Agenda - Public Accounts and Public Administration Committee

Meeting Venue:	For further information contact:
Committee Room 5, Ty Hywel	**Fay Bowen**
Meeting date: 1 February 2024	Committee Clerk
Meeting time: 09.00-12:15	0300 200 6565
	SeneddPAPA@senedd.wales

Hybrid

This meeting will be broadcast live on www.senedd.tv

(Private pre-meeting)

(09:00-09:15)

1 Introduction, apologies, substitutions and declarations of interest

(09:15)

2 Papers to note

(09:15-09:30)

2.1 Letter from the Director General for the Economy, Treasury and Constitution Group regarding Wales Life Science Investment Fund

(Pages 1 - 13)

Attached Documents:

PAPAC(6)-02-24-PTN1-Wales Life Sciences Investment Fund

3 Evidence Session with the Welsh Government - Building Safety in Wales

(09:30-11:00)

Senedd Cymru
Welsh Parliament

Welsh Government Officials

- Tracey Burke - Director General - Climate Change and Rural Affairs
- Emma Williams - Director - Housing and Regeneration
- John Howells - Director - Climate Change, Planning and Energy
- Neil Hemington - Head of Planning

Supporting Documents

- Audit Wales Briefing Paper
- Audit Wales Report - 'Cracks in the Foundations' - Building Safety in Wales

4 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting

(11:00)

(Break)

(11:00-11:10)

5 Building Safety in Wales - Consideration of the evidence received

(11:10-11:40)

6 Draft Report - Scrutiny of Accounts: The Future Generations Commissioner for Wales 2022-23

(11:40-12:00)

7 Audit Wales briefing on their report: Sustainable development? - making best use of brownfield land and empty buildings

(12:00-12:15)

(Pages 14 - 53)

Supporting Documents

- Audit Wales Report - Sustainable development? - making best use of brownfield land and empty buildings

Attached Documents:

PAPAC(6)-02-24-P3-Audit Wales Report

Grwp yr Economi, y Trysorlys a'r Cyfansoddiad
Economy, Treasury and Constitution Group

Cyfarwyddwr Cyffredinol - Director General

Llywodraeth Cymru
Welsh Government

Mark Isherwood MS
Chair
Public Accounts and Public Administration Committee
Welsh Parliament
Cardiff Bay, Cardiff CF99 1SN

Dear Chair

15 January 2024

Wales Life Sciences Investment Fund

Thank you for your letter of 24 November 2023 setting out the questions the Committee did not have time to reach during the evidence session with Welsh Government and Development Bank of Wales on 27 September 2023. Our response to the Committee's questions, which has been prepared jointly with Development Bank of Wales, is attached.

Your letter also requests the Committee has sight of the final evaluation of the Wales Life Sciences Investment Fund once the associated report is finalised, and an update if that evaluation process looks set to take any longer. I can confirm the Development Bank of Wales aims to complete the final evaluation of the fund by the end of the financial year, and a copy of the report will be shared with the Committee.

With best wishes.

Yours sincerely

Andrew Slade
Director General, Economy, Treasury & Constitution

Cc Giles Thorley, Chief Executive, Development Bank of Wales

Parc Cathays/Cathays Park
Caerdydd/Cardiff
CF10 3NQ

Ffôn/Tel: 0300 025 6162
E-Bost/E-Mail: andrew.slade@gov.wales

Winding up the Fund

Question 1

Some investment value figures in your evidence paper are different to the Auditor General’s report or the Regeneris report and you suggested that this may have reflected additional investments. However, the Minister ’s July statement appeared to reflect the analysis in the Auditor General’s report when referring to there having been 11 investments in 9 companies. We would welcome confirmation of the position and of the reason for any additional investments where applicable. The differences we identified relate to: o Apitope - £3.9 million in the Auditor General’s report. o Cequr SA - £3.36 million in the Auditor General’s report. o InterRad - £2.886 million in the Auditor General’s report, although in further written evidence in June 2016 Finance Wales put the value of this investment at £2.95 million. o Sphere Medical - £4 million in the Auditor General’s report. o Verona Pharma - £4.62 million in the Auditor General’s report.

Response

The Fund Manager made 11 investments into nine companies with the Welsh Government £50m commitment to the Fund. The investment value differences are based on additional investments made following £5m investment into the Fund by Arix BioSciences. The Fund (£55m) was also still investing at the point when the Auditor General’s report was produced, and investments continued following the Regeneris report in 2016.

Additional investments include:

- Apitope - £3.6m invested in 2016 and an additional £885k in 2017 bringing the total to £4.5m invested.
- Sphere Medical - £4m invested in 2015 and an additional £1m in 2017 bringing the total to £5m invested.
- InterRad - £2.9m invested in 2014 and an additional £756k in 2017 bringing the total to £3.6m invested.

Other investments referenced:

- Cequr - £3.38m was invested in 2015, the Fund’s only investment into the company.
- Verona Pharma - £4.62m was invested in 2015.

Question 2

The Minister ’s statement suggested that the overall value of the four investments transferred to the Development Bank was £2.5 million, whereas your evidence paper suggested £1.8million. During the evidence session you appeared to suggest that the four investments had a current value of just £180,000 (not accounting for proceeds from Verona). We would be grateful if you could clarify the position and provide any explanation for changes in value.

Response

The latest valuation of the four assets to be transferred was £2.5m at the time of the Minster’s statement. At the time of submitting the evidence paper, and the committee appearance in September 2023, the most up-to-date valuation of the four investments to be transferred was

£1.8m. Valuation figures continue to be subject to change up until the point where the transfer is executed through the asset distribution.

Question 3

You indicated there had been an option to extend the Fund management contract by two years. What were the main factors considered in deciding not to take up that option and to hold onto the four investments transferred to the Development Bank rather than exit them when the Fund was closed or in the lead up to closure.

Response
The Fund Manager was actively seeking exit opportunities in the lead up to the end of the contract.

The main value for money factors for not extending the contract were:
- On-going Fund Management fees to manage the remaining investments would have been higher with the existing Fund Manager.
- The existing Fund Manager felt it unlikely that they could add significant value during the two years.
- There was a possibility that the same situation could have arisen after the two-year extension.

Question 4

Your evidence paper indicates that the Fund exited the Verona Pharma investment in 2022 but that returns are still to be distributed. When are you expecting that to happen and, further to your oral evidence, what is the expected return.

Response
The value of returns to Welsh Government from the exit of Verona Pharma in 2022 is subject to distribution. The distribution is due to take place before the end of the 2023-24 financial year. As stated in the committee, the assets to be distributed were estimated to be £2m. This is potentially subject to change, as per the response to question 2 above.

The Fund Manager 's entitlements and overall fees.

Question 5

We would be grateful for any further explanation of the basis of the equalisation payment made by Arix when it invested into the Fund. Also, for confirmation of any sums paid to Arix on closure of the fund as part of their 5/55th share, or of any assets transferred to them.

Response
An equalisation payment of £479k was made to the Holding Fund upon Arix BioScience becoming a limited partner in 2017. This, in line with standard practice, equated to Arix Bioscience's share of the Fund's costs from the date the fund was launched, so that any gains or losses made on the investments could also be proportionately shared.

The final distribution of assets and winding up of the partnership is still underway and Arix BioScience plc, as limited partner, will be entitled to 5/55ths of assets. Assets includes their share of investments and cash.

Question 6

Your written evidence suggests that the fee structure changed in line with down valuations of investments following a Fund report in 2017. However, during the evidence session, you indicated that there was a point in 2018 when the valuation of the Fund in 2018 was '£70million plus'. We would be grateful for any further explanation of how, when, and why the management fee structure changed, what the fund valuation was when this happened, and how value for money was considered.

Response
The fee structure changed when Arix BioScience invested £5m into the Fund.
The new fee structure ensured down valuations were reflected in the net fee charged. Net fees were calculated on 2.5% p.a. of the Fund size, then adjusted downwards for exits, down-valuations & losses.

A valuation above the Fund size, for example £70m, would not cause the fees to increase above 2.5% of the Fund size.

This delivered better value for money while also allowing additional investment.
As stated in the evidence paper, due to lower valuations and returns which reduced the fee, the Fund's average fee of 1.7% per annum is in line with market rates and below that anticipated by the 2016 Regeneris report.

The performance framework for the Fund and overall evaluation of Fund performance.

Question 7

Your written evidence highlights a target for private sector co-investment at Fund level of £60million, which differs to the original 'one-to-one' basis assumption referred to during the evidence session. We also understand there may even have been an original target of £80million co-investment (over the Fund's full lifetime) before a variation agreement in 2014 and are aware of the aim that the £50 million would be delivered by the end of 2015. Can you clarify the position and what drove any changes to original targets.

Response
Following the 2014 revisions, the target for Fund level investment was £60m but the expectation was that the Fund Manager make best endeavours to raise at least £50m.
As outlined in section 7 of the Regeneris report a number of changes to original targets were driven by a more realistic analysis of the Fund's potential impact.

Question 8

The Regeneris report suggests that there would have been merit in an indicator to measure the value of new investment in Wales (and distinguishing between capital expenditure and expected annual operating expenditure). What are your views on the feasibility of such a measure, and what consideration was given to this in the context of the report's recommendation on ensuring clarity about the economic development focus of the Fund.

Response
While it was considered at the time of the Regeneris report, the Fund was almost fully invested by that point.

A new KPI would have required negotiation with the Fund Manager and require the Fund Manager to request data beyond the reporting requirements it had established with investees. Such a change would be particularly difficult to negotiate given that the Fund was a minor/minority shareholder in most of the businesses concerned.

However, such measures should be considered in the development of any future Funds targeted specifically at inward investment into Wales.

Question 9

The Regeneris report raised concerns about the robustness of some of the initial targets/projections set out in the Fund Manager 's original investment plans. What is your understanding of the extent to which those figures influenced the scoring and award of the Fund Manager contract.

Response
The Fund underwent a formal procurement, the details of which were covered in the Auditor General report and the 2016 Public Accounts Committee session.

Question 10

During the evidence session you suggested that you would engage with the Fund Manager to learn from the notable success story in Simbec. We would be grateful for any further explanation of features relating to this investment that may have contributed to its success and could be replicated going forward. Also, has the decision to exit proven a good one in the context of the company's more recent financial performance.

Response
A review of the Fund is underway but key to the success of the Fund's investment in Simbec was the network of support the business had access to through the Fund. Also, the willingness of these parties to engage with the business directly enabled Simbec to access advice and further investment. It was also the case that Simbec was a lower risk investment as it already had proven revenue streams in place.

The Fund Manager had discretion on when to exit investments and therefore considered the commercial options available at that time.

Question 11

The Minister 's July statement suggested that the overall write-off needs to be considered in the context of the performance of the Development Bank's overall portfolio. While we acknowledge there could always be gains and losses within an individual Fund, what is the basis for that wider argument.

Response
When new funds are considered which use Financial Transaction Capital (FTC), the risk profile and performance of all existing funds is considered to ensure the overall commitments for any repayments of FTC can be met. This enables the Development Bank to offer investment funds

that may be high risk but have potential to drive growth such as early-stage equity funds or Micro loans. Any potential losses on these funds can be offset by other, lower risk, funds. Whilst the Wales Life Sciences Investment Fund was not a Development Bank of Wales-managed fund, the Welsh Government has monitored this fund alongside the Development Bank portfolio to ensure that the overall portfolio remains on track to meet any FTC repayment obligations.

Question 12

We would be grateful for any further reflections on benchmark performance for funds in the life sciences sector, including how the Fund's performance compares with any other life sciences investments in the Development Bank's wider portfolio.

Response

The commercial outcomes for the Fund are lower than expected. In the wider Life Sciences investment market there are few direct comparisons due to (as discussed and highlighted during the committee session), the size, scope and restrictions placed upon the Fund.
As discussed with the committee, the Fund's target market can produce binary outcomes – marked results in one direction or the other. 'Middle ground' outcomes in life science investments tend to be less common. Development Bank also shared an example of this in the committee from its own portfolio. The benefit of the Development Bank's approach is having a broader and more balanced portfolio of equity and debt investments. The Development Bank reports the fair value of these investments in its annual report and financial statements.

Creating/safeguarding jobs

Question 13

We would be grateful for any further analysis that may be available concerning performance in creating / safeguarding jobs. In particular:

o How the 311 figure in your written evidence breaks down between jobs created and jobs safeguarded, and the spread of those figures by investment.

o How many of the 311, in either respect, remained in Wales on closure of the Fund.

o How many of the 311, in either respect, were considered highly paid or skilled (if there is additional data beyond what was said in your written evidence about 16% being held by a person with a PhD or MD.

Response

Approximately 100 jobs were safeguarded, and the rest were created. Simbec had the largest proportion of jobs created and safeguarded (140) and the majority of the rest were split between Rutherford Health, ReNeuron and Intelligent Ultrasound.

All jobs reported were based in Wales. The remainder in Wales at the end of the Fund is not available until the Fund Manager has conducted its final report following the winding up of the partnership.

As stated in our written evidence, 16% of jobs were being held by a person with a PhD or MD. The Fund Manager does not report on the pay and skill levels of all jobs reported. Due to the sector, it is a reasonable assumption that the majority of these jobs were higher skilled and well paid.

Question 14

In correspondence to the Public Accounts Committee in March 2016, the then Minister referred to an aspiration of creating 500 jobs. What might have been behind that ambition when, at that time, it appears the target for creating or safeguarding jobs sat at 300.

Response

The 500 jobs referenced in the letter dated 7 March 2016, which preceded a number of significant international events, was most likely a forecast based on performance at that time if present trends continued. The target at that time was 300 jobs.

Attracting private sector co-investment at deal level

Question 15

In communicating the closure of the Fund and in your written evidence, the Welsh Government has emphasised the level of co-investment at deal level. Why was there no target set for deal level co-investment and is it reasonable to attribute all the co-investment to the Fund itself.

Response

Businesses raising Venture Capital funding often source it from multiple investors and co-investment was required to satisfy the State Aid requirements for the Fund. Therefore, a high degree of co-investment at deal level was expected but the primary ambition was to raise investment at Fund level.

It is reasonable to attribute the deal-level co-investment to the Fund as the deals would not necessarily have happened without the investment from the fund.

Question 16

What is your assessment of the impact the Fund had on the Life Science sector in Wales, and in the context of the co-investment at deal level significantly outweighing the Fund's direct investment.

Response

The Fund delivered an important component of Welsh Government's life sciences sector policy. The Fund achieved a number of its KPIs. It also helped raise the profile of life sciences in Wales and increase the availability of finance for the sector.

It is important to note that the Fund's impact was not just at point of investment. It supported the wider ecosystem, for example, through cross-pollination as investees conducted trials with established life sciences businesses in Wales.

The deal level co-investment that was achieved indicated that the private sector also had confidence in the investments made by the fund manager and business plans of investees. These investments have been part of growing the sector to where it is now.

Welsh Life Sciences industry is 4% of the UK sector. It currently employs more than 12,000 people, in over 260 companies with an approximate combined turnover of £2.6bn. The Med Tech sector in Wales is one of the 12 life science high potential areas for investment across the UK currently (latest UK Trade Report). Half of the Funds investments were in MedTech companies showing that it supported the sector at a time of growth.

Question 17

What information do you have about the extent to which co-investors at deal level have kept their investments (for those companies still operating).

Response

The Fund did not report on this information.

Co-investment and/or other financial support from the public purse

Question 18

The Regeneris report suggests that the Welsh Government co-invested in the August 2013 ReNeuron deal and Finance Wales co-invested in the August 2014 MedaPhor (now Intelligent Ultrasound) deal. However, the Auditor General's report, while commenting on issues around prospective support for ReNeuron, suggests that this was about grant support rather than investment in the company. Can you clarify the position for both companies, and whether any sums involved from the public purse are included within the overall co-investment at deal level figure of £273 million.

Response

No Welsh Government or Finance Wales investments are included in the final co-investment figures.

The investment packages detailed in section 5 of the Regeneris report did include Welsh Government and Finance Wales funding as co-investment. This is not typically how private sector co-investment is reported and these components were subsequently removed from Fund reporting.

Question 19

We would also like to know if there was further direct investment in either of the two companies and, if so, whether those investments are still held and their current valu\\zzz\\e.

Response

The Fund invested £10m in ReNeuron between 2013 and 2015, and £600,000 in Intelligent Ultrasound in 2014. No further investments were made in those two companies by the Fund. The current value of these investments are component parts of the £1.8m figure for the remaining assets detailed on page four of the submitted evidence. Valuations of these assets will change as they are publicly listed.

Question 20

Was there any other direct public investment or wider grant support in any of the companies invested in by the Fund but outside of the Fund itself. If so, is any of that support counted within the £273 million figure for co-investment, and are any direct investments still held (or what gains or losses were realised).

Response

The Fund did not deploy grants or invest outside the amounts committed to the partnership. Development Bank of Wales only has information related to the investment through the Fund Manager. No grant support was included in the final figure for co-investment.

The Development Bank of Wales does not hold any details of grant or other types of support received by investee companies.

Performance on other metrics

Question 21

The Regeneris report suggests that, as at December 2014, the five investee businesses at the time had created 70 items of intellectual property. How does that relate to the figure of 59 registered patents for the lifetime of the Fund – against a target of 100 – set out in your written evidence. And, if it was measuring something different, do you have an up-to-date figure equivalent to that in the Regeneris report.

Response

The Fund supported its investees to create 59 registered patents. As stated by Regeneris, the 70-figure included activity initiated prior to the Fund's involvement and so those were excluded following the report.

Question 22

The Regeneris report highlights that the figures it reported appeared to include some items of intellectual property that pre-dated the Fund's investment and that some, related to InterRad, might not reside in Wales. Of the 59 registered patents reported in your written evidence, we would like to know how many remain in Wales.

Response

Intellectual property is located where the business which generated it are located and registered.

The assets being transferred to Development Bank of Wales account for 32 of the 59 registered patents.

Question 23

Also, as raised during the evidence session, how many patents over the life of the fund were attributable to the investments that have wound up.

Response

Of the reported 59 registered patents, 9 were attributable to investees which have since entered administration proceedings.

Question 24

The Regeneris report suggests that the Fund Manager had identified some possible targets around investment in laboratories and international partnerships in its initial investment plans. However, the report also suggests that the logic for the targets was not clear and judged the resulting estimates as high. Was such information reported on as part of the monitoring of the Fund and, if so, what were the overall outcomes.

Response

As they were not included as KPIs from launch and Regeneris stated their logic for inclusion was not clear, this information was not reported.

Developments in response to the Regeneris report

Question 25

We would like to confirm how, as part of wider governance arrangements, the 2016 Regeneris report was considered and acted on by the Welsh Government and Finance Wales / the Development Bank at the time.

Response

All recommendations from the Regeneris report were considered and where applicable, acted upon, for example:

- pursuing the partial exit from Verona;
- the opportunity to address fees was taken;
- Economic Development reporting was strengthened;
- State Aid compliance was clarified and confirmed; and
- the fund was kept open to allow additional funds to be raised.

Question 26

The Regeneris report highlights that the reviewers had not seen the necessary evidence to demonstrate that the Fund Manager made best endeavours to secure the anticipated £50million investment at fund level by the end of 2015. What action was taken in response to this finding. For example, were there any contractual mechanisms relating to performance in this respect and, if so, were those mechanisms enacted.

Response

As shown in the Regeneris report, the Fund Manager shared diary entries for a wide range of meetings with VCs and institutional investors, prior to the Auditor General review. Therefore, Regeneris stated that the Fund Manager did endeavour to seek investment, but they had not seen the necessary evidence to categorise this as best endeavours. An auditable email trail, such as emails discussing investment in the Fund, did not exist due to the nature of the initial meetings.

By the time Regeneris reported this finding Arix BioScience plc had acquired the Fund Manager. The Fund Manager reported to the Holding Fund that upon the acquisition, Arix BioScience was discussing the possibility of investment in the Fund.

Following this conclusion, the Fund Manager was able to share its approach and seek potential investors. The Fund Manager felt their efforts were strengthened by no longer having to declare an on-going Auditor General review.

Question 27

Several of the recommendations in the report related to the approach to any ongoing investment strategy and the funding of it. Despite various stated ambitions for the future of the Fund at the time, why do these not appear to have been realised.

Response

These were realised. The Fund made a partial exit to meet cashflow requirements, and although it was almost fully invested, it was kept open to allow additional funds to be raised rather than further public funding. The new funding made available through the £5m from Arix BioScience was utilised for follow-on investments.

Question 28

What was the rationale for Arix joining the partnership and contributing £5 million and is there a reason why Companies House records for the Investment Fund Limited Partnership do not appear to reflect that contribution.

Response

The £5m contribution by Arix BioScience plc was in line with the requirement for them to generate Fund level co-investment.

Arix BioSciences £5m investment did feature in the relevant limited partnership financial statement reporting submitted to the Holding Fund. Submitting these accounts to the Companies House page for the Limited Partnership is not typically required as they are usually appended elsewhere. Arix BioScience plc and the Fund Manager’s publicly available accounts on Companies House for the relevant period references a commitment of £5m made to the Limited Partnership.

Question 29

The Regeneris report highlights that several of the investments did not comply with the Investment and Operating Guidelines. Did the Welsh Government and the Development Bank seek any further assurances over these investments and what action was taken in response to a recommendation about clarifying future protocols.

Response

All investments were made in compliance with the Investment and Operating Guidelines or with variations approved by Welsh Government as stated in the Regeneris report.

Question 30

What did the Welsh Government and/or the Development Bank do to ensure investments were state-aid compliant, and specifically in the case of Simbec which the Regeneris report mentions.

Response
State Aid compliance was a prerequisite on the Fund Manager for drawdown of funding for investment proposals. Each investment was State Aid compliant.

Developments with investments from 2016 onwards

Question 31

Your written evidence explains that quarterly reports by the Fund Manager were then reduced to annual reports once the Fund entered the realisation phase. Why did the frequency of reporting reduce, was this in line with the partnership agreement, and what impact did this have on your ability to identify early warning signs and potential exit routes.

Response
Reporting was by agreement between the Fund Holder and Fund Manager. The formal written reports were provided annually, but meetings and correspondence took place more often.

Question 32

With the current valuation of the transferred investments suggesting a substantial loss on the ReNeuron investment, at what point where you alert to the deteriorating performance of that investment.

Response
All publicly listed shares were monitored monthly, so we were aware within a month of the publication of the latest trial results and subsequent share price decline.

Question 33

Why did the Fund not participate in the fundraise for CeQur which resulted in the Fund's position being severely diluted and what, if any, line of sight did you have on the risk of such a development before it happened.

Response
The fund was fully invested so there was no further scope for investment.

Question 34

Can you expand on the action taken by the Welsh Government or Development Bank on matters relating to the FCA suspension of Woodford Funds in 2019 and n the impact that this had on Sphere Medical. Also, had either the Welsh Government or the Development Bank identified or been made aware of the potential conflicts in relation to the Fund before media coverage in June 2019.

Response
Welsh Government and Development Bank worked with the Fund Manager to clarify the impact of the suspension of Woodford Funds. As the Fund was fully invested by 2019, the Fund Manager had little ability to support the businesses impacted.

The suspension came at a time when many businesses anticipated drawdowns from Woodford Funds and like them, Sphere Medical's cashflow was severely impacted.

The Fund Manager clarified that “investments including Woodford have been dealt with in full compliance with FCA rules and there were no conflicts of interest”.

Other matters

Question 35

Your written evidence sets out six core investment principles that the Development Bank now applies. In the context of the Regeneris report commentary on the rationale for investments, what is your take on whether the Fund’s original investments would meet the tests you apply today.

Response

These six principles would not apply as the Fund was delivered by an external Fund Manager and the Fund had separate aims and investment strategy to that of the Development Bank.

Question 36

How many of the original investments span out of university research.

Response

A number of companies were spinouts from universities or collaborative R&D projects, but this was prior to the Fund investment.

Question 37

One of the areas examined by the Auditor General’s report in 2016 concerned the management of conflicts of interest. What assurances can you give the Committee about the way conflicts of interest are considered and managed in the context of other current investment portfolio activity.

Response

Investment documentation for each asset being transferred to the Development Bank of Wales is being reviewed and potential conflicts of interest are considered. Following the transfer, each investment will be monitored in line with Development Bank standards which includes a robust conflicts of interest policy.

Agenda Item 6

By virtue of paragraph(s) ix of Standing Order 17.42

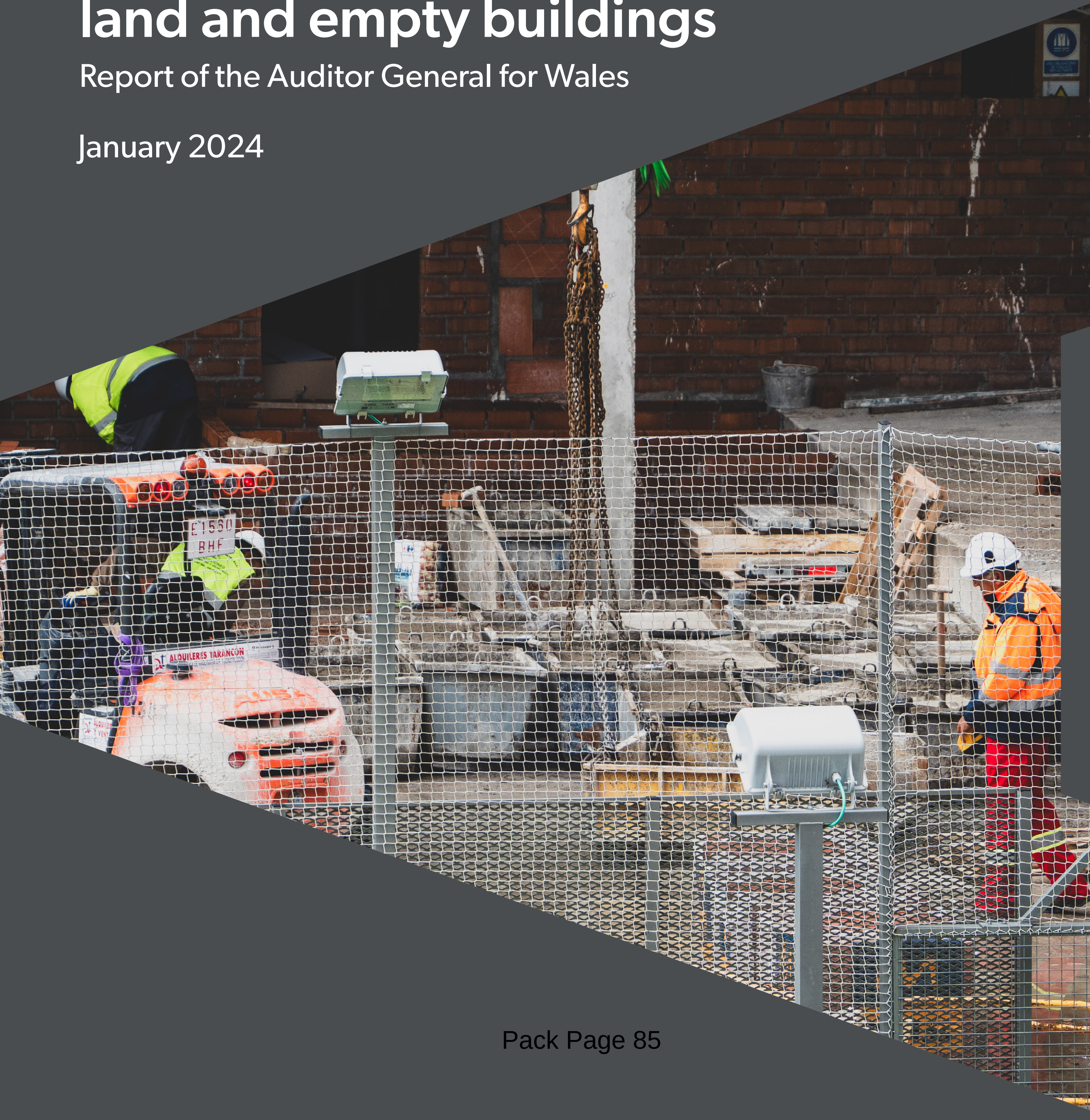
Document is Restricted

Archwilio Cymru
Audit Wales

Sustainable development? – making best use of brownfield land and empty buildings

Report of the Auditor General for Wales

January 2024



The Auditor General is independent of the Senedd and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the Senedd on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

Audit Wales is the umbrella brand of the Auditor General for Wales and the Wales Audit Office, which are each separate legal entities with their own legal functions. Audit Wales is not itself a legal entity. While the Auditor General has the auditing and reporting functions described above, the Wales Audit Office's main functions are to provide staff and other resources for the exercise of the Auditor General's functions, and to monitor and advise the Auditor General.

For further information, or if you require any of our publications in an alternative format and/or language, please contact us by telephone on 029 2032 0500, or email info@audit.wales. We welcome telephone calls in Welsh and English. You can also write to us in either Welsh or English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

Contents

Summary report

Context

1 Sustainability is central to Welsh planning policy. With greater levels of demand being placed on natural resources, national and local government need to balance addressing demand with environmental protections to help reduce the impact of the climate crisis. This is challenging.

2 Once developed, land is unlikely to ever be converted back to greenfield use and its loss can devastate natural habitats. For agricultural land, there is also an impact on food production and its associated employment. Consequently, the Welsh Government promotes the use of previously developed land and repurposing of empty buildings, wherever possible.

Box 1: definition of previously developed land

Previously developed (also known as brownfield) land is that which is or was occupied by a permanent structure and associated fixed surface infrastructure.

This excludes some land, such as:

- land or buildings used for agricultural or forestry purposes;
- undeveloped land, such as parks or golf courses; and
- land where the remains of any structure or activity have blended into the landscape over time so that they can reasonably be considered part of the natural surroundings.

Note: This is a shortened summary of the definition. For the full definition, please refer to Planning Policy Wales.

Source: Welsh Government

3 However, brownfield sites can be more difficult to remediate. When building on a brownfield site, there is likely to be a higher risk of barriers when compared to a greenfield site. Where sites are in former industrial areas contamination and potential remediation costs can make cost a barrier, even if the site is served by infrastructure, such as roads or utilities.

Key findings

4 This report examines how Welsh councils are supporting and encouraging repurposing and regeneration of vacant properties and brownfield sites into homes or for other uses. We focus on the barriers facing councils and their partners, but also highlight opportunities to learn from elsewhere. The Appendix gives more detail about our approach and methods.

5 We looked to answer the question: **'Are local authorities doing all they can to support and encourage vacant, non-domestic properties and vacant brownfield sites being repurposed into homes or for other uses?'.**

6 We concluded that, despite notable amounts of brownfield developments being delivered by councils, regeneration could be increased significantly with a more systematic, interventionist, and collaborative approach. By drawing on successful approaches elsewhere and more focused planning, councils could be better equipped to overcome significant barriers.

7 In reaching this conclusion, we found:

- councils have a broad but not comprehensive understanding of the built environment and potential for regeneration.
- while some regeneration is being delivered, the focus is still on 'easier' to achieve projects and councils are not always taking an ambitious, interventionist approach to tackle long-standing barriers.
- councils are able to name barriers to brownfield regeneration and repurposing of empty buildings but are not utilising learning from elsewhere to overcome them.
- it is challenging to measure progress in delivering brownfield regeneration due to weaknesses in data and its management.

Recommendations

8 Our recommendations are set out below. We expect the Welsh Government and councils to consider our findings and recommendations. We also expect each council's governance and audit committee to receive the report and monitor their response in a timely way.

Exhibit 1: recommendations

Recommendations

Councils

R1 To enable stakeholders to assess potential sites councils should create a systematic process to find and publicise suitable sites for regeneration:

- this should draw on data already held by councils, as well as external data sources to develop a composite and more complete picture of sites; and
- where known, key barriers should be named to help efforts to overcome them.

R2 To help ensure that regeneration activity and the shaping of the environment is informed by the needs of communities Councils should increase opportunities for community-based involvement in regeneration, both in plan-making and actual development.

R3 To provide focus and impetus to developing brownfield sites Councils should review their current regeneration approaches and where appropriate set clearer, more ambitious regeneration policies and targets. Together these should:

- set out the approach and expectations of the council;
- set out how their approach will be resourced; and
- set out how the approach aligns with national policy goals and regional planning priorities.

Recommendations

Welsh Government

R4 To help enable stakeholders to assess potential sites the Welsh Government should:

- work with councils to ensure that listings of identified sites for regeneration are reported by council area; and
- produce a national listing informed by the local listings and through working in conjunction with other public sector bodies.

R5 To help inform scrutiny of performance both locally and nationally the Welsh Government should create a national framework for monitoring and assessing levels of brownfield sites being developed compared to levels of sites available and levels of greenfield development.

Why brownfield?

01

Wales faces a housing crisis

1.1 New house completion has not kept pace with forecast demand, increasing demand for the existing housing stock. In 2019, the Welsh Government estimated over 7,000 new homes were needed annually to meet both social and market housing needs. Since setting this goal, construction has failed to meet this target in any year (**Exhibit 2**).

Exhibit 2: estimates of housing need and current performance against need 2019-20 – 2023-24

	2019-20	2020-21	2021-22	2022-23	2023-24
Total estimated need	7,095	7,225	7,711	7,451	7,348
New dwellings completed	6,037	4,616	5,273	5,785	1,060[1]
Difference to need	-1,058	-2,609	-2,438	-1,666	
Cumulative difference	**-1,058**	**-3,667**	**-6,105**	**-7,771**	

Source: Audit Wales analysis of Stats Wales

1.2 This follows the long-term decrease in annual home completion since the mid-1970s. In 1974-75, 12,434 homes were built in Wales compared to 5,273 in 2021-22 – a 58% reduction in 47 years. In particular, the same period saw new council dwellings fall from 4,316 to 72– a 98% reduction. Meanwhile, the Welsh population rose by 13.8%, increasing from 2.7 million in 1971 to 3.1 million in 2021.

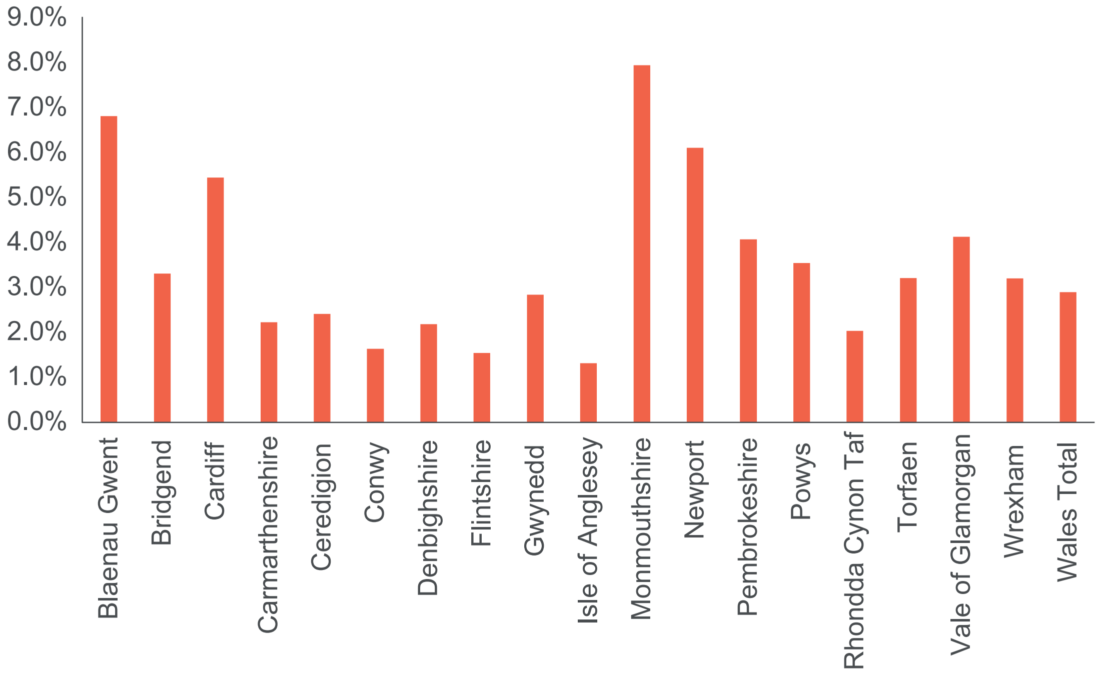
1.3 Fewer home completions have contributed to increased prices. In 2022, the average Welsh (median) home sold for £190,000, while the average (median) workplace-based full-time earnings were £30,600[2]. This means that on average, people need six times their annual earnings to buy a home – up from only three times in 1998. This is a significant challenge, increasing demand on the rental sectors.

1 April to June 2023 only

2 ONS, Housing affordability in England and Wales, March 2023

1.4 Our research found that at the end of December 2022, 90,053 people were registered with councils for housing – 2.9% of the total population **(Exhibit 3).** The lowest number was in the Isle of Anglesey (904) and the largest in Cardiff (19,728).

Exhibit 3: housing waiting list as of 31st December 2022 as a proportion of 2021 census population



Note: Data was not supplied by Caerphilly, Merthyr Tydfil, Neath Port Talbot, or Swansea.

Source: Audit Wales/ONS

1.5 Homelessness has also risen since the pandemic and places a significant burden on councils to home often vulnerable citizens quickly. At the end of March 2023 there were 10,221 individuals in temporary accommodation[3].

1.6 As the housing authority, councils are directly affected by housing market pressure. This challenge increases the push to enable and deliver increased levels of development.

1.7 Development must meet future need, as well as the cumulative demand previously missed. Present performance is not keeping pace whilst demand increases. While we acknowledge that the pandemic has undoubtedly affected the pace and scale of development, performance in delivering new housing has not met targets for some time.

3 Welsh Government, Homelessness accommodation provision and rough sleeping: March 2023, June 2023.

Regenerating existing settlements has key benefits for communities and the environment

1.8 When compared to greenfield, brownfield sites have some key benefits to support them. Generally, they are already served by infrastructure, such as utilities or roads, that can be adapted to their new purpose.

1.9 Regeneration also enables more effective use to avoid empty properties lying empty. This can radically change the look and feel of an area, potentially encouraging added private investment and economic development. Ultimately, this can also lead to greater tax income from properties currently contributing little or nothing.

1.10 Focusing on sites already developed also helps to preserve green spaces. Keeping development within existing settlements can also reduce the need for more public buildings to be built to deliver additional services, as well as reducing the environmental impact of potential destruction of natural habitats or agricultural space.

Focusing on regeneration enables councils to meet national policy ambitions

1.11 The Welsh Government has given a clear direction to councils to focus on brownfield regeneration. Policy is mainly driven through Planning Policy Wales (PPW) and Technical Advice Notes (TANs), which inform planning decisions.

1.12 PPW directs councils to place major 'generators' of travel demand[4] within existing settlements which are, or can be, easily reached by walking or cycling, and are well served by public transport. To be sustainable, councils are encouraged to use brownfield over greenfield where it is suitable and possible to do so. While not all previously developed land is suitable for regeneration, the expectation is to prioritise and drive through brownfield over greenfield.

1.13 Planning policies also must align with other national policies. For example, the 'Towns Centre First' policy aimed at increasing footfall into town centres, or the Roads Review, that sets the framework for new road construction. Both are directly relevant to all development, but arguably strengthen the case for brownfield sites.

4 Generators of demand include housing, employment, retailing, leisure, and community facilities.

1.14 Legislation also directs councils in their approach. The Planning (Wales) Act requires councils ensure development and use of land contribute to improving Wales' economic, social, environmental and cultural well-being. Councils must also act in line with the sustainable development principle of the Well-being of Future Generations (Wales) Act. Which includes for example balancing long- and short-term need, whilst involving communities in shaping their environment.

1.15 Welsh Government expects that councils will adopt national policy when setting local plans and making planning decisions. Each principal council must publish a Local Development Plan (LDP) which sets out preferred development sites and approach. The LDP is a key influence on local planning policy. Clearly setting an ambition and direction within the LDP is crucial to delivering regeneration. Balancing national policy aims, local goals, and politics is a key challenge faced by councils.

Overcoming significant barriers to regeneration is required to deliver large scale development

02

Regeneration is made difficult by a significant number of barriers

2.1 The barriers to regeneration are significant. Through our root cause analysis approach, we have found a range of local and national barriers.

Viability

2.2 To attract developers, projects must be viable. A viable project is one where a developer can make a required level of profit. Greenfield projects typically have larger profit margins than brownfield sites, as brownfield sites have inherent costs built in, such as demolition or remediation, before construction starts.

2.3 It is also more difficult to make projects viable in areas with low property value. Whilst this can be influenced by a range of factors, where an area has low value, such as due to deindustrialisation, there is less incentive for private sector investment to regenerate them.

2.4 Councils can overcome the viability gap where it leads in the regeneration, such as improving public amenities or subsidising remediation costs.

Resources

2.5 With severe pressure on public finances, it is difficult to make the case for increasing non-statutory funding on activities such as regeneration. Regeneration requires several council service areas to work together. These include planning, housing, economic development, land, and estates. After over a decade of budgetary pressure, these activities have reduced significantly, limiting council capacity.

2.6 Remaining staff who have responsibilities for regeneration are rarely dedicated to this work, and usually manage a range of competing priorities. Councils rarely have a standalone regeneration function, and staff with a role in regeneration often also work across a number of other service areas. This can make collaboration on projects more challenging, as well as diluting leadership to drive projects forward.

2.7 Councils can also take opportunities to align themselves with national policies to access revenue streams. For example, between 2022-25, the Welsh Government will supply £125 million of grants and loans through the Transforming Towns programme. Since 2014, Transforming Towns loans have brought over 500 units back into use. Additionally, since 2012, 3,400 empty homes have been brought into use through property owner interest-free loans, issued by councils and funded by the Welsh Government to a total of £43 million.

Flooding

2.8 As we have set out previously[5], responding to climate change and the risk of flooding is critical to protecting property. Not protecting properties could, in turn, lead to even greater market pressure. To respond to flood risk, the Welsh Government revised guidance (TAN15) to classify areas according to the risk and require mitigations to be in place. This could include requiring investment in flood defences, for example.

2.9 Flood risk is present in all developments. However, mitigation measures would increase costs, further challenging brownfield viability. Council officers have cited this as a key barrier. However, when compared to greenfield, brownfield sites are often found within existing settlements so can benefit from existing mitigations. Focusing on maximising existing protected areas could offer a significant source of new development.

Phosphates

2.10 In some areas of England and Wales, development has been severely disrupted or prevented by phosphate levels detected in rivers. Revised national targets have required councils and developers to prevent the nutrient load in affected areas increasing to preserve habitats. This has meant that many councils are unable to decide planning applications and have delayed LDP preparations.

2.11 Whilst this has been cited as a key reason for development not continuing by council officers, others have acted to ensure some development continues. Carmarthenshire has developed a Nutrient Budget Calculator to estimate the phosphate levels a proposed residential development could produce. This offers developers greater opportunities to continue, as proposals can be assessed on their impact against national targets.

5 Audit Wales, A Picture of Flood Risk Management, December 2022

Contamination

2.12 Many post-industrial sites are contaminated by substances such as oils, chemicals, or asbestos. For contaminated land to receive planning permission, it must remove the contaminants. The cost of this can be considered in the site valuation but can make sites unviable, with the decontamination cost greater than the redeveloped value. Contrastingly, developments on greenfield sites typically do not incur these costs.

Land ownership

2.13 Mostly, councils can only influence owner decisions over property. Whilst effective relationships can be built to deliver regeneration in partnership, this can be limited where landlords are reluctant to engage. Council officers described how some landlords, such as some large or multinational companies, are less engaged to collaborate, despite potentially increasing the value of their land. This is closely related to buildings being seen as investments rather than homes or community assets, which is a cultural mindset difficult for individual councils to overcome.

2.14 Influence can also be limited where land is owned by other public sector bodies, such as the NHS. Land can be sold for the highest financial return rather than for the highest community return, due in part to public finance pressures. This underlines the importance of working in partnership with other public bodies to deliver for collectively served communities.

Skills

2.15 Shortages of skilled construction workers can potentially prevent the delivery of large-scale projects. With an ageing workforce, it is estimated[6] that by 2027, 9,100 more construction workers will be needed in Wales.

2.16 The need to compete for workers, as well as training, leads to increased costs of development. For brownfield projects, this can further affect potential profit margins and make them even less attractive.

6 Construction Skills Network, The skills construction needs: Wales, January 2023

Enforcement and use of powers

2.17 PPW encourages councils to work with landowners, but when not possible, to use enforcement powers to deliver regeneration. This can include Compulsory Purchase Orders (CPOs). However, in most councils these 'hard' powers are rarely used outside of transport projects. Reasons for this include reduced delivery resources, loss of skills and experience, and limited legal support.

2.18 This leads councils to rely more on 'soft' powers to try to meet aims. This involves trying to persuade developers or the development of joint ventures. Whilst this shows collaborative working, the reliance on 'soft' power is contrary to the PPW's balanced approach. Due to the lack of risk of enforcement, it gives developers significantly greater influence when negotiating aspects of development, such as infrastructure contributions or provision of affordable provision.

2.19 Whilst the Welsh Government has looked to develop skills in this area, to advance some more challenging projects councils will need to make enforcement a realistic tool.

UK issues

2.20 In addition to the above, there are other barriers that are outside the devolved control or influence. For example, when repurposing buildings, standard rate VAT is charged on building repairs and alterations whilst for many new construction projects VAT is zero-rated. Due to the pressure on viability, this can encourage developers to replace, rather than repair, existing buildings, which does not support sustainability.

Local plans continue to include sites without realistic chances of progression

2.21 Most LDPs reviewed included references to brownfield regeneration. These vary from brownfield sites forming some part of future housing development to specific targets for re-use of brownfield land. For example, Newport City Council target a minimum of 80% of all housing completions to be on brownfield land.

2.22 Targets vary by geography, with more rural areas having lower targets. For example, Carmarthenshire and Ceredigion Councils have targets of 32% and 5% of residential development to be on brownfield sites. Another council explained their focus had shifted to greenfield believing they had exhausted all large brownfield sites without significant contamination. Whilst this may be the case, not understanding why targets vary across Wales may lead to unequal levels of development despite opportunities being present nationwide, such as change of building use or minimising empty homes. Taking a national approach to site reporting may help to reduce this risk.

2.23 Council officers also described how some LDP sites are undeliverable due to specific challenges, such as pollution or viability. Allowing these sites to remain undeveloped puts greater pressure on allowing greenfield development, which may undermine efforts to be more sustainable. Given this context it is not clear why these sites are included in LDPs. If plans and ambitions are to be fully realised, focused effort to overcome barriers is needed. Whilst we recognise the strain authorities are under, it is difficult to see why a site is included within an LDP if support to realise the site is not provided.

2.24 Named sites are also unlikely to align with recent national policy changes due to the age of LDPs. The Welsh Government expects national policies should be integrated into sites choice and prioritisation. However, as many LDPs were developed over a decade ago, they do not take account of more recent national policies, such as Town Centres First. This limits opportunities for national and local policy congruence.

2.25 Going forward, local authorities will have to collaborate within Corporate Joint Committees to create Strategic Development Plans. These aim to give a more regional footprint for development, linking to more focused local plans. This offers potential routes for collaboration to overcome some barriers.

Community involvement is not always clear

2.26 Local plans also give opportunities to involve communities to shape their environment. It is often unclear how citizens have been involved in the development of LDPs other than having a chance to comment on them. This is despite involvement being cited as crucial in the development of LDPs by PPW.

2.27 In local placemaking plans, involvement is clearer with forums for citizens to express ideas. For example, the Transforming Chepstow plan developed by Monmouthshire County Council invited public comments through a survey and events to establish priorities. Similarly, in the development of placemaking plans, citizens and businesses of Canton have shared priorities and informed potential regeneration projects with Cardiff Council.

2.28 To deliver more community-based development, councils could work with third sector organisations. For example, Community Land Trusts (CLTs) are non-profit organisations that own and develop land for the benefit of the community. Through a CLT, the community actively leads development from site identification, planning, and construction in line with their local decisions.

2.29 In addition, Housing Justice Cymru's 'Faith in Affordable Housing' initiative coordinates efforts to unlock and encourage the use of redundant church land and buildings. They estimate there are currently 4,500 church buildings in Wales, with approximately 200 closing each year and more closures forecast. This could offer plots of land in both urban and rural areas.

2.30 Partnering with community-based groups would be a change in culture for some councils, moving from a partner or developer towards an enabler of community-led development. This is an example of a wider change in mindset and approach that we recently outlined in our report on community resilience[7]. However, third sector groups we have interviewed feel that little involvement is taking place, meaning potential opportunities are lost.

2.31 Elsewhere, councils have looked to involve the third sector in other ways. In Liverpool and Bristol, the use of social value frameworks has meant that money invested in the sector is kept by the communities that they operate within. Similarly, Habitat for Humanity GB have created a toolkit to support community-based regeneration of empty non-residential spaces. Their approach starts with community engagement to understand local needs and design interventions to meet them. It also includes advice to groups on property leasing, renting and ownership, fundraising, and collaboration with councils and other agencies.

7 Audit Wales, 'Together we can' – Community resilience and self-reliance, January 2023

Greater focus on overcoming barriers is likely to result in a greater impact

2.32 Councils have repeatedly failed to meet their own LDP targets for housing provision. We reviewed the eighteen published 2021-22 AMRs in August 2023. Whilst each council must publish AMRs annually, some have been delayed due to new LDP development with some producing no public information at all. Our analysis found that:

- thirteen included targets for utilising brownfield land, with seven achieving their target:
- the proportion of brownfield land used varies widely, ranging from 5% of new development in Ceredigion to 94% in Blaenau Gwent:
- the content of reporting also varies widely, with ten reporting on all brownfield uses and five reporting residential use only. Three made no commentary at all: and
- only four councils met their Average Annual Requirement[8] of new homes.

2.33 As recognised above, the scale of the barriers to overcome is significant. At present, council officers interviewed were generally negative with a sense that development is being held up, particularly by national policy. Some officers felt that national policy conflicts between the need to build homes and a 'purist' approach to the environment. Both the phosphates and flooding issues set out above were cited as directly preventing development or making it significantly harder than in England.

2.34 However, both climate change and phosphate targets will have impacts across the UK. Recently, the UK Government estimated that over 100,000 new homes are prevented in England due to phosphates. Indeed, as noted above **(paragraph 2.10)**, flooding is a potential reason to strengthen the case for regeneration, rather than weaken it.

2.35 In addition, few council officers could suggest examples of good practice found elsewhere. Instead, officers focused on what should be avoided, such as the expansion of Permitted Development Rights (**paragraph 3.2**). Whilst it is valuable to find risks and approaches to not follow, greater focus on positive examples would potentially help to overcome some barriers.

8 This is the method for calculating housing demand required by the Welsh Government's Development Plans Manual before 2020. Since, new plans must use the Anticipated Annual Build Rate (AABR) method.

2.36 To meet the challenges of climate change and the housing crisis, development must be sustainable. Most officers saw the purpose of national policies, but focused on their negative impact rather than the potential opportunities for change that they present. Transitioning to a mindset of recognising opportunities rather than barriers is difficult but may offer significantly greater progress.

2.37 This change in mindset could be articulated by clear ambitions in local plans, supported by four key elements – approach, leadership, resources, and skills. In our fieldwork, we have found deficiencies in each that limit the ability of councils to deliver. Where regeneration has been successful elsewhere, councils have proactively driven the agenda. This is likely to requires an acceptance of some risk combined with enforcement, leadership, clear policies and a commercial skillset.

Councils do not systematically find and record potential sites for regeneration

2.38 No council has a systematic, comprehensive approach to finding and listing empty properties or brownfield sites. Such an approach is useful in supporting developers to find areas to intervene, as well as shaping local plans for wider improvements.

2.39 Whilst most council officers noted that vacant dwellings and non-domestic properties could be found from Council Tax and Non-Domestic Rates (NDR or 'business rates') records, few consistently use this to inform strategy. This is a valuable insight into property that gives councils a rich evidence base to plan or intervene. When combined with other council-held data, it offers the potential of significant benefits in planning for demographic, economic, and infrastructure changes.

2.40 Since 2017, English councils must publish brownfield registers, updated annually. This includes available land that could support at least five dwellings, or is at least 0.25 hectares, where development is 'achievable'. This is defined as land where development is likely to take place within fifteen years.

2.41 In 2022, analysis by CPRE found that the 344 brownfield registers published included 27,342 hectares of developable land. This could accommodate 1.2 million homes. Planning permission had been given for 45% of the land, including 550,000 potential homes. Since being introduced in 2017, sites found suitable for housing has risen by 30% **(Exhibit 4).**

Exhibit 4: summary of English council brownfield registers identified sites, 2018-22

Year	Number of sites	Hectares	Number of homes
2018	17,656	28,349	1,052,124
2019	20,750	24,684	1,061,346
2020	18,277	26,002	1,077,292
2021	21,566	26,256	1,162,969
2022	23,002	27,342	1,232,592

Source: CPRE

2.42 Similar analysis is not possible for Wales due to the lack of systematic records kept or published. The collection of such information, locally or nationally, may offer several benefits. As well as helping identify opportunities for development or infrastructure development, it could also help provide a basis for councils to involve communities in leading regeneration.

Approaches from elsewhere

03

Looking to elsewhere may offer solutions to Wales

3.1 Pressures for regeneration and barriers are not unique to Wales and have had to be overcome elsewhere. Ambition, leadership, resources, and skills have been specifically found to make proposals for regeneration a success.

England – Permitted Development Rights

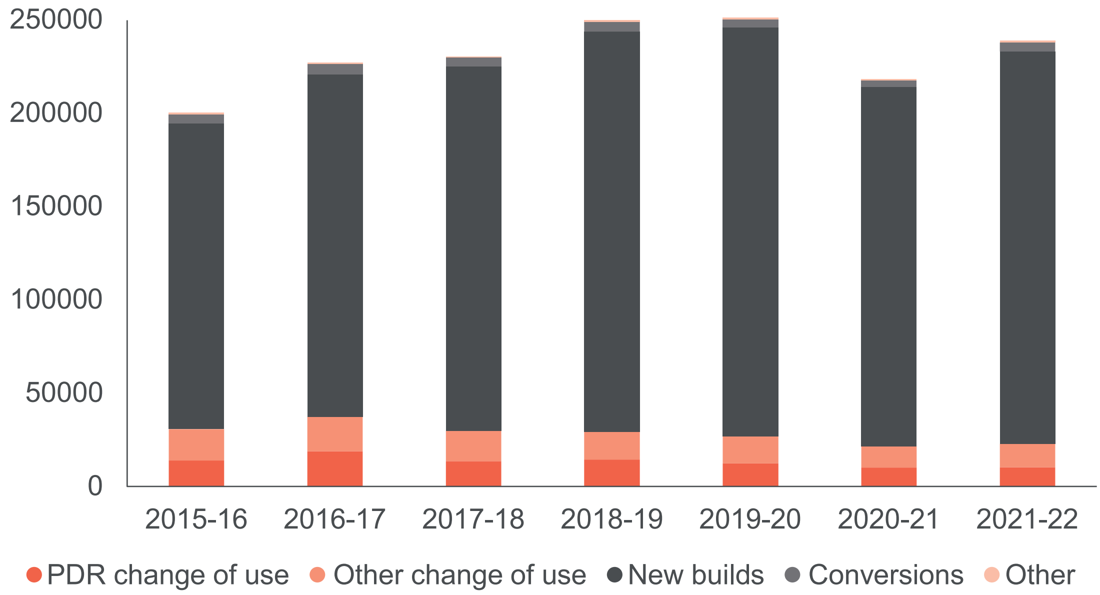
3.2 Changes to the planning system have been used in England to increase regeneration volumes. However, levels utilising the changes have been relatively low, but have produced housing quality concerns and loss of infrastructure funding.

3.3 Changes have been made to definitions of building classes and expansion of Permitted Development Rights[9] (PDRs) to encourage development. The changes enabled more types of commercial premises to be repurposed without planning permission, such as a former retail space being repurposed as an office. They also enabled empty commercial buildings to be converted to accommodation, or the complete demolition of redundant buildings to be reused for housing, without planning permission from a council.

3.4 Since 2015-16, 1.6 million dwellings have been added in England, with 198,000 (13%) resulting from a change in use. Around 93,000 utilised PDRs to change property use but this was smaller than 'regular' change of use in all years except 2016-17. New builds are still by far the largest contributor **(Exhibit 5).** By far, the most significant type of PDR used is from office to residential (41%).

9 PDRs give property owners greater flexibility to develop their premises without planning permission, such as house extensions or porch construction.

Exhibit 5: new dwellings completed by type in England, 2015-16 to 2021-22



Source: UK Government

3.5 However, housing quality issues have arisen due to the removal of the planning process and the standards it enforces. This includes suitability of location or design, lack of windows, minimum space standards, public transport links, or refuse facilities. Consequently, the Royal Town Planning Institute, Royal Institute of British Architects, Chartered Institute of Builders and Royal Institute of Chartered Surveyors wrote to the UK Government to protest at the change in 2021. UK Government commissioned research highlighted that PDRs generally resulted in creating poorer quality residential environments than conversions that were subject to formal planning permission.

3.6 PDRs can add pressure onto councils to supply services to unplanned residences, as well as preventing infrastructure funding from developers. For example, Section 106 agreements[10], the Community Infrastructure Levy, or other planning levies, to deliver affordable housing, schools, and playgrounds. Campaign groups, such as Shelter, have flagged the impact of the loss of such funds.

10 Technically known as a 'planning obligation,' these are agreements made between developers and local authorities to mitigate issues that would otherwise prevent planning permission being given.

Trafford Council

3.7 Trafford Council has employed an interventionist policy to regenerate town centres, whilst also experiencing a challenging financial context. Since 2016-17, Trafford has received no Revenue Support Grant, being almost exclusively funded by Council Tax and NDR. As a result, it must either raise income, reduce expenditure, or reduce service provision to balance its budget. This has led to innovation to generate new sources of income through rents, council tax, and NDR. Investing in regeneration is therefore critical to safeguarding and enhancing council services.

3.8 To set their approach and arrangements, they apply key principles:

- robust, clear, and strong statutory plans
- securing investment in land from council funds
- entering joint ventures with the 'right' partners
- developing commercial skills by working with the private sector
- collaborating with regional partners to maximise regional infrastructure investment

3.9 A combination of tools has been used to drive regeneration. Local plans have been used to target investment into the public realm and transport hubs to improve access and the feel of areas. Eyesores have been reduced using enforcement powers, council acquisitions, and interest free loans. Loans of up to £10,000 were available to help businesses occupy vacant units, improvements, or overheads, plus loans of up to £5,000 for marketing.

3.10 These acts have been combined with council investment in community facilities, such as a library, as well as encouraging private sector investment. As a result, high street vacancy has decreased. The Council reported that as well as directly increasing rental and NDR receipts, higher council tax income has resulted from new housing demand generated.

3.11 The Council has also adopted an investment strategy to support local regeneration in a more direct way. The investment fund, which currently totals £500 million, is funded by borrowing from the Public Works Loan Board. The strategy's goal is clear – 'to promote Trafford Council's Strategic Priorities while creating a suitable income stream to support local services.'

3.12 To deliver this, the Council:

- directly lends money for projects that complement this goal;
- incentivises development sites and the work of developers to ensure they are focussed on achieving council priorities;
- distributes surpluses generated to support council services to ensure the needs of the wider community are not left behind; and
- is prepared to intervene and take ownership of regeneration projects to give the Council greater control.

3.13 Selecting the 'right' partner for collaboration is critical. Understanding what each developer and the council wants is critical to forming a matrix of common goals. For some developments, site risks must be removed before partners are willing to start. As the key stakeholder, councils are best placed to mitigate risks for partners. In return, the council enables the development of high-quality buildings and infrastructure which is directly helping local communities.

3.14 To support collaboration, staff have been recruited externally with specific private sector and commercial skills to complement the established planning and housing teams. To help this, the Council has recognised that it needs to compete financially, offering competitive packages to attract the right people.

3.15 Financially, each project must make a minimum return. Direct investments are assessed for the internal rate of return (IRR) over an agreed period, whilst lending investments are set at a minimum of 2.5% plus cost. This enables regeneration, whilst also safeguarding public money.

3.16 There is an acceptance of risk within the model, however, with both elected members and officers understanding not all interventions will be successful. Members are informed of risks of commercial development through regular reporting, with the opportunity to scrutinise and oversee strategy implementation.

3.17 Whilst not all councils may have financial resources or risk appetite to work on this scale, the key arrangements are transferable. Councils, as the planning and housing authorities, can set the policy and give leadership and resource to fundamentally shape regeneration.

Kent County Council

3.18 Reducing empty homes has been prioritised by councils across the UK. Properties can be vacant for several reasons, such as poor condition, difficulties in converting to housing, or funding. To address these issues, Kent County Council (KCC) developed the innovative 'No Use Empty' scheme.

3.19 Despite not being the responsible housing authority, KCC has provided regional coordination and leadership in collaboration with the twelve district or borough councils through the scheme. Officers meet quarterly to broaden knowledge, collaborate, and to pool experience to achieve common goals.

3.20 The main scheme supplies interest-free loans of up to £25,000 per unit to bring back into use or convert empty homes into housing, to a maximum of £175,000 per project. Loans are secured by legal charge on the property and each application is risk assessed before approval, allowing individuals and organisations access to funding who may have no experience of property development.

3.21 Around £16 million is currently available within the scheme, with KCC investing £11 million and the Local Enterprise Partnership Growing Places Fund £5 million. KCC estimate that funding of £55 million has been recycled within the scheme.

3.22 The scheme also supplies larger loans to small developers for new build housing on green and brownfield sites. With a separate budget of £24 million, loans under this part of the scheme are typically larger ranging from £100,000 to £2 million.

3.23 The scheme has no revenue funding by KCC and is self-funding. An admin fee of around £750 is charged on a loan for empty properties. For new builds, the admin fee is 1% of value plus VAT. Interest of 5-8% is typically charged on all loans. This also helps to deliver a return on investment for KCC, in addition to added council tax receipts.

3.24 Residents can contact KCC to report empty properties or seek advice. Around half of all properties come back into use through advice and guidance alone, with the rest enabled through the provision of loans and enforcement. Since 2005, the scheme has approved 442 loans and has resulted in 7,770 units being brought into use. The scheme has recently been renewed until at least 2027-28.

3.25 This scheme has been identified as good practice by the Welsh Government and helped influence the development of their own Empty Homes Scheme. This is designed to make more efficient use of existing property and also provides opportunities for common lessons to be shared across Wales'

Appendices

1 Audit approach and methods

Scope and approach

Our problem-orientated approach in this audit has led us to understand the key barriers to councils enabling brownfield regeneration. We have employed a root cause analysis approach to understand the key underlying causes of each barrier identified.

We looked at problems associated with brownfield regeneration, change of property use, and reducing empty homes. We did not focus on development in general, although some issues identified also affect greenfield development.

We targeted our fieldwork at eight councils, which were selected due to their varying success levels in brownfield development. The eight authorities were Caerphilly, Cardiff, Carmarthenshire, Gwynedd, Newport, Powys, Rhondda Cynon Taf, and Wrexham. We intended to also include Neath Port Talbot, however it did not wish to take part.

During fieldwork, we were mindful of the pressures currently faced by officers, including the housing and cost-of-living crises, the COVID-19 recovery, and refugee programmes. We tried to ensure that our coverage was sufficient to give an overview of the sector whilst not detracting from service delivery. We worked flexibly to organise our fieldwork with officers.

Methods

Our review was completed between January and August 2023 and used a range of methods:

- document review – we reviewed documents from the Welsh Government, councils, and other relevant bodies. This included Local Development Plans, Annual Monitoring Reports, and other local strategies. We also reviewed documents shared by the third sector, from the UK Government, and other UK organisations.
- local interviews/focus groups – we interviewed a range of officers with responsibilities related to regeneration at each selected councils. This included housing, planning, and economic development officers. These took place between January and May 2023.
- national interviews – we interviewed Welsh Government officers, third sector representatives, and academics.
- data collection – we collected data on housing waiting lists and refugees housed by each council. 18 councils provided data, with one unable to, and three not responding.
- website review – we completed reviews of council and other relevant websites.

Audit Wales

1 Capital Quarter

Tyndall Street

Cardiff CF10 4BZ

Tel: 029 2032 0500

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.

Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.