



The Red House
10 Market Square
Old Amersham
Buckinghamshire
HP7 0DQ

15 September 2012

Rt Hon Patrick Mcloughlin MP
Secretary of State
Department for Transport
Great Minster House
76 Marsham Street
London
SW1P 4DR

Dear Secretary of State

The Case for High Speed 2 (HS2)

Congratulations on your appointment as Secretary of State for Transport.

We look forward to having the opportunity to meet with you and to explain our concerns first hand. They centre on the business case being put forward in support of HS2, process issues, and the approach to compensation.

We are not against high speed rail per se. But the problem with HS2 is that the case for it is fundamentally flawed. I attach our analysis of the business case. While we were amongst the first to recognise these issues, it is no longer a minority view.

HS2 is predicated on a number of transparently unsustainable assumptions that we believe cause the real Benefit to Cost Ratio (BCR) to fall below 1. We hope that you will challenge your officials for their honest views on the key evidence that causes us and many others to question your Department's case:

- *Valuing journey time savings:* About 50% of all HS2 benefits depend on a single 'simplifying' assumption – that people don't work on trains. Yet your own latest research which overturned this assumption has been set aside. Even the sensitivity test ignored the fact business travellers book seats to avoid crowding issues. And by the time HS2 is built we question whether technology will have left any productive value to shortening journey times
- *Predicting demand:* We welcome the news that your Department now agrees that the latest rail forecasting model¹ should be adopted, removing the systematic exaggeration of growth in long trips. But we are naturally

¹ PDFHv5.0 for key parameters. Rail Passenger Forecasting Methodology, Webtag 3.15.4, August 2012

dismayed that the August update of the HS2 business case still used the outdated model (PDFHv4.1). And this was despite another guidance update² being incorporated. Only this week your Permanent Secretary informed the Transport Select Committee that the latest business case uses the most up to date information, although this appears not to be the case.

- *Ignoring price:* Price clearly affects people's choices. Yet price competition between different routes is not taken into account, with demand being allocated only on the basis of journey time and crowding. The Public Accounts Committee said your Department's approach to pricing caused demand for HS2 to be overestimated, recommending the BCR be revisited.

While we believe that the above factors by themselves undermine the business case there are other issues of significance:

Business travellers' unit value: The journey time savings also depend on the salary cost of business travellers. Our concern is that the figure used relies on out of date data³ that for HS2 overstates the value by about a third – given the near six-fold rise in business travel assumed by 2037. Officials also recently informed the Public Accounts Committee⁴ that the equivalent £70k/a figure was not an earnings figure, which is incorrect. We have documented our sources and are providing it separately.

Doubling in demand: We appreciate the uncertainties in forecasting. But we are concerned that adopting a doubling in demand and then simply estimating the period before it is achieved, is 'arbitrary'⁵. It is unclear how this is a robust use of what is inherently a short term rail forecasting model – normal practice is to fix the period it applies to (eg 18 yrs) reflecting the credible shelf life of key assumptions, not fix the demand.

Inflating classic rail savings: We understand the need to increase cost figures for 'optimism bias' to prevent an underestimation. But to apply the same 41% uplift to a *saving* in classic rail costs means it acts against the intention of your guidance⁶. The explanation that there are no rules on savings ignores the purpose of the uplift. Classic rail and its cost are well understood, unlike HS2 costs. The effect amounts to over £2bn (NPV), or nearly 10% of the Y subsidy.

Solving rail capacity: The 'capacity crunch' is put forward as central to the case for HS2, with no other options for dealing with the forecast doubling in demand. But a bid from FirstGroup has been accepted that apparently copes with a doubling in rail growth by 2026 without increasing capacity on the southern part of the WCML (by any more than the 11-car pendolinos already being delivered). This plainly leaves open the option of extending to 12-car, rebalancing first/standard class and addressing some pinchpoints, should growth still be continuing in 2026.

Intercity v suburban capacity: It is obviously important as to whether any alternative proposal can meet the capacity required. But the capacity objection made by Network Rail to 51m's proposal was that it did not address growth in inner suburban capacity (not intercity capacity). Surely no one would suggest building HS2 to solve a problem with Watford to London capacity?

² Values of Time and Vehicle Operating Costs, Webtag unit 3.5.6, August 2012

³ Table 1 Values of Working Time (Webtag 3.5.6) rely on National Travel Survey data for 1999/2001

⁴ On 18 April 2012 – Question 85 to Question 87

⁵ Independent advisors (Oxera) report to Transport Select Committee – 20 June 2011, section 3.16

⁶ The Estimation and Treatment of Scheme Costs, Webtag unit 3.5.9 April 2011, par 3.5.1

Landscape values: We noted that landscape costs became part of the January 2012 business case, but can it be confirmed that they are included in the August update? There are several concerns as to the basis of the figures. The valuation system now adopted also appears to place no premium on an Area of Outstanding Natural Beauty – certainly for the Chilterns where over 75% is now attributed to the lowest valuation rating. It is difficult to square this with our AONB's being 'national treasures'⁷ and the public's expectations. Many are concerned it is a prelude for justifying other building programmes.

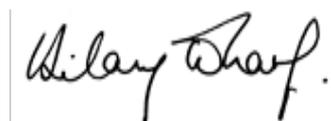
Comparator base case: Clearly HS2 must be compared with an alternative. But the latest business case seems not to be updated for the new commitments under HLOS, some of which encroach on the benefits attributed to HS2 (eg MML electrification). More significantly our wider concern is that HS2 is not being assessed against the '*best alternative*'? Your Department has endorsed the 51m alternative as being broadly 10 times cheaper and some three times better value, but despite meeting forecast long distance demand is not used.

Creating jobs: HS2 is promoted as creating jobs. But a balanced view of the academic evidence is that the £33bn spent on HS2 is unlikely to create many genuine new jobs (most having been shifted from elsewhere) and will benefit London more than the North. Further, that the body of the wider economic benefits attributed to HS2 (that relate to the use of released capacity for better local transport⁸) could be more affordably provided by targeted local schemes eg like bus services.

We hope that your appointment will bring a fresh rigour to the analysis and recognise that there is no justifiable case for HS2

We look forward to your response.

Yours Sincerely,



Hilary Wharf
Director, HS2AA

cc
Simon Burns, Minister of State for Transport
Louise Ellman, Chair Transport Select committee
Margaret Hodge, Chair Public Accounts Committee
Alison Munro Chief Executive, HS2 Ltd
Doug Oakervee, Chairman, HS2 Ltd
Philip Graham HSR, DfT
Martin Tett, Chair 51M

⁷ 2011 White Paper on Natural Environment, para 4.35

⁸ The 'agglomeration' benefits that make up the larger part of the Wider Economic Impacts