



Homes
England

Date: 25 May 2022

Our Ref: RFI3827

Tel: 0300 1234 500

Email: infogov@homesengland.gov.uk

Making homes happen

██████████
By Email Only

Information Governance Team
Homes England
Windsor House – 6th Floor
50 Victoria Street
London
SW1H 0TL

Dear ██████████

RE: Request for Information – RFI3827

Thank you for your request for information which was processed in accordance with the Freedom of Information Act 2000 (FOIA).

You requested the following information:

In September 2020 Home England very kindly provided the headline BCR figures in reference to the acquisition of Fence Avenue , Macclesfield .

Would you please provide the unredacted version of the BCR computation to include disclosure of (1) The full calculations in relation to both the 300 and 560 unit options (2) The complete list of the assumptions used for both calculations .

Response

We can confirm that we do hold the requested information. For clarity, the information is contained within the Business Case for the acquisition of the site. The information in scope of (1) and (2) in your request is attached as Annex A.

Please note that we have redacted/removed information that is not in scope of your request.

Right to Appeal

If you are not happy with the information that has been provided or the way in which your request has been handled, you may request an internal review. You can request an internal review by writing to Homes England via the details below, quoting the reference number at the top of this letter.

Email: infogov@homesengland.gov.uk

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Your request for review must be made in writing, explain why you wish to appeal, and be received within 40 working days of the date of this response. Failure to meet this criteria may lead to your request being refused.

Upon receipt, your request for review will be passed to an independent party not involved in your original request. We aim to issue a response within 20 working days.

You may also complain to the Information Commissioner's Office (ICO) however, the Information Commissioner does usually expect the internal review procedure to be exhausted in the first instance.

The Information Commissioner's details can be found via the following link:

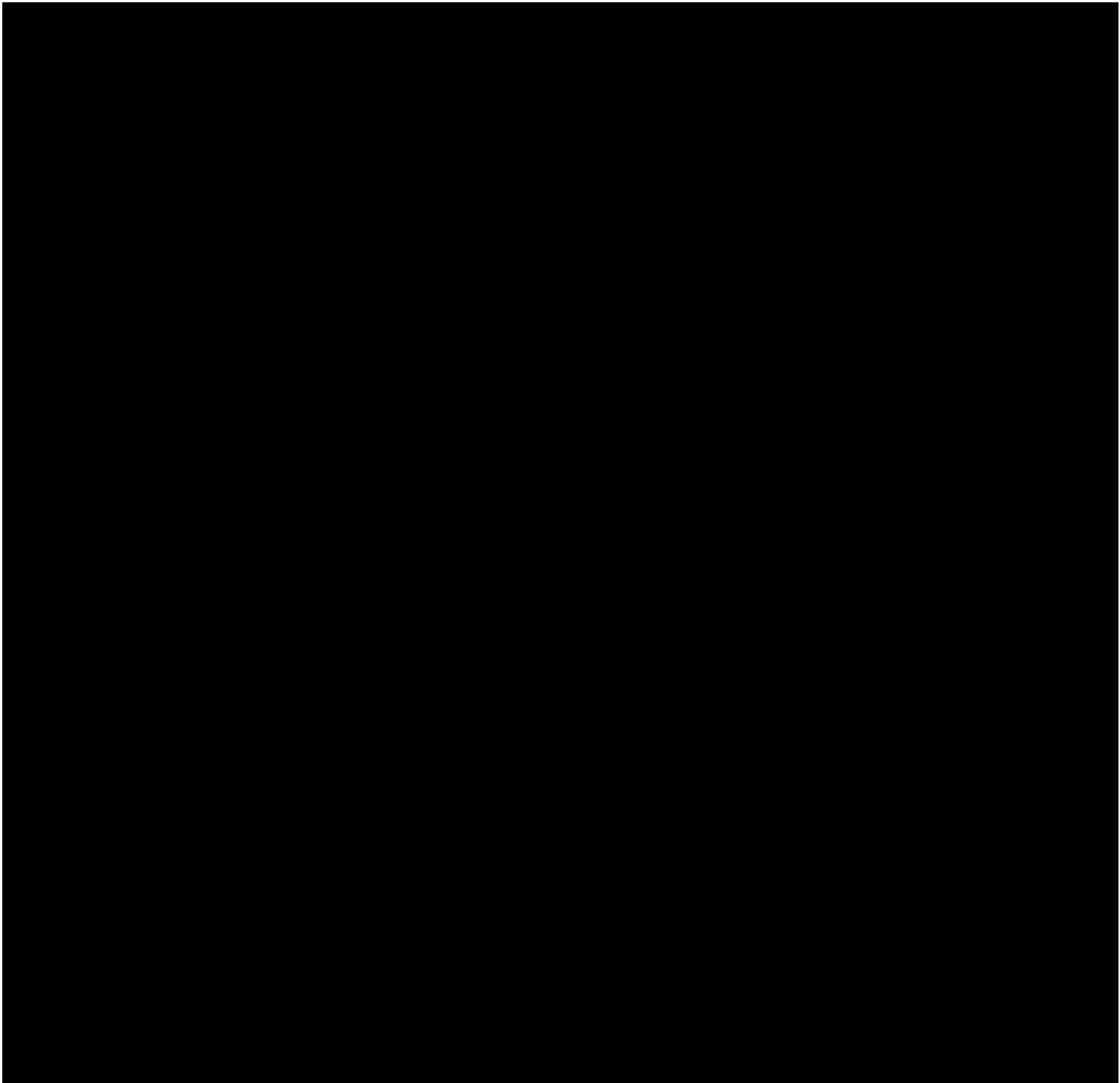
<https://ico.org.uk/>

Please note that the contents of your request and this response are also subject to the Freedom of Information Act 2000. Homes England may be required to disclose your request and our response accordingly.

Yours sincerely,

The Information Governance Team
For Homes England

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3.2 Short-listed options

Following the analysis of the long-listed options, two scenarios have been short-listed for detailed appraisal:

- **Option 1: do nothing** – this acts as the ‘reference case’ or comparator in the economic modelling. Under this option, Homes England would end all negotiations and walk away from the purchase of Fence Avenue; and
- **Option 2: acquire for housing (and leaseback)** – this would involve Homes England purchasing the site and – after a leaseback period to King’s – bringing it forward for residential uses. In keeping with King’s business needs, the purchase will be upfront.

3.2.1 Costs

The gross (undiscounted) costs to Homes England to acquire the site are set out in Table 3.3. The gross costs include capital and associated resource costs (holding and disposal costs). There is no Homes England funding under Option 1.

JLL – who prepared the Red Book Valuation to support the acquisition – has informed the cost and receipt inputs (see Section 4.3). To calculate the **Present Value of Net Costs**, the figures have been discounted at 3.5% per annum, in line with HM Treasury Green Book guidance. An allowance has also been made for **Optimism Bias (OB)**,¹¹ with net costs increasing by 10%. As nearly all of the project costs are directly attributed to the actual purchase price – which has been agreed with the vendor – the OB relates primarily to the anticipated level of future receipts.

Table 3.3 confirms that no spend or receipts materialise under Option 1. For Option 2, the PV of Net Costs records a negative return of nearly £2 million (excluding OB). After adjusting for OB, the PV of Net Costs registers a positive return of approximately £2.5 million.¹²

Table 3.3: Homes England costs (£000s)		
	Option 1 (do nothing)	Option 2 (acquire for housing and leaseback)
Gross cost	-	22,495
Receipts to Homes England ¹³	-	27,460
PV of Net Cost (excluding OB)	-	(1,961)
PV of Net Cost (including OB)	-	2,512

¹¹ <https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>

¹² Explained another way, receipts > costs until OB is included then costs > receipts

¹³ These receipts include rent payable to Homes England under the leaseback arrangement with King's School

3.2.2 Benefits

The principal benefits from the King's School project relate primarily to the proposed delivery of housing. In terms of additionality, the key benefit is the ability of the Homes England to provide the secure delivery of units that would otherwise not materialised. An **additionality factor** of 50%¹⁴ has been assumed – alternative additionality scenarios have been tested as part of the sensitivity analysis)¹⁵. The **deadweight** is assumed to be represented by Option 1 (i.e. counterfactual).

Counterfactual

JLL has been asked to advise – from a market perspective – on what would happen to Fence Avenue in the absence of Homes England purchasing the site. They have advised that due to King's requirement for an upfront receipt, and the large nature of plot, this makes the site challenging for developers. So much so, JLL has advised that the site would not sell. This means for the economic modelling, that no housing outputs would manifest under the 'reference case' (i.e. Option 1), and hence the deadweight is zero.

3.2.3 Land value uplift

Government appraisal guidance from **MHCLG** and **HM Treasury**, identifies that the value to society of a given intervention can be measured by the "land value uplift" from the proposed development. At this stage, ahead of more detailed financial appraisal work, the methodology applied within this Business Case uses land value uplift estimates on a per dwelling basis and multiplies this by the expected number of net additional dwellings forecast to be delivered.

Using MHCLG approved metrics, this recommends a figure of £53,706 is used for the Cheshire East as a proxy for the 'uplift' after existing use value is deducted.¹⁶ This means that for the purposes of the economic modelling, every net additional residential dwelling is generating 'economic benefit' via land value uplift of approximately £54,000. Table 3.4 gives the "land value uplift" after adjusting for additionality for both the Fence Avenue site (300 units) and the wider King's estate (560 units).

Table 3.4: Land value uplift (discounted, £000s)	
	Option 2 (acquire for housing and leaseback)
Land value uplift (net additional) – 300 units	6,738
Land value uplift (net additional) – 560 units	12,502

3.2.4 Amenity benefits

In addition to the private benefits, there are **external impacts** that are likely to be associated with the relocation of the school. As highlighted in Table 2.2, it is a planning requirement that the new sports facilities are open to the wider public e.g. football and rugby pitches. This clearly represents a societal benefit, and one that would not materialise under 'do nothing'. These benefits are highlighted qualitatively and do not feed into the cost benefit analysis.

¹⁴ Additionality factors are calculated as follows: $AF = (1-L) \times (1-Dp) \times (1-S) \times M$. As leakage ("L"), substitution ("S") and multiplier ("M") are not applicable for housing schemes, the AF is simply the inverse of the displacement variable ("D"). In keeping with convention, we have modelled a 50% rate, reflecting the appraiser's view of displacement after using MHCLG's Additionality Flowchart.

¹⁵ If Accelerated Construction (AC) was explored, you might expect the additionality to increase further if the build out rates were increased. AC could also help increase capacity in the construction sector if SMEs were specifically targeted.

¹⁶ Cheshire East VOA residential land value per hectare is £2,120,000. Divide by 35 dph and adjust existing use value of £1,850,000 (from King's School Accounts) gives £53,706 per unit uplift.

3.2.5 Value for money

Table 3.5 pulls together the costs and benefits of the short-listed options and provides an overall indication of value of money. The standard VFM indicator in the Economic Case is normally a **Benefit Cost Ratio**, or BCR. As the name suggests, this a ratio of the benefits over costs and represents how much benefit in £s could be supported by £1 of public investment. BCRs are widely-used in governmental appraisals and are the recommended VFM metric in both the HM Treasury's Green Book and MHCLG's Appraisal Guide.¹⁷

Table 3.5 demonstrates that the option for Homes England to acquire the site and bring forward 300 housing units yields a BCR of **2.68:1** (this means every £1 of investment generates £2.68 of public benefit). If the analysis was repeated, but this time 560 units were analysed then this would give a BCR of **4.98:1**. Given all housing is contingent on Homes England acquiring Fence Avenue, this is a legitimate claim.

Table 3.5: Costs and benefits (discounted, £000s)		
	Option 2 (300 units)	Option 2 (560 units)
PV of Net Cost (including OB)	(2,512)	(2,512)
Net additional benefits		
<i>Land value uplift</i>	6,738	12,502
Total benefits	6,738	12,502
BCR	2.68:1	4.98:1

¹⁷ MHCLG Appraisal Guide (2017)

3.4 Key findings

The key results of the Economic Case are summarised in the **Appraisal Summary Table**.

Table 3.9: Appraisal Summary Table (discounted, £000s)			
		Option 2 (300 units)	Option 2 (560 units)
A	Present Value Benefits (Green Book guidance)	6,738	12,502
B	PV Net Costs	2,512	2,512
C	Present Value of other quantified impacts	-	-
D	Benefit Cost Ratio [A+C/B]	2.68:1	4.98:1
E	Significant non-monetised impacts	<ul style="list-style-type: none"> • Amenity benefits • Re-development of brownfield land 	<ul style="list-style-type: none"> • Amenity benefits • Re-development of brownfield land
F	Homes England Financial Cost (undiscounted)	Gross: £22,495,500	Gross: £22,495,500
G	Switching values (BCR=0; % change in net additional benefits)	168%	397%
H	Risks	Overall "low-medium" level of risk	N/A