



HOUSE OF LORDS

Revised transcript of evidence taken before
The Select Committee on Economic Affairs
 Inquiry on

THE ECONOMIC CASE FOR HS2

Evidence Session No. 8

Heard in Public

Questions 88 - 99

TUESDAY 4 NOVEMBER 2014

2 pm

Witnesses: Councillor Martin Tett and Dr Richard Wellings

Members present

Lord Hollick (Chairman)
 Baroness Blackstone
 Lord Carrington of Fulham
 Lord Lawson of Blaby
 Lord May of Oxford
 Lord McFall of Alcluith
 Lord Monks
 Lord Rowe-Beedoe
 Lord Shipley
 Lord Smith of Clifton

Examination of Witnesses

Councillor Martin Tett, Leader, 51m Alliance of Councils, and **Dr Richard Wellings**,
 Deputy Editorial Director, Institute of Economic Affairs

Q88 The Chairman: Councillor Tett, Dr Wellings, thank you very much for joining us for this second session of the fourth meeting of this inquiry. I was just asking what 51m stood for.

Councillor Martin Tett: As a marketer by background, I believe in a good brand. 51m is an alliance of 19 local authorities that lie along the route, which have got together in order to, first of all, initially to understand the proposal and subsequently to campaign against it. We are currently now engaged in petitioning on it.

Why it is 51m, which is the nub of your question, is that on the original costings, which are substantially less than the current costings, we calculated that for every parliamentary constituency in the United Kingdom, including Northern Ireland and Scotland, albeit they are devolved, it would cost £51 million.

The Chairman: Thank you very much for that. Would either if you like to make an opening statement?

Councillor Martin Tett: I wanted to make two very brief comments to you. It is often said that people who oppose HS2 are groups of tree-hugging NIMBYs who are fundamentally opposed to infrastructure projects and particularly averse to rail. I just wanted to say that, as local authorities, we are well used to taking tough and often very unpopular decisions that are not always appreciated by our residents. Certainly I have had effigies of me hanging from trees around my county, because of some very unpopular infrastructure decisions I have had to take. We always say that, if you are going to take these sorts of decisions with taxpayers' money, you have to make sure that they have a good business case, that they genuinely bring the benefits that are identified in those business cases, and that you have looked at all the available opportunities and have done credible comparisons of those alternatives with the option you want to adopt. As local authorities, that is the original starting point we had. We did that and we found HS2 consistently wanting in all three.

Just on the issue of trains, again people say that I, in particular, am anti-train. Let me just observe that we are currently very active promoters of and supporters of an east-west rail scheme running initially between Oxford and Cambridge, via Bedford, and I am actually investing £15 million worth of our taxpayers' money in promoting that scheme, with a link down to Aylesbury. That will have a very significant impact on the north of the county, so it is completely untrue to say that we are anti-train or indeed anti-infrastructure.

Dr Richard Wellings: An economically rational transport investment policy would allocate scarce resources to those projects with the highest returns. Yet even if one accepts the official estimates, and in reality there are major doubts as to whether the benefits will actually outweigh the costs, it is clear that High Speed 2 offers poor value for money compared to alternative transport schemes. Data in support of this are available from a comprehensive study by John Dodgson, *Rates of Return on Public Spending on Transport*, and several other sources. The issue of opportunity cost is therefore the Achilles heel of HS2.

Clearly the vast resources required could be better deployed elsewhere. If the aim is to cut journey times, then other schemes would deliver far more valuable savings for less expenditure. If the objective is to address overcrowding, then there are far more cost-effective ways of increasing capacity and making more efficient use of existing links. If regeneration of the north is a priority, then greater gains would come from investing in local schemes that would deliver substantial agglomeration benefits.

In summary, High Speed 2 fails the test of economic logic. It has been driven by a mixture of politics and special interest pressure, rather than rational economic analysis.

Q89 The Chairman: Thank you very much. I think we shall return to some of those issues as we go through the questions. Can I just start with capacity? There seems to be quite a divergence between a lot of the commentators and the Department for Transport. The Department for Transport argues that there is severe overcrowding; many of the trains are

only available to people who want to stand. Others say that this is not the case. In fact, in the previous session, we learnt that most of the trains are about half-full. What is your view on capacity?

Councillor Martin Tett: Shall I just kick off on that then Dr Wellings can come in? This is an area where there have been many twists and turns in the case generated by the Department for Transport. There have been a number of, I would say, quite frankly misleading statements. I have seen statements that West Coast Main Line is already full. I have seen statements that it will be full in 10 years. I have seen statements that our alternative, which I am sure we will discuss, could not possibly handle any of the growth on the West Coast Main Line. All of those are completely inaccurate.

My daughter used to go to Manchester University. She recently left. She always travelled on the West Coast Main Line to Manchester. I have experienced that train on many occasions. When you actually look at the reality of it, you will find that actually the intercity capacity between London and the north on the West Coast Main Line is one of the least-crowded lines coming out of London. The two busiest lines are actually Paddington, which has a 99% load factor, and Waterloo, with a 91% load factor. If you want to see really crowded trains, look at those two lines.

What the Government do, quite deliberately, I believe, is blur the distinction between commuter capacity and intercity capacity, and they are fundamentally different. When they talk about these crowded trains, it is absolutely true if you are looking at commuter capacity to London. If you are coming in from places like Hemel Hempstead, Milton Keynes and Northampton, you will experience problems on those lines. The issue at stake here is what the actual capacity requirements are on the intercity to places like Birmingham and Manchester.

The Government repeatedly refused to release the passenger load factors on those trains. The only place we got them eventually was in the High Court, when we had to, with great reluctance, take them to judicial review. Literally in the court, at the last minute, they revealed those numbers. They actually showed passenger load factors, at peak periods—for example a Friday evening—was 52%. The problem is on the commuter lines and you would not spend £50 billion-worth of taxpayers' money to relieve commuter capacity problems into Euston. There are much quicker and cheaper ways of solving that problem. You would certainly look at the areas that are most crowded and, as I said, those are places like Paddington and Waterloo.

The Chairman: Dr Wellings, how would you describe the DfT's capacity analysis?

Dr Richard Wellings: I would like to agree with Councillor Tett, in the sense that clearly the data show this is one of the least overcrowded routes coming into and out of London. If overcrowding were the main priority, then addressing the problems on this route would be quite low down the list. Clearly compared to things like the London Underground, the overcrowding is relatively trivial. We have hundreds of thousands of people standing for quite long periods—30 or 40 minutes every morning peak.

The main point I would like to make is that a lot of these problems are, in a sense, artificial and created by government intervention. Even now, roughly 40% of spending on the heavy rail network is funded by the taxpayer. You have price controls on the networks, so the Government decided not to introduce super-peak prices to try to flatten the peaks, spread the load and make better use of existing capacity. You have a particular problem on Friday night with the saver fares, when there is this sudden threshold and everyone suddenly crowds on to that first train where you are allowed to use the saver fare.

Also, government policy since the early 1990s has been distorting land-use planning to force more and more development into rail corridors. Rail users also get tax breaks, so you have

road users paying massive fuel duty; rail users do not even pay VAT. It is an artificial market. Huge amounts of money have been pumped into the West Coast Main Line, but taxpayers pay—I do not know—maybe 90% or 95% of that bill; rail users, hardly any. This is a hugely distorted market and the price mechanism has not been allowed to operate to try to solve some of these problems.

Q90 Lord Lawson of Blaby: May I follow on from what you are saying? It seems to me that you have been very much addressing the business case for HS2. As far as we have read from the Department for Transport and from HS2 Ltd, the business case started emphasising very heavily the time saved, which they monetised, and now they talk more about willingness to pay. Yet when we had evidence last week from HS2 Ltd, which is the Department for Transport by another name, they said they would not charge higher fares for HS2 because, if they did that, then they said people would not use HS2; they would go on using the West Coast Main Line. That seems to me—maybe I am wrong and you will be able to explain—evidence that there is not a willingness to pay for the improved service in terms of higher speeds or whatever. Can you explain that?

Councillor Martin Tett: I cannot explain that, which is part of the problem. Let us be frank: there is history here. There is completely muddled thinking on this business case. It is one of the things that we originally found out and quite frankly caused us, as local authorities, to begin to have severe doubts about the good value of spending this sort of money. When you look at the original business case, it was predicated on the assumption that people did not work on trains. I am sure you have heard already from previous witnesses that the idea that in the 21st century no one used an iPad, a computer or had mobile phones was completely ludicrous, and there were various “Newsnight” commentaries showing the Secretary of State for Transport and indeed the Prime Minister busily working on trains—so that was complete

nonsense and could not be defended, although it was in five previous versions of the business case.

In the most recent version, which was October last year, they had to admit defeat on this one. Magically, what they managed to do was transform the savings that were originally because people did not work on trains. It simply became “willingness to pay”. Now, the concept behind this is absolutely identical because, fundamentally, what you are saying is that an employer will pay the time value for an employee to get to a journey place faster, even though they now admit that the time spent on that train is productive. That is quite ludicrous. It is not going to happen. It is quite mythical, and it is simply a way of preserving the very vast amount of money that is generated for the business case by that assumption. It is completely ludicrous. Again, if you play in the issue of the price premium on it, that again completely contradicts the assumptions within it. This is a desperate business case that flounders for justification.

Dr Richard Wellings: On the business case, I thought it was bizarre that we had a significant rise in construction costs and so on during summer 2013. We also had a big fall in the time-saving benefits, because they started to account for business travellers working on the train, and yet the benefit-cost ratio stayed almost identical. That means that either the previous cost-benefit analyses were very far wrong or the newer one was very far wrong. How they achieved that was to massively increase the forecasts of the proportion of business travellers using the service, but I am not sure on what grounds that happened and why, all of a sudden, there was a big change in the modelling such that there would be a massive increase in business travellers.

I would also add that there is a problem in the sense that the economies of the Midlands and the North are very dominated by state spending. I wonder how many of these so-called business travellers are actually genuine wealth creators as opposed to various state

functionaries and state-privileged professionals and sub-contractors for the state. The idea that there is this wide reaping of benefit from these kinds of journeys from those kinds of people who are not actually wealth creators is a problem. I would like to see some sort of analysis from the DfT as to the composition of those business journeys.

Lord Lawson of Blaby: Finally, do you think that your 51m alternative has a stronger, more robust business case? If so, could you explain very briefly why?

Councillor Martin Tett: It is not my view; it is the view of the Department for Transport and indeed the analysis it carried out. Just for comparison, at the time, two versions of the business case ago, the BCR for HS2 hovered around, I think, 1.2. The same analysis for our alternative was about 5.4, and it is for a simple reason: it is a vastly cheaper scheme. If I just outline it very briefly, it is incredibly straightforward. It basically utilises existing infrastructure but upgrades it in a way that is incremental; it can be done as demand materialises or indeed does not materialise, depending on your view of the demand forecasts. It is far cheaper. It is something that actually is very easily explainable to people.

You have a situation at the moment where the configuration of trains normally involves about four first-class carriages, and yet the load factor in those first-class carriages is actually very low. If you converted one or two of those first-class carriages to standard-class carriages you would achieve a significant increase in capacity at virtually no incremental cost.

Likewise, the length of the trains is currently around nine carriages. They could be increased to 12 carriages, again with the exception of Liverpool Lime Street, which has a capacity constraint on its platform where you could probably increase to around 11. Again, by a combination of reducing the amount of first-class and increasing the length of the trains, it would lead to a massive increase in terms of the actual capacity on those routes. You could do that at virtually no incremental addition.

You then in addition, because of the commuter issue that we touched on earlier, need to take out some of the pinch-points along the line. These are capacity constraints that limit the number of trains that can actually pass through a particular point on the line. There are three particular pinch-points along the line: one near Stafford; and another major one is near Ledburn Junction just south of Milton Keynes; and the third one I always forget, which is Brinklow in Nuneaton. If you actually take those out, then you can massively increase the amount of commuter capacity on those routes as well. Pretty simple, easy steps lead to creating the volume step change that absolutely meets the 102% increase in demand that is forecast as the organic growth on that West Coast Main Line that is contained within the DfT's own forecasts.

What it does not do—let me be quite frank—is meet the extra growth that is generated solely because HS2 is built. HS2 is justifying its own existence by creating its own demand. What you will do is meet all of the organic demand that is actually generated by things like population growth and so on along that line, and you will do it at a fraction of the cost in a quicker way and with a much more incremental approach than you would with High Speed 2.

Q91 Lord Rowe-Beddoe: Dr Wellings, in August 2013 you said that the plausible estimate for this HS2 project is £80 billion. Could you tell us how that was broken down?

Dr Richard Wellings: Yes. Firstly, the report points out that there are wider economic losses from the tax spending of HS2. These include deadweight costs: the economic activity that is suppressed by the extra taxation needs flowing from HS2. That is really a big plus on the bill. It is hard to pin down exactly, because it depends what form of tax you are using to raise the money to pay for the scheme, but in general economists estimate that it would add around 33% to the overall bill—so there are these wider economic losses. You also have things like diseconomies of agglomeration: the fact that increased clustering also creates costs. We do

not really hear much about that; we always hear about the wider economic benefits, but not about the costs. That is a big plus on top of the scheme.

Usually the Treasury deals with that by disallowing or blocking schemes that have a low benefit-cost ratio, so you rarely see many schemes being built with a benefit-cost ratio of around 1.4, like High Speed 2 phase 1. That is pretty rare, if you look at the long list of government transport schemes. That is the first point.

The report is actually an analysis of the incentive structures facing policymakers. It is a public choice analysis. That leads to three predictions that then lead into cost risks for the project. I should explain the basic thesis is that concentrated special interests will be able to outweigh dispersed interests, so concentrated interests like the train manufacturers, the local authorities and so on will be able to have a disproportionate influence over the political process compared to the big losers, who are the taxpayers. Also, concentrated losers, the people on the route, will have a disproportionate influence compared to dispersed losers, like taxpayers. The first prediction is that, because of these interest group pressures, there will be a lot more route changes and tunnelling along the route, as we have seen already, and that will increase costs. That is relatively minor, but it is still a substantial cost risk.

The second prediction is that local authorities will be successful in lobbying the Government for very expensive regeneration projects along the route, around the HS2 stations, as we saw with HS1 at King's Cross, Stratford, Ebbsfleet and so on. That is potentially hugely expensive. This will create these sort of Potemkin villages full of public sector workers that we see in Salford Quays and we are going to see at Stratford City as well, rather than, in most cases, genuine wealth creation. It is all about the politics to create the illusion that HS2 has delivered all these benefits, so you build these shiny offices around the station.

The largest single off-balance-sheet cost is the links to the HS2 stations that will have to be built. This is partly because local authorities and regional transport bureaucracies, et cetera,

will use HS2 to successfully lobby central government for funding for the schemes that link it to HS2, rather than much better-value schemes elsewhere or the alternative of cutting taxes. This is potentially a huge cost. It is also because HS2 creates problems in particular locations, including Euston, which is already the most overcrowded part of the Tube network. TfL will then use HS2 as a way of lobbying for Crossrail 2. Okay, it is an old scheme—you do not include the whole cost—but you have to include the cost of diverting the route to Euston, for example, or trams that will go specifically to HS2 stations. There are massive off-balance-sheet costs from HS2. Just the transport links alone I would estimate in the order of £12 billion to £15 billion.

Lord Rowe-Beddoe: Has the subsequent economic case that was published after your report changed your view at all?

Dr Richard Wellings: No. The report has been vindicated, because we have already seen extra tunnelling announced in the Midlands. There is massive lobbying for extra tunnelling in the Chilterns as well. We are seeing more details of these huge regeneration schemes at Old Oak Common, Manchester, Birmingham and so on. They are going to be hugely expensive for the taxpayer, and it is also getting more likely that these various transport links are going to be built as well. To be honest, most of those plans are already in the public domain; it is just that they are not heavily publicised. The main thing is that the Government now talks openly about these extra costs. It calls them “making cities HS2-ready”, so what I would like to see is for the Government to come clean about how much making cities HS2-ready is going to cost.

Councillor Martin Tett: Clearly I approach it from a slightly different perspective, but I completely agree. If you look, as a case study, at what is happening in the West Midlands with Centro, they are already, and have been now for well over a year, lobbying in terms of the incremental costs that will be required to interconnect it to HS2. Increasingly it is called

“realising the benefits of HS2”. If you just substitute for “realising the benefits”, “additional costs because of”, then you actually have the reality behind it. If you look at some of the other obvious examples, in Sheffield you are going into Meadowhall rather than into the city centre. You are going to have to connect the two in some way. That again is an incremental cost.

Q92 Lord Carrington of Fulham: One of the justifications for HS2 is the future demand for rail travel from the demand forecasts that are coming forward. We have had evidence from Professor Glaister, to name but one, saying that he did not find the Department for Transport’s estimates for demand forecasts to be unreasonable. Do you think that they are unreasonable and, if they are reasonable, why do you think they are reasonable?

Councillor Martin Tett: I did not hear Professor Venables’ evidence, so I cannot comment on the context in which he said that. If you look at the examples of forecast growth that DfT has given, it is five times faster than the population growth. I heard the question about population growth as I came in belatedly. Let us just look at track record. Experience from HS1 shows that all the demand forecasts for HS1 were massively overoptimistic. They have not been realised whatsoever. I heard the gentleman who was in just before me giving you some numbers on that. There is always a tendency, and we have all written business cases in previous lives, to inflate the demand to get the numbers to add up. You start with a track record on that.

On assumptions on pricing, again you have to really factor those in. What is going to be your pricing assumption? Are you going to premium-price or are you going to skim the market with a high price? Are you going to go for market penetration with a low price? If you do that, you are in direct competition with the existing lines. You have to factor in a realistic assumption for pricing. I do not believe they have done that and you have clearly identified that from your previous questioning.

There is little or no assumption about the growth of new technology in this. If you think back to what has happened in the last 10 years in technology, the iPad did not exist five years ago, let alone 10 years ago. Just think what it is going to be like by the time this train line opens in 2025-26, or is completed in 2033-34. The world will be radically different then. When you look at that and the fact that, for example in the past, the big step change that happened in demand historically was when the West Coast Main Line was modernised. That absolutely reduced the time of the journey and destroyed the comparative advantage of air travel for domestic flights. That air travel has, by and large, now gone. It does not exist any longer for domestic capacity, so therefore there is no longer any step change that is going to result from a similar improvement. If you add in all of those factors, and many others I could go into, the demand forecasts have to be seriously questioned.

Dr Richard Wellings: I agree. Clearly, the possible impact of disruptive technology is an enormous risk. Things that I would imagine are improved teleworking and remote meetings; even driverless cars would be a lot more convenient for a lot of business drivers, because of course HS2 will still be a three-stage journey, which will be pretty long. You are probably looking at approaching three hours for a person who lives in a Manchester suburb and is travelling to the City of London. It is a three-stage journey. A lot of journeys will be in potential competition from driverless cars.

Another issue that Lord Lawson mentioned earlier is how HS2 will deal with competition from the existing West Coast Main Line. Remember that, in Birmingham, the existing West Coast Main Line actually goes into New Street Station, which is far more convenient for people coming in from Wolverhampton, Dudley or wherever. It means they do not have to take a 10-minute tram ride or walk to Curzon Street station. Providing that the Government allows fair competition, then clearly it could really eat into the HS2 revenues, particularly as people find it is easier now to work on trains. That extra bit of time that it takes on the

existing West Coast Main Line could be quite useful for business travellers, because they have set up their laptop or whatever.

What happened in Holland, of course, was that the market was rigged deliberately to try to force passengers on to the high-speed line. I can see something similar happening in the UK. They would deliberately slow down the existing West Coast Main Line, make services stop at more stations, and force people to use High Speed 2. When you have an artificial market like this, that is highly likely.

Finally, there is clearly a political risk that, given we could be looking at Japan-style long-term stagnation, with very low economic growth for the next 10 or 20 years, which I think is very likely, the appetite for continuing the current high level of rail subsidies could decline markedly. That would have a particular impact on some of the feeder routes into HS2 that are hugely subsidised, and that could then cut passenger numbers quite significantly.

Lord Carrington of Fulham: Just quickly if I could, is there any evidence that digital technology—using a shorthand for people using their laptops, iPads and what-have-you—has reduced demand for transport? I know anecdotally it has.

Councillor Martin Tett: There have been studies actually by the DfT that have shown similar trends. Do I personally have that at my fingertips? I do not, but I am sure you could find some. An appeal to common sense would tell you that, if you travel on train, it is some of the most valuable time that you actually have, even historically, being able to read reports, write work and so on. The advent of mobile and wireless technology makes that time extremely productive now. You are normally away from a lot of distractions, you can work very productively, and you can send and receive e-mails and reports. Just common sense tells you how productive that is.

May I make one quick point? I just want to reinforce something. Maybe you covered this earlier and I apologise if you have, but HS2 always talks about city centre to city centre

connectivity and time savings. The reality is—I lived in Manchester for four years—that people who travel do not live in the city centre of Manchester. I live in Buckinghamshire. If I want to get to Birmingham, I go to High Wycombe. If I want to get to Manchester, I go to Watford. I do not spend an hour travelling into Euston to wait and then catch a train. Most of those journey-time savings, on which they predicate so much of the demand, are completely nullified when you look at where people actually live and what it gets to.

Q93 Lord Shipley: I would just like to ask Dr Wellings two questions that I did not fully understand from things that you have said so far. You referred to regional transport bodies, which are charged with local and sub-regional transport management and often investment. You referred to them as “regional transport bureaucracies”, and I wondered why you used the word “bureaucracies”. Secondly, you asserted, in answer to an earlier question, that a lot of business travel is generated by the state, not by the private sector. I would just like to know what your evidence base for that statement is.

Dr Richard Wellings: If you remember, I only said that this is something that the DfT should be looking into, trying to work out the composition of business travellers. My reasoning for that is, if you look at the economies of the West Midlands and the North-West, for example, they are heavily dominated by the state sector. On some measures, around 55% to 60% of regional GDP is government spending in those areas. There is relatively little genuine wealth creation going on. There is state money going in and then being circulated: benefits money and public sector workers who then spend that money in the private sector. That is what I am saying. If you look at Salford Quays, you have got massive offices for HMRC, the BBC and these kinds of people. I do worry, given the pervasive nature of state intervention, that a lot of these so-called business travellers will not actually be wealth creators but government workers and so forth: state-privileged professionals in the legal profession, subcontractors for

the Government and so on, just because of the nature of the economy in the Midlands and the north-west where, as I said, regional GDP is completely dominated by government spending.

Lord Shipley: I do not want to pursue the point now, but it might be helpful, Dr Wellings, perhaps we could have a note that just explained your view about wealth creation anywhere in the north of England or perhaps further north.

Why do you call them “bureaucracies”, as opposed to regional transport bodies, which is what they actually are?

Dr Richard Wellings: They are also bureaucracies. It is semantics really, is it not? If you look at TfL as a classic example, it has seen a massive increase in staffing levels, particularly those on very high salaries, and more and more increasing their power-grab, in terms of their responsibilities, which you have also seen in the Midlands, the north and so on. I am generally against these organisations, because I think they lead to jam-spreading where central government feels it has to dole out a certain amount of money to each of these organisations, even though that pattern of investment is likely to be seriously sub-optimal because it will not reflect optimising the economic returns.

Councillor Martin Tett: I should say I have a slightly different perspective from Dr Wellings on the benefits or otherwise of the public sector, but I would hope you would look at the dramatic increase in the percentage of business travellers, whoever they may be—public or private sector—in the latest business case, which has gone from 28% to 38%. I can find no evidence whatever that supports that dramatic increase, although it does magically rebalance the business case.

Q94 Lord Shipley: Thank you. That was helpful. Councillor, can I just ask you now a very specific question? Both of you have only once ever mentioned anywhere north of Manchester in my memory today, which is when you talked about air connectivity. There is an argument for saying that capacity would rise and people would come away from air, because there are a

lot of air links to London, in fact, from places like Glasgow. A lot of people are driving cars; they may transfer to train. There are people who use coaches; it is possible that they would use a train. The point is that, although the high-speed track ends at Manchester, the rolling stock continues north to Glasgow, so actually the benefits in some of the saving of time for people who live in Strathclyde, for example, are actually going to be potentially significant. It may encourage people to move from their current mode of travel on to high-speed rail. Have either of you given that any consideration?

Councillor Martin Tett: The answer is that I have. Let me try to address that, and I am sure Dr Wellings will have a view as well. First of all, I think I have mentioned north of Watford a couple of times, because not only was my daughter at university there, but I was at university there and I also lived there for four years, so I know Manchester incredibly well. I also mentioned about going to Birmingham by train. I absolutely understand the geography of the UK and the importance of the regional diversity of the UK, and regenerating the regions of the UK, which I also attribute very high importance to.

When you look at connectivity, what you are talking about is that, by 2033, the track to Manchester in theory will be complete, if one believes that public sector projects complete on time and to budget. Then you transfer to the classic network up to Scotland, so the time savings obviously diminish as you get on to the classic network. It is only when you get to Scotland and, indeed, achieve dramatic time savings that transfer from air to rail starts to kick in. You are looking a very significant period of time ahead. If you look at the DfT's own forecasts within its own business case, the amount of traffic that transfers from road to HS2 is absolutely minimal. I seem to remember it is 3%. I think 95% of traffic currently travels by road, and the opportunity to divert that on to rail, even on the DfT's own analysis, is absolutely minuscule.

Although I laud the aspiration of moving people en bloc from road to rail, the reality is that that is not going to happen. There is no evidence that it would happen. The DfT itself cannot generate the evidence that that would happen. As far as air is concerned, within England there is very little left. There would be some from Scotland admittedly, but you would have to wait a very long time to actually see that.

Lord Shipley: In broad terms, you think that the estimates of the benefits about what businesses are willing to pay for quicker journeys have not been met, although they might from Scotland in the longer term. Have I interpreted what you are saying correctly?

Councillor Martin Tett: Let me rephrase that slightly. As far as business is concerned, there are two concerns. One is I do not believe for a second the willingness-to-pay calculation. I think it is completely fictional and is calculated to hide a hole in the business case. Secondly, I do not believe the percentage of businesspeople who have now been calculated to travel on this train. It hides a second hole in the business case and they are completely artificial constructs.

As far as transfer is concerned, I believe there would potentially be some willingness of people to move from a conventional classic rail or air on to high-speed rail, once it reaches places like Glasgow and Edinburgh. The volumes of those would be very small compared to the total growth forecast by HS2.

Q95 Lord Smith of Clifton: Coming back to premium prices, if the operator was able to charge premium fares on HS2, what effect do you think it would have on passenger demand?

Dr Richard Wellings: That goes back to my point about what happens to the existing West Coast Main Line. If genuine competition were allowed, then clearly that would put a limit on how much premium fares could be charged on HS2, because it would push people on to the existing West Coast Main Line, particularly given that often stations are far more convenient and there are more of them on the West Coast Main Line. Let us not forget that, in the north

and Midlands, you do not really have these gentrified inner-city areas. Generally, professional people tend to live quite a long way out of the city centre. I think that is a crucial issue. As I mentioned earlier, I suspect that the market will be rigged by the Government through the franchising process to deliberately slow down the existing West Coast Main Line in order to stifle any competition and perhaps allow the charging of premium fares.

Lord Smith of Clifton: It follows then that you are concerned about the extent to which HS2 is reliant on public subsidy, whether the premium rates are charged or not.

Dr Richard Wellings: From a commercial point of view it is completely loss-making, and private investors would never go near it at all. It is completely government-subsidised. Whether or not it can actually cover its operating costs is an interesting question; it would depend on the passenger numbers. If we look at HS1, Eurostar had to be bailed out by the taxpayer and the market was then rigged by the Government, so a greater share of the track-access charges were pushed on to the local Kent services, which were heavily subsidised by the DfT. It was, if you like, a back-door way of subsidising Eurostar.

Councillor Martin Tett: Maybe I could add to that very briefly. I think it was Lord Lawson who was questioning the whole pricing demand equations. They do not make sense. There is a complete contradiction between the premium pricing and the volume demands that are in the business case. If one accepts that, the other key point on which I would completely agree with Dr Wellings is the opportunity-cost issue. Even if you accepted their numbers, which are clearly nonsensical, the fact that you are subsidising this system to such a large extent means that there is an opportunity cost, year on year, on which that money could otherwise be spent. When you look at where the real constraints are around this country—I am sure we will come on to this—when you look at the issue of skills shortages, particularly in the Midlands and the north of England, you could be spending that money on upgrading the skills of our young people and our blue-collar employees around the country to give a real

competitive advantage to our regions. That is a forgone opportunity because that public subsidy is there.

Q96 Lord May of Oxford: Last week, Professor Overman told us that the wider economic benefits, using the methods that the Department uses, had been “carefully constructed”, which I must say I find rather delightfully ambiguous. The Department came up with the estimate that the overall benefit of this kind is £13.3 billion. I do not wish to be unduly unkind, but I am a theoretical physicist—that is how I was trained—and when somebody purports this sort of stuff to do something that would give me three-digit precision, I wonder. May I ask you what you think of this?

Councillor Martin Tett: I come from a marketing and business background, and I was told by a sales colleague once that, if you want to give spurious credibility to anything, always quote it to two decimal places. I would offer that as a context. I am surprised, because last year Professor Overman, when he was talking to the Transport Select Committee, said that he thought the KPMG study, on which a lot of this was based, was overstated by between six and eight times. There is massive lack of credibility in a lot of the underpinning wider economic benefit assumptions that go into this. Most of the methodology is widely discredited. Even KPMG themselves heavily caveated their work, and most of the negative impacts that HS2 will generate were actually omitted from any of the publicly released information, so it was a completely distorted picture.

One has to recognise that, although there may be somewhat wider economic benefits, which are not normally quoted, by the way, in the DfT benefit-cost ratios—they have had to be in these cases—there are also negative wider economic benefits. If you agglomerate around an HS2 station, the likelihood is that you will be sucking in those businesses from other surrounding areas. For example, take Manchester, which again I know well. If you build around Piccadilly Station because suddenly that becomes a high-rent area, because there is an

HS2 station there, is that actually generating business that would otherwise be in London? I think not. It is almost certainly going to take business that would otherwise be in places like Bolton, Oldham, Rochdale or around the centre of the satellite towns. The wider economic benefits have to be treated, as I am sure any scientist would do, with a large block of salt.

Lord May of Oxford: My own position, as, I guess I sketched earlier, was that broadly having a better rail system is a benefit. I wonder what you think. I guess you have just sketched it; you do not think there are wider economic benefits. Although I do not believe the calculations, I do believe there are wider benefits.

Councillor Martin Tett: I think what I said is there are some benefits, but there are also negatives. Clearly if you build a railway station, let us say in Crewe or in Manchester Piccadilly, you will have some economic benefits because of that, and that is clearly true. If you spend a large amount of money on anything, you will generate jobs. Whether they are wealth-creating jobs is another question entirely. Whether they are sustainable jobs into the long term is a questionable assumption. You will increase property prices around where there is new development; that is clearly true. There are a number of wider economic impacts from that.

What I am saying is there are also negative wider economic impacts, which are then not mentioned in most of the analyses that you see before you. These are the issues where you suck in skills and resources into unproductive sectors of the economy, which could otherwise be deployed in more productive sectors of the economy, and indeed suck in capital to property speculation that would be better employed, for example, in factory production or whatever elsewhere. There are negative consequences as well as potentially some wider economic benefits.

Dr Richard Wellings: Could I just add that agglomeration benefits are subject to quite a steep distance decay? If you wanted to maximise those benefits, you would tend to focus on local

transport schemes, rather than something like HS2. For example, if they have got to get to labour markets, you want schemes that can integrate labour markets and get people into commuting distance of a particular hub and cluster of activity. Clearly that would tend to be local schemes rather than long-distance schemes.

Also, these agglomeration benefits are vulnerable to technological change so, increasingly, businesses will interact online and in virtual clusters, and that is where you will get these new ideas generated. They do not necessarily have to meet face-to-face. There is also an issue of sectoral change. Some sectors like professional services tend to benefit quite a lot from increased connectivity, but other sectors like manufacturing benefit a lot less. If the sectoral composition of the economy changes, then those likely economic benefits would also change enormously, so there is a problem with predicting 20 or 30 years ahead.

Q97 Lord Monks: HS2 is a long-term project, and we are 10 years away from it ever running any trains if it goes ahead. The objective of taking a long-term view of the economy and the need to rebalance it, which I think both of you have accepted, even if there is a slight difference in your prescriptions of what to do about it, the sense of having a vision about the future of this country, when other countries are investing in high-speed rail for all kinds of reasons, including rebalancing the economy—do you not accept the fact that, by 2024, we should have a vision of this country with a stronger economic base outside the south-east and that transport has a lot to do with that? As a regular traveller by all means available, I would say that it is not an easy task getting to the north of England. With high-speed rail in other countries, are we to be the ones who are out of step with them? Even California, Dr Wellings, has been thinking about high-speed rail.

Dr Richard Wellings: On the rebalancing issue, the problem is that better rail does not really deal with the fundamental problems facing the north of England, which I would diagnose as being, in global terms, a very high-cost economy due to high levels of regulation and taxation,

combined with rather low or mediocre levels of human capital, skills, abilities, entrepreneurship and so on. If you look at the data on that, it varies from place to place. It is not too bad in Manchester, but it is very poor in places like Liverpool, Bradford and so on. Unfortunately, due to demographic changes, those problems are likely to get worse rather than better over the next 20 or 30 years. Unless you are going to deal with this fundamental cause of the north's poor performance, so high costs and mediocre human capital, which means it is very hard for the region to compete at a global level, I do not think you are going to get very far with something that is only going to increase transport capacity quite marginally and is not really directed at the key problems.

There are numerous examples to show this; Doncaster is the classic one. It has the best rail links to London in the north of England yet, if you take the town itself, it is one of the very poorest places in the whole of the UK. Clearly, fast rail links have not transformed Doncaster. HS1 has not transformed east Kent, another old industrial area, Thanet and so on, which is still just about the poorest part of the south-east. These issues are far more deep-seated and are not going to be cured by faster rail connections.

Councillor Martin Tett: Can I build on that? It is always lovely to have a vision thing, and you can now brand it the “northern powerhouse” or whatever purple phrase you wish to have. You have to try to disassemble that slightly. Do we need sufficient capacity between our major cities? Absolutely. I have not argued against that for one second. I have argued there are quicker, more incremental and cheaper ways of doing that. Do we need to have stronger northern economies? Absolutely, but then you have to get to the root of the problem you are trying to solve there. Much of it is commuter capacity and not intercity capacity. Much of the deep-rooted problem and malaise in parts of the north—not all of the north, by all means—is because the original rationale for why those cities grew where they did has gone. It could be coal; it could be steel; it could be shipbuilding, et cetera; transatlantic trade, in the

case of Liverpool; cotton and wool, in the case of Manchester and Leeds. They are having to recreate their competitive advantage nationally, and that is quite a difficult thing for places to do.

One of the things we have got to invest in there, as I said earlier, is skills. We actually have to create a new competitive advantage for those cities that gives them a self-sustaining momentum that is more than is just a satellite of London or indeed something, dare I say it, propped up by public sector spending. You have to create a new competitive advantage there. For me, heavy investment in skills, bringing together, particularly in the north—and we can come on to the so-called HS3 in a minute—linking up the commuter lands of the north of England, so that people can move to work on a commuter basis between some of our big northern cities, could be a significant advantage to those cities. The idea of just having a vision thing and spending £50 billion will simply generate the revitalisation of the north that is sustaining and wealth-creating, I am afraid I do not agree with.

Lord Monks: I do not think anyone is saying that, but thank you.

Q98 Baroness Blackstone: Some of the people who have given us evidence over the last few weeks have said that the October 2013 strategic case was an improvement on what went before. Do you agree with that? Do you think it does give a better narrative for making the strategic case for HS2?

Dr Richard Wellings: I found it highly suspect how the case has changed over time. It started when the Conservatives first introduced the line—it was supposed to be an alternative to Heathrow expansion. It was actually rather reprehensible vote-grabbing in south-west London. They wanted to win half a dozen seats down there, so they cancelled Heathrow expansion and then they had to come up with an alternative to try to pretend it would not harm the economy—thus the high-speed line to the north was envisaged back in 2009. It was only supposed to cost £20 billion back then. Then it became all about the time savings; then it

was about capacity. Now it is all about rebalancing the economy and bridging the north-south divide, which just shows it is politically driven or, if you like, PR-driven. Once the public becomes sceptical about the latest rationale, and it is criticised heavily and then they have to come up with a new rationale for the project. This makes the whole thing deeply suspect.

Councillor Martin Tett: HS2 has been described as a solution in search of a problem, and I have to agree. I can actually remember watching Teresa Villiers at the Conservative Party Conference announcing high-speed rail to the north as the means by which we avoided the need for a third runway at Heathrow. It has gone through more relaunches than the average soap opera's career, in terms of the way in which it has transformed from solutions to the third runway to all about speed. I remember sitting with Philip Hammond when he explained to me it was all about journey-time savings: 20 minutes to Birmingham would transform the economy in Birmingham. Of course that lost credibility very rapidly, then it became all about capacity. Then we revealed just how low the capacity utilisation was on that line. Now it is all about creating the northern power hub.

It just keeps morphing from one rationale to another to another. We have already covered some of the underpinning flaws that, actually, the willingness to pay is simply the not working on trains rebadged. The increase in the percentage of business travellers from 28% to 38% again has no underpinning statistics whatever. The wider economic impacts have been added in, when they would not be in most business cases. The fact is the alternative that we have put forward was never properly compared against HS2; it was compared against completely illogical comparators in order to rubbish it completely fraudulently. That underpins the fact that this is not a business case that is made in any rational sense whatever.

Baroness Blackstone: That is a pretty devastating critique. Thank you.

Councillor Martin Tett: I like to tell it like it is.

Baroness Blackstone: You were very forceful.

Q99 The Chairman: Could we finally come to HS3? I think you have both said that improved connectivity, over relatively short distances, actually can be demonstrated to be of benefit to the economy, although the Ashford to London link does not seem to substantiate that point particularly well. There is a strong case being made by the northern hub group that improved connectivity between Leeds and Manchester—two cities that have good skill bases and have significant and successful economic sectors—would actually be beneficial. Do you agree with that?

Dr Richard Wellings: I disagree with you that those cities are successful. I think it is almost all due to government spending.

The Chairman: I said they had some successful sectors.

Dr Richard Wellings: Those are generally things like legal services that are dependent on state privileges and so on. I do not think they are successful in a genuine sense of wealth creation on the market, but that is a side issue perhaps. Looking at the sums for HS3, they are absolutely appalling. You have a very costly scheme that is likely to generate quite low passenger numbers compared to alternative schemes. I suspect the BCR will be very low indeed, but the problem is it is completely wrong for the economic geography of the north of England. Generally, professionals live in the outer suburbs or surrounding villages so, even with a half-hour journey from city centre to city centre, we are still looking at probably an hour and a half for a typical commuter coming from outside Leeds into the city centre, leaving some allowance to get the train, and then at the other end going from the hub in Manchester Piccadilly to wherever they work in Manchester, which has a rather large city centre. The door-to-door journey times would still be too great to achieve a lot of those agglomeration and clustering benefits.

In the north, because you have multi-nucleated cities like Manchester, which is actually made up of Stockport, Salford, Bolton, Oldham, Rochdale, et cetera, really there should be a bias

towards trans-Pennine road schemes rather than rail, because that is the only way you are going to be able to have a net of connectivity between all these small towns. City centre to city centre rail is completely the wrong idea. It completely ignores the geography of the area.

Councillor Martin Tett: I have a slightly different perspective to Dr Wellings again. For me, the jury is out, because I know virtually no details of the scheme. All I have seen is the political headline. Far be it for me, as a politician, to say that politicians make political headlines near elections, but it is a headline-grabbing announcement designed to get lots of publicity. I believe there is a rationale for extending the ability of people to commute for work between the major hubs, particularly in Manchester and Leeds. I do not know any of the details of what HS2 would actually look like, in terms of the number of stations and how people get on and off it. If it is simply city centre to city centre, then it is pointless, because that is not where your skills catchment areas are. That is self-evidently true. You need the ability for people to get on and off near where they live and commute to where they need to work. If you could devise a scheme that does that, that is great. It needs to be cost-effective and it needs to be in the right place. If one can devise a scheme that meets all those criteria, then I am open to it, but I have not seen any numbers other than what has been in the headlines of the press.

The Chairman: Thank you very much. That brings this evidence session to an end. Thank you for your helpful and stimulating answers.

Councillor Martin Tett: May I just thank you for your inquiry?