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# Will HM Treasury get fully behind levelling up?

OPINION
*Autumn '20*

Bolton Victoria Square

Image Credit: Chapman Taylor

**At Hive we have led numerous successful funding bids to secure investment for our local authority clients to deliver large-scale residential schemes. Whether its through the Housing Infrastructure Fund, Local Authority Accelerated Construction or the One Public Estate programmes, there has been one common theme – the role of HM Treasury's version of the Benefit Cost Ratio (BCR). The formulae behind the BCR has facilitated billions of pounds of investment which has been skewed towards the affluent southern areas of the country. But can any economic measure that has land value uplift at its core, really contribute towards the levelling up of the British economy and is this Government ready to move away from its tried and tested model? The BCR debate has been brought sharply into focus this weekend with rumours surfacing that the Treasury are exploring major reform to the way it assesses the value for money of big spending projects, removing the longstanding bias that has affected funding for northern England.**

**£600bn**
in planned public investment

*Source: BBC News*

The basic idea behind the BCR is pretty logical. For a civil servant in Whitehall, trying to evaluate the relative merits of the numerous projects government could invest in, the BCR is a single figure by which all proposals can be ranked in order of which give most bang for the buck. Although the maths that sits behind the BCR process feels like a dark art for those not familiar, it all boils down to a simple number. The BCR figure. The value of the benefits of a project relative to its cost. But how does this Treasury driven, value-centric approach to investment, fit with the Prime Ministers frequently repeated rhetoric around levelling up the British economy? Investment in the midlands and north shouldn't be reliant upon political favours, but should be based on evidence of the value of any investment without the southern bias that the BCR, in its current form.

**The BCR itself is an entirely sensible part of any decision-making process involving large scale public investment. The role of the economists and their evaluation tools in the allocation of funding is a prudent component of the process. The issue for those less affluent parts of the UK is the calculations that sit behind the BCR and the way in which the inclusion of land value uplift considerations skew investment towards the more prosperous, southern areas of the country.**

South Seaham Garden Village

The magic number across most of these programmes has been 1.5. The exception being the recent Brownfield Land Fund requiring a minimum BCR of 1. A BCR comfortably above 1.5 and you can confidently press on with your bid submission, knowing you are already on the right track. A BCR of at or around the 1.5 level, raises serious questions about how much of your team's limited time and consultancy budget should be invested in working up a bid. This isn't to suggest that there aren't other factors under consideration when these bids are assessed. A strong case made about the deliverability of the schemes will carry weight and being able to evidence that the provision of new homes on site will be accelerated will count in your favour, but the BCR remains king.

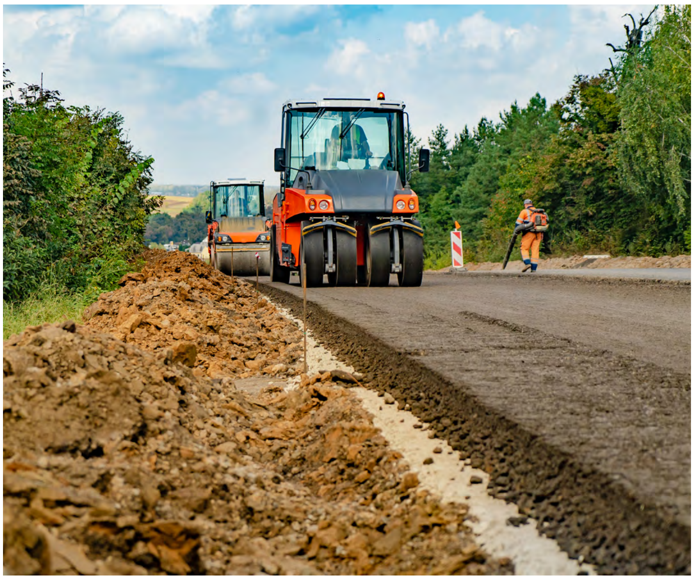
When it comes to calculating the BCR for investment to unlock residential land, land value uplift is a key component of the calculation. The increase in land value resulting from the grant of planning, gives government confidence that the value can be captured for the wider public benefit. Government can be reassured that investment in high value areas, will not only have a greater chance of coming forwards, as the viability and profitability of the schemes provide the natural market incentives, but when it does come forward it is much more likely to deliver a comprehensive range of public benefits through the planning system. However this approach will hamper the proposed "levelling up" and overlooks the numerous other benefits associated with the regeneration of lower value areas and the catalyst effect these schemes have on their immediate surroundings.

A few years ago DCLG (now MHCLG) helpfully provided a BCR ready-reckoner. A simple spreadsheet into which we can all put the basic funding and output details of a proposed scheme and the formulae contained within will spit out a BCR. An early heads up on how your proposal will be judged by those assessing the submission.

**A £2m investment in a hypothetical 200 unit scheme in Brighton & Hove produces a BCR of 8.99. Invest in the same scheme in Boston, Lincolnshire and the BCR drops to 0.1. One represents a nearly 9-fold return on investment, the other a grant with no expectation of any benefits beyond the scheme itself.**

So what's the solution? Given the repeated use of the words "levelling up" by Boris and those around him, this issue isn't going to quietly go away. The British electorate is now awaiting evidence of levelling up in action and to those in the housing industry, this means policies and programmes designed to deliver on the rhetoric. To Local Authorities in the midlands and north "levelling up" could be achieved through changes to government's BCR formulae behind the forthcoming Strategic Housing Infrastructure Fund and all other future Homes England programmes. Will this provide evidence of control over policy formulation falling into line with the Prime Minister's core message?

Very few would advocate for a complete removal of economic assessments that are part of the overall bid evaluation process, but a balance needs to be struck if progress is to be made towards levelling up. There are signs of progress creeping in through the Brownfield Land Fund through reference to the consideration of non-monetised benefits, but this isn't the solution in its own right. Should the land value uplift element of the BCR calculation be removed or at least significantly reduced in the overall weighting?



Could the move away from the BCR be replaced by recognition of the equal value of a place to call home for those who will live there? A move that would see the creation of 200 new homes in Boston being considered equal to 200 new homes in Brighton and Hove, in that each provides a new dwelling to a country desperately short on housing. This could be linked to a simple value for money calculation that focuses on the costs of delivering a dwelling, not the wider economic benefits that may result in investment in one particular location over another. Should there be greater weight placed on the regenerative impact investment in poorer communities has on uplifting the immediate surrounding area? What about the positive impact investment might have on rejuvenating our struggling town centres, through the provision of infrastructure to support residential growth?

**Whichever way the Government chooses to go in the formulation of new policies and programmes, its delivery against the promises of "levelling up" will be watched closely.**

Stoneygate Masterplan

## ABOUT HIVE

Hive are a niche planning, surveying and project management practice specialising in the delivery of Garden Communities. Being heavily involved in the delivery of 4 Garden Communities, Hive are at the forefront of delivery of this pioneering programme. Hive have supported Local Authority clients ranging from:

- Successfully securing in excess of £150m of HIF funding
- Landowner engagement
- Deliverability advice
- Disposal Strategies
- Soft Market Testing
- Establishing Governance Arrangements
- Advising on Green Infrastructure Stewardship

## CONTACT US

**Mark Vaughan**
mark.vaughan@hiveland.co.uk
**07990 526 485**

**hiveland.co.uk/gardensettlements**

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