

Review of the Business Case for HS2

HS2 is not a sound investment. It loses money. It costs £25.5bn, but only generates £15bn extra fares. HS2 requires an £11.9bn subsidy that goes to business and the affluent which induces them to travel more.

Government claim it's value for money - over £2 benefit for £1 cost. In fact to expect £1 benefit for every £1 of subsidy is optimistic, given the case is based on excessive demand, illusory benefits, with a flawed assessment of the alternatives to HS2. It's more likely to deepen than relieve the North/South divide.

Excessive demand: based on a single scenario that relies on unrealistic assumptions and out of date data:

- A huge increase in rail demand, some 267% - over 3½ times more than now. DfT both ignore the evidence of demand saturation for domestic travel generally and that the engine for rail growth is modal substitution.
- DfT's underlying model assumes a relationship with GDP that no longer exists (and not just in the UK)
- DfT use out of date data that inflates forecast demand, ignoring recent analysis that give lower growth factors
- Projected demand takes no account of new technology or Government's own initiative to reduce travel
- Domestic air travel is overestimated given the trends, inflating air modal shift numbers (and carbon impacts)
- Car occupancy assumptions are too low which overestimates potential gains from cars
- Despite obvious uncertainty only a single case for demand is presented, instead of a range of scenarios
- The effects of competition (from classic rail) are assumed away despite the devastating consequences of inadequately anticipated competition for HS1, and Channel Tunnel

Illusory benefits: key benefits overstated – totalling more like £13bn not £32bn, (NBR of about 1, not 2.7):

- Biggest benefit wrongly assumes businessmen don't work on trains -so 30mins saved adds 30m productive time
- Using 10 year old data assumes top draw earnings for rail business travellers (£70k/a in current money) unadjusted for a nearly fivefold increase in journeys by 2033.
- The £5bn overcrowding benefits depend on implausible levels of crowding if HS2 does not happen

Flawed assessment: case is invalidated by using unrealistic comparator & rejecting legitimate alternatives:

- HS2 is assessed against a 'do minimum' scenario that is an unrealistic alternative as it can not accommodate forecast demand (because it takes no account of overcrowding and its effect on choking demand growth)
- DfT's alternative (Rail Package 2) is ignored despite meeting demand with less crowding than HS2, is cheaper (£2bn), better VfM (NBR 3.63), and delivers benefits sooner & incrementally, unreliant on long term forecasts
- DfT justify rejecting RP2 on the basis it does not provide the 'surplus capacity' that HS2 provides
- 65% more capacity can be created on WCML with more rolling stock and hence without material disruption

Transformational benefits to redress North/South divide: recent government claims are without evidence:

- Wider economic impacts are already assessed in the business case, at just £3.6bn - only 11% of HS2 benefits
- Any additional economic growth from faster connectivity assessed by Imperial College is small (£8/10m/a)
- The redistributive effects will benefit London, UK's dominant city, not the regions. DfT assume trips to London grow at twice the rate as those from London, and with 70% leisure travellers the result is obvious
- HS2 Ltd say biggest regeneration opportunity is Old Oak Common (not outside the M25, or even the N Circular)
- Respected experts told recent Select Committee there is no evidence for such benefits (Prof. Overman, Tomaney)

All this ill befits a government overseeing spending cuts of unprecedented severity.

To solve rail capacity issues as they arise does not require a new £30bn+ railway. Instead of spending £0.75bn this parliament on planning for HS2 it could have a complete solution for £2bn, or avoid subsidy entirely and let new capacity be created only when there is a commercial case

Government first focused on HS2 as part of the low carbon economy (although even HS2 Ltd says it is 'broadly carbon neutral'); then the spotlight moved to its business case (but found it holed below the water line); it appealed to catching up with EU partners (but little has changed since Eddington, we still have faster connections between our key centres); most recently it's focused on its power to transform and breathe economic life north of the M25 (but has no evidence for it).

But moving the goalposts is a poor smokescreen to cover an ailing business case.