

PUBLIC ACCOUNTS COMMITTEE

WRITTEN EVIDENCE: HS2 AND EUSTON: RECALL

Response from: BusinessLDN, One Oliver's Yard, 55-71 City Road, London EC1Y 1HQ

Submitted by: Jonathan Seager, Policy Delivery Director, Research and Impact, BusinessLDN

Submitted on: 9.11.2023

INTRODUCTION

1. BusinessLDN is a business membership organisation with the mission to make London the best city in the world in which to do business, working with and for the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital.
2. We welcome the opportunity to provide written evidence to the House of Commons Public Accounts Committee to inform the inquiry on HS2 and Euston: Recall.

OUR POSITION

3. BusinessLDN supports the delivery of HS2 because it would boost regional growth and help to accelerate the decarbonisation of passenger and freight movement across the UK.
4. The cancellation of the Phase Two section of the route from Birmingham to Manchester significantly reduces the long-term benefits that the project would have delivered in terms of regional growth and accelerating decarbonisation. HS2 was originally envisaged as a UK-wide network and onward connectivity from its planned hub stations would also have delivered significant capacity benefits to the existing rail network. A truly national high-speed rail network must be more than a shuttle service between London and Birmingham.
5. The recent decision to cancel Phase Two of the project of has been made with little attempt to work with business to explore how costs could be reduced and private investment increased.
6. Whilst we are therefore disappointed by the decision on HS2 Phase Two, we welcome the commitment to Euston remaining as the London terminus. The private sector stands ready to work in partnership with the Government to address the challenge of delivering the project at the lowest cost to the Exchequer.
7. Similar to the redevelopment of King's Cross station and the surrounding area, a redeveloped Euston, as a large, well connected central London site, can deliver significant economic and social benefits for the capital and the UK, through better connectivity, new homes, jobs and local economic growth. To deliver on this potential, the Government must work with the private sector to deliver a scheme for Euston that balances a set of issues around speed, cost and value, and a necessary condition for this to succeed is for the tunnelling contract between Old Oak Common and London Euston to proceed as planned. Not to do so would significantly drive-up costs associated with standing down the current contracting team.

T. 020 7665 1500

E. info@businessldn.co.uk

2nd Floor, One Oliver's Yard, 55-71 City Road, London, EC1Y 1HQ

Registered company no. 2756521

8. Government must also work with business to devise a credible strategy about how all aspects of the project will be financed and funded. Addressing these challenges early on will reduce the likelihood of cost increases in the future and ensure the Phase One section of HS2 from London to Birmingham can be delivered at the lowest possible cost to taxpayers.

THE EUSTON DEVELOPMENT CORPORATION

9. A genuine partnership between the private sector and central and London government will be integral to the success of the project in general and how the Development Corporation is established in particular. The Government must quickly open discussions on how private sector delivery partners will be involved with the proposed Development Corporation and the geographic scope of the project, including the type of development envisaged, taking into account the existing constraints of the site such as protected views. Reviewing and resolving these constraints will be essential to the financing and funding of the project as outlined below.
10. Whatever structure is chosen for the Corporation, it should also take into account the views of and involve local and regional government – namely Camden and the Greater London Authority. Given the level of disruption the local community has experienced over several years, it is vital they too are closely involved from the start of the Corporation. This will help build trust and create confidence in the project and the new entity delivering it.

CONSTRUCTION OF THE HS2 TUNNEL FROM OLD OAK COMMON TO EUSTON

11. While the nature of the proposed Development Corporation remains under consideration, a crucial issue that needs to be addressed now is the need to proceed with the tunnelling from Old Oak Common to Euston.
12. A contract has been agreed for construction of the London HS2 tunnels from Euston to West Ruislip, including the Old Oak Common to Euston section. The design of the tunnels has been agreed and tunnel boring machines contracted. Whilst this part of the contract has not been implemented yet, the SCS contractor team are fully mobilised and currently constructing the tunnels west of Old Oak Common.
13. In around 10 months' time this section will be complete and the most logical and cost-efficient next step is for the same team to seamlessly continue construction of the final eastern section of the tunnel into Euston. This will take advantage of costs already incurred, existing infrastructure and site teams, and be by far the quickest and cheapest solution: there will never be a cheaper time to build this tunnel than now.

FUNDING AND FINANCING

14. A distinction needs to be drawn between the financing and funding of the Euston scheme. Typically, projects designed to recoup some or all of their costs over their lives require up front project finance to pay for their construction. This finance is then paid off by the economic activity that takes place.
15. Tax Increment Financing (TIF) has been suggested by the Government as a potential funding option. A TIF model was successfully used for The Northern Line Extension (NLE), which is being funded by the private sector, including the developers of the Battersea Power Station and other developments across the wider Vauxhall Nine Elms Battersea Opportunity Area

through S.106 contributions (planning obligations) and Community Infrastructure Levy payments, and by retained incremental business rates from the commercial development within an Enterprise Zone. The project was financed by a loan from the Public Works Loan Board to the Mayor to fund the upfront construction costs which is being repaid by these funding streams.

16. However, the scale of Euston's costs is considerably greater than the NLE and the Government has also stated that 10,000 new homes could part of the Euston project. Given that the TIF at Battersea is partly based on capturing the growth in business rates delivered through commercial development, with regard to Euston, if the focus is on residential development, appropriate value capture mechanisms will need to be considered. It should be noted, residential development typically funds a variety of planning obligations such as affordable housing, transport improvements and social infrastructure, which are all requirements of the planning process. A balance will therefore need to be struck between what planning obligations are directed towards funding, otherwise the development will become unviable.
17. As the Government considers financing and funding options, there are also lessons to be learned from the way the Docklands was regenerated, as the Development Corporation owned the land and included generous tax incentives, and also how Crossrail was built, which included a variety of public and private sources of funding.

SUMMARY

18. The Euston project has transformative potential; it can deliver economic and social benefits both for the capital and the UK as whole, providing better connectivity, new homes, jobs and economic growth. It is situated in the heart of the Knowledge Quarter, which is internationally recognised for science, technology and culture. These capabilities can be harnessed through comprehensive redevelopment of the area.
19. The Government should work quickly to set out the scale and type of development envisaged, the parameters of the proposed development corporation and proceed with the tunnelling from Old Oak Common to Euston by the SCS contractor team.