Impact Assessment: Compulsory Purchase Order (CPO) Powers for the Secretary of State for Regeneration and Business and Community Facility Relocation

Corrections since publication on the 25/11/2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
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<tbody>
<tr>
<td>15/01/2014</td>
<td>Due to a scanning error, pages were missing from the initial version uploaded. This has now been rectified.</td>
</tr>
</tbody>
</table>
Title:
Compulsory Purchase Order (CPO) Powers for the Secretary of State for Regeneration and Business and Community Facility Relocation - HS2 Hybrid Bill

IA No:

Lead department or agency:
Department for Transport

Other departments or agencies:
HS2 Ltd

Impact Assessment (IA)

Date: 25/11/2013

Stage: Development/Options

Source of intervention: Domestic

Type of measure: Primary legislation

Contact for enquiries:

Summary: Intervention and Options

RPC Opinion: Awaiting Scrutiny

<table>
<thead>
<tr>
<th>Cost of Preferred (or more likely) Option</th>
<th>Total Net Present Value</th>
<th>Business Net Present Value</th>
<th>Net cost to business per year (EANCBo on 2009 prices)</th>
<th>In scope of One-In, Two-Out?</th>
<th>Measure qualifies as</th>
</tr>
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<tbody>
<tr>
<td>NQ</td>
<td>NQ</td>
<td>NQ</td>
<td>NQ</td>
<td>No</td>
<td>NA</td>
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</table>

What is the problem under consideration? Why is government intervention necessary?
HS2 Phase One is a significant opportunity to make transformative, potentially regenerative changes to areas around its stations. The expectation is that this regeneration and development will be led by the relevant local authorities. However, the scale of regeneration and development planned may not be delivered by local authorities and the market in isolation as there are historical examples where this has not occurred. Further, the construction and operation of HS2 will displace businesses and community facilities along the line of route, some of which may have difficulty relocating due to being in highly site specific locations. Therefore, government intervention may be required to ensure regeneration, development and relocation occurs.

What are the policy objectives and the intended effects?
To maximise the local economic output and employment outcomes from investment in HS2 Phase One by ensuring:
(a) Local regeneration and development schemes around HS2 stations and depots are delivered
(b) That, as far as possible, businesses and community facilities displaced by the construction and/or operation of HS2 can be relocated rather than extinguished

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
Do Nothing - This would place reliance on local authorities to facilitate regeneration and development schemes. There could be risks with this as issues with land fragmentation could prove challenging and local authorities may not have the skills, experience or resources to facilitate this. So this could result in the full benefits of regeneration not being realised and more businesses suffering extinguishment than would otherwise be the case.

Option 1 - Secretary of State to have Compulsory Purchase Order (CPO) Powers for Regeneration and Business Relocation in the Hybrid Bill (preferred option) - Would ensure acquisition of land for regeneration and business relocation in cases where Local Authorities cannot use their own CPO Powers. The existence of these powers alone could incentivise land owners to reach agreement on redevelopment and relocation options as the Government now has recourse to acquire the land compulsorily.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 03/2020

Does implementation go beyond minimum EU requirements?
NA

Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.

<table>
<thead>
<tr>
<th>Micro</th>
<th>&lt; 20</th>
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<tbody>
<tr>
<td>Yes</td>
<td>Yes</td>
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</table>

What is the CO₂ equivalent change in greenhouse gas emissions? (Million tonnes CO₂ equivalent)

Traded: NA
Non-traded: NA

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY:  

Date: 25/11/2013

1 X
## Summary: Analysis & Evidence

**Policy Option 1**

**Description:** Compulsory Purchase Order Powers for Regeneration and Business Relocation

### FULL ECONOMIC ASSESSMENT

<table>
<thead>
<tr>
<th>Price Base Year</th>
<th>PV Base Year</th>
<th>Time Period Years</th>
<th>Net Benefit (Present Value (PV)) (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>Low: NQ</td>
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<td></td>
<td></td>
<td></td>
<td>High: NQ</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Best Estimate: NQ</td>
</tr>
</tbody>
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#### COSTS (£m)

<table>
<thead>
<tr>
<th></th>
<th>Total Transition (Constant Price)</th>
<th>Average Annual (excl. Transition) (Constant Price)</th>
<th>Total Cost (Present Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>NQ</td>
<td>NQ</td>
<td>NQ</td>
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<tr>
<td>High</td>
<td>NQ</td>
<td>NQ</td>
<td>NQ</td>
</tr>
<tr>
<td>Best Estimate</td>
<td>NQ</td>
<td>NQ</td>
<td>NQ</td>
</tr>
</tbody>
</table>

Description and scale of key monetised costs by ‘main affected groups’
None identified.

#### Other key non-monetised costs by ‘main affected groups’

We have assumed that no additional public local inquiries are required as a result of these powers (as justified in the assumptions box below). In circumstances in which they take place, the cost for each could be in the region of £0.1m-£0.3m. The bulk of these costs would fall to the Government as they pay for the administration of the inquiry. There would be legal costs to any affected parties that chose to raise objections in such an inquiry.

#### BENEFITS (£m)

<table>
<thead>
<tr>
<th></th>
<th>Total Transition (Constant Price)</th>
<th>Average Annual (excl. Transition) (Constant Price)</th>
<th>Total Benefit (Present Value)</th>
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<tbody>
<tr>
<td>Low</td>
<td>NQ</td>
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<tr>
<td>High</td>
<td>NQ</td>
<td>NQ</td>
<td>NQ</td>
</tr>
<tr>
<td>Best Estimate</td>
<td>NQ</td>
<td>NQ</td>
<td>NQ</td>
</tr>
</tbody>
</table>

Description and scale of key monetised benefits by ‘main affected groups’
None identified.

#### Other key non-monetised benefits by ‘main affected groups’

The key non-monetised benefits for the local areas of CPO powers for regeneration and development would be greater certainty that regeneration and development around station sites can be delivered which would benefit local areas. For the business relocation powers the benefits would be better chances of finding suitable sites for relocation for those businesses, thereby reducing the number of extinguishments as a result of the scheme which could save jobs benefitting employees of those businesses.

### Key assumptions/sensitivities/risks

**Discount rate:** 3.5%

We have assumed that no additional public local inquiries are required as a result of the powers as they are reserve powers only intended to be used as a last resort if other methods fail to achieve desired outcomes. Given the early stages in the HS2 Scheme complex negotiations with Local Authorities and businesses affected by the scheme are in their infancy so the frequency of such inquiries are difficult to judge.

### BUSINESS ASSESSMENT (Option 1)

<table>
<thead>
<tr>
<th>Direct impact on business (Equivalent Annual) £m:</th>
<th>In scope of OITO?</th>
<th>Measure qualifies as</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs: NQ</td>
<td>No</td>
<td>NA</td>
</tr>
<tr>
<td>Benefits: NQ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net: NQ</td>
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Evidence Base (for summary sheets)

Introduction

1. This impact assessment considers the introduction of Compulsory Purchase Order (CPO) powers for the Secretary of State for two purposes in connection with Phase One of HS2:
   - Regeneration and Development
   - Business and Community Facility Relocation

Background

Regeneration and Development

2. HS2 is a significant opportunity to make transformative and potentially regenerative change to areas around HS2 Phase One stations and sites. The scope is huge as Phase One of the scheme alone connects two of the UK’s largest cities – London and Birmingham. As such the Government is looking to deliver the greatest possible level of local economic growth from the very significant investment it is making in HS2. In support of this the Government wishes to ensure that local regeneration and development schemes around HS2 stations and depots are delivered. The aim is for developments around the areas of HS2 stations that will provide extra jobs, growth, housing and offices and make investment easier to attract in those areas.

3. The current economic case for the scheme does not take into account the impact that HS2 stations will have on the surrounding area (i.e. assumes fixed land-use). Further work is being taken forward by HS2 Ltd to examine the potential for additional impacts resulting from land-use change around HS2 stations and it is due to be published next year.

4. To get a sense of the scale of the regeneration and transformative potential of HS2, the table below lists the proposed stations for Phase One along with a high level overview of the development potential in that area according to the HS2 Appraisal of Sustainability. There are also other draft area plans produced by local authorities and other stakeholders outlining development plans as a result of HS2

<table>
<thead>
<tr>
<th>Proposed HS2 Phase One Station</th>
<th>Development Potential</th>
</tr>
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<tbody>
<tr>
<td>Euston Station (London)</td>
<td>Potential for major mixed use regeneration at Euston above and around the proposed HS2 station and existing Network Rail station. HS2 Ltd estimate that additional employment could be in the region of 2,000 jobs through the creation of office as well as retail developments. Some external estimates have suggested that this could be higher.</td>
</tr>
<tr>
<td>Old Oak Common (London)</td>
<td>The Old Oak area is already within the existing Park Royal opportunity area with significant plans for redevelopment and new employment opportunities. It is estimated that 20,000 additional jobs could be delivered by HS2 through the combination of office, retail and education spaces. In addition, housing provision</td>
</tr>
</tbody>
</table>

1 Economic Case for HS2, http://assets.hs2.org.uk/sites/default/files/inserts/S%26A%26%201_Economic%20case_0.pdf
3 Para 8.15.16, HS2 Appraisal of Sustainability, http://assets.hs2.org.uk/sites/default/files/inserts/hs2-aos-report01_0.pdf
for over 10,000 people could be created. Some estimates suggest that Crossrail and HS2 are expected to deliver a 155 hectare development of 19,000 new homes and 90,000 jobs over 30 years.

| Birmingham Interchange Station | The station will be located near Birmingham Airport and the National Exhibition Centre (NEC). HS2's contribution could be over 3,700 jobs in the area through the creation of office developments, hotel beds, retail and leisure space. HS2's arrival is a central plank of the 'UK Central' Masterplan which sets out the very significant opportunity for local economic growth in the West Midlands, predicted to contribute as much as £19.5bn annual to the regional economy by 2040. |
| Birmingham Curzon Street Station | The net jobs delivered as a result of the HS2 station could be in the region of 4,700 through enabling the creation of office, retail, hotel, educational and leisure space. |

5. The expectation is that regeneration and development schemes will be led by the relevant local authorities working in partnership with the nominated undertaker for HS2. The HS2 Growth Task Force has been appointed to examine how to maximise economic growth and job opportunities as a result of HS2 and amongst a range of factors will consider how HS2 can be used as a local catalyst for economic growth and regeneration around stations and surrounding communities.

6. The work will involve engagement with city and business leaders as well as local enterprise partnerships and, as specified in the interim report of the task force, the Task Force's recommendations should help local authorities to develop 'HS2 master plans' to drive growth and regeneration in their areas. The Task Force is due to publish its report early 2014.

Business and Community Facility Relocation

7. Due to the exercise of compulsory purchase powers to acquire the land necessary for Phase One of the HS2 scheme, a number of business and community facilities may suffer a loss of premises such that their continued operation would not be economic and/or feasible. In order to continue operation, these businesses and community facilities will need to find suitable sites to relocate. If such sites cannot be found, the businesses and facilities would face total extinguishment.

8. Under the National Compensation Code, the Government (as the promoter of the scheme) would have to provide compensation for any costs and expenses of relocating which includes the payment for any temporary loss in profit incurred as a result of the move. In circumstances where the business or community facility cannot reasonably be relocated, the Government would have to pay compensation for total extinguishment which would amount to paying for the total value of the business or community facility. In the vast majority of cases it should be possible for businesses to find replacement premises.

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8 Para 8.15.23, HS2 Appraisal of Sustainability, http://assets.hs2.org.uk/sites/default/files/inserts hs2-aos-report01_0.pdf
9 The Nominated Undertaker is the person or body appointed by the Secretary of State to use the powers in the HS2 Hybrid Bill to construct Phase One of the HS2 scheme
Problem under Consideration

Regeneration and Development

9. As highlighted above, the expectation is that local authorities where stations are located will take the lead in maximising the potential benefits as a result of HS2. There is a risk however, that the maximum benefits of regeneration and development around stations and depots are not realised or in the worst case scenario may not be delivered at all.

10. To ensure regeneration and development schemes around stations go ahead, local authorities need to ensure there is appropriate provision of land in the surrounding vicinity of the station. In some cases, this could be achieved through commercial negotiation with landowners. There may however be barriers to achieving this, specifically in terms of obtaining the necessary land in the area for the proposed developments to go ahead. In particular,

   a. fragmented land ownership in the existing area, which may or may not have been exacerbated by the HS2 scheme. This could mean that negotiation with individual landowners may be too complex to gain access to the land required in timely manner

   b. single or multiple landowners refusing to sell the land required for any proposed regeneration or development scheme. This could be because they are aware that acquisition of their land is essential for a proposed regeneration or development scheme to go ahead and are therefore incentivised to hold out for as long as possible to achieve higher values for the purchase of their land. As a result, the expense of regeneration and economic development could also rise in this situation.

11. To surmount the barriers above, local authorities already have powers to compulsory purchase land within the boundaries of their area under the Town and Country Planning Act 1990. Under these powers, local authorities can acquire land compulsorily for the purposes of economic development and regeneration. This has a potential to resolve the issues identified above as it makes it easier for local authorities to acquire the necessary land as, when compulsory purchase powers are exercised, the land is purchased at the market value in a ‘no scheme’ state of the world.\(^{13}\)

12. Experience has shown, however, that local authorities may be reluctant to exercise their powers as they may not have the knowledge, experience or the resources to do so and opportunities for regeneration have been missed or not fully utilised (please see the examples of Luneside East and Rochester Riverside examples in paragraphs 20 and 21 below).

13. At this stage the scale of this risk is not clear as the Government’s engagement with local authorities on regeneration and development on stations is still in its infancy at this early stage. This is expected to be much clearer as the scheme progresses and local authorities develop their plans and scope potential implementation issues.

14. Nevertheless, the potential risk could be significant as regeneration and economic development around Phase One stations alone is expected to support the creation of over 30,000 jobs\(^{14}\) with reports by Local Authorities pointing to even higher job figures (see Table 1 above). Any delay or deferral of these development schemes, either partially or wholly, could therefore represent a significant loss of opportunity to the area.

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\(^{13}\) The Operation of the National Compensation Code, Crossrail Information Paper, http://www.crossrail.co.uk/assets/library/document/c/02operationofthenationalcompensationcode.pdf

\(^{14}\) Work commissioned by HS2 Ltd indicates that as many as 80,000 jobs could be supported by development around HS2 station sites, with 30,000 of these apportioned to phase one of the scheme (see Table 1). Studies carried out for local authorities point to even high employment levels.
Business and Community Facility Relocation

15. As highlighted above, a number of businesses above will be permanently displaced by the HS2 scheme. In these circumstances, it would be preferable to successfully relocate the business or community facility rather than extinguish it. Extinction of a business could have various adverse impacts including the loss of productive capability to the economy and the impact on the firms’ employees. It could also potentially incur costs to the taxpayer, since full extinguishment of the business is likely to be more costly and more complex in comparison to relocation. If the affected organisation is a community facility then there would be an added loss to amenity to the area.

16. In terms of businesses, according to the preliminary assessment of socioeconomic effects of Phase One contained in the Environmental Statement (ES), the total estimated number of jobs in businesses directly affected\(^{15}\) by the scheme is approximately 8,430\(^{16}\). At this stage, we do not have detailed information about the businesses affected in terms of turnover, although this information will be collected as the scheme progresses. The impact on local areas in terms of employment will also need to consider the employment delivered directly by the scheme (in operating or maintenance roles) and the employment impact of development around stations which could mitigate the impact of business relocation in some areas.

17. It is expected that the majority of these businesses will be able to find suitable sites for relocation. According to the London Development agency, over 88% of businesses displaced as a result of London 2012 Olympics games were able to successfully relocate with 12% facing total extinguishment. If we adopt these assumptions for Phase One of HS2, this would mean that approximately 1,010 jobs could be permanently lost with an additional 380 jobs that could be lost indirectly through supply chains (see table below). This should be viewed against the 14,600 jobs that will be created as a result of construction of Phase One of HS2\(^{17}\) and the 30,000 jobs that could be supported by regeneration and development around Phase One stations (see paragraph 14 above)

<table>
<thead>
<tr>
<th>Table 2 – Estimated employment impacts of Phase One of HS2(^{18})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross employment directly affected</td>
</tr>
<tr>
<td>Employment relocated (ass. 88% relocation)</td>
</tr>
<tr>
<td>Employment lost</td>
</tr>
<tr>
<td>Indirect employment lost(^{19})</td>
</tr>
<tr>
<td>Total Jobs lost</td>
</tr>
</tbody>
</table>

Rationale for Intervention

Regeneration and Development

18. As described in paragraphs 10a and b above, there are barriers to obtaining the land required for regeneration and development. The rationale for government intervention derives from these barriers combined with the risk that local authorities may be unable to surmount them through inability lack of resources or knowledge to effectively exercise their compulsory purchase powers. This can be further explained with reference to economic theory and prior experience.

\(^{15}\) Directly affected businesses include those that are displaced by the exercise of compulsory purchase powers to obtain the land required for the construction and operation of HS2. This does not include businesses in the surrounding area that may also be affected temporarily or permanently as a result of the construction or operation of the scheme (e.g. due to amenity and isolation affects). An assessment on the impact of these businesses has been carried out in Volume 3 of the Environmental Statement for Phase One.

\(^{16}\) Socioeconomic Effects, Volume 3: Route Wide Affects, HS2 Phase One Environmental Statement.

\(^{17}\) Socioeconomic Effects, Volume 3: Route Wide Affects, HS2 Phase One Environmental Statement.

\(^{18}\) Socioeconomic Effects, Volume 3: Route Wide Affects, HS2 Phase One Environmental Statement.

\(^{19}\) These knock-on effects are calculated using four economic adjustment factors: leakage, displacement, substitution and multiplier effects. See: Socioeconomic Effects, Volume 3: Route Wide Affects, HS2 Phase One Environmental Statement.
19. There are historical examples where through a lack of experience or because land straddles boundaries, local authorities have not been able to use their powers and the opportunity for regeneration and development has been lost. These include regeneration and development schemes around Luneside East and Rochester Riverside.

20. Luneside East is a site in Lancaster with a long history of low-rent general industry and storage. A report by the Town and Country Planning Association notes that the regeneration potential was identified in the mid-1990s but it took until November 2005 for the Council to take full possession of the site. Despite a strong demand for housing in the area, the report suggests that the project appeared too daunting, with fragmented land ownership being one of the problematic factors. This could be viewed as an example of the coordination problem in economics where the ultimate objective of the regeneration scheme had the potential to benefit the area as a whole but there were difficulties associated with achieving cooperation from existing land owners who may individually lose out as a result of the development or may be incentivised to delay development to negotiate higher values for purchasing their land. In particular, these land owners are not incentivised to take into account the potential external benefits to regeneration and economic development; namely, agglomeration, increased competition and improved labour market participation.

21. Another example of missed regeneration opportunities is Rochester Riverside which is a site on the eastern edge of Rochester City Centre between the London-Dover railway line and the River Medway. The redevelopment of the site has been a longstanding objective, but despite several attempts the site is still undeveloped. A report by the British Urban Regeneration Association suggested that one of the reasons for this is that the local authority has not had the right experience or skills to negotiate successfully with private sector partners. Delays and previous unsuccessful discussions have led to a ‘confidence gap’ between private developers and the local authority.

22. It is also worth noting that there is evidence of a recent decline in local government appetite for pursuing CPOs. A report by Dickinson Dees LLP notes that the number of CPOs in 2009 was at its lowest for several years. The report suggests there is a risk that CPOs may drop off the agenda as a tool for delivering regeneration as local authorities may view the exercise of these powers as politically contentious and the process is often dependent on a culture and experience of using CPOs.

23. It is possible that local authorities may face similar challenges in relation to harnessing the significant regeneration opportunities offered by the HS2 scheme. The implications would be a delay in the delivery, or at the most extreme a loss altogether, of the full economic benefits that HS2 can provide at station sites. Despite local authorities having recourse to their own CPO powers, given the risk that they may be reluctant to exercise these powers if they are required to proceed with a development schemes, Government intervention can be justified as a backstop.

Business and Community Facility Relocation

24. A key objective of the HS2 scheme is to be a catalyst for economic growth through the creation of significant employment opportunities. It is expected that overall a significant number of jobs will be created through the construction and operational phases of the scheme. As Table 2 acknowledges however, businesses will have to relocate as a result of the scheme which could have adverse employment impacts counter to the overall objectives of the scheme.

25. While experience of previous schemes suggest that the majority of businesses will successfully be able to relocate (see paragraph 17), it is possible that those businesses that are more novel or unique will have greater difficulty in finding suitable relocation sites. This makes it more likely that they will face total extinguishment with the associated potential adverse impacts to the economy described above.

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22 Compulsory Purchase Orders: A Review of Usage and Best Practice, January 2010
23 Socioeconomic Effects, Volume 3: Route Wide Affects, HS2 Phase One Environmental Statement
26. As these adverse impact arise from a national scheme promoted by the Government, the involvement of
central Government to help facilitate the relocation process for business and community facilities is
appropriate. In particular, there may be circumstances where suitable relocation sites straddle local
authority boundaries and central Government would be in a better position to broker agreements.
Furthermore, as it is the Government, as the promoters of the scheme that ultimately pay for the
compensation costs associated with businesses relocating they are incentivised to ensure that relocation
takes place efficiently and effectively.

Policy objective

27. To maximise the local economic output and employment outcomes that arise from Phase One of
HS2 by:

a. Making sure local regeneration and development schemes around HS2 stations and depots are
delivered to maximise the benefits of the HS2 scheme.

b. Ensuring, as far as practicable, that businesses and community facilities displaced by the
construction and/or operation of HS2 are relocated rather than being extinguished.

Description of options considered (including do nothing)

Do Nothing – Regeneration and Development

28. The do nothing scenario is the counterfactual in this impact assessment. As highlighted above, local
authorities are expected to take the lead in regeneration and development through the creation of HS2
master plans. In circumstances where the problems encountered in paragraph 10a and b arise, to ensure
regeneration and development schemes around HS2 stations are delivered there would be a reliance on
local authorities to use their CPO Powers where necessary.

29. While it is expected that local authorities will succeed, there is a risk that they may not have the skills,
experience or resources to pursue these objectives and that the issues associated with acquiring land for
proposed regeneration and development schemes may prove challenging. There is also a risk that local
authorities may be reluctant to exercise their CPO Powers to overcome these obstacles as indicated
above (see paragraph 22). Furthermore, where a station site or catchment area straddles the boundaries
of several local authority areas, land acquisition challenges could be greater.

30. This could increase the risk that the full regeneration and development benefits may be delayed or in the
worst case may not be delivered at all. As highlighted in Table 1 above the scale of benefits arising from
development around HS2 stations could be in the region of 30,000 jobs and other benefits such as
increased housing provision. While these benefits are indicative at this stage, any delay or deferral could
be significant loss of opportunity from the local area.

31. It is difficult at this stage to assess the extent of this risk as engagement with local authority areas on
regeneration and development opportunities are in their infancy and it is too early to make final
assessments. As the scheme progresses the nature of these risks will become more apparent.

Do Nothing – Business and Community Facility Relocation

32. For business relocation, it is expected that the majority of businesses and community facilities
affected by the scheme would be able to find alternative premises that are suitable for the continued
operation of that organisation through commercial negotiation. It is expected that HS2 Ltd will provide
support to businesses that are directly affected by the scheme in sourcing suitable relocation sites.
As indicated above, they would be fully compensated by the Government under the terms of the
National Compensation Code for the costs of relocating. However, where the businesses and/or
facilities are more novel or unique; the use of commercial negotiation is likely to be more problematic
as the sourcing of suitable sites may be very difficult due the limited options available.

33.
34. It is also ambiguous whether local authorities are able to use their own CPO powers in existing legislation for the purpose of relocating businesses that would be displaced by HS2. These difficulties would be compounded by the fact that relocation must take place within a tightly defined time period to ensure a suitable site would be ready before construction of the scheme had commenced. Further, landowners on such sites could request rates well above the market value of the land in full knowledge of the lack of alternatives. Consequently, the difficulties with relocation under this option increase the risk that more businesses and community facilities would face total extinguishment with particular impacts on individuals through loss of employment, amenities and output to the economy.

35. As indicated in Table 2 above, on the assumption that 88% of employment successfully manages to relocate, there could be up to 1,010 jobs lost as a result of businesses directly displaced by the scheme with a further 380 jobs lost through indirect effects. These jobs will likely be lost because a part or the whole of a business has been extinguished as a result of the scheme. As such, under the National Compensation Code, the part of or the whole business which is being extinguished will have to be purchased outright by the Government. This is generally a lot more costly than the compensation paid to businesses for the costs associated with relocation.

**Powers to promote Compulsory Purchase Orders for Regeneration and Business/Community Facility Relocation (the preferred option)**

36. The preferred option is to have powers in the Hybrid Bill to enable the Secretary of State for Transport to promote Compulsory Purchase Orders (CPOs) for the purposes of regeneration and business relocation in connection with HS2.

37. Powers to promote Compulsorily Purchase Orders are an established mechanism which enable acquiring authorities to compulsorily purchase land for purposes which Parliament has decided are in the public interest. The acquiring authority is often a Government Department, local authority or a body such as the Highways Agency and the application of compulsorily purchase for these organisations are normally conferred by a specific Act of Parliament.\(^{24}\)

38. Even in cases where the acquiring authority is the Government (as in this case), the application of a CPO Power still requires a local planning inquiry to establish whether the acquisition of land is in the public interest (officially called a "public local inquiry"). This allows individuals affected by the acquisition to make representations to the inquiry and object to the acquisition or to seek changes to the way it is being carried out. The inquiry will reach a judgement on whether it thinks the acquisition should be carried out but ultimately the final decision is in the hands of the relevant Minister, in this case the Secretary of State for Transport. Furthermore, if the land is acquired under this procedure, any development conducted on that land, for regeneration or development purposes or to relocate a business or community facilities would still have to obtain planning permission through the usual procedure.

39. The CPO power for regeneration and development would in practice be used in association with stations and depots that are part of Phase One of the HS2 scheme. The CPO power for business relocation would allow the Secretary of State to promote a CPO in relation to relocating business or community facilities that face the prospect of extinguishment as a result of the HS2 scheme. This power is most likely to be exercised in cases where the business or community facility is novel or unique and has difficulty finding a suitable relocation site.

40. It is important to note that these are reserve powers that will only be used as a last resort if alternative options for relocating businesses and community facilities cannot be found or if it is evident that regeneration schemes are not progressing. Often, the existence of the credible CPO Powers themselves

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are enough to facilitate negotiation with local authorities or settle terms of commercial negotiation with landowners, without the powers actually having to be exercised. As a result, it is not expected that the expense and delay of going through a public local inquiry will occur in practice.

41. Careful consideration has to be given to the circumstances where these powers will be exercised. Further information will be released next year, prior to 2nd Reading of the Hybrid Bill, providing more details about this and, if relevant, this Impact Assessment will be updated to reflect such information.

Option considered but not taken forward in the policy development process – Homes and Communities Agency Powers

42. The Homes and Communities Agency (HCA) also has CPO powers that might be used to acquire land for the purposes of regeneration or development. A memorandum of understanding between the Transport Secretary and the HCA could be drawn up to enable the Secretary of State to draw on these powers in relation to HS2. However, the remit of the HCA no longer extends to London where two major HS2 stations, Euston and Old Oak Common, will be located. It is also ambiguous in legal terms whether these powers can actually be used for the purposes of relocating businesses. Given the long-term investment horizon for HS2, there is a further risk that the HCA’s role may evolve in future in such a way as to alter any understanding we might put in place at this stage for the use of their powers to support HS2. As a result of all these limitations, this is not a viable option to achieve the desired policy objectives stated above.

Monetised and non-monetised costs and benefits of each option (including administrative burden);

Option 0: Do Nothing

43. This is the counterfactual in this impact assessment against which the other option has been assessed.

Regeneration and Development

44. The expectation is that the relevant local authorities will take the lead in facilitating regeneration and development schemes around HS2 stations to maximise the potential benefits of HS2.

45. There is a risk however, that such regeneration and development schemes may not be delivered in a timely manner or may not be delivered at all. This could be as a result of the land fragmentation issues specified in paragraph 10a and b or could be because local authorities do not have the appropriate skills or experience.

46. At this stage the extent of this risk is difficult to determine as local authorities are likely to only be at the early stages of formulating their plans for regeneration and development. If such risks are realised, the associated impact in terms of opportunity costs could be large with regeneration and economic development around HS2 stations estimated to support the creation of over 30,000 jobs25.

As the scheme progresses the nature of this risk around particular local areas will become more apparent as plans become more advanced and more engagement with local authorities takes place.

Business and Community Facility Relocation

47. In terms of businesses, according to the preliminary assessment of socioeconomic effects of Phase One contained in the Environmental Statement (ES), the total estimated number of jobs in

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25 Work commissioned by HS2 Ltd indicates that as many as 80,000 jobs could be supported by development around HS2 station sites, with 30,000 of these apportioned to phase one of the scheme (see Table 1). Studies carried out for local authorities point to even high employment levels.
businesses directly affected\textsuperscript{26} by the scheme is approximately 8,430\textsuperscript{27}. At this stage, we do not have detailed information about the businesses affected in terms of turnover, although this information will be collected as the scheme progresses. The impact on local areas in terms of employment will also need to consider the employment delivered directly by the scheme (in operating or maintenance roles) and the employment impact of development around stations which could mitigate the impact of business relocation in some areas.

48. It is expected that the majority of these businesses will be able to find suitable sites for relocation. According to the London Development agency, over 88\% of businesses displaced as a result of London 2012 Olympics games were able to successfully relocate with 12\% facing total extinguishment. If we adopt these assumptions for Phase One of HS2, this would mean that approximately 1,010 jobs could be permanently lost with an additional 380 jobs that could be lost indirectly through supply chains (see Table 1). The businesses and community facilities that are most at risk are those that are novel or unique and as such may have great difficulty in finding suitable relocation sites that allow them to continue operation.

49. These assumptions are highly sensitive to the percentage of businesses that successfully relocate and there is significant uncertainty with regards to how many of these jobs will be saved. It is expected that HS2 Ltd will provide support to businesses displaced by the HS2 scheme to find suitable relocation sites and as the scheme progresses more data can be gathered as on the number of businesses and community facilities that are of greater risk of not being able to relocate through engagement with the affected organisation.

50. In any event, as specified in paragraph 8, under the National Compensation Code, the Government (as the promoter of the scheme) would have to provide compensation for any costs and expenses of relocating. If the business or community facility cannot reasonably be relocated, the Government would have to pay for total extinguishment which would amount to paying for the total market value of the business or community facility.

51. At this stage, it is difficult to provide reliable estimates of the costs to the Government of compensating the affected businesses as claims under the National Compensation Code for relocation costs or for extinguishment are complex and not enough information is available about the affected businesses themselves.

Option 1: Powers to promote Compulsory Purchase Orders

Regeneration and Development

Benefits
52. The key benefits of CPO powers for regeneration and development would be greater certainty that regeneration and development around station sites can be delivered within suitable timescales to maximise the economic and productivity benefits of the scheme. The benefits could also include delivering a greater level of development around stations than in the counterfactual to maximise the overall benefits arising from the HS2 scheme (some opportunities might not be taken forward by the local authority alone, see paragraphs 20 and 21).

53. The expected practical utilisation of these powers is currently anticipated to be fairly limited as they are reserve powers. Regeneration and development around stations will be carried out by the local authority in the first instance with intervention by central Government through the exercise of these powers only required in rare instances.

\textsuperscript{26} Directly affected businesses include those that are displaced by the exercise of compulsory purchase powers to obtain the land required for the construction and operation of HS2. This does not include businesses in the surrounding area that may also be affected temporarily or permanently as a result of the construction or operation of the scheme (e.g. due to amenity and isolation affects). An assessment on the impact of these businesses has been carried out in Volume 3 of the Environmental Statement for Phase One.

\textsuperscript{27} Socioeconomic Effects, Volume 3: Route Wide Affects, HS2 Phase One Environmental Statement.
54. Even without the exercise of the CPO Power, the existence of the power alone could make it more likely that regeneration and development schemes progress. This is because it could enhance the negotiating position of local authorities with landowners in the knowledge that if acquisition of land cannot be settled on commercial terms there is a credible reserve power that can be exercised by Central Government to compulsorily acquire the land – this is known in economics as a ‘credible threat’. In this situation, the expense of a public local inquiry would be avoided for both central Government and the land owners concerned (see below).

55. It could also provide the Government with more influence to facilitate regeneration and redevelopment in line with national objectives and would enable better commercial terms to be reached with landowners without requiring the exercise of the CPO Power itself.

Costs
56. If, through use of the CPO powers, a Public Local Inquiry is triggered there could be additional costs to all parties from preparing for the Inquiry which could take up to six months. A public local inquiry would not necessarily be triggered; this would only occur if one of the parties objected to the terms of the CPO. In addition, the inquiry itself could last for several weeks and the Planning Inspector would spend several weeks writing his report. However, the goal of the CPO powers is as an enabler to ensure that commercial negotiations are more likely to deliver a successful outcome and therefore this impact assessment assumes that no additional cases are triggered as a result of the powers. This assumption is sensitive however, as given that local authorities are leading on formulating regeneration plans and that negotiations and engagement with Local Authorities on regeneration are in their infancy, it is difficult at this early stage to give an indication of how often these powers would need to be exercised.

57. CPO costs arise from the administration and professional services required to prepare the Order and to support the inquiry process (where needed). The costs of an inquiry might typically be in the region of £0.1m to £0.3m for a single parcel of land depending on the complexity of the case with the Government covering the administration fees (including the salary of the inspectors which is currently set at £632 each per diem) while each interest in the land would generally cover their own expenses if they intend to raise objections to the CPO in the inquiry.

Business and Community Facility Relocation
Benefits

58. As indicated in Table 2 above, the total estimated number of jobs in businesses directly affected by the scheme are approximately 8,430 and an assumption can be made following the experience of the London Development Agency (see paragraph 17 above) that 12% of the jobs (around 1,010) are potentially lost on the route. Given the uncertainty in the number of these jobs that could be relocated by efforts on the part of the businesses, it is difficult to say how many of these jobs reside in businesses which will need the exercise of the CPO powers on part of the Secretary of State. As such, we are uncertain about the scale of potential impact of the CPO powers.

59. Similar to regeneration, the existence of the CPO Power would bring affected landowners and local authorities to the negotiating table more quickly in the areas where suitable relocation sites have been found. Again, this would be to avoid the future expense and hassle associated with a planning inquiry in which the Secretary of State for Transport would be the ultimate decision maker. As a result, this may help facilitate the more timely relocation of these organisations which may help reduce the number of businesses and community facilities extinguished by the scheme – expectedly

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28 Assuming an hourly wage of £21/hr based on ASHE 2012 mean average wage for professional occupations. Assumes 7 months work for between four and twelve employees.
29 Directly affected businesses include those that are displaced by the exercise of compulsory purchase powers to obtain the land required for the construction and operation of HS2. This does not include businesses in the surrounding area that may also be affected temporarily or permanently as a result of the construction or operation of the scheme (e.g. due to amenity and isolation affects). An assessment on the impact of these businesses has been carried out in Volume 3 of the Environmental Statement for Phase One.
30 Socioeconomic Effects, Volume 3: Route Wide Affects, HS2 Phase One Environmental Statement.
without the actual exercise of the powers. This has the potential to reduce the costs of developing the scheme as fewer costly extinguishments would be required.

60. It is difficult to say at this stage to assess how many businesses or community facilities could be aided by the presence of the CPO Power given the varying nature and circumstances of the organisations affected by the scheme and the early stages of attempting to source alternative sites. The powers are likely to be used where businesses are novel or unique and suitable sites cannot be found in the local area through a reliance on commercial negotiation alone.

61. If a number for potential jobs that could be saved from creating these powers was available, we could potentially monetise them by using an average gross value added (GVA) figure proxied by average salaries. So the monetised benefit of the scheme would be equal to the total number of jobs saved multiplied by the average salary in the UK.

62. It is possible as well that costs to the Government would be saved as more businesses would be able to find relocation sites and would not face total extinguishment. When total extinguishments occur, under the National Compensation Code, businesses have to be purchased outright. Any cost saving to the Government as a result of enabling more businesses to find relocation sites assumes that purchasing the business outright is more expensive than relocating them. At this stage, not enough information has been gathered about the operational details of the businesses affected (such as turnover and profitability) and therefore assessments about the total costs of compensation cannot be made. More information on this will be gathered as the Bill progresses through Parliament through greater engagement with those businesses affected.

Costs

63. Like the CPO Power for Regeneration and Development, if the Business and Community Facility relocation power is exercised then a Public Local Inquiry may be triggered. See paragraph 55 and 56 for a description of the procedure and the associated expenses. At this stage we do not have an indication of how often the power would be exercised but as indicated in paragraph 58 above the existence of the CPO power alone often negates the need to exercise it.

Key risks and assumptions

64. We have assumed that no additional Public Local Inquiries are required as a result of the powers as they are reserve powers only intended to be used as a last resort if negotiations fail to achieve the desired outcomes in the appropriate period of time. Given the early stages in the HS2 Scheme complex negotiations with Local Authorities and businesses affected by the scheme are in their infancy and therefore it is difficult to assess whether and where these CPO Powers will need to be exercised at any future stage.

Direct costs and benefits to business calculations (following OIITO methodology)

65. It should be noted that as these powers concern the regulatory impacts associated with a significant spending decision which relies on regulatory mechanisms for delivery it is out of scope of One-In, Two-Out.

66. It is possible that businesses could be owners of land that is earmarked for regeneration and therefore face the threat or actual exercise of the Regeneration CPO power. In the circumstance in which negotiation failed and the Secretary of State exercised the CPO power then a public local inquiry would be held if objections were raised. The public local inquiry would seek to establish whether the newly proposed development on their land – justified on the grounds of regeneration and economic development – was in the public interest enough to justify the relocation or even the potential extinguishment of the affected business. The affected business would have to cover their own legal costs for the public local inquiry (if they raised objections to the CPO) and would only get these back in the case where the inquiry recommended in their favour and either the CPO was withdrawn by the Government or their particular plot of land was removed from the scope of the CPO. In this circumstance the Government (as the acquiring authority) would cover the cost.

67. In any case, aside from potential legal costs associated with challenge at the public local inquiry, there would be no additional costs to the affected business as they would be compensated in line with the National Compensation Code that would require payment for the full costs if relocation took place or would require the outright acquisition of the business in cases where it faced total extinguishment.
68. Again, it is possible that owners of land in which relocation sites have been identified could themselves be other businesses. Similar to the case above, if any objections are received, a public local inquiry would seek to establish whether there is enough of a public interest in the business being relocated to outweigh the effects on other businesses (that may face relocation or extinguishment) currently residing on the proposed relocation site. Any business currently residing on the proposed relocation site would have to pay for legal costs associated with raising objections at a public local inquiry and, as in the case above, would get these back only in the circumstance that they later fell out of scope of the CPO (perhaps as a result of their objections) or the CPO was withdrawn entirely.

69. It is worth reiterating, as in the case of the regeneration power, aside from the aforementioned legal costs, there would be no additional costs to business as they would be compensated in line with the National Compensation Code that would require payment for the full costs if relocation took place or would require the outright acquisition of the business in cases where it faced total extinguishment.

70. More generally, for those businesses affected by the scheme itself, there are benefits as there is a greater likelihood that suitable relocation sites can be acquired and therefore the business can continuing operating instead of facing total extinguishment.

**Small and Micro Businesses**

71. As specified above, Small and Micro businesses could be affected by the exercise of these powers but in the event that there land was being acquired they would be fully compensated in line with the National Compensation Code either for the costs of relocation or if they could not be relocated they would be acquired outright.

**Wider Impacts**

*Equality*

72. It is not intended or expected that the exercise of either of these powers will disproportionately affect any particular group of society. The exercise of the CPO Power for Regeneration is likely to be concentrated in urban areas while the CPO Power for Business Relocation could be exercised in relation to any business or community facility affected along the line of route.

**Summary and Implementation Plan**

73. In summary, the preferred option is to pursue powers in the Phase One Hybrid Bill to enable the Secretary of State for Transport to promote a Compulsory Purchase Order for the purposes of regeneration and business relocation. This is justified on the basis that CPO powers for the Secretary of state would allow for

a. greater certainty that the regeneration objectives around HS2 stations will be delivered

b. the best possible chances of finding suitable land or premises for business relocation given that consideration of sites in different local authorities may be required

74. These powers would be available upon Royal Assent of the Phase One Hybrid Bill. The review date of this impact assessment is therefore set for around March 2018 – three years after the target Royal Assent date of the Hybrid Bill. This would mean that construction is underway and may mean that the efficacy of the provisions within the Bill so far can be assessed internally as part of the policy development process for the Phase Two Hybrid Bill. Further, in line with practice, these powers would be formally reviewed as part of the Post-Legislative report published 5 years after enactment of the Bill which would be March 2020.