Levelling up the Green Book
Stage I

A Cebr report for Homes for the North

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Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The views expressed herein are those of the authors only and are based upon independent research by them. The report does not necessarily reflect the views of ISG.

London, March 2020

Executive Summary

This report sets out the findings and recommendations of an initial stage of work that was commissioned by H4N to review the Government's appraisal process in relation to housing investment, with a view to examining whether there may be systematic biases with regional effects.

The key tasks that we have undertaken include:

- a review of the Treasury's Green Book and the guidance derived from it, together with the practical funding arrangements that are in place;
- a round table with H4N senior leaders to build an effective joint understanding of the issues;
- engagement with departmental officials and political advisers to build an understanding of the arguments that are likely to be persuasive to Government and the key opportunities for exerting influence with the Government;
- recommendations for the Government's Green Book review and related policy agenda;
- next steps for H4N research in this area.

Green Book principles

The Treasury's Green Book forms a core pillar of the Government's guidance on the use of public resources. Its purpose is to help officials develop transparent, objective, evidence-based appraisal and evaluation of proposals to inform their decisions.

Green Book principles are used at various stages of decision-making, from Treasury's spending review process, to individual policy ideas and the allocation of funding for individual schemes within the Government's investment programmes.

The DCLG Appraisal Guide, which was published in 2016, stands alongside the Green Book and provides detailed guidance on appraisal to inform decisions in relation to housing related investment.

The theory that underpins the Green Book and the various supplementary guides is drawn from welfare economics and involves comparing the 'social utility' of alternative courses of action. In principle, this provides a holistic means of considering the overall net impacts of a proposal or scheme on society as a whole, although this depends on all the relevant impacts being captured, which can be a significant challenge in practice. While the overall approach is neutral about the distribution of effects, these considerations can be factored in.

The case for intervening rests on demonstrating a scheme's 'additionality' – the impacts after displacement (crowding out of equivalent effects in other locations) or deadweight (impacts that would have happened anyway) are netted out.

Demonstrating value for money in housing investment appraisal

Land Value Uplift (LVU) is the core measurement that the Government expects to be used in appraising the value for money of housing projects. LVU is related to a residual land value that would typically be estimated in a standard development appraisal and which represents the price a developer is willing to pay for a parcel of land.

LVU is the residual value of land less its value in its existing use, e.g. agricultural or industrial. It represents the additional value of the change in use of a parcel of land that markets are able to capture, i.e. the benefits from moving to an economically more productive land use.

LVU does not necessarily capture all the economic, social and environmental impacts of such a change – only those that are reflected in market prices. The Appraisal Guide also recognises costs or benefits that fall on other people or on the rest of society at large.

The job of the appraisal is to identify a strategic case for intervening only where it is necessary. This rationale for intervention will usually be to correct a market failure, although the aim could also be redistribution in some cases. This means understanding the additionality of any housing investment is a crucial part of the analysis and the Appraisal Guide suggests applying a set of criteria to determine an additionality rate. The criteria include the strength of the market failure that forms the rationale for intervention, whether the intervention is demand or supply focussed and the stage in the housing cycle at which the intervention takes place.

A structural shift of investment away from the North

Recent experience of funding decisions suggests the current system is not working well for the North. Research by North Housing Consulting Limited,[1] commissioned by Homes for the North, found that in 2017/18, the North received just 17.8% of housing funding across the UK, despite having 23.3% of the population. Moreover, recent changes to the allocation rules for five housing supply programmes[2] mean only four of 72 local authorities in the North are eligible for 80% of the total in England. By way of example, the Government has so far committed just 9.9% of the total available through the Housing Infrastructure Fund (HIF) Forward Fund to the North (£340.7m of £3.427bn across five schemes).

1 North Housing Consulting Limited, March 2020, The Spatial Distribution of the Housing Infrastructure Fund and its impact on the North: Post Budget Review March 2020

2 The funds were: i) the Housing Infrastructure Fund (Forward Fund), ii) Estates Regeneration Fund, iii) the short-term Home Building Fund, iv) the Small Sites Fund, v) the Land Assembly Fund

What others are saying

We have reviewed recent work by the UK2070 Commission, academic commentators, industry bodies and think tanks. This shows that there is an emerging consensus that the current system is not fit for purpose in the context of the emerging regional policy agenda. Some key themes include:

- There has been a historic regional imbalance in infrastructure investment. Rather than being seen as a means of unlocking economic potential, it has been targeted at helping already high productivity areas grow faster;
- This reflects a piecemeal approach to addressing regional inequalities. To make a meaningful difference, a comprehensive, long-term approach is needed;
- Housing should be treated as economic infrastructure and policy should be devolved to a more local level;
- A greater emphasis on strategic spatial planning is required and funding decisions should be better linked to it;
- Current appraisal techniques are not seen as fit for purpose to meet these challenges and require development in key respects. Often the most measurable metrics are accorded a greater weight than equally important but less easily quantifiable ones, e.g. with those capturing market prices often outweighing more diffuse social impacts.
- There are variations in promoters' ability to produce appraisals to a standard that will support successful funding bids, and this may systematically skew funds away from some areas and regions.

Recommendations to Government

Funding rules

Despite the North being home to 28% of the English population, the Government's funding rules mean that just four of its 72 local authorities are eligible for the bulk of the public sector investment aimed at increasing housing supply. These funding rules are separate from the appraisal process, and in effect override it by ringfencing funding pots for particular areas. Replacing them with a rational system of allocation based on sound appraisal principles is a top priority.

Recommendation I: remove the 80:20 funding rule and identify a more strategic method for the geographical allocation of Homes England funding aligned with national objectives.

Having the right investment programmes in place

There is a limit to the ability of scheme level appraisal alone to bring forward investment that aligns with overarching regional policies. A strong strategic case also needs to be made to influence decision making at the programme level in order to make the design of new housing policy consistent with other policies associated with the Northern Powerhouse and Levelling Up agenda etc. Public investment in housing needs to be more integrated with broader policies to enable housing to play its full role in unlocking economic potential across the country.

Recommendation II: develop the levelling-up concept into a more specific and measurable strategy (eg a Northern Powerhouse Strategy) around which convincing strategic cases can be developed, which cover a range of sectors

Developing a housing specific regional rebalancing toolkit

The emerging understanding of the role of housing in helping drive transformational economic change in the North of England needs to be translated into a resource that can be used by scheme promoters in the North to articulate a consistent and persuasive strategic case for their proposed housing schemes.

As well as providing an evidence base to help scheme promoters demonstrate the contribution their scheme can make to meeting broader regional development objectives, this should be a practical resource to help them produce consistent, high quality strategic cases, to help level the playing field in terms of the capabilities and resources of scheme promoters in different parts of the country.

Alongside this, there may be a need to focus on strategic case making capacity building, with consideration given to opportunities for pooling resource across local authorities and other strategic partnerships to write better quality appraisals and funding bids.

Recommendation III: develop a strategic case making toolkit to help promoters of housing schemes produce consistent, high quality strategic cases

Consistency between economic and strategic case making

Current appraisal guidance prevents the economic case from reflecting any transformational change that is included in the strategic case. In particular future land values take current values and applies a uniform growth rate across the country, in effect fixing the existing relativities between different locations.

As a result, the approach takes account of past trends and no account of any future departures from trend that, for example, regional policies might bring about. It is in effect therefore a backward-looking approach that could be in conflict with the objectives of the strategic case, e.g. if these are based on changing the trajectory of economic performance of particular areas.

Recommendation IV: reform guidance on future land value assumptions to be used in appraisal of schemes that form part of transformational investment programmes

Increasing transparency around additionality

Intuitively, the higher the land value uplift, the more likely that a development could be funded privately. Where other constraints are present in high demand areas, such as local planning decisions serving to hold back housing supply of otherwise viable housing schemes, then a different approach might be needed to increase housing supply. This would suggest a policy design flaw resulting in poor value for money.

If LVU is not adjusted for additionality appropriately, it can be assumed that the generally higher level of land values in the south east and London will skew funding away from the North and other areas with lower land values. There is already evidence that funding is flowing away from the North, either by design due to the 80:20 rule or through the inherent bias in the decision-making process which fails to measure additionality well and subsequently follows existing land values somewhat blindly.

Recommendation V: research should be focussed on improving the evidence base for additionality rates so that future guidance can demand greater rigour. In the meantime, provide greater transparency over how additionality rates have been estimated in real investment decisions

Developing the evidence base around externalities

While the Appraisal Guide recommends that the external costs and benefits of housing investment are included in calculations of value for money, many of them are poorly understood and do not have robust data or an evidence base to support the monetisation of the costs and benefits. This means that in practice appraisal results are typically dominated by the LVU measure and the effect appears likely to disadvantage regions of the country with lower land values.

There are a number of strands of research that could usefully be undertaken to extend the evidence base that is available for MHCLG guidance to draw on. We see priority areas of work as:

- impacts on quality of life associated with changes in local population, both positive and negative;
- the environmental impacts of new housing and implications of transition to net-zero;
- The value of housing investment in terms of its contribution to public realm and shared spaces, the quality of the local built environment and its impacts on overall perceptions of place level quality;
- the health and wellbeing effects of poor housing.

Recommendation VI: support further research to develop a better evidence base about the values of positive and negative externalities associated with housing investment

1. Introduction

There is concern that existing methods of allocating Government support may entrench advantages held by faster growing parts of the country, hampering the North's ability to close its long-standing economic performance gap with other parts of the UK. An important part of Homes for the North's (H4N)[3] role is to help ensure the North is able to secure sufficient resources to develop housing in line with the needs of its residents and to meet its growth ambitions. H4N is therefore taking a lead in investigating this issue and, working with key partners, intends to engage with the Government with a view to resolving it.

Despite the North being home to 28% of the English population, new funding rules mean that just four of its 72 local authorities are eligible for the bulk of the public sector investment aimed at increasing housing supply. Moreover, other funding streams have also been restricted in such a way as to limit the level of funding available to large parts of the North.

The Green Book is the Government's official guidance on appraisal, and this has been identified by many commentators as the source of decision-making bias that has led to the discrepancy in funding outcomes.

This report sets out the findings and recommendations of an initial stage of work that was commissioned by H4N to review the issues and identify the scope of a further stage of more detailed research. The key tasks that we have undertaken include:

- a detailed review of the Treasury's Green Book and the guidance derived from it, together with the practical funding arrangements that are in place;
- a round table with H4N senior leaders to build an effective joint understanding of the issues;
- engagement with departmental officials and political advisers to build an understanding of the arguments that are likely to be persuasive to Government and the key opportunities for exerting influence with the Government;
- recommendations for the Government's Green Book review
- suggested next steps for H4N research.

3 Homes for the North is an alliance of 17 housing associations who want to deliver more homes across the North of England. Collectively members already provide homes for almost one million people in the North of England but want to do more. Homes for the North commissions research and shares expertise and best practice to inform policy makers regionally and nationally on creating the conditions for more and better homes, extending home ownership in the North and making the North of England a more attractive place for businesses to invest.

2. Background

2.1 What is the Green Book and what is its purpose?

The Treasury's Green Book forms a core pillar of the Government's guidance on the use of public resources. Its purpose is to help officials develop transparent, objective, evidence-based appraisal and evaluation of proposals to inform their decisions. The Green Book has played this role for almost half a century. It has evolved over this period to reflect the state of the art of appraisal theory and practice, as it has responded to emerging policy challenges. Rebalancing the UK economy, including closing the North's productivity gap with the rest of the country, presents such a challenge and it is not currently clear if the guidance is sufficient to support this aim while promoting good value for money.

A five-case model underpins the business cases that are produced to support government decisions. The extract from the Green Book, shown in the box below, summarises the five dimensions that are considered in these business cases.

Figure 1: the five dimensions of a five-case model business case

Strategic dimensions	**What is the case for change, including the rationale for intervention?** What is the current situation? What is to be done? What outcomes are expected? How do these fit with the wider government policies and objectives?
Economic dimensions	**What is the net value to society (the social value) of the intervention compared to continuing with Business As Usual?** What are the risks and their costs, and how are they best managed? Which option reflects the optimal net value to society?
Commercial dimension	**Can a realistic and credible commercial deal be struck?** Who will manage which risks?
Financial dimension	**What is the impact of the proposal on the public sector budget in terms of the total cost of both capital and revenue?**
Management dimension	**Are there realistic and robust delivery plans?** How can the proposal be delivered?

The strategic case plays a vital role by enabling policy priorities to be incorporated in the process, but the bulk of the analytical effort is focussed on the economic dimension, which revolves around the concept of social cost-benefit analysis (SCBA). The theory that underpins this is drawn from a branch of economics known as welfare economics and involves comparing the 'social utility' of alternative courses of action, such as building or not building a particular infrastructure scheme. To enable comparisons between alternative options the economic, environmental, financial and social impacts of a scheme are converted into a common unit by monetising them.

In principle, this provides a holistic means of considering the overall net impact (benefits minus disbenefits) that a scheme would have across the whole of society. This is referred to as additionality and depends on identifying any displacement (crowding out of equivalent effects in other locations) or deadweight (impacts that would have happened anyway), which must be disregarded. This is only possible if all the relevant impacts are in fact captured, which can be a significant challenge in practice.

Economic principles

Inherent to this approach is a core assumption that markets generally operate competitively, albeit with some 'market failures' that can be identified and measured. Government intervention is then justified on the basis that it can correct for these and generate benefits (over and above the costs) by bringing about a more 'economically efficient' outcome that is closer to that which a set of fully functioning competitive markets would have achieved.

In this view, individual schemes only have a marginal impact on the performance of the wider economy. It follows that they can be appraised independently of one another and there is an implicit assumption that there is no path dependency in economic performance resulting from the cumulative impact of multiple schemes. If, on the other hand, there are market failures that are systematically ignored or under-estimated – or if funds are not available to match the investment that SCBA indicates is needed - it is possible that the overall outcome is far from being 'economically efficient'. In other words, there may be significant unexploited potential for public investment to bring about improved social and economic outcomes.

2.2 How is the Green Book used to allocate funding to housing?

Green Book principles are used at various stages of decision-making. The budget envelope for housing policy is initially set as part of the departmental budget allocated to the Ministry for Housing Communities and Local Government (MHCLG) during a spending review. While the spending review process, undertaken by The Treasury (HMT), in principle involves the ranking of different Departments' policies to maximise 'value for money' using the Green Book, in practice the funding streams for many policies will be determined politically.

Nevertheless, the Green Book still has a valuable role to play in helping officials establish if the policy is feasible and offers value for money. The five-case model allows further evidence to be presented to develop policy ideas which achieve better value for money, with ministers signing off any changes. This allows for policy to be tweaked over time even when political considerations have driven the initial policy announcement.

More detailed supplementary appraisal guidance that is consistent with the Green Book's core principles has been developed to improve the quality and consistency of appraisal in specific policy areas, such as housing, transport, energy use and greenhouse gas emissions, health and so on. This is typically published to stand alongside the Green Book by the responsible government department. Green Book principles underpin this guidance and in the context of housing, the DCLG Appraisal Guide, which was published in 2016 (before the department's name was changed to MHCLG), is the relevant document.

The DCLG Appraisal Guide provides guidance on appraisal in general, such as how to present and interpret the results, although there is a focus on housing projects, both residential and non-residential. The Appraisal Guide stresses the need for economists to concern themselves with both the Strategic Case and the Economic Case of any business case or impact assessment.

Land Value Uplift

One of the main purposes of the Appraisal Guide is to explain the concept of Land Value Uplift (LVU), which is the core measurement that the government expects to be used in appraising the value for money of development projects. LVU is related to a residual land value that would typically be estimated in a standard development appraisal. These residual values are used to calculate the price a developer is willing to pay for a parcel of land.

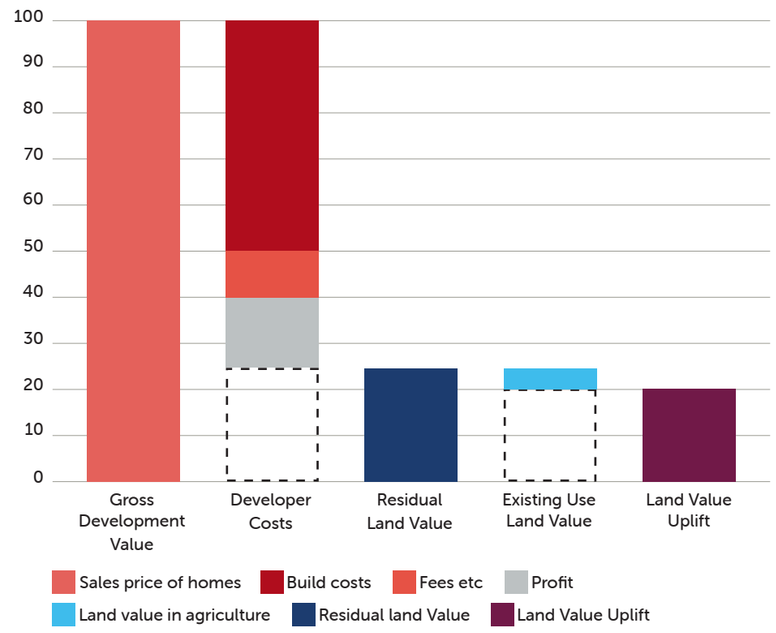
Residual Value=GDV-(Profit+Development costs)

In high level terms the residual value of land is the gross development value (GDV) less the developer's profits and build costs, fees etc. Gross development value in the context of a housing project is just the total sales value of all the completed homes on the development. A developer would then feasibly be willing to pay anything left over to secure the land. Profits are included at a 'normal' rate to reflect the other options an investor may have over where to put their money to generate a return. The market will set the gross development values and development costs, meaning these represent the total benefits and costs of the development to the private individuals and firms involved in buying or selling them.

To calculate the Land Value Uplift, the same residual value is calculated but after removing the value of land in its existing use (EULV) e.g. agricultural or industrial.

LVU=GDV-(Profit+Development Costs+EULV)

Figure 2: simplified illustration of a land value uplift calculation



LVU represents the additional value of the change in use of a parcel of land that markets are able to capture. As illustrated in Figure 2, this can be measured in practice using the difference between land prices with permission for one use versus another e.g. residential and agricultural. The step-up in value indicates the scale of the benefits from moving to an economically more productive land use, which represents a general boost to the country's welfare.

LVU does not, however, necessarily capture all the economic, social and environmental impacts of a change in land use, as it only captures those that are reflected in market prices. The value to society of a change in land use also needs to take account of wider impacts, both positive and negative, that are external to the market transaction. The Appraisal Guide recognises that development may also have impacts on third parties to the transaction, i.e. costs or benefits that fall on other people or on the rest of society at large. These impacts are external to the contracting parties taking part in the transaction and hence are known as 'externalities', and they are a form of what economists call 'market failure'.[4] For instance, a new development could spoil the view of a nearby household or lead to congestion on the roads. Meanwhile, it might also provide a boost to local businesses or help reduce overcrowding in existing housing. The Appraisal Guide identifies a range of external costs and benefits that should also be reflected in the economic case. A useful further explanation of this in a similar appraisal context, looking at the case of a transport improvement unlocking a parcel of land, is provided in the Department for Transport's 2014 report on 'Transport Investment and Economic Performance'.[5]

4 Externalities can be either positive or negative. In the former case, markets underprovide the impact in question and for the latter, markets overprovide, in terms of social efficiency.

5 See pp 45-7 of https://www.gov.uk/government/publications/transport-investment-and-economic-performance-tiep-report

Additionality and good value for money

In appraisal, good value for money broadly means that the benefits outweigh the costs. With housing development, a positive LVU intuitively means that the private benefits outweigh the private costs. The costs of completing the development, including developer profits (which are assumed to be the opportunity cost of using their money and time on this development rather than the next best alternative), are less than the gross development value – a measure of the buyers' private benefits. However, this does not necessarily justify government intervention. Normally if the private benefits outweigh the private costs, the development would be privately funded and could be expected to happen anyway – any intervention would lead only to deadweight. The job of the appraisal is to identify a strategic case for intervening only where it is necessary. This rationale for intervention will usually be to correct a market failure, although the aim could also be redistribution in some cases.

The Appraisal Guide therefore contains a section with guidance on converting the gross benefits of a scheme into net benefits. If the benefits, net of deadweight and displacement, no longer outweigh the costs then the scheme is deemed not to offer value for money. This means understanding the additionality of any housing investment is a crucial part of the analysis and the Appraisal Guide suggests applying a set of criteria to determine an additionality rate. The criteria include the strength of the market failure that forms the rationale for intervention, whether the intervention is demand or supply focussed and the stage in the housing cycle at which the intervention takes place. The examples included lead to broad brush categories such as 0-25% additionality, 25-50% additionality and so on, which are to be applied to the monetised costs and benefits.

2.3 Government investment in Northern housing

The Government provides support for housing investment in a number of ways. This includes grant funding to Registered Providers (RPs) through the Shared Ownership and Affordable Homes programme, capital grants to local authorities through the Housing Infrastructure Fund (HIF) to help them deliver their plans for growth, and a range of other funds to support developers, mainly through providing loans and guarantees. The business cases used to both approve the design of these funds and the individual decisions made by Homes England about the funding of specific projects should be consistent with Green Book principles.

Nothing in this process or the Green Book principles should inherently bias decisions against the North. Political priorities, however, mean that policy design has targeted housing markets with particular features and challenges with implementing the Green Book in practice will have had a significant effect on funding in the North.

A structural shift of investment away from the North

Research by North Housing Consulting Limited[6], commissioned by Homes for the North, found that over the past 20 years the share of UK public expenditure[7] on housing targeted at the North has reduced from 24% of the total at the start of the period to 17.8% in 2017-18. While much of the reduction reflects increasing spending in the devolved administrations (the North's share of the England total declining less steeply), the current share of funding is, nevertheless, much lower than the North's share of the UK population, which is 23.3%.

Budgets for five housing supply programmes[8] saw a change in their allocation in 2018 and 80% of these funds are now ringfenced for areas of 'highest affordability pressure' (see map in Appendix 1). This designation depends on the ratio of median house prices to median earnings in a local authority being in the top half for the country. This "80:20 rule" has effectively created two separate funds, one four times larger than the other. All the local authority districts in England with affordability ratios in the bottom half of the country are limited to bidding for 20% of the funding.

Only four of 72 local authorities in the North are eligible for the larger funding pot, i.e. 68 of the 72 authorities have access to only 20% of the available funding at the national level. If this were distributed evenly across all eligible authorities, the North would be allocated just 10.3% of the total budget, i.e. well under half its population share.

The Housing Infrastructure Fund (HIF) Forward Fund was set up to distribute £4.7bn, with public sector investment support of up to £250m for individual schemes. This is the largest of the housing supply funding programmes. The government has so far committed just 9.9% of the national total to the North (£340.7m of £3.427bn across five schemes). No funding at all had been allocated to the Yorkshire and Humberside region, and the North East was due to receive just £25.4m.

It was also announced in June 2018 that £2 billion of the Shared Ownership and Affordable Housing Programme (SOAHP) 2016-21 grant funding available for new social rent homes would be limited to local authority areas with a 'high affordability pressure', defined as those within which private rents exceed social rents by £50 or more per week. This left only ten local authorities across the North able to bid for this extra grant funding.

Previous research by North Housing Consulting Limited showed the share of the SOAHP 2016-21 funding that had been allocated to the three Northern regions was estimated at 22.4%. However, with a 50% allocation automatically made to London, this figure falls to just over 11% of the national allocation. This marks a significant reduction from the allocations made from the 2015-18 affordable homes programme, which targeted 29.6% to the three Northern regions.

6 North Housing Consulting Limited, March 2020, The Spatial Distribution of the Housing Infrastructure Fund and its impact on the North: Post Budget Review March 2020
7 Although housing is a devolved matter
8 The funds were: i) the Housing Infrastructure Fund (Forward Fund), ii) Estates Regeneration Fund, iii) the short-term Home Building Fund, iv) the Small Sites Fund, v) the Land Assembly Fund

3. What are others saying?

There are a number of organisations across a range of sectors that have contributed to the debate regarding he Green Book and how appraisal affects investment in the North. A summary of some key contributions are outlined below.

3.1 Review of external commentary on the Green Book

Diane Coyle - The Imperial Treasury: appraisal methodology and regional economic performance in the UK

A 2018 report by Professor Diane Coyle helped encourage much of the recent debate over the Green Book. The report found that the UK suffers from quite severe regional imbalances and that the official Green Book methodology has reinforced the regional imbalance of the UK economy.

The research identified that transport spending made up a large part of the infrastructure pipeline in the UK and that spending was highly centralised. A review of past spending decisions showed that London received much higher spending per head on transport than the other regions, although this was in part driven by funding by other parts of the public sector and more recently retained business rates revenue than central government funding.

Past spending decisions were also considered with respect to their benefit – cost ratios (BCR). It was found that there was a tendency for lower BCR projects in London and the South East to receive funding while such schemes in other parts of the country generally would not be funded. This suggested that an informal set of political considerations has a significant influence in framing the choice of schemes that ultimately received funding. This is clearly not entirely consistent with a stated drive to achieve value for money based purely on Green Book principles.

Moreover, the review established a tendency to target investment in places with high productivity, either explicitly or as a consequence of the values used to calculate benefits such as value of time saved. The productivity argument is challenged on the grounds that that if taken to its limit it would suggest all activity should be concentrated in London, with no role for other regions.

This highlights a fundamental difficulty in implementing cost benefit analysis, which drives the regional skew in outcomes – namely that these assessments are poor at taking a dynamic view of impacts, especially where change is transformational. By way of example, the impact of reducing congestion in London by adding Crossrail-2 to its already excellent transport network is cited as representing the same benefit cost ratio in a typical Green Book study as linking the North from east to west to connect the North of England into a new single labour market.

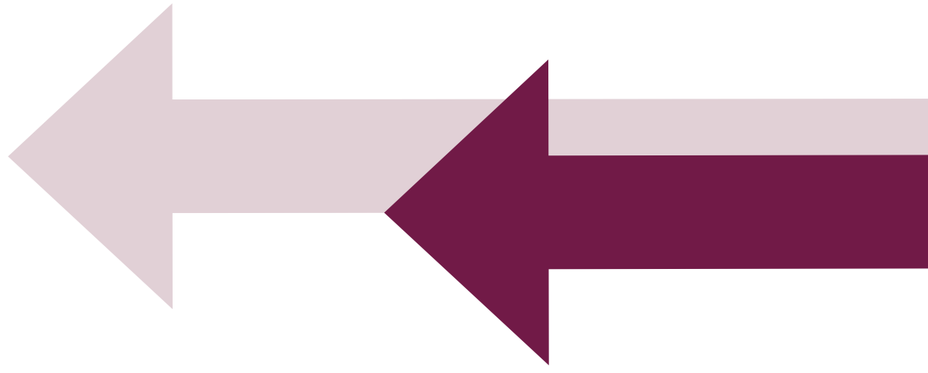
The use of cost benefit analysis for the more transformational schemes can in essence create fundamentally incorrect results when change is sufficiently large that the scheme being appraised might actually alter the underlying growth path of the economy.

UK2070 Commission

The UK2070 Commission was an independent inquiry into city and regional inequalities in the United Kingdom, set up to conduct a review of the policy and spatial issues related to the UK's long-term city and regional development. The commission's final report was published in February 2020[9] setting out a ten-point action plan for reducing regional inequality.

Its analysis finds that regional inequalities are more complex than simple north-south or town-city divides, and even within successful regions there are underperforming areas. Although the areas outside of London and the South East are the most obvious losers from the stark differences in regional productivity and employment, the report is predicated on the premise that we all lose from these imbalances in the economy. This means regions outside London and the South East are not fulfilling their full economic potential while the downside for those regions experiencing economic success is increasingly intense pressure on housing, transport and the environment.

The recommendations of the UK2070 Commission rest on a belief that previous piecemeal measures to address these inequalities have failed, and only a large, comprehensive, long-term approach will make a meaningful difference. This requires devolution of power and effective cross-government working. Moreover, investment in creating the conditions for success will reduce the demands on public money created by the consequences of spatial imbalances.



9 The 2070 Commission - Make No Little Plans: Acting at scale for a fairer and stronger future

The parts of the ten-point action plan recommended by the Commission to tackle the UK's regional inequality that are most relevant to Homes for the North are:

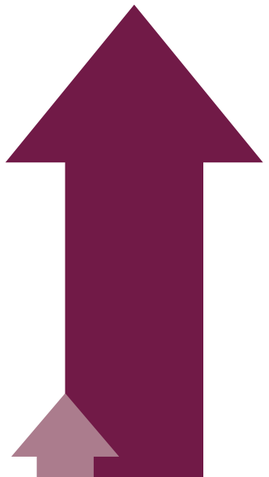
Action 1 - a just transition to net-zero. Aside from offering opportunities for growth in new low carbon technologies, buildings are also a major source of emissions and low-quality housing stock in the North of England means either high emissions and/or fuel poverty that causes lower income households to live in colder homes. A transition to net-zero involves investing in low carbon energy sources and more energy efficient homes and the Commission recommends changing the way the Green Book measures the impact of investments in climate mitigation.

Action 2 – delivering a connectivity revolution. Improved east-west connectivity and other major transport infrastructure upgrades outside of London will expand the size of labour markets in the North. Changing transport infrastructure will change levels of demand for housing and this will need careful planning to avoid displacing established communities or pricing out lower income workers.

Action 5 – rethinking the housing crisis. The Commission proposes recognising housing as important economic infrastructure and recommends the devolution of housing policy to a more local level. The Commission also recommends that the impact of tax and monetary policy on housing strategies should also be recognised explicitly by policymakers. Further important practical changes include planning for housing across coherent housing market areas and breaking away from the past trend-based assessments used for setting local plan targets and forming household projections. These should be replaced by assessments that reflect the changing distribution of economic activity.

Action 9 - Levelling-up the Playing Field: fairer access to funds. The Commission also recognised some of the shortcomings of the Green Book in capturing the external benefits of investment in the regions. The suggestion is also made that a strategic aim of levelling-up or rebalancing the economy could be used in appraising investment decisions. The use of different benchmarks set for return on investment across the regions could be implemented to promote that wider strategic aim and release funding more evenly across the country

Action 10 – Shaping the future: A national spatial plan for England. The Commission also recommends the development of a national spatial plan across England, to draw together and build on local and sub-regional planning.



Peel Group and North West Business Leadership Team - Levelling Up: Making Investment Appraisal Fit for Purpose

Peel Group and the North West Business Leadership Team produced a submission ahead of the March 2020 budget statement. This was aimed "to help the Treasury and other government departments in reworking these processes to ensure government investment meets its rebalancing objective with funding being more distributed whilst representing value for money in the use of public funds". Key findings were:

- The Green Book is a technical toolkit with wide latitude over what is included in measuring the impact of an investment. This differs from a decision-making guide which should contain more strategic considerations.
- The DfT Rebalancing toolkit 'lacks teeth' and should move from a 'nice to have' to a 'need to have' for investment decision making.
- The Strategic case is often under-developed, and the economic case will typically favour the most measurable benefits and costs, those with market prices, over social impacts that could in reality be equally as important.
- Recognises that displacement is an economic reality which is inevitable in any regeneration as labour is displaced and not created in the short-term. This is seen to disadvantage the North because it reflects badly on the economic case and any BCR.
- Undertaking the appraisal process is a barrier to entry for many organisations bidding for public funds. Organisations with capability or funds to buy in capability will likely see more successful bids.
- There is a lack of transparency around the infrastructure appraisal process. The fact that business cases are not routinely published means that there is limited ability to scrutinise the effectiveness with which the Government uses the process.

Onward – Levelling up: Rebalancing Growth Enhancing Spending

The research by Onward looks at a number of areas of public spending that it considers to be growth enhancing, namely transport, research and development, housing and culture. In relation to housing, the paper recommends that:

- Government should review the rationale for the regional distribution of its housing spending;
- Homes England should start publishing data in a more timely and transparent way, including spending per head per region.
- The Government should immediately drop the 80:20 rule for Housing Infrastructure Funding and affordability rules which effectively limit social housing spending to the south of England.

Home Builders Federation

The challenge for the HBF is how to encourage and incentivise political leaders to embrace more ambitious housing targets and progress spatial plan making. Government planning policy does not impel local authorities to plan for more than the minimum required. Therefore, interventions around how central Government funding for housing and infrastructure is allocated and disbursed in the north is worth exploring. HBF is interested in possible interventions where increased Government investment in housing delivery, in infrastructure, and in brownfield regeneration is provided so long as it is linked to Spatial Development Strategy preparation.

Summary of key themes

- There has been a historic regional imbalance in infrastructure investment. Rather than being seen as a means of unlocking economic potential, it has been targeted at helping already high productivity areas grow faster;
- This reflects a piecemeal approach to addressing regional inequalities. To make a meaningful difference, a comprehensive, long-term approach is needed;
- Housing should be treated as economic infrastructure and policy should be devolved to a more local level;
- A greater emphasis on spatial planning is required and funding decisions should be better linked to it;
- Current appraisal techniques are not seen as fit for purpose to meet these challenges and requirement development in key respects. Often the most measurable metrics are accorded a greater weight than important but less easily quantifiable ones, e.g. those capturing market prices rather than social impacts.
- There are variations in the ability to produce appraisals to a standard that will support successful funding, and this may skew funds away from some areas and regions.

3.2 Governmental perspectives

We have held informal discussions with current and former Government personnel to reflect on the practical application of the DCLG Appraisal Guide in making real-world investment decisions and to understand the likely official response to suggestions for changes to it in the future. Our overall summary of key messages to draw from this is as follows:

- While the Government's Green Book guidance is not always well understood and is sometimes unfairly cited as a source of bias in decision making, Treasury officials recognise that there are weaknesses in the appraisal process, both in terms of the guidance itself and the way it is applied and are undertaking a review to enable future guidance to respond better to the 'levelling up' agenda;
- Current government housing programmes are largely concerned with increasing housing supply and officials believe that the economics tends to suggest that the benefits of new supply are best targeted at areas of high demand;
- The current guidance can be interpreted flexibly. Any additional costs or benefits should be included, and where these can be reliably monetised this should form part of the cost benefit ratio calculation;
- The HIF appraisal process has attempted to use as much information as possible. For example, this includes using the dependent development guidance from transport appraisal to assess additionality on the basis of how much extra housing could be supported on a given site already without the planning system requiring the provision of additional infrastructure;
- The expectation was that the Appraisal Guide would be updated in the near future, with some emphasis on changing the guidance to provide more clarity on land value uplift, calculating additionality and land value growth assumptions.
- The lack of strong evidence over what is valued by homeowners, and therefore capitalised into the prices, and what constitutes an externality and how to value those was identified as areas for beneficial future research.

At the political level, there is interest and openness for further engagement, with opportunities for influencing the process to review the Green Book review as well as future processes relating to the more detailed sector specific guidance.

4. Improving the Current Approach

4.1 Targeting investment away from the North

Perhaps the most pressing challenge is the irrational impact of the 80:20 rule on opportunities for funding support for housing investment in the north of England. This doesn't in fact reflect the quality of the appraisal process per se but rather an absence of appraisal at a key stage of the national resource allocation process. In particular, while funding within each pot will still be appraised to make sure it meets the required standards of value for money, there is an absence of 'fair competition' for funds, on the basis of appraisal rankings, for schemes in the different pots. This means that in principle poorer performing schemes can gain funding ahead of better performing schemes simply by virtue of their geographical location. The nature of the geographical split means this will clearly bias funding away from the North.

The reasoning for the 80:20 rule appears to be as follows:

- a sensible appraisal might conclude that, given a limited pot of money and other things being equal, additional housing supply in areas of high demand is more valuable and should be prioritised, provided intervention is actually required to unlock the investment opportunity;
- The 80:20 rule simply acts as a shorthand for identifying areas of high demand.

This logic should in practice be unnecessary if it is aimed solely at achieving value for money, since cost benefit appraisal provides a means of ranking schemes on this basis through benefit to cost ratios (BCRs). **It also strays from the principle that government intervention is about tackling market failures, creating additionality**. In practice, other things are not equal between schemes, and a prevalence of market failures in the North may indeed mean that despite lower average land values, investment in the North delivers better value for money overall. Indeed, it is possible that schemes in the "low demand" pot with higher additionality would perform better in appraisal than schemes in the "high demand" pot. But by ringfencing funds into separate pots using a single demand metric, schemes in the "low demand" pot receive less funding, regardless of their value for money, because the funds run out sooner.

In this way, the 80:20 rule explicitly overrides appraisal principles, acting as a shorthand in an attempt to achieve a similar result without having to offer all funding as part of a single bidding round. The work by North Housing Consulting Limited showed that the so-called low demand pot is oversubscribed with bids and inevitably some of these will have held better value for money than those that are funded in the larger, high demand pot. In this case it is not the Green Book that has misallocated resources, but the approach to implementing its use. We conclude that the 80:20 rule should be challenged as it fundamentally diverts spending away from the North. It actually works against using the current guidance to appraise value for money and, by thwarting the north's ability to reach its economic potential is structurally opposed to the levelling-up agenda. Alternative suggestions should be worked up to ensure that public money is spent wisely, but without limiting Homes England to relying on single bidding rounds which could delay developments unnecessarily. Criteria for streamlining the process might involve explicit devolution, or simply a more future oriented view of where growth pressures could arise in response to other regional policy and infrastructure plans.

Recommendation I: remove the 80:20 funding rule and identify a more strategic method for the geographical allocation of Homes England funding aligned with national objectives.

4.2 Making appraisal serve the regional policy agenda

Introduction

In recent years there has been a return to active regional policymaking in the UK. The current Government has stated that it aims to bring about a 'levelling up' of economic performance across the UK's countries and regions, while work has been underway for some time on building a 'Northern Powerhouse', an ambitious strategy for bridging the productivity gap between the North and the rest of England.

The Northern Powerhouse Independent Economic Review (NPIER) showed that there is unfulfilled economic potential across the North that can only be unlocked though a coordinated programme of long-term investment in infrastructure, innovation, culture, skills etc. Investment plans for bringing about transformational change in transport and other sectors, are being developed by Transport for the North (TfN) and other organisations in order to realise this economic vision. Such plans represent an important step in tackling the regional skew that has existed in the provision and funding of infrastructure for many decades[10].

It is not clear, however, that sufficient attention has been paid to the role of housing in strategic growth planning for the North and for this reason Homes for the North has taken a lead. In 2019 H4N commissioned some work[11] to identify the implications of Northern Powerhouse growth ambitions, including the transport plans[12], for housing requirements across the North between now and 2050. Key messages from this are:

- to meet the North's growth ambitions, the rate of housing construction needs to increase to 50,000 units per year to 2027, and to 70,000 per year thereafter;
- there needs to be a clear strategic focus on the type and quality of the homes that are built in the North in order to meet the needs of the workers its future prosperity will depend on;
- housing will be an important factor in determining the North's future competitiveness and should be thought of as part of its 'infrastructure offer'.

10 See "The Imperial Treasury: appraisal methodology and regional economic performance in the UK," Diane Coyle & Marianne Sensier, July 2018.
11 "The Role of Housing in the Northern Powerhouse," produced by Cebr & Quod, 2019. See here.
12 "Strategic Transport Plan," Transport for the North, 2019. See here

How far does current appraisal practice support regional policymaking objectives?

Green Book

The Green Book is clear that aside from addressing market failure, redistribution is a valid aim for government intervention. It acknowledges that benefits to different groups of people can be valued differently, for example with a higher weighting given to a benefit that accrues to a lower income group, to reflect the greater 'social utility' they are likely to attach to an extra pound of benefit. However, there are challenges associated with implementing distributional weighting owing to uncertainties about both the groups and appropriate weights, and transparency is required about the assumptions that are made.

The Green Book also acknowledges that it can be appropriate to undertake additional distributional analysis for interventions with sub-national or regional distributional effects or those that are targeted at particular geographic areas or types of area. It requires results to be shown separately from net national social values so that local effects can be clearly identified. This approach requires concrete policy objectives to be achievable, and it should be noted that it is distinct from analysis of specific market failures.

DfT Regional Rebalancing Toolkit

The Department for Transport (DfT) has developed specific guidance in a 'regional rebalancing toolkit' to help authors of strategic cases for larger transport projects and transport investment programmes to incorporate rebalancing objectives into their work. Although much of the information is already included in business cases, the intention is to provide a framework for presenting the rebalancing case more consistently. It is non-binding guidance and is considered a living document, with DfT remaining open to views on its future scope. The guidance is high level, setting out a set of checklist questions and potential evidence for each of the necessary steps to developing a strategic case.

For individual projects, the steps are:

- setting the context;
- identifying transport barriers;
- exploring options and strategic alternatives;
- exploring impacts of interventions;
- aligning with wider local plans and objectives;
- considering wider evidence and stakeholder views.

For investment programmes, the steps are:

- considering the balance of spending;
- considering options and strategic alternatives;
- describing impacts of interventions;
- considering stakeholder views.

The examples are not intended to be exhaustive. Strategic case authors are encouraged to gather a broad range of evidence to assess the project's performance. Extracts from the toolkit showing summaries of the approach for each step in the processes for individual projects and investment programmes are provided in Appendix 2.

While the role of transport investment as a factor in regional economic performance (and therefore as an important instrument of regional policy making) has been increasingly acknowledged in recent years, the role of housing investment has been less well recognised in this regard.

Recognising housing as an instrument of regional policy making

Having the right investment programmes in place

One implication of the above analysis is that there is a limit to the ability of scheme level appraisal alone to bring forward investment that aligns with overarching regional policies. A strong strategic case also needs to be made to influence decision making at the programme level. The objective is to make the design of new housing policy consistent with other policies associated with the Northern Powerhouse and Levelling Up agenda etc. We conclude that there is a case for developing a strategic case specifically related to the housing policy context. Its role would be to encourage public investment in housing in the North that is more integrated with broader policies and enables housing to play its full role in unlocking economic potential across the country.

Recommendation II: develop the levelling-up concept into a more specific and measurable strategy (eg a Northern Powerhouse Strategy) around which convincing strategic cases can be developed, which cover a range of sectors

Developing a housing specific regional rebalancing toolkit

An important message from recent work by H4N is that housing investment in fact can play a crucial role in economic development. As well as meeting individuals' and families' fundamental needs, it also acts as a signal about an area's attractiveness to wider commercial and labour markets. Areas with a good housing offer will find it easier to attract the investment and skilled workers on which a healthy economic base in the future depends. Areas that lack this will, on the other hand, struggle to attract such investment and skilled workers will be more likely to be drawn to other locations.

In other words, rather than being independent of one another, there is a feedback loop between the housing offer and economic success at the local / regional level. There may therefore be circumstances in which relying on the assumption that housing markets will 'follow' economic success will prevent economic potential from being realised. It follows that in the context of a wider vision for transformational economic change, strategic planning and funding of housing should be integrated with that for other forms of strategic infrastructure, as part of a UK-wide economic development strategy.

We conclude that the emerging understanding of the role of housing in helping drive transformational economic change in the North of England needs to be translated into a resource that can be used by scheme promoters in the North to articulate a consistent and persuasive strategic case for their proposed housing schemes. This should be relevant to the ambitions of the North, drawing on NPIER, the 2070 Commission and a fuller understanding of market failures. In turn, this should help promoters design schemes that best meet the longer-term strategic needs of the area. The aim should be to encourage political buy-in from HMT / Number 10 and aid policy design to ensure that funds are made available to solve the issues specific to northern housing markets.

As well as providing an evidence base to help scheme promoters demonstrate the contribution their scheme can make to meeting broader regional development objectives, this should be a practical resource to help them produce consistent, high quality strategic cases, to help level the playing field in terms of the capabilities and resources of scheme promoters in different parts of the country. Alongside this, there may be a need to focus on strategic case making capacity building, with consideration given to opportunities for pooling resource across local authorities and other strategic partnerships to write better quality appraisals and funding bids.

Recommendation III: develop a strategic case making toolkit to help promoters of housing schemes produce consistent, high quality strategic cases

Demonstrating the transformational economic benefits of housing investment

Consistency between economic and strategic case making

In recent years there has been considerable effort put into ensuring consistency between the assumptions driving the strategic and economic cases, particularly in transport projects. This is reflected in the advice in the DfT's Regional Rebalancing Toolkit which states that the evidence set out in the strategic case should be consistent with that which informs the options appraisal in the economic case. This begs the question of whether the approach to deriving the benefits that inform the economic case is fit for purpose in the context of the regional policy making agenda.

The focus on understanding the costs and benefits of marginal change tends to underplay the sorts of issues affecting those parts of the country that are still affected by the legacy of earlier deindustrialisation, i.e. places in which there has been an incomplete adjustment to past structural economic upheaval over a number of decades. Market failures in such locations are often complex and deep seated and can only be addressed through integrated, transformative investment across sectors. By taking a wider view, there is significant scope for unlocking further 'economic potential' of both people and places, raising total 'social welfare', including higher economic output, improved quality of life and so on.

Once it is acknowledged that market failures may be responsible for 'path dependency' that leads to sub-optimal economic outcomes, the appraisal process will need to adapt and become more dynamic, e.g. by recognising that there can be feedback over time between investment and the demographic and economic assumptions on which the appraisal is based. The process behind this type of transformational change is illustrated in Figure 3.

Figure 3: Interactions between location and economic growth

This challenge is reflected in the context of housing investment in the approach to forecasting future land values that forms the basis for majority of economic appraisals. This takes current values and applies a uniform growth rate across the country, in effect fixing the existing relativities between different locations. As a result, the approach takes account of past trends and no account of any future departures from trend that, for example, regional policies might bring about. It is in effect therefore a backward-looking approach and it is clear that it could be in conflict with the objectives of the strategic case, e.g. if these are based on changing the trajectory of economic performance of particular areas.

We conclude that there is a good case for MHCLG to improve the basis on which assumptions about future land values are made, to help ensure that the economic cases can be produced that are consistent with strategic cases that include regional economic objectives.

In particular, for programmes that form part of a transformative economic strategy, the economic case should be driven by forward rather than the backward-looking land value assumptions that are currently recommended in the DCLG guidance.

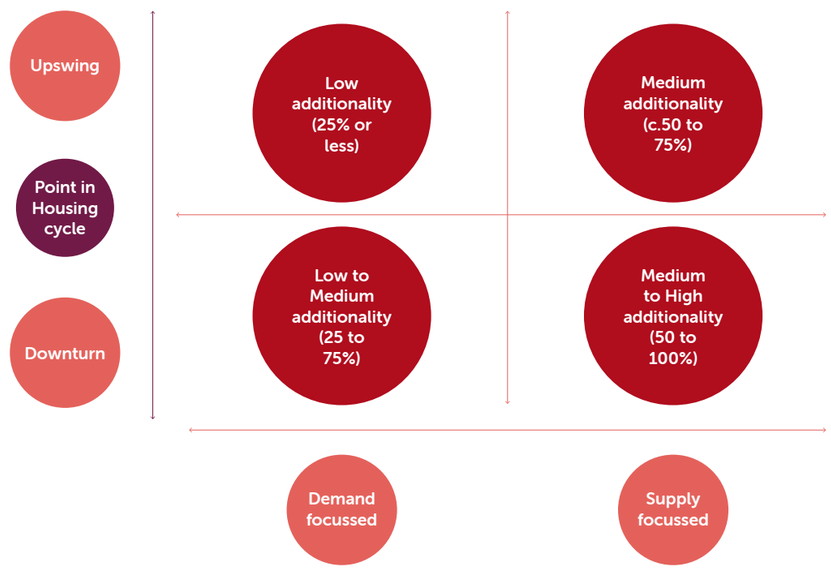
Case studies could be developed to illustrate how the economic case might vary for different locations. These would be used to show how process works at present and offer scenarios to show how alternative views of future land values change results. There is an option to strengthen the robustness of the scenario testing by undertaking some more formal economic modelling, e.g. Land use – Transport Interaction Modelling.

Recommendation IV: reform guidance on future land value assumptions to be used in appraisal of schemes that form part of transformational investment programmes

4.3 Land value uplift – measuring additionality

As described in section 2, Land Value Uplift (LVU) is the primary monetised value of new housing recommended by the DCLG Appraisal Guide to be used in housing appraisal. This measure uses market prices to value changes in the way land is used. Only the additional LVU, generated by the specific project being appraised, should be measured and illustrating why the proposed funding will lead to additional housing is a vital part of any appraisal. This is often difficult to support with evidence and the current guidance lacks detail. Indeed, the Appraisal Guide recommends wide categories based on quite simple criteria for making judgements around additionality.

Figure 4: Extract from the DCLG Appraisal Guide (based on Figure 9, p.42) estimating additionality



In the early stages of decision making, when there is little evidence on which to base an individual project appraisal, it is likely the unscientific methods used may lead to broad brush application of additionality rates that lack precision. While it is true that for a given level of additionality a sensible appraisal would indicate that areas of higher demand offered better value for money, it is plausible that additionality rates would actually be systematically lower in these high demand areas. Intuitively, the higher the land value uplift, the more likely that a development could be funded privately. Where other constraints are present in high demand areas, such as local planning decisions serving to hold back housing supply of otherwise viable housing schemes, then a different approach might be needed to increase housing supply while the provision of public funding may be poorly targeted. This would suggest a policy design flaw resulting in poor value for money.

If LVU is not adjusted for additionality appropriately, it can be assumed that the generally higher level of land values in the south east and London will skew funding away from the North and other low demand areas. There is already evidence that the funding is flowing away from the North, either by design due to the 80:20 rule or through the inherent bias in the decision-making process which fails to measure additionality well and subsequently follows existing land values somewhat blindly.

Recommendation V: research should be focussed on improving the evidence base for additionality rates so that future guidance can demand greater rigour. In the meantime, provide greater transparency over how additionality rates have been estimated in real investment decisions

4.4 Developing the evidence base around externalities

Land Value Uplift estimates do not capture the external costs and benefits of housing investment. While the Appraisal Guide recommends that these are included in calculations of value for money, many of them are poorly understood and do not have robust data or an evidence base to support the monetisation of their costs/benefits. This means that in practice appraisal results are typically dominated by the LVU measure.

One particular form of negative externality prevalent in parts of the North arises from the feedback effect caused by lack of investment in particular poor performing areas. This leads to (a) depopulation in existing communities in those areas and (b) population pressures in growing areas. The former includes the deterioration in the range and quality of services available to the remaining population, as others migrate to different locations, while the latter includes growing congestion and other pressures on services and amenities that lead to a deterioration in quality of life.

The relatively poor quality of housing stock in some areas of the North is a liability that presents a clear rationale for intervention on both climate change and social equity grounds – reducing the bills of the poorest households as well as reducing emissions. Reduced carbon emissions due to the replacement of low-quality housing stock with new build homes can be valued fairly easily, using carbon pricing. In theory, some of this benefit should already be captured in the land value uplift, as lower bills should translate into higher willingness to pay for more efficient homes. Anecdotal evidence suggests that housing tends not to be valued this way and is more closely related to tangible measures such as number of bedrooms. A better understanding of which factors affect the market price of housing and subsequently new build housing land and which factors are indeed external costs and benefits would enhance the credibility of both the land value uplift figure and any supplementary analysis of externalities.

Research into the value of social housing in reducing the pressure on public services from reductions in over-crowding and the use of temporary accommodation has produced an estimate of the monetary value for use in appraisal[13]. The DCLG Appraisal Guide suggests that this is treated with caution, however, as there is considerable uncertainty over the true value to other services of new social homes, which lowers the weight this measure is likely to receive in an appraisal. Further research into the health and wellbeing effects associated with poor housing could help address this.

Expanding the evidence base around externalities would help to redress the balance in an appraisal process that is dominated by land values. There are a number of strands of research that could usefully be undertaken to extend the evidence base that is available for MHCLG guidance to draw on, with a view to enabling future editions to better capture the full nature and scale of market failures that are relevant, particularly to the north. In summary, we see priority areas of work as:

- impacts on quality of life associated with changes in local population, both positive and negative;
- the environmental impacts of new housing and implications of transition to net-zero;
- The value of housing investment in terms of its contribution to public realm and shared spaces, the quality of the local built environment and its impacts on overall perceptions of place level quality;
- the health and wellbeing effects of poor housing.

Recommendation VI: support further research to develop a better evidence base about the values of positive and negative externalities associated with housing investment

13 Building Research Establishment - The cost of poor housing to the NHS

5. Summary of Recommendations to Government

Recommendations for consideration as part of the Government's Green Book Levelling Up review and the development of the policy agenda in relation to housing investment are summarised below:

- **Recommendation I: remove the 80:20 funding rule and identify a more strategic method for the geographical allocation of Homes England funding aligned with national objectives;**
- **Recommendation II: develop the levelling-up concept into a more specific and measurable strategy (eg a Northern Powerhouse Strategy) around which convincing strategic cases can be developed, which cover a range of sectors;**
- **Recommendation III: develop a strategic case making toolkit to help promoters of housing schemes produce consistent, high quality strategic cases;**
- **Recommendation IV: reform guidance on future land value assumptions to be used in appraisal of schemes that form part of transformational investment programmes;**
- **Recommendation V: research should be focussed on improving the evidence base for additionality rates so that future guidance can demand greater rigour. In the meantime, provide greater transparency over how additionality rates have been estimated in real investment decisions;**
- **Recommendation VI: support further research to develop a better evidence base about the values of positive and negative externalities associated with housing investment.**

6. Suggested next steps for H4N research

We have identified a number of streams of research for H4N to undertake to support its engagement with Government in relation to the Green Book review and related aspects of Government policy:

(i) Develop a white paper style report for Government setting out strategic arguments for reforming housing programmes and making the case for investment to be better aligned with the broader regional policy making agenda;

(ii) Develop a set of resources and evidence for scheme promoters to use in developing their strategic and economic case making to help them unlock funding in the context of the broader regional development agenda;

(iii) Develop a series of case studies to help demonstrate how alternative, more visionary assumptions about future economic performance in different locations can change the relative value for money cases of housing schemes and programmes;

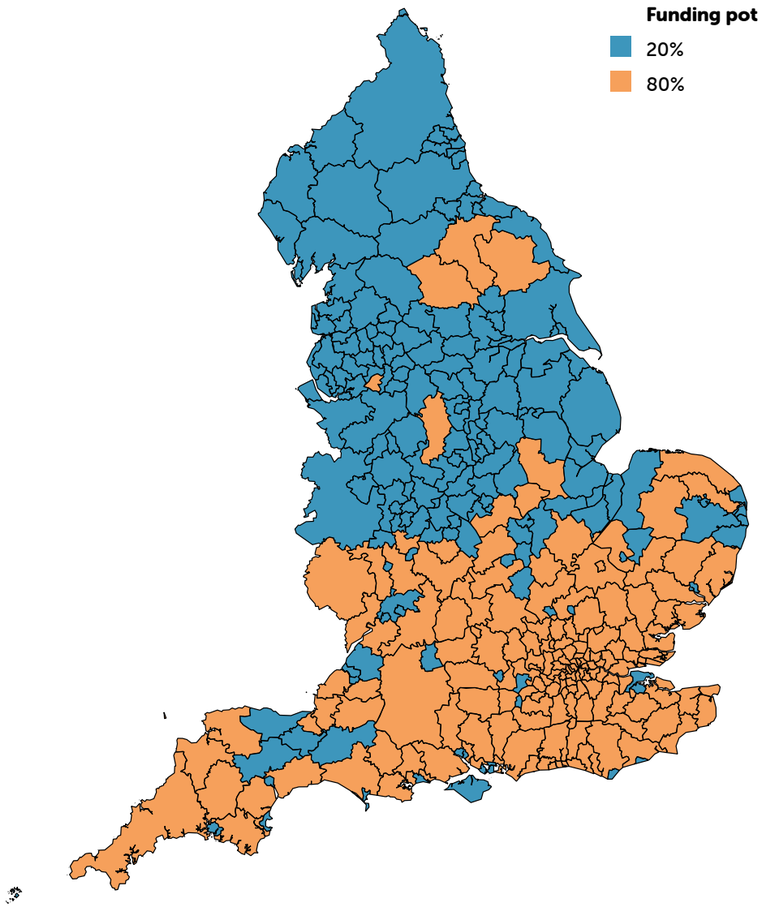
(iv) Investigate how additionality rates have been estimated in real investment decisions. Crucially, understanding the role of market failure in assessing additionality and the extent to which business cases rest on land values alone will shed light on how closely MHCLG and Homes England adhere to Appraisal Guidance / Green Book. This should include some research into how decisions are made in practice, eg in relation to HIF funding bids;

(v) Undertake research that will contribute to the evidence base about the values of positive and negative externalities associated with housing investment – H4N could concentrate on identifying issues with a specific bearing on regional inequalities.

Appendix 1

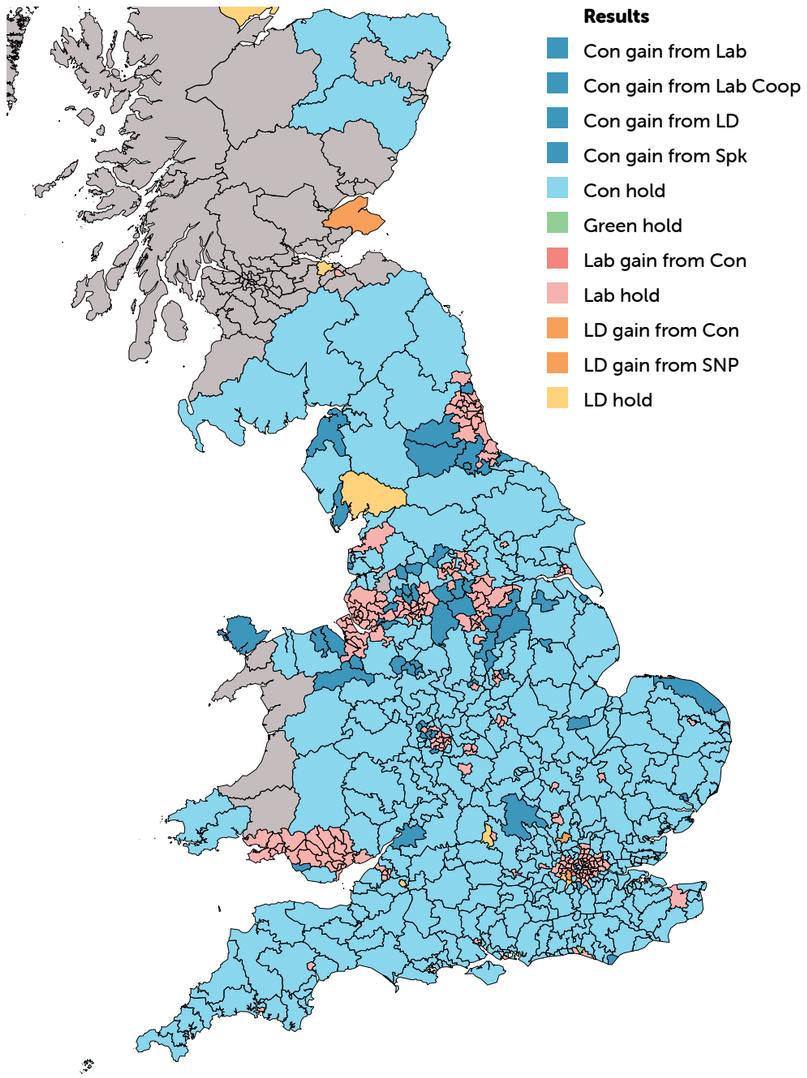
The 80:20 funding split

Maps of housing demand categories



General election 2019 results

General election results



Appendix 2

Summary of DfT Regional Rebalancing Toolkit Guidance

(i) Individual projects

Checklist questions	Potential evidence
– What is the geographical scope of the scheme? – What is the economic and social content of the area? – Is the scheme expected to have impacts in an area of local or regional deprivation or below average productivity?	– Description maps of the affected area – GDP/GBA per head relative to UK average – ONS deprivation indices – Employment / unemployment rates relative to UK average – Income per head relative to the UK average – egional balance in terms of key employment centres – Sectoral make-up or share high value jobs across sectors, or average skills – Poverty metric / income distribution – Living costs/challenges – e.g. house prices/transport costs/freight costs
– What transport barriers are limiting growth in the local area or region? – To what extent does the scheme address these barriers, raising economic performance in the local are or region?	– Differences in access to services/ employment/freight and how this influences economic performance – Analysis of future demand and capacity constraints – Congestion, connectivity, capacity and reliability impacts
– How have strategic alternatives and options been considered for their impact on regional growth?	– Description of options generation and appraisal and how rebalancing and regional objectives fed into scheme assessment
– What does the analysis in the Economic Case and Economic Narrative say about local and national impacts? – What are the assumptions and uncertainties of these impacts (consistent with the economic case)	– Summary of the economic impacts of the scheme from the economic appraisal – Analysis of the potential wider economic impacts in the local area of region – including on GDP and employment – Analysis of the national impacts, if and where displacement of economic activity is expected

Appendix 2 continued

Checklist questions	Potential evidence
– How is the scheme aligned with other local growth plans? – Is there a plan in place with local partners to maximise its overall impact on regional growth?	– Summary of how scheme is aligned with wider local growth plans to maximise the benefits of the investment – Description of how options perform against other objectives such as VM – Description of complimentary policies and likelihood of them going ahead
– What are the attitudes of key regional stakeholders (users, residents, businesses, Las, STBs)? – What wider strategic objectives does the project align with, e.g. those in the Transport Investment Strategy?	– Summary of local views and engagement – Description / evidence of how the project helps boost national productivity, enhance international competitiveness of unlock housing

(ii) Programmes

Checklist question	
Step 1 Considering the balance of spending	– What is the balance of spending/ benefits across regions overall and per capita for the programme, and how has this been considered through programme design and development?
Step 2 Exploring options and strategic alternatives	– What options and alternative packages been considered, and how were the implications for rebalancing assessed?
Step 3 Describing impacts of interventions	– What is the programme doing to address regional imbalance now and in the longer-term (as a programme or in combination with other plans)?
Step 4 Considering stakeholder views	– What are the attitudes of key regional stakeholders (users, businesses, STBs)?

Homes for the North is an alliance of 17 housing associations who want to deliver more homes across the North of England. Collectively members already provide homes for almost one million people in the North of England but want to do more.

Homes for the North commissions research and shares expertise and best practice to inform policy makers regionally and nationally on creating the conditions for more and better homes, extending home ownership in the North and making the North of England a more attractive place for businesses to invest.

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