

# Fair Foundations

## A new movement for left behind places

January 2023



# Acknowledgements

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Thank you to all those who have contributed to this report including:

**Quorus**

**Foundational Economy Research Ltd**

**Create Streets**



# About us

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At Karbon Homes, we build, manage and look after affordable homes for people across the North. And then we go further, we give them the strong foundations they need to get on with life.

Since our formation in 2017, we've focused on delivering our three strategic aims - to provide as many good quality homes as we can, to deliver excellent service to our customers, and to shape strong, sustainable places for our communities.

Our footprint covers the North East of England and Yorkshire, with almost 30,000 homes across diverse communities, all facing different opportunities and challenges.

We always make the effort to understand our customers. We believe that everyone deserves respect and everyone's voices should be heard.

Some customers just need an affordable home, or a way onto the property ladder. Others might need more – financial advice, community services, sheltered accommodation or even training that can lead to a new job. Whatever people need to feel more secure, confident and happy with where they're at, we work our heart out to provide it.

We believe that by combining a sound business head with a strong social heart and staying true to our values, we can build strong foundations for even more people.





# Foreword

Everyone deserves a fair chance to realise their potential. But whether you get that chance depends largely on where you live. Some areas are well connected, with vibrant local economies and strong community services. They help make day-to-day life fulfilling and affordable. But elsewhere, opportunities are out of reach. Structural decline, poor transport, insecure work, and the unintended consequences of tax and benefit policy trap people in cycles of poverty where life is hard, stressful and more expensive. Prices have spiralled as the cost of living crisis bites. Poor quality homes leak valuable warmth and the best deals for energy and essentials aren't available to those who need them most. Where these challenges are most difficult, and quality of life measures fall furthest behind more fortunate areas, places are commonly described as being left behind.

The problem of left behind places has long been recognised, but the well-intentioned policies designed to address the causes have sadly fallen short. Every Government in recent decades has made efforts to increase productivity and attract overseas investment to support jobs. But the UK2070 Commission was still forced to conclude that the UK remains 'one of the most spatially unequal economies of the developed world'<sup>1</sup>. Unable to address the problem of inequality at its roots, policy is left tackling the symptoms instead, with short term relief packages to help those in need.

<sup>1</sup> UK 2070 Commission <https://uk2070.org.uk/wp-content/uploads/2022/06/UK2070-EXEC-SUMMARY-FINAL-REPORT-Copy.pdf>

Alleviating poverty and supporting people in crisis is vital. But ultimately, it's a sticking plaster that needs to be replaced time and again. Karbon's mission is to provide people with strong foundations for life. That means creating robust, sustainable places where people can break out of these damaging cycles for good.

We're in the business of housing. We build and manage as many good quality homes as we can and strive to be a brilliant landlord. But while a good home is foundation enough for many of our customers, it's just one part of the picture in some areas. In these places, building strong foundations may mean looking beyond bricks and mortar, and beyond the wraparound services we provide to our customers. In places facing the hardest challenges, and where we are best placed to make a difference, it means getting deeply involved in the way that places work, so we can make them work better for people and leave a positive impact on communities.

There's clearly a moral imperative to do so. Tackling structural disadvantage gives people a fair go, and our long history with communities across the north means we're emotionally invested in their success. But there's also a clear business case for Karbon's deep involvement with particular places. Helping people maintain their tenancies and improve the areas where high concentrations of our homes are built supports our own financial resilience.



This principled and pragmatic desire to create sustainable places is married up with our capacity to bring about change. Wherever we manage homes, we are able to have a positive impact, with affordable, well insulated, high quality homes that improve the quality and affordability of life. But in some of the places where we operate we are able to do more. In these places, Karbon is an anchor institution – managing a large proportion of homes and supporting and developing close relationships with many households. This means we understand how places work. We see how changes in local infrastructure or decisions by local employers are felt by local people. And by working with those people, we can identify the big, strategic interventions that will make a real, positive difference.

We can't make that difference everywhere. But where we have a large concentration of homes and there is significant and recognised need, we can undertake far-reaching, place-based interventions to help turn places around.

These are big solutions to big problems, and they rely on three things:

1. **A new approach to evaluating places and interventions that's based on the concept of the foundational economy.** This powerful framework helps us to understand the experience of living somewhere on a relatively low income. It digs far below the headline numbers on wages and GDP that are widely used to discuss economic development. Instead, it focuses attention on the availability and accessibility of essential goods and services that people need for everyday life - like utilities, food, health, education, and housing - and the accessibility of social infrastructure - like sports grounds, libraries and community halls. Interventions that improve the foundational economy create a thriving, virtuous circle of gains.
2. **A new way to measure progress that's appropriate for a foundational economy approach.** This means moving away from top line changes to income or GDP and looking instead for increases in the residual income households have to spend after tax, benefits, housing and transport are accounted for. This approach is essential if we're to get away from well-meaning but limited solutions based solely on creating jobs and instead find solutions that really change lives.

3. **A coalition of active, willing, like-minded partners who are happy to roll up their sleeves to tackle the challenges of left behind places.** Yes, there are things that can be done from Westminster to level up the playing field. But the hard yards will be made on the ground; by employers, developers, local government, and investors working closely with communities on focused, place-specific, high impact programmes of change.

This document is a blueprint to help us work differently in left behind places. It summarises the evidence that supports our approach and describes the steps we're taking. But more importantly, it's a request for help, support and partnership. We're asking others to join us on the journey. For our partners across the north to join focused coalitions in left behind places. For other anchor institutions to fully consider their impact in their local area. And for organisations across the country to give us the benefit of their ideas and experience.

We're not looking for more funding, though of course we wouldn't turn it down. We want to join a concerted effort to focus what resources we have on those left behind places where we can make the most difference. We want to help kickstart a virtuous circle of change.

**People in left behind places deserve fair foundations for life. Let's build a movement to make that possible.**



*Charlotte Carpenter*

**Charlotte Carpenter**

Executive Director of Growth and Business Development,  
Karbon Homes

# Context

## What does it mean to be left behind?

The term 'left behind places' can have negative connotations, but it seems to fairly reflect how people feel in some towns and neighbourhoods. These places face economic stagnation or decline. They have become marginalised as skilled knowledge economy jobs have concentrated in city centres and other employment has moved out of town. The physical fabric of these places, and their performance against economic and social benchmarks, has fallen behind; not just behind places in other regions of the country, but behind neighbourhoods just a short distance down the road.

Of course, each place left behind is different. There are clear distinctions between ex-mining communities, outlying social housing estates and seaside towns. But in each case the effects of places being left behind are felt by people, through their day-to-day experiences and limited opportunities.

Children who by accident of birth grow up in left behind areas feel the brunt of their effects. A startling 47.5% of children in the Byker area of Newcastle were living in relative poverty in 2020/2021.<sup>2</sup> These children start life at the back of the queue and have to fight hard to catch up. On average, children who receive free school meals are less than half as likely to receive five good GCSEs including English and Maths than is the case across the UK as a whole.<sup>3</sup>

You can see more of the effects of life in a left behind place in the infographic below which compares Byker against a more prosperous area of Newcastle - Gosforth - just four miles down the road.

Despite these challenges, a clear majority of people, including those living in left behind places, are attached to their local area. In the 2020-2021 DCMS annual Community Life Survey<sup>5b</sup>, 65% of all respondents and 57% of those living in the most deprived areas feel they 'very strongly' or 'fairly strongly' belong to their immediate neighbourhood.

### Children in relative poverty

Byker	Gosforth
47.5%	4.9%

### Life expectancy at birth for females<sup>4</sup>

Byker	Gosforth
76.3	86.7

### Life expectancy at birth for males<sup>4</sup>

Byker	Gosforth
71.2	83.3

### Benefit claimant count 16+ population<sup>5</sup>

Byker	Gosforth
10.2%	1.2%

<sup>2</sup> ONS, Children in low income families: local area statistics 2014 to 2021

<https://www.gov.uk/government/statistics/children-in-low-income-families-local-area-statistics-2014-to-2021>

<sup>3</sup> Child poverty fact sheet <https://www.local.gov.uk/sites/default/files/documents/child-poverty-fact-sheet--221.pdf>

<sup>4</sup> PHE, 'Public Health Profiles - Life Expectancy', online at

[https://fingertips.phe.org.uk/search/life%20expectancy#page/0/gid/1/pat/401/par/E08000021/ati/8/iid/93283/age/1/sex/1/cat/-1/ctp/-1/yrr/5/cid/4/tbm/1/page-options/car-do-1\\_tre-ao-0](https://fingertips.phe.org.uk/search/life%20expectancy#page/0/gid/1/pat/401/par/E08000021/ati/8/iid/93283/age/1/sex/1/cat/-1/ctp/-1/yrr/5/cid/4/tbm/1/page-options/car-do-1_tre-ao-0)

<sup>5</sup> Claimant count by sex and age, <https://www.nomisweb.co.uk/>

<sup>5b</sup> <https://www.gov.uk/government/statistics/community-life-survey-202021>



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## The reality of life in left behind places

### Byker

Byker is a community of around 12,000 people, located a couple of miles to the east of Newcastle city centre and with the River Tyne at its southern border. It benefits from great links to the key employment centre of Newcastle with Metro light rail, bus, road, cycling and walking options.

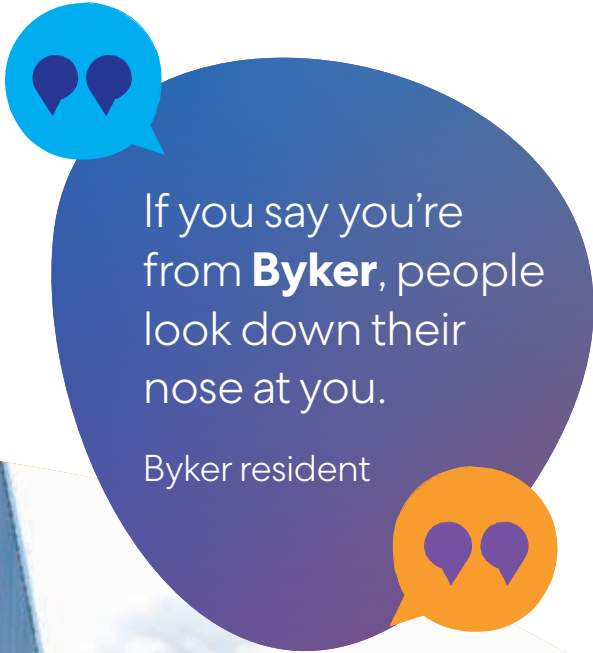
Demographically, Byker is more diverse than other parts of the North East, with more than 11% of the population describing themselves as something other than White British.

Housing in Byker is dominated by the Byker Estate, owned by Karbon Homes, which accounts for around one-third of all homes in the area. Designed and built in the 1970s and replacing the low-quality, tightly packed terraced homes built to house shipyard and factory workers and their families, the estate is now a Grade II listed development of almost exclusively social housing.

Within Byker there are three well-regarded primary schools and a local high street that - while being down-at-heel - offers a diverse retail mix including a major supermarket. England's Index of Multiple Deprivation (IMD) ranks Byker among the better half of all neighbourhoods for access to services and quality of the living environment.

Nevertheless, Byker faces considerable challenges: the IMD ranks Byker in the lower 3% of neighbourhoods with more than 96% of other neighbourhoods ranking better for income, employment, health and education, and more than 75% better for crime.

Perhaps starkest of all, the healthy life expectancy for a 55-year-old man in Byker is just 63.8, the lowest of any community in Newcastle and more than 11 years lower than that those who live in the north-west of the city.



If you say you're from **Byker**, people look down their nose at you.

Byker resident



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## Stanley

In the north of County Durham, Stanley is a former coal-mining town situated at the top of the Derwent Valley midway between its neighbouring towns of Consett and Chester-le-Street, each around six miles away. It has a population of around 34,000 people.

Industrial decline has limited employment opportunities in Stanley, with a significant number of people travelling daily elsewhere for work, and often by car due to limited public transport options.

While Stanley has a relatively good, and growing, retail offer much of this is located on the fringes of the town centre and aimed at car users, resulting in the decline of the traditional Front Street retail offer which is dominated by vacant, and in some cases derelict, buildings.

This is compounded with a limited public transport offer: there is no rail access to the town and the previously weak bus offer has worsened considerably since 2020, a situation which also limits access to employment for those in the town without a car.

While the town has a number of good and outstanding schools, most young people travel elsewhere to access post-16 education due to the town's limited Sixth Form offer.

Around a quarter of the homes in the town are social housing, and the majority owned by Karbon Homes, located on a number of estates on the fringes of Stanley and in the neighbouring settlements.

While none of Stanley appears in the Index of Multiple Deprivation's most prosperous areas there is a clear split with areas in the centre and south of the town among the 20% most deprived areas in England.

Demographically, the town, like much of County Durham, has an older-than-average population with most growth in recent years being among the over 65s, and ethnic diversity is low.

Around a quarter of the people in Stanley are living with a limiting long-term illness or disability.





## Policy approaches have struggled to move the dial

For a long time, there's been widespread acceptance that something needs to be done about glaring social and economic inequalities. And over the last 30 years, several flagship programmes have been launched to address them.

- The Single Regeneration Budget distributed £5.7bn of funding to more than 1,000 projects between 1994 and 2002. This cash injection was supplemented by funding from local authorities, training and enterprise councils, the voluntary and private sectors and the European Union<sup>6</sup>.
- The New Deal for Communities, launched in 1998, and the Neighbourhood Management Pathfinders that followed in 2001, sought to work with communities at a local level on regeneration projects and programmes.
- The Northern Way initiative, launched through the Regional Development Agencies in 2004, considered the problem of geographic inequality at a larger scale, seeking to close the £30bn output gap between the north and the rest of England with strategic investments at scale.
- This was followed by the Northern Powerhouse, first introduced in June 2014, which also looked for solutions to address those longstanding imbalances referred to as the north-south divide.

These initiatives, and the more recent focus on Levelling Up, have recognised the need for targeted investment. But each approach has been ultimately familiar. It has rested on the prevailing view that more jobs, and higher income from better jobs, is the solution for left behind places.

While these policy initiatives can each point to their own successes, the UK2070 Commission was still forced to conclude in its final report of 2020 that the UK remains one of the most spatially unequal economies of the developed world.<sup>7</sup> As our regional experience confirms, any benefit from investment in increased economic productivity has failed to 'trickle down' from cities and urban centres to post-industrial areas or surrounding towns and villages.

Why have we failed to make more progress in the UK? Because the long-standing policy approach is underpinned by assumptions that don't stand up to scrutiny. Recently commissioned research and analysis helps us understand what is really going on and where the next raft of place-based policy interventions need to focus.



<sup>6</sup> <http://eprints.lse.ac.uk/86566/1/sercdp0218.pdf>

<sup>7</sup> UK2070 Commission  
<https://uk2070.org.uk/wp-content/uploads/2022/06/UK2070-EXEC-SUMMARY-FINAL-REPORT-Copy.pdf>

# Analysis

In 2022, as part of a project funded by the Community Renewal Fund, Karbon and a range of partners, including Your Homes Newcastle, Bernicia, North Tyneside Council, Northumberland County Council and Changing Lives, commissioned research into the relationship between residual household income, employment and the foundational economy in three left behind areas within the North of Tyne.

The research was undertaken by Foundational Economy Research Limited (FERL)<sup>8</sup>, an action research agency focused on understanding places and foundational reliance systems, and the results helped us unpick three false assumptions that have underpinned economic development practice for some time.

First, that higher gross income for a household means higher living standards. Second, that wages from jobs are the prime driver of living standards in disadvantaged communities. And third, that more, higher paid jobs in one area will drive economic improvements in others.

The following information comes from Jobs and Liveability by FERL (2022).

## **Assumption 1: The disconnect between gross income and higher living standards**

The evidence shows that what matters to households is not top line gross income for the wage earner (or earners), but what is left to the household after deductions to give disposable income (after tax and benefits) and residual income (after housing, transport and utilities costs).

Consider this example. A privately renting household that runs a car to get to work may earn the same gross income as another household on the other side of the city. But, if that second household is in social housing located close to opportunities for employment, and so pays lower rent and travel costs, it will enjoy a much higher residual income than the first. The residual income of a household that owns their home outright will be higher still given the same gross income. One of these households may feel financially comfortable, another may be struggling to make ends meet. Yet they all have the same gross income.

So, while top line income figures are eye catching, they are a poor reflection of real-life experience. As we'll go on to show, they're particularly inadequate in left behind places.

## **Assumption 2: The real sources of income in disadvantaged communities**

Not only is gross income from wages misleading at best as a measure of living standards. It's a surprisingly small element of 'real' income for many households in left behind places.

The growing trend towards low paid and insecure jobs has created a situation where a large proportion of household income is made up of benefits from the state. Some of these benefits are in the form of cash, such as Universal Credit, and others are tax funded public services, including health care, education, subsidised childcare and so forth. This dependence on income from sources other than wages is true of low- and middle-income households, not just the most disadvantaged. For example, the poorest 10% of UK households get 74% of their 'real' income from cash benefits and benefits in kind. But perhaps more surprisingly, further up the income scale, a household in decile five still earns less than two thirds of its 'real' income from wages and a tenth from state benefits.

When income from wages makes up such a small proportion of real household income, seeking to increase just that top line element will naturally have only a marginal impact.

## **Assumption 3: Little evidence that 'better' jobs in one area have a positive impact in others**

Increasing the number of well-paid employment opportunities in an area may help support improvements in overall prosperity, but the economic gains rarely 'trickle down' to left behind places. 'Better' jobs tend to be highly skilled and low volume, and they are most often located in relatively prosperous areas such as city centres. Poor connectivity, and failures in other social and physical infrastructure, mean people in left behind places are rarely able to take up these opportunities.

## **Flawed assumptions lead to flawed interventions**

If gross wages are a poor measure of living standards in left behind places, and people living in these places find it hard to access new employment opportunities, then goals to provide more, higher paid jobs are well intentioned but overly simplistic and unlikely to help communities in most

<sup>8</sup> <https://foundationaleconomyresearch.com/>



need. To design better policy, we need to understand the key problems that are really holding places back, and shape interventions to overcome them.

## What's really holding places back?

Research and experience show there are four key factors that prevent left behind places catching up with their more fortunate neighbours.

1. The unintended consequences of the tax and benefits system
2. Transport disadvantages
3. Concentrations of stressed households leading to depressed districts
4. The framework for investment in left behind places

### The unintended consequences of the tax and benefit system

Our tax and benefits system serves to trap households in situations where they have little chance to improve their living standards.

The system does at least provide a financial reward to those who are unemployed (but able to work) and who find a low paid job.

For example, a workless two-adult, two-child household in a socially rented property in Byker or Percy Main, with neither adult working, receives a total income of £19,867 per year in Universal Credit, Child Benefit and Council Tax Credit. If both adults take typical entry level positions, with one adult working full time and the other part time, then the household's take-home income increases by 59% to £31,546 a year. This incentive is mirrored for single adult households and those who are privately renting.

Of course, these high marginal benefits have less desirable implications too.

First, they are designed to encourage people to take 'any' job. If low paid jobs are all that's available, then people who become unemployed due to structural changes can find themselves working longer hours for lower pay than was previously the case. And second, the key to the incentive effect is the low level at which benefits are set. This has significant consequences for those who cannot work and have no prospect of increasing their incomes.



**The incentive to work has tough implications for people in low-income households, but it does exist. In contrast, the incentive for people in low paid work to find a higher paid job or take on additional hours is negligible.**

The UK tax and benefit system imposes high marginal rates of loss on additional pay for the low-income households that need it most. Low-income households that earn above the income tax and national insurance thresholds will lose around 35p in the pound for tax, national insurance and compulsory pension. Benefits will then be withdrawn according to the Universal Credit taper rate, which currently means that **55p of benefits are lost for every £1 earned above the work allowance.**

Fig a<sup>9</sup> shows how disposable income is affected by various increases in the gross income of the main earner, for social and private renting households of different types.

Take as an example the low-income household with two adults and two children on social rent with a net income of £31,546 a year (column 3). If the main earner’s gross income increases by 20% - a significant pay rise – the reduction in benefits and increase in income tax turn that raise into just a 4% increase in disposable income.

Even an exceptional pay rise of 80% would result in only a 14% increase in net income, which means just £86 more per week for the household of four.

Alongside these stark numbers, the table also shows how living in socially rented as opposed to private rented housing has a positive impact on the proportion of any pay rise that is retained by the household.

The unintended impact of the tax and benefits system in the UK is to trap people in poverty. Since economic development policies that focus on more and better jobs are so deeply undermined by this system, their impact in raising living standards and changing left behind places for the better can only be minimal.

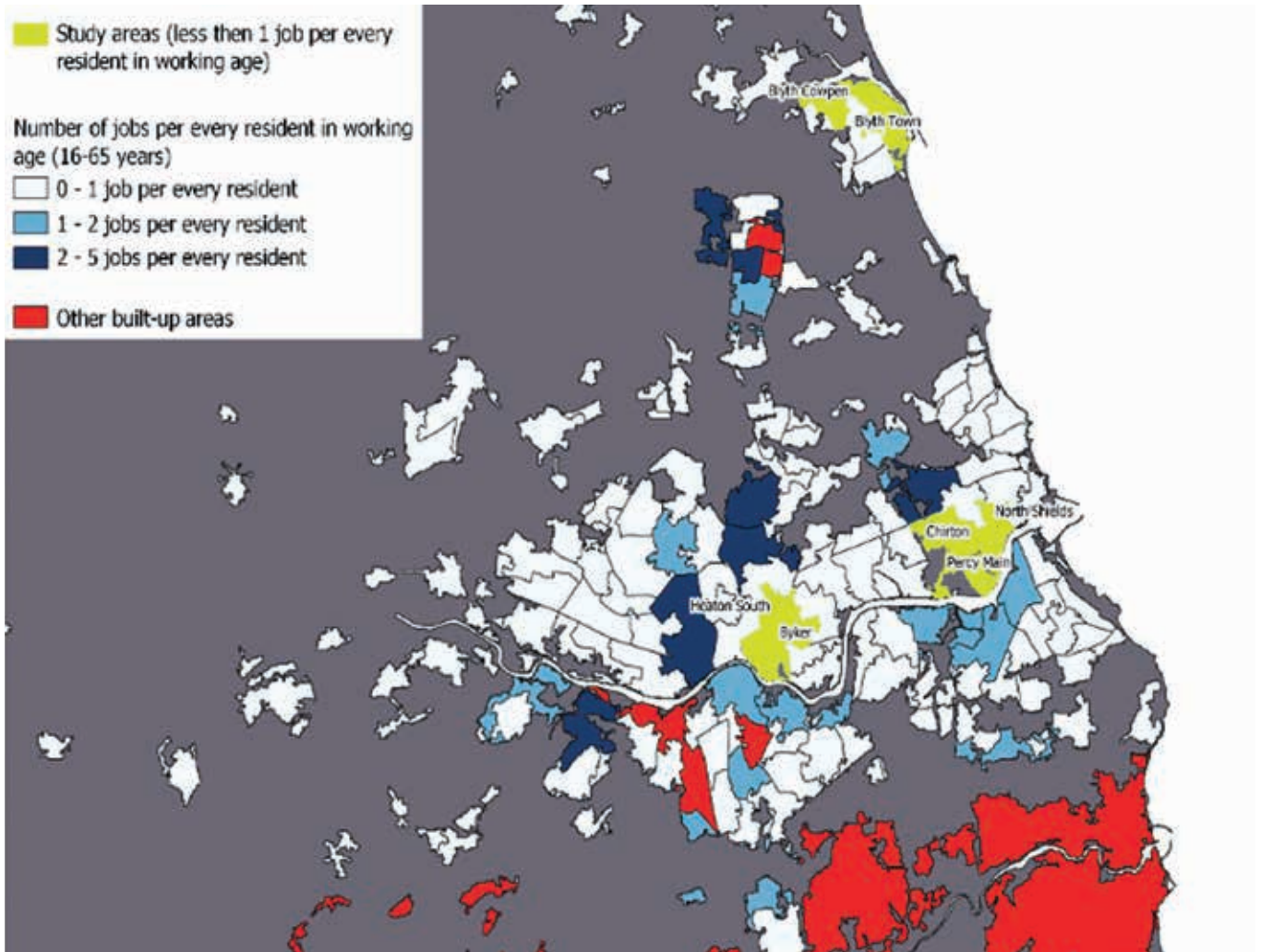
**Fig a: Increases in gross income and disposable income<sup>10</sup>**

	Increase in disposable income for a single adult household		Increase in disposable income for a 2 adults 2 children household	
	on social rent (in work base income £11,725)	on private rent (in work base income £13,436)	on social rent (in work base income £31,546)	on private rent (in work base income £33,846)
with 20% gross income increase	3%	3%	4%	3%
with 40% gross income increase	8%	7%	7%	7%
with 60% gross income increase	13%	11%	11%	10%
with 80% gross income increase	17%	13%	14%	13%
with 100% gross income increase	24%	17%	22%	14%

9 FERL report  
10 FERL report



**Fig b: Jobs per person of working age across Newcastle<sup>11</sup>**



## Transport disadvantage

As with most cities across the UK, Newcastle and its hinterland is a mosaic of job-rich and job-poor areas. As fig b shows, across much of the urban area (coloured white) there is less than one job per resident of working age (16-64). This includes the study areas chosen by the FERL report - Byker, North Shields and Blyth (shown in yellow) - which are primarily residential areas.

This disconnection between residential areas and key employment sites presents a major barrier to opportunity.

In Newcastle, half of the jobs are typically more than 5km from home and the two main transport options – a private car or public transport – are both prohibitively expensive for the low-income household.

<sup>11</sup> FERL report

By the time you pay for travel, childcare, work clothes and your lunch, you are worse off.

Byker resident

Buying a car involves a high financial outlay in the first place; the cash price of a 10-year-old hatchback is around £2,000. The annual running costs of that car are a further £2,600 or more<sup>12</sup>. The alternative – public transport – is complicated or slow for many commuter journeys. Radial bus routes to the city centre fail to connect left behind places with employment sites.

The advantages of taking on a better paid job are slim already, due to the tax and benefit system. That lean incentive may be completely eroded by transport costs unless a better paid job is close to home or easily accessible with a simple public transport trip.

The overall result is that low-income households become more dependent on labour markets within a 2-3km radius. And as we'll go on to show, in left behind places these opportunities are highly constrained.

### **Stressed households, depressed districts**

Since the cost-of-living crisis has energy and food pricing at its heart, its impact is being felt disproportionately in the foundational economy where these costs form a high percentage of life's essentials. The absolute value of energy price rises on a four-person household in a prosperous neighbourhood may be the same as that in a left behind place. But while the impact of energy bill increases on residual income in the more prosperous area may require some belt tightening, it could be catastrophic for a low-income household.



While the consumer prices index rate of inflation began to slide towards the end of 2022, food and non-alcoholic drink prices rose by more than 13% in the 12 months to August of that year.<sup>13</sup> The price of value product ranges has increased even more quickly, and where value ranges have been limited or discontinued, customers have been forced to switch to more expensive products.<sup>14</sup>

Energy is another unavoidable cost. Households were forced to absorb steep increases in gas and electricity prices in 2022, and further price increases in the October prompted a dramatic policy response from the Government. Rising energy costs have a particular impact in places with older, less energy efficient housing, where poor insulation leads to inflated bills. In this area of household budgeting, and where rent levels themselves are concerned, responsible social landlords can be a positive force in the face of the cost-of-living crisis. The drive towards net zero in our social housing stock – while a huge financial challenge in its own right – could have a powerful multiplier effect if it leaves more money in the pockets of people in left behind places.

For those who can afford to run a car, fluctuations in fuel prices are a major concern. While fuel prices eased towards the end of 2022, petrol price inflation stood at 9.4% in the year to June 2022 according to the Office for National Statistics.

Managing tight household budgets in the face of these challenges becomes impossible.

The damage caused by the escalating cost of living is subject to a multiplier effect in left behind places. Districts with a high concentration of low-income households suffer a substantial drop in the discretionary income being spent in the local high street economy. Since transport barriers make these same low-income families more reliant on employment opportunities in these high streets, the lack of spending spirals into a lack of jobs which in turn further reduces spending. The result is major erosion of the foundational economy – depressed districts and run-down high streets that meet only the most basic of demands.

<sup>12</sup> <https://www.thecarexpert.co.uk/average-car-running-costs-now-220-a-month/>

<sup>13</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/august2022>

<sup>14</sup> <https://www.thegrocer.co.uk/fmcg-prices-and-promotions/is-jack-monroe-right-about-food-inflation-hitting-the-poorest-hardest/663957.article>



## Jack struggles with cost of living rise

Single parent Jack, 27, moved into his two-bed home in Durham, renting from Karbon Homes, last year. He was working as a supervisor at a manufacturing firm, where he'd been for eight years. But as a single parent, he was no longer able to work the shift patterns that were offered to him and he made the difficult decision to leave work.

His gas and electricity bill for his new home was initially affordable at only £59 per month but as prices started to increase, he could feel the squeeze.

He said: "My energy bills went from £59 per month to £120 and then £400 overnight. It was ridiculous. I was getting really worried and was falling behind with my rent payments. Everything was just getting on top of me."

Karbon helped Jack access child benefit that he hadn't been claiming and organised food vouchers for the local foodbank. When his cooker broke, Karbon organised funding through the Greggs Hardship Fund for a new cooker so he could continue to cook meals for himself and his daughter.

Jack has since managed to negotiate monthly energy payments down to an estimated £280 per month, but this remains high and with all his additional outgoings, he is left with very little for him and his daughter to live on.

"It has been a real struggle particularly with buying school uniforms etc. It's left us with just £200 to live off."



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## The framework for public investment in left behind places

Karbon recently commissioned Create Streets Foundation to produce a report to explore some of the reasons why recent governments, regardless of intent, have struggled to increase the amount of money available to left behind places while investment has continued to flow towards places with higher land values and house prices. The report, entitled *The Case for Place (2022)*, suggests that Central Government spending rules have the unintended consequence of further disadvantaging left behind places.

Whitehall investment appraisal processes prioritise the Benefit to Cost Ratio (BCR) metric when deciding which areas should benefit from the investment needed to stimulate growth. This measure favours places and projects that can generate financial benefits relatively cheaply and quickly. This leads public capital investment patterns to mirror those of the market, rather than fill in where the market will not.

Compounding this bias, the BCR measure is based on static, national economic benefits rather than local benefits that scale up through multiplier effects. It also assumes that employment impacts from most spending decisions will simply displace economic activity from elsewhere. Further, it tends to underemphasise social value and wellbeing impacts – all of which steers investment away from left behind places.

The Create Streets Foundation report also finds that the £6bn annual budget of Homes England could be working much harder for left behind places if it weren't constrained by further spending rules. Since 2018 it has been an explicit aim of government policy (through the so-called 80/20 rule) to tackle housing affordability by directing 80 per cent of five major Homes England funds to the 50 per cent of local authorities where house price to income ratios are highest. These areas map closely onto the places where housing demand is greatest and represent just 43 per cent of England's population. They are overwhelmingly concentrated in London and the south of England, while left behind places elsewhere with low or even declining house prices receive less funding.

Although the Government has publicly announced the abolition of the 80/20 rule, it appears to still have an impact on investment decisions.

The national policy focus on building more housing also channels investment away from valuable improvements to existing stock that could bring homes back into use, improve residual incomes and support the drive to net zero in left behind places. Funding from the £11.5bn Affordable Homes Programme for 2021-2026 is designed explicitly to exclude works on existing homes – however old or unfit-for-purpose they might be – through a requirement for all funding to deliver “net additionality”. While such funding restrictions may make sense in high demand housing markets where the over-riding need is to increase supply, they put up barriers to critical investment in housing infrastructure elsewhere.

This series of structural failings combine to make investment in left behind places hard to unlock.





# New goals:

## Residual income and the foundational economy

The evidence so far shows we have to move beyond the idea that more and better jobs is the one size fits all solution in left behind places. Even if the jobs can be created, there are structural barriers that prevent them making a difference for the people in greatest need.

Instead, to create policy and shape interventions that have impact, we need to take a foundational economy approach and set new goals for regeneration and economic development that are based on the measures that really matter.

Most of us live in multi-person households where there's at least some degree of income sharing – so the household unit is a sensible scale at which to consider and measure living standards as people experience them. But as we've shown so far, the top line income of the household unit is a poor proxy to understand the relative well-being or deprivation that a household is really facing.

Instead, we should take a foundational economy approach. We need to consider in the round both the multiple sources of income that contribute to living standards, only part of which comes from waged employment, alongside deductions that result from taxes and the essential, unavoidable costs of housing, transport and utilities.

The household income left after these deductions is residual income. This isn't money to be spent freely on leisure. It's money that must cover food, school uniforms and household emergencies long before any savings or holidays are considered. By setting out to measure residual income at the household level, and evaluating programmes to improve left behind places against that measure, we will design and deliver interventions that make a real difference to the people who need them.

Much as top line income is a poor measure of household living standards, GVA per capita is a limited measure to apply to a place. Whether places are thriving or left behind is dependent not only on the productivity of the jobs people do, but the essential services and social infrastructure that supports or prevents people from fulfilling their potential.

Our goal in left behind places should not be to increase productivity, but to improve the foundational economy so that residual incomes will increase. This will lead to more sustainable benefits for local economies as it would enable us to support larger numbers of households to leave poverty and financial distress, to spend more in the local economy or even go on to start their own businesses.

Aligned with a new framework to better evaluate and plan interventions in left behind places, we need a fresh, co-ordinated approach to design and deliver those interventions. This doesn't mean more money, though of course that would be welcome. Instead, it means focusing our existing resources on those places where we can have greatest impact and replacing cycles of poverty with positive multiplier effects that increase residual incomes in left behind places.

The services we already provide in the housing sector in themselves already strengthen the foundational economy, including providing quality homes at affordable social rents, supporting people into work and providing social infrastructure that adds value to people's lives. But at Karbon Homes, we're determined to do more.

As a housing association and anchor institution, we're making firm commitments in areas where we have high concentrations of homes and we will work with residents, local bodies and the wider community to advocate for what those places need.

But to bring about real change, we are also hoping for help from other anchor institutions – big employers, local councils and civil society organisations. We support them taking positive action of their own and, where we can work productively together, we invite them to join with us in co-ordinated targeted programmes to tackle structural problems.

And we need support from Government in Westminster to tackle some of the unintended consequences of national policy that are reinforcing spirals of decline in left behind places.



# The Karbon approach:

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## The Karbon commitment

Our footprint extends across the North of England and Yorkshire, where we manage almost 30,000 homes across diverse communities. Our role in these communities should be shaped first by local need and second by our capacity to have a real, transformational impact. This is largely dictated by the concentration of the homes we manage in a particular place, but also by our history there, our understanding of the local issues and our relationships with local partners.

We'll use data around employment, households, services and infrastructure to understand need and we'll work with local communities to understand the impact we're able to make. We'll identify a focused set of left behind places where we are an anchor institution and can best target our resources to bring about positive change. We are calling these places Karbon Impact Areas. We will identify a small, manageable number of these areas and each will have clear geographic boundaries. Within these boundaries we will consider programmes and projects against different criteria and develop focused programmes of investment to bring about change.

In each Karbon Impact Area we'll work in partnership with local government, health, education and community organisations, and major employers to develop a sophisticated understanding of the community and how we can contribute in a constructive way. Only rarely and where others can't, will we act alone. At first, our efforts will focus on supporting the local community to embrace a place-based approach – developing networks and consulting as widely as we can. Then we will help design and shape the big interventions that will make a difference and agree a robust action plan for delivery.

## Principles to underpin our work

1. Our focus will be on sustainable long-term growth and prosperity rather than the short-term alleviation of poverty.
2. First and foremost, we will support left behind places by providing affordable, good quality homes to rent or buy.

3. We will consult widely and deeply with the local community before presuming to understand the particular challenges of individual places or moving to design interventions.
4. We will work closely in partnership with other anchor institutions, seeking to take a lead where it is appropriate to do so and supporting the efforts of others who are already working in these areas.
5. Supporting the foundational economy starts by considering the social value we can deliver through our approach to recruitment and procurement. We will agree place-specific policies to maximise that social value in the Karbon Impact Areas.
6. We will consider and take account of principles one through five before deciding to make direct investments in new or different assets or services.

## Principles in practice in Stanley

Our first Karbon Impact Area is Stanley in Durham where we own and manage one in four homes. Before undertaking a renewed placeshaping approach here, we commissioned detailed research by the economic development consultancy Metro Dynamics which identified numerous challenges the town faces as well as its strengths, and some potential interventions we could make

In the spring of 2022, we undertook a consultation exercise with Stanley residents – both Karbon Homes customers and those who weren't – to understand the community's needs and how Karbon can best support the area's growth and prosperity. These insights, and the feedback from colleagues working day-to-day in Stanley, will form a placeshaping action plan that, with ongoing input from the community and wider stakeholders, will guide our future investment in the town. At the same time, Durham County Council has worked with the Stanley Area Action Partnership to develop a new masterplan for the town, which our work will seek to complement and strengthen.

# Recommendations

## Recommendations for housing associations and anchor institutions

We are keen to support or work with other anchor institutions who choose to take steps of their own to support and grow the foundational economy. Based on the research we have undertaken, we have made some suggestions below, which we are currently looking at taking in Karbon Impact Areas but there are many more ways in which employers, local institutions and civic society can support the foundational economy.

- 1. Employers should resist any move towards zero hours contracts or at the least offer a minimum number of hours per week to employees.** Without a source of secure, sustainable employment and regular wages, household finances are near impossible to manage. Households are unable to plan beyond the short term and budgeting for essentials, like rent and utilities, becomes difficult.
- 2. Employers can invest in 'grow your own' employment initiatives.** These include targeted apprenticeships and placements for people in areas of high unemployment and for older candidates with limited academic qualifications. These initiatives can help address the record numbers of unfilled roles in healthcare, hospitality and retail.
- 3. Housing associations and major employers should look to help customers and colleagues to overcome barriers to travelling from left behind places to key employer locations such as retail parks and industrial estates.** This will directly increase the residual income of employees, expand the pool of people available to work in these locations and enable those disincentivised by transport costs to find better paid jobs further from home.
- 4. Major employers and local agencies should consider support for childcare outside school hours, such as holiday clubs and after school activity clubs.** This will make a direct contribution to the foundational economy in left behind places and increase the number of people able to add to their working hours or work further afield.
- 5. Focus hardship fund initiatives on left behind places.** Hardship funds make a vital difference to households grappling with cost-of-living challenges. To have greatest impact and leverage the positive effects in the foundational economy, we encourage those setting up hardship funds to focus these personal interventions in specific left behind places.
- 6. Local authorities and major employers can support the regeneration of high streets by collocating service points together on district high streets, where there is demand for face-to-face services.** This increases accessibility for local people and makes it possible for more people to work or take higher paid jobs.
- 7. Invest in employability support in left behind places.** This can include skills training, mentoring and specialist mental health support. At Karbon Homes, we worked with a range of social housing providers and local authority partners, funded by the Community Renewal Fund, to offer a work placement scheme, called New Start, for social housing residents in the North of Tyne Area, with a particular focus on the left-behind areas of Byker, Blyth and North Shields.
- 8. Upgrade social infrastructure in social housing estates in left behind places.** Investment in these places will bring about best returns due to the multiplier effect in the foundational economy.
- 9. Invest in decarbonisation measures.** Ensure that homes and offices meet net zero requirements, providing warmer, more energy efficient homes that will save residents money and creating more sustainable places to live and work in the area.

## Recommendations for Government

There is much that anchor institutions can do to improve the prospects of left behind places across the UK. But these efforts and others would start from a better place with some changes to national policy.

- 1. Reform the tax and benefit system.** This is difficult work, with tough political implications, but the unintended consequences of a system that disincentivises low-income households to better their circumstances is badly in need of change. Practical and immediate steps to improve residual income would be to:
  - a. reduce the Universal Credit taper rate for low income, in-work households;



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- b. lift benefits for those unable to work, including carers and the sick and disabled, so that they can rely on a living wage.
  2. **Rebalance investment to support more affordable housing**, to provide a strong foundation for more low-income households in left behind places.
  3. **Provide central funding to subsidise public transport provision in targeted, left behind places** to stimulate the local economy and provide more choice and opportunity to low-income households.
  4. **Support and encourage the development of robust social value reporting frameworks to enable more rigorous monitoring and evaluation of spending and policy interventions in housing and placemaking.** This will help build understanding of the contribution housing and placemaking are making to left behind areas and help lay the ground for those bidding for public money to invest in areas where the benefits are considerable but not immediate.
  5. **Engage with housing associations, social and institutional investors and experts in the social impact field, to identify ways in which public, commercial and impact investment capital can be better aligned to support regeneration.** These might include tax incentives and government investment guarantees to de-risk aspects of regeneration projects and attract large scale institutional capital into place-based impact investing vehicles.
  6. **Continue and accelerate the welcome change in grant funding rules towards greater devolution and area-based criteria**, rather than national financial metrics (such as the previous “80/20 rule” applied to Homes England funding).
  7. **Provide additional flexibility to allow Homes England capital grant to be spent on acquiring, retrofitting and refurbishing existing housing stock** in places where ‘net additionality’ rules are not appropriate because of low market demand.



# Fair foundations summary

**What:** A new approach to evaluating places and interventions based on the concept of the foundational economy

**How:** A coalition of active, willing, like-minded partners to tackle the challenges of left behind places

## What housing associations and anchor institutions can do



- No zero hours contracts
- Grow your own employment initiatives
- Employability support in left behind places



- Help customers and colleagues to overcome barriers to travelling to key employer locations



- Support for childcare outside school hours



- Focus hardship funds on left behind places



- Partner with other employers and local authorities to colocate service points to support high streets
- Upgrade social infrastructure in left behind places

## What government can do



- Reform tax and benefit policy:
  - reduce the Universal Credit taper rate
  - lift benefits for those unable to work



- Subsidise public transport provision in targeted, left behind places



- Support provision of more affordable homes
- Enable Homes England grant funding to support regeneration of existing housing stock



- Draw more public and private investment into regeneration
- Support and encourage more robust social value frameworks

# Next steps

## A new movement for left behind places

The pressures on left behind places and low-income households are growing. There's an urgent need to muster our resources and work with communities in new ways.



We have identified a small number of Karbon Impact Areas across our footprint based on local need and our ability to have an impact. The first of these will be in Stanley and Byker, where we have a longstanding history of working with the community and a high concentration of homes. We'll build local coalitions with other anchor institutions in these areas to work with communities on place-based action plans. Please join us in this important work.



Other anchor institutions across the north and beyond can consider the steps they can take to make the best possible contribution to the foundational economy in the places where they have influence. We welcome all ideas and commitments that other organisations can add to those suggested in this report.



Across the north, we want to work with housing providers, businesses, employers and local government – to learn from them how we can improve our approach and to explore how we can co-operate at scale on behalf of left behind places. Please share your ideas and experiences with us.



We'll be inviting policy makers in Westminster and Whitehall to visit us and the communities we're working with and to focus their attention, and the attention of experts across the country, on addressing the policy problems we identify in this report.



Fair Foundations is both a principle and an approach. It provides a practical way to address the long-standing challenges of left behind places in the UK.

With your support, it can also become a movement, and a powerful force for change.

Please contact us at [fairfoundations@karbonhomes.co.uk](mailto:fairfoundations@karbonhomes.co.uk) if you would like to work with us or find out more about our work.





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