up cannot of course solely be judged by the impact and distribution of capital investment. As noted in previous sections of this report income and inequality are key barriers to accessibility and connectivity, and public subsidy for transport costs are equally important. These two issues are briefly dealt with below.

5.10 In July the Resolution Foundation¹⁹ published an analysis of the impact of the recession on different income groups in the UK. It also assessed the impact of Government support for household incomes and the impact of the withdrawal of that subsidy by the end of the financial year. The key points were:

- The Lowest decile incomes were no higher in real terms in 2018/19 than 2000/02;
- The Gini coefficient hasn't moved since the mid-1990s, however there has been a key distributional shift with middle incomes further moving away from those at the bottom of the distribution curve;
- Following the initial impact of the pandemic typical incomes were 4.5% lower in May 2020 than 2019-20;
- Without the £9bn of extra welfare support introduced as part of the emergency package, the bottom 20% of the income distribution would experience an 8% reduction in spending power. However, after accounting for the additional support the actual impact is nearly zero. **We need to note however that this enhancement to the welfare system is currently a temporary measure which will expire at the end of the financial year;**
- If the welfare support is reduced in 2021, basic Universal credit will revert to £73 from £94 per week for those over 24. This will be the lowest real terms generosity since 1990/91. Or putting it more simply the lowest level of benefit support for 30 years. This will also be the lowest level of welfare support in relation to average earnings that has ever been recorded.
- If the additional welfare support is withdrawn and the LHA is paired back to its pre-Covid level then in Yorkshire and Humberside *the bottom half of those non-pensioner households as measured on the income distribution curve will lose 4% of income.*

5.11 It would appear therefore, that the incomes of the very poorest have been temporarily protected but will be these households will be subject to steep declines when the temporary income support is withdrawn from Government. Additionally, those on median earnings are also going to experience a squeeze which will put pressure on their disposable income because of inelastic price sensitivity for housing and transport costs (particularly public transport)

5.12 Early indications from the Government response to financial difficulties experienced by Transport for London (TfL) indicate that the Government is unwilling to shift from a minimalist public subsidy position in the context of economic recession²⁰. An article in *The Economist* noted the following recent developments in transport policy in the Capital

- TfL were issued with an emergency subsidy by Central Government of £1.6bn in May;
- In July a revised budget for the second half of the financial year was issued and this is requesting a further £4.9bn of support over the next two years;

¹⁹ Resolution Foundation (2020) *The Living Standards Audit*. London : Resolution Foundation 20th July 2020

²⁰ The Economist (2020) *Going Underground*, August 1st p21, 2020.

- The current TfL model is heavily reliant on transport fares- these generate 70% of revenue compared to 40% in Paris or New York.;
- A £700m subsidy from the Treasury to TfL was phased out in 2018, and since then the authority has also had to use revenue from the tube to subsidise buses. This withdrawal of subsidy has exacerbated the current trading position and compromised the ability to offer concessionary fares without an injection of additional public sector subsidy now that revenues from fares have suffered a steep decline;
- In order to secure the initial £1.6bn of Government support to get through the first phase of the crisis, TfL had to abolish concessionary fares, raise congestion charges and accept two government directors on the board to oversee a funding review. There is no new model yet identified which will put the system on a sustainable footing;
- The tube fares are already amongst the highest in Europe and it is possible that Londoners will have to pay for the viability of the system through enhanced local taxation.

Summary of Key Issues

5.13 The key issues arising from this section of the report and the appendices are as follows:

- There is only partial sight currently available to local policy makers of the Governments spending priorities, rational, objectives and evaluation frameworks. There is therefore a lack of certainty about how resources will be deployed over the course of this Parliament.
- Early indications are that Government is trying to achieve a “saleable” distribution of spatial spending whilst continuing to nurture those areas which have an embedded history of growth;
- There is a very strong emphasis in early announcements on deregulation and marketised solutions- particularly in planning and economic development;
- “Infrastructure” is a consistent theme in Government spending announcements, but it is likely that this will be back loaded in the north because of capacity issues and lack of strategic frameworks to connect the investment to. This being a legacy of Government policy for the last decade;
- The Comprehensive Spending Review when it emerges is likely to show a sharp division between resources for protected and unprotected services. For the focus of this project it is appropriate to try to link to spending growth areas over the next few years, which undoubtedly be: Transport Infrastructure; Land: Skills and training; Health and ageing; Climate Change; Town and city centres.

6 Appendix: The March 2020 Budget

THE MARCH 2020 BUDGET AND ITS AFTERMATH: BRIEFING NOTE

Originally written 20 March 2020 with subsequent Post Pandemic Update

Introduction

This Appendices is based on a Briefing Note was prepared nine days after the delivery of the Budget on the 11th March 2020. In that short intervening period of nine days the social, economic and public policy landscape in the UK and worldwide has been fundamentally altered by the emerging Covid-19 public health emergency.

This Briefing Note has two purposes, which are:

- Firstly to sketch out the main themes emerging from the Budget which impact on the public policy framework which is relevant to the project;
- Secondly to capture in succinct terms the extent to which unprecedented public sector interventions have been marshalled since the 11th March to support the economy and public safety.

The Budget

The Institute of Fiscal Studies has captured the main outcomes from the Budget as part of its ongoing tracking of public expenditure and policy. We summarise the main points we have identified from their work below:

- There was a degree of double counting in the way the spending figures were reported, in a budget which saw the largest projection of public spending increases since 1992. Despite the large actual increases in spending some care has to be taken interpreting the figures with initiatives previously announced in September- December 2019 sometimes being counted again and added into new expenditure growth projections. Additionally some growth areas were being calculated over multiple years giving a much larger total to use in press releases. One example of this over estimation of growth applies

to the new resources for the Coronavirus stimulus which in fact were £12bn not £30bn as stated;

- The forecasts for growth and public sector deficit included in this budget have an in-built optimism bias, as they assume a comprehensive free trade deal with the EU following the end of the Brexit transition period in December. Additionally, there are no additional costs of the Coronavirus accounted for looking forward as they couldn't be estimated (at the time);
- Capital Expenditure was, as expected, increased from around 2.25% of GDP (this already being on a rising curve over the last 18 months) to 3% of GDP by the end of the Spending Review period of 2023/4. The volume of capital expenditure increases sharply in 2021/2 and localities would need big schemes to be deliverable immediately to benefit significantly from this uplift. This profile of capital investment advantages the South and existing Government-sponsored development schemes. Conversely, it disadvantages the North and parts of the Midlands and a significant rise in capital expenditure in these areas may only be evident from around 2023 onwards, given the delivery lead time;
- The surprise package was the large projected increase in revenue spending. Current Spending on services is set to grow by 2.8% in real terms per annum, while the overall revenue and capital spending total increases by 9% over the period 2019/20 to 2023/24. Around 90% of this increase in expenditure is paid for by borrowing rather than increased taxation;
- *Austerity and Structural change in State support* - there is a big message hidden in the undergrowth of this budget. The overall level of public expenditure will return to 41% of GDP after this fiscal event. This is roughly the same level as that budgeted for by the last Labour Government before the financial crash and per capita expenditure on services has now returned to its 2010/11 level. *However* as a result of the weakest recovery from recession in over 100 years the tax take has not risen in line with the need to spend on the ageing society via Health and Social Care budgets. There has therefore, been a structural change in spending patterns in the absence of additional public sector expenditure. Looking forward without a significant increase in taxation the proportion of public sector service expenditure being consumed by Health, Social Care and Welfare will accelerate from a post war high of round 60% towards 70%.
- As a result of the structural change in need and demand for services noted above after discounting for the announced increases in health related expenditure, spend on other services combined will be 14% lower at the end of the period, or 19% when the loss and replacement of EU funds is accounted for. This however does not give the full picture as Education and Overseas Aid have had some degree of protection as well as health, so what

now may be termed “residual” services in terms of priority may experience a far greater reduction. Only a substantial increase in taxation and/or the trend line of economic growth will change this.

In addition to the IFS review, The Office of Budgetary Responsibility also publishes its *Economic and Fiscal Outlook*. The focus on capital expenditure announcements (see page 97 onwards) confirms the sharp upward shift in investment, but also diplomatically analyses previous announcements and the history of underspend against projection- there is an unmistakable message buried not too deeply in this text. Parts of the UK do not have a well-developed capacity to deliver large capital spend given the reductions in revenue and staffing over the years.

Additional Observations in relation to the Budget.

For a Government committed to “levelling up” there was a noticeable lack of coherent geographical analysis to accompany an increase in public expenditure, which allowed senior politicians to name-check locations which benefitted across the length and breadth of the country. However a cursory examination of the scale and location of investments in growth and housing, tends to suggest a suburban/decentralisation bias and conversely a less intense focus on urban areas (with the exception of London). Additionally, the point made above in relation to pre-existing programmes being able to deliver spend quickly also leads again to an emphasis on areas in the South of England.

The extent to which the review of the Green Book methodology and the forthcoming Comprehensive Spending Review (CSR) will alter this spatial pattern of investment is as yet unclear. However, it is clear that some current policy positions will be difficult to shift. For example, the different elements of the Housing Infrastructure Fund are to be merged into a multi-billion pound single funding stream and will be targeted at “High Demand” areas. Areas outside of these locations would appear to have a £400m fund to share amongst “ambitious” areas who have elected Mayors but as yet no obvious priority for other land reclamation resources. As ever the devil will be in the detail sitting behind these announcements, but it would appear that advocates of higher levels of investment in the North still have battles to win. There does however appear to be a paucity of ideas in central government in relation to how to achieve “Levelling Up” and perhaps the opportunity lies in the generation of new ideas and proof of concept as the key to unlocking higher levels of investment post 2023.

In respect of Housing Policy, the Budget made a provision of £9.5bn of grant to fund Affordable housing, with an additional £2.5bn being carried over from decisions made in 2018. This programme is of a similar magnitude to the 2016-2021 SOAHP programme, but as yet it is unclear the type of tenure split which this programme will deliver. The detail and spatial distribution of funding post 2021 is likely to emerge with the Comprehensive Spending Review which now looks like it will be moved back to the autumn at the earliest.

Aftermath of the Budget

The extent to which the budget and the policy statements which were issued are relevant to forward planning is negligible given the public health emergency which has enveloped the nation since it was delivered. The scale of the Fiscal interventions announced over the course of a week can be summarised by the following developments:

- The OBR advising the Treasury Select Committee that the UK Government needed to spend “whatever was necessary” to prevent the collapse of the economy;
- The Government then announced a £350bn fiscal deficit which is equivalent to 15% of GDP. To give an indication of the relative historical scale of this addition to the deficit, the gap between spending and taxation in 1945 was 20% of GDP;
- The public policy areas which will need significant further support include budgets for the DWP, Health, social care, public health, local government, the homeless and the housing market;

Up Date

At the time of issuing this Discussion Paper (August 2020) the scale of the damage the pandemic has caused the economy has become apparent. The fall in GDP in the first two quarters of the year has been 23% which is the most severe contraction since 1709. If the economy can remain open for the rest of the year there is some projected recovery with forecasters estimating an end of year decline in the range of 10-14% of GDP. These may be an optimistic forecast, but even this hopeful outcome generates a fall in GDP which is the worst since a comparable contraction in the 1920s following the Great War and the Spanish Flu Pandemic.

It is too early to second guess what the impact on society will be as result of the pandemic. But we can be sure that the UK public policy framework, economy and societal views will not simply “pop back into shape” following its passing. It is an era changing event requiring new thinking and an examination of values and priorities. By the autumn some of these issue may crystallise and hopefully the end of the crisis will be in sight. It will then be possible to forge new approaches and start to rethink how the evidence we have needs to be adapted to the new world.