



Submission by the RAC Foundation to the Transport Select Committee's Inquiry into the Strategic Case for High Speed Rail

1 Background

- 1.1 This document addresses numbers 1, 2 and 3 and parts of 5 and 6 of the issues identified in the Transport Select Committee's Terms of Reference. The government has published a quantity of supporting materials, which contain full accounts of the analysis in support of the particular proposal specified in the HS2 consultation. For the purposes of this document we do not question the proposed physical layout of HS2, the engineering costing, economic assumptions, traffic modeling or economic appraisal.
- 1.2 High Speed Rail may, or may not be a useful component of the nation's strategic transport infrastructure. But both the previous government and the present one have committed to the present proposal (HS2) prematurely.
- 1.3 This is for three reasons: the lack of a National Policy Statement on roads and railways, adopted in Parliament; the incomplete state of Infrastructure UK's (IUK) development of their National Infrastructure Plan; and a failure to specify how the funding and economic regulation of HS2 would fit with the current arrangement for the "classic" railway.
- 1.4 The RAC Foundation is a charity which explores the economic, mobility, safety and environmental issues relating to roads and responsible road users. Independent and authoritative research, carried out for the public benefit, is central to the Foundation's activities.

2 National Policy Statement (NPS) on surface networks

- 2.1 Government has a statutory duty to write an NPS for surface networks and to secure approval in Parliament. The previous government did not do this and the Coalition Government have said that they will not publish one until December 2011 – long after the current consultation on HS2 has closed.
- 2.2 There is no doubt that there is a shortage of surface transport infrastructure—both road and rail—as documented by the Eddington Transport Study. These shortages will become worse in the future as: the economy recovers and the level of economic activity increases; population increases and relocates to particular parts of the country; industry relocates as industrial structure changes. The growing demands on the transport infrastructure will not be geographically uniform: the needs will be different in different places.

- 2.3 It is the role of an NPS to set out government's view of the magnitudes of these needs and where they will develop. It should set out the government's policy as to how much resource can be made available and how this resource should be deployed.
- 2.4 The strategy is likely to include a mixture of road and rail measures. In some English Regions (but not all) population is expected to have increased by one fifth soon after the proposed opening date for HS2. Many of these are not on the HS2 line of route. The needs will be for all kinds of local infrastructure, including local roads and public transport services. Plainly, because HS2 serves long distance trips on one line of route it can only perform a limited set of functions, so if it is to find a place in the strategy it must justify its claim on resources in competition with alternative ways of spending the transport infrastructure budget. Until the NPS has been published, Parliament has not had an opportunity to consider government's assessment of the extent to which HS2 could play a part in the solution to the problems.

3 National Infrastructure Plan

- 3.1 The National Infrastructure Plan is a new initiative by Infrastructure UK (IUK) and emanating from HM Treasury. The first document was published just after the Spending Review in October 2010. This is a welcome exercise. It recognizes the vital importance of all infrastructures and starts with the words "For the economy to flourish, people, goods and information must move freely". The document begins to catalogue the major infrastructure needs in future decades—including roads and railways—and discusses the funding liabilities and how they might be met. The fact that this comes from the perspective of the centre, rather than any one spending department is of some significance.
- 3.2 The October document is only a beginning and future publications will contain more detail. It is only possible to estimate the future physical and funding needs after one has made an estimate of the size and geographic location of the future demands to be served. The present document refers to the need for the relevant NPS's to guide IUK's work.
- 3.3 The National Infrastructure Plan (paragraph 4.24) does mention a high-speed rail network as one possible component of future transport infrastructure but there is no attempt to relate it to other transport proposals or to demonstrate its place in the portfolio of transport and other infrastructure investments for the future. Presumably, IUK will express a view on this as the Plan is refined.

4 Relationship with the "classic railway"

- 4.1 There is now a stable strategic planning regime for the existing railway. This comprises two statutory documents issued by government every few years: the High Level Output Specification and the Statement of Funds Available. The consistency of these is adjudicated by the independent Office of Rail Regulation. HS2 would represent a major increase in the capital invested in the railway, it would have many physical interfaces with the classic railway and it would abstract revenue from it. Nothing has been said about how HS2 might fit within the strategic planning regime for the railways. But it must be fitted in somehow. One

particular concern is that the public funding necessary for HS2 would be so large that it would inevitably crowd out funding for better projects on the classic railway as well as other modes.

5 HS2 in relation to the Secretary of State's criteria for decisions

5.1 In the absence of an over-arching strategy it is reasonable to test HS2 as proposed against the five criteria for decisions published in April 2011 as policy by the Secretary of State for Transport¹

“.... This approach ensures decisions are made by taking account of all the relevant information set out in five cases, consistent with the Treasury Green Book, specifically, to show whether schemes:

- are supported by a robust case for change that fits with wider public policy objectives – the ‘strategic case’;
- demonstrate value for money – the ‘economic case’;
- are commercially viable – the ‘commercial case’;
- are financially affordable – the ‘financial case’; and
- are achievable – the ‘management case’.”

5.2 For the purposes of this document we take all the calculations presented in the HS2 Consultation Documents at face value. All appraisals considered in the Spending Review (including HS2, railways and roads) were carried out using the new techniques. Before considering the ‘strategic case’ we discuss the other four ‘cases’

5.3 **Demonstrate value for money – the ‘economic case’**: To make benefits that accrue over a long time comparable with capital investment costs incurred much earlier all money values over a 60 year appraisal period are brought to a value today on a common basis (the net present value). The HS2 Consultation shows that London to Birmingham would offer benefits 1.6 times the costs or 2.0 if Wider Economic Impacts (WEI) are included. For the full “Y” scheme the figures are 2.2 and 2.6 respectively.

5.4 These economic returns show much poorer value for money than a large number of transport schemes. This is documented in Chapter 3 of the Eddington Transport Study². We note that when the Secretary of State announced to Parliament approval for 14 Highways Agency in the 2010 Spending Review he remarked that “For every pound invested, there will be over six pounds worth of public benefits. On some schemes this will be higher than ten”. These estimates were made in a way that is consistent with the estimates for HS2 and they also suggest that there are a number of schemes that are unfunded but with better returns than HS2.

¹ “Review of decision making in the Department for Transport”, 27 April, 2011

² See also the survey by John Dodgson, *Rates of Return on Public Spending on Transport*, RAC Foundation, June 2009, www.racfoundation.org.

- 5.5 **Are commercially viable – the ‘commercial case’**: For the first phase to Birmingham the value today (that is the discounted present value) of the net capital costs is estimated by HS2 at £17.8 billion and the value today of net operating costs is £6.2 billion. The value today of the net revenues is £13.7 billion. Therefore, the revenues are more than enough to cover the operating costs but they would not be sufficient to cover operating costs, maintenance and renewals and a return on the capital invested. That is why taxpayer support is required to the value today of £10.3 billion.
- 5.6 For the full “Y” capital costs are £30.4 billion, operating costs £17.0 billion and revenues £27.2 billion, leaving a contribution required from the taxpayer of about £17 billion (after an adjustment for savings on the classic lines).
- 5.7 The scheme is not commercially viable. In some sectors, such as aviation, shipping, tolled roads and other utilities, infrastructure investment is fully funded from charges and therefore it is commercially viable.
- 5.8 **Are financially affordable – the ‘financial case’**: Affordability is a judgment for ministers. But many people were surprised that they were able to find £750 million in the four years of the Spending Review to fund development work on HS2; money that would have popular alternative uses—for instance in preserving local transport services and roads maintenance.
- 5.9 The greater part of the taxpayer funding for HS2 would have to be found a number of years into the future. Affordability over that kind of period cannot be considered without the context of an overall transport and other infrastructure strategy which is currently missing. As discussed above it is important to develop and plan for future transport infrastructure, and this needs to be set in the context of an overall transport and infrastructure strategy.
- 5.10 **Are achievable – the ‘management case’**: This requirement can be met: in the past HS1 and the M40 across the Chilterns have been delivered and Cross Rail is in hand. HS2 would be a very large and contentious project, but it is achievable. Whether HS2 can be delivered within the projected timescale and budget is another matter. HS1 required a great deal more public financial support and took longer to deliver than had been anticipated when it was first approved.
- 5.11 Since three of the other four criteria just discussed work against HS2, if it is to be supported the argument must be a particularly “robust” strategic case:
- 5.12 **Are supported by a robust case for change that fits with wider public policy objectives – the ‘strategic case’**. This might have a number of components:
- 5.13 *Carbon saving*. The consultation document records that the engineering estimates show that overall HS2 would be broadly carbon neutral. In any case carbon savings have been valued at the new official rate and are already included in the economic case.
- 5.14 *Road congestion*. The detailed traffic modeling that has been necessary for the engineering, economic and financial appraisals has shown that demand growth will occur on the road network, just as it is forecast for the market for HS2: and that on current plans for the road network significant deterioration in reliability

must be expected. But the consultation document also records that in itself HS2 will make a small contribution to traffic congestion and only on the line of route. This is because most road traffic is much shorter distance than the trips that can be served by HS2. The improvements in shorter distance train services will help, but the traffic congestion benefits are still dwarfed by the time saving benefits to rail users from faster travel. They are already included and separately identified in the economic case.

- 5.15 *Aviation.* The Consultation shows that when the needs of domestic aviation passengers are considered HS2 offers a limited alternative. The economic case for a direct link to Heathrow is poor (as is the economic case for a link between HS2 and HS1).
- 5.16 *Social inclusion and equity.* Railways are predominantly used by those with higher incomes (see p.4 of the HS2 Equality Impact Screening report) and this seems likely to be the case with HS2: many of the estimated benefits come from time savings for business travelers with high value of time. Whilst HS2 would certainly offer benefits differentially to many groups by different geographical locations, HS2 is not directed towards income inequality or relief of poverty.
- 5.17 *Regional economic benefits.* Many claims are made and some of them may have validity. However, they are often assertion and, beyond the Wider Economic Impacts already included in the economic assessment, not based on convincing evidence. The Eddington Transport Review, having reviewed the literature, came to the conclusion that it is difficult to adduce firm evidence in support of economic regeneration effectiveness of transport investments.
- 5.18 When regional claims are made they must always be confronted by the question: could the same benefits have been secured if the same taxpayer monies were spent in some alternative way?
- 5.19 This is the case with claims for job creation: the Consultation Document makes repeated claims that HS2 would support the creation of jobs. It is certainly true that spending a large quantity of public funds on public projects will create jobs: but HS2 is not the only way to achieve this. An argument for job creation cannot just be made on the direct employment generated by the construction (because any public project would do that); it must be based on the consequences for employment of the operation of the railway. To the extent that long-term job creation is claimed the distinction must be proven between jobs diverted from other places and genuine net new jobs.
- 5.20 Statements such as “HS2 offers a unique opportunity to bridge the North-South divide” are particularly ill-defined and unsupported by evidence.
- 5.21 There is a case for a more systematic and complete account of the true economic regeneration benefits delivered by existing high speed rail projects overseas. Since this seems to be the only substantial ‘strategic policy’ argument potentially applying to HS2, the government should make more effort to discover more systematically what regeneration benefits have resulted in other countries. We need a better understanding of the particular circumstances that enabled them to occur and the extent to which those circumstances obtain in this country.

6 London to Birmingham Rail Capacity

- 6.1 One very simple argument in justification of HS2 is that it solves a problem of shortages of rail capacity in the rail corridor between London and Birmingham.
- 6.2 If it becomes an absolute case that this must be done whatever the cost then the argument would be “predict and provide” which has long been abandoned as an approach to transport planning.
- 6.3 A more sensible approach would be to give more serious attention to alternative solutions, or part solutions³. The government has published some analyses of alternative mixed road and rail road schemes in studies published at the same time as the March 2010 HS2 report which deliver capacity benefits on the London to Birmingham corridor but at lower cost. Organizations objecting to HS2 are providing their own suggestions.
- 6.4 One possibility that tends to be neglected is that the capacity problems are managed by significantly more aggressive use of passenger charges for the existing railway. Pricing solutions were ruled out in the initial terms of reference given to HS2. The RAC Foundation has always advocated considering using charges as a means to manage the demands on a congested road network. The same applies on the West Coast Main Line. This would not be popular with rail users who would, of course, prefer to have better, faster, less crowded services at lower fares, with the implied subsidies paid by the taxpayer. But the HS2 appraisals suggest that this could only be achieved at a cost to the generality of taxpayers that would be disproportionate to the benefits generated.

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³ For instance, see J. Preston, *The case for high speed rail: an update*, RAC Foundation, December 2010, www.racfoundation.org