



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

THE ECONOMIC CASE FOR HS2

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Questions 24 – 37

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3.35 pm

Witnesses: Jim Steer, Bridget Rosewell and Lewis Atter

Members present

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

Examination of Witnesses

Jim Steer, Steer Davies Gleave Consultants, **Bridget Rosewell**, Volterra Consultants, and
Lewis Atter, KPMG

Q24 The Chairman: Good afternoon, ladies and gentlemen, and welcome to the Economic Affairs Committee. This is the second evidence session of our inquiry into the economic case for High Speed 2. Ms Rosewell, Mr Atter and Mr Steer, welcome to the Committee, and thank you very much for coming today. Would any of you like to make an opening statement or shall we go straight to questions?

Jim Steer: Chairman, if I may, I will just make one point of information. I have supplied a brief summary of who I am, and you have kindly identified me as a director of Steer Davies Gleave consultants. In that capacity I should perhaps mention, having subsequently seen the questions, that I advised the Department for Transport in the preparation of its strategic economic case document of October 2013. I just wanted the Committee to be aware of that.

The Chairman: Thank you, and if I may hazard a forecast, it is possible that there will be a Division before the end of this session—if the bell rings and we disappear, we will be back.

To what extent does the October 2013 strategic case convincingly articulate a narrative for HS2 within an overall UK transport policy? Professor Glaister, I think, was quoted in the *FT* in August 2013 as saying, “Both this government and the last promised a national policy statement on surface transport, yet still there is no sign of it. How can hundreds of millions of pounds have already been spent on something as hugely significant as HS2 without the context provided by an overarching strategic picture?”. Who would like to start?

Bridget Rosewell: I do not mind. I would like to start with the strategic case for HS2 before maybe opening it up into that broader question of whether it does or could fit into a wider case. For me, the October 2013 case—Mr Steer can close his ears to this—is a lot better than the previous cases that we have seen, because it articulated a narrative that I think was missing from the previous ways in which we had thought about having HS2, which to some extent seemed to rest on saying, “Well other people have got lots of high-speed railways, so maybe we must have some too”. It articulates a case for an engine for growth.

What I am not totally comfortable with is that it has not yet gone far enough in making the distinction between a case based on, if you like, a standard evaluation in a static economy and an analysis based on infrastructure generating dynamic change in an economy that we are trying to improve. In some ways, it was trapped by the fact that we started off with the first phase, the engineering of the case to Birmingham. We therefore started off with people, quite reasonably, being able to say, “So, we are just building this to save 20 minutes off the trip to Birmingham”. If that was what we were doing, it would indeed have been bonkers. If we had started off with a more strategic case, thinking about the network that we need, and the one that we have and its capacity constraints, then that piece actually fits into a rail strategy quite well. We have a shortage of capacity to Birmingham, but we made the case for speed. When you get into more northern areas of the country, you need a case for speed as well as capacity, and we might have now moved a bit too far into saying that HS2 is all about capacity when it is actually about both. If we had had a broader rail strategy, it might have been easier to fit that in.

However, to just come back to the broader strategy, if we always wait for all the “i”s to be dotted and the “t”s to be crossed and until we have a complete strategy for everything, we will never do anything. In fact, in many ways, our infrastructure decisions in this country are bedevilled by too much analysis and too many pointy-heads trying to run too many models and to come up with the absolute precise answer, whereas, for an investment that is going to last for 150 years—given the age of our existing investments—there will not be a precise answer. What there must be is a debate around those big judgments. To my mind, therefore, the October 2013 strategic case moves us in the right direction. I think it could have gone further.

Lewis Atter: I would support that. It is definitely a step in the right direction but it does miss context—not just in terms of wider transport strategy but in terms of the north-south divide.

When we looked at these questions, we felt that we were being asked to look at this in isolation and were not really being asked to look at how HS2 fits into a broader strategy designed to eliminate the north-south divide. The strategy is missing those pieces of critical background, but it is an improvement and as this debate develops around HS2 and more of these questions are asked, we will begin to look further into these questions.

Jim Steer: It triggers in my mind the first time I read a call for a national transport strategy, which I think was in a *Sunday Times* editorial well over 40 years ago, which I think the paper has rerun at 10-year intervals ever since. We have never had one as such, although we have come close to it. The only observation I would make about the October strategic case is that it was not the first government paper on this subject: and not the first time the case for HS2 was set out. That was in Command Paper 7827, in March 2010, which set out the case, precisely as Bridget has described it, in terms of capacity and connectivity. At that stage, it talked in terms of regional development rather than rebalancing the economy, but that comes to much the same thing. The argument was presented in the same form, but we now have more evidence, which is what was able to be brought forward in October last year.

Q25 The Chairman: Would you expect a strategy to set out certain aims and objectives and then to evaluate what the options are to achieve those? That seems to be missing from the literature that has been published.

Jim Steer: In the widest sense, as soon as you start saying that the wider strategy is regional rebalancing, the question is what the different ways are of achieving that. In the narrower sense, the question is whether there are other ways to achieve that in transport terms as well as what the transport options are to give capacity and connectivity. That is certainly something that the October case attempted to cover. It talked about whether telecommunication improvement was an alternative and whether we could expand the highway network, upgrade

the existing rail network or just leave the problem unaddressed. Those things were covered in that document.

The Chairman: Do you think that the October 2013 document is as good as it is going to get?

Jim Steer: It would seem unkind to say that it is as good as you are going to get from the Department for Transport, but in the sense of a transport story, yes; in terms of a wider economic story, one would have to look elsewhere.

Bridget Rosewell: Indeed, there has been further work looking elsewhere with Lord Deighton's growth task force which was all about how we make sure that this is integrated into the wider economy, if you like. One of the tricks that we missed, not perhaps in terms of the strategic, is that we need an effective and competent transport network to link together all parts of the UK and into international markets. The next step is about what is the best way of devising a rail network to do that. That could and should have involved local authorities and, in particular, the cities more effectively at the outset. We would then not have needed the growth task force, because we could have had some of those discussions around how the route should be devised and where it should go rather than devising it on an engineering basis and then coming back to the economic regeneration and economic generation points after we had done the engineering.

From my perspective, I would have liked to see more of that discussion up front before we got delving down into the engineering. There is definitely feedback there. It is not a simple thing because engineering feasibility is very important. If you cannot do the engineering, you obviously have a problem, but I do not think there was enough to and fro at the beginning of this to bring the economic development side of it on board, particularly the cities and local authorities that are going to need to respond to the opportunity if it is going to generate the growth.

I certainly said on various occasions that transport is necessary but not sufficient for economic development. It is necessary, but one of the things that has made me much more optimistic—in fact, I think many of our numbers are underpegged—is that we now have cities, local authorities and agents who are generally willing, able and ready to take up the challenge of the opportunities that this will open up.

Lord May of Oxford: This is probably an embarrassingly silly, ignorant question, but when you speak of rebalancing the economy, rebalancing it with respect to what? When in historical times has it balanced?

Jim Steer: I take it that the phrase has at least a geographic dimension. In what I have read of government statements on this it also obviously has sectoral, business and employment implications.

Baroness Blackstone: Before I ask my question, can I pick up on something that Bridget Rosewell said, although any of you can reply because you all seem to be agreeing. You said that there can be too much analysis in preparing for something like this, partly because of the hugely long-term nature of the outcomes, and I understand that point. On the other hand, this is a £50 billion project. Can there really be too much analysis in trying to inform us about whether this is a desirable and sensible thing to do in terms of the investment being repaid in terms of its outcomes?

Jim Steer: I mentioned the first government publication on this document, which itself contained a lot of analysis, and there has been quite a lot since. Whether it has been too much or too little, I am not sure. That analysis followed earlier work by the Government that was eventually published on their website in, from memory, 2003, which was a preliminary look at north-south high-speed rail and, indeed, how that compares with all the other options. An organisation that I established, Greengauge 21, then published a very considered, large-scale piece of work funded, in fact, by all the regional development agencies and some of the city

councils, looking at the same thing. It was another piece of analysis. Both those studies concluded that there is a reasonably good business case in conventional cost-benefit terms.

There has been a lot of analysis and there is now better evidence than before. I have no view on whether there is too much or too little, but there has been about 12 or 13 years' worth of serious study on this. Some people would say that we spend too long on it; others say that we do not have enough evidence. I do not have a view.

Lewis Atter: I think there is a difference between whether we have enough and whether we could have more. Would I like more than we have at the moment? Absolutely. Do I think we have enough to take the next steps on this? Yes.

Q26 Baroness Blackstone: It is not only quantity; it is also the quality of the evidence. Do you think that the evidence that we currently have that connectivity will make a transformational change to regional economies is really of such high quality that we can rely on it?

Bridget Rosewell: I do not think that we will ever have enough evidence to prove anything, so far, in social science. The standard of proof that you would expect in engineering or other scientific disciplines is higher than the data that we currently have available to us or will have available to us, particularly over the timeframes that we need to think about. We have a 60-year horizon for calculating present values at the moment. That is given, rightly, for long-term infrastructure projects. What can change in that period is, well, everything if you look back 60 years and think about how things have been changing. It becomes much more about the ability to make qualitative judgments and having the right information, or as much information as you can gather, to make those qualitative judgments than it is about having more and more complicated or complex models that appear to have, if you like, spurious accuracy associated with them.

That is effectively what I mean when I say that we sometimes do too much analysis. We continually try to get more and more detail when in fact we are trying to collect detail about things that it is pointless collecting detail about because that detail is not going to be relevant in future. We are trying to make a qualitative change. In my mind, the whole point of High Speed 2 is to make a qualitative change to the opportunities that are available for economic activity. It becomes a matter of judgment. The question is about what is informing those judgments about whether we will be able to take advantages of the opportunities that that creates and get the return in economic benefit, by which I mean output, employment and jobs in northern cities, as well as in London, that will make that a worthwhile investment.

What is the evidence for that? There has to be, not so much a lot of quantitative evidence, but qualitative evidence of how things have changed in other places and whether there is the appetite to take advantage of those opportunities, rather than a lot of very detailed modelling about things that are going to be changing.

If you want that kind of quantitative evidence, I would say that that is the wrong question to ask. It is asking a question about things you cannot know the answer to. I used to be an economic forecaster, but I gave that up. The accuracy that you can achieve is poor. You can do it for the long term—I am doing it for the long term for London—but then you are looking at those long-term trends. After all, the whole point of this is to change some of those long-term trends. As I said a little earlier, my judgment is that the evidence before us about the capacity to take advantage of these opportunities is there and therefore, in broad terms, this becomes an investment that has a payback. There are other ways of supporting that, such as productivity analysis and so on. These are long-term trends. Loads and loads of detailed modelling will never give you a reliable answer.

Q27 Baroness Blackstone: Accepting that detailed modelling might not be the right approach, how do you deal with the counter examples? Doncaster is often cited as a place

with very good connections yet a very feeble, poor local economy. Why can it not take off even though it has superb rail connections in all directions?

Jim Steer: That is an interesting question that has been examined. Indeed, an examination of cities in Britain that have particularly good fast links to London formed a piece of work that the late Professor Sir Peter Hall undertook, and Doncaster emerged as the anomaly. There were many other places that you could look at, such as Bristol, which have particularly good and improved—this is looking back over the past four or five decades—rail links with London that have prospered very well, but Doncaster has not. I think that perhaps reflects some of the points that Ms Rosewell has been making that you can analyse and analyse. Let us face it: Doncaster was a largely mining economy 30 or 40 years ago. Would the kind of employment in Doncaster and businesses that might develop there really be helped by very strong links with London? Possibly not, but could they be attracted? Yes, but would they be? All that depth of analysis would have to be done, and then you would have a range of views on it.

I do not think it is surprising that there are some places that in that sense are ‘sticky’. If you look at France, you find similar things where TGV stations—high speed train stations—have been opened but the local authority was not particularly proactive and there has not been much economic stimulus, and there are many other places where there has been a major economic stimulus. I think that is a very good illustration of some of the complexity that was being mentioned in this kind of analysis.

I come back to something much simpler: connectivity, which is a fancy word for faster journeys and a few other things. The conventional appraisal looks at that. You, I think, had a number of professors last week and asked them about what it shows. It shows that the benefits are forecast and that growth are based on reasonable assumptions—I am paraphrasing what they said. At the very least, I suggest, we need to do those conventional appraisals and

be comfortable that it looks as though the benefits are broadly twice the costs entailed. Indeed, that work has been done and I think it is reasonably robust against the sensitivities that have been taking place. All the consequential effects—the wider changes that might or might not happen in Doncaster, or in this case Leeds, Birmingham and Manchester—are not in that analysis, but they are probably going to be moving the overall picture upwards.

Q28 Lord Griffiths of Fforestfach: I shall carry on with Baroness Blackstone's question about methodology. As I understand it, you argue that HS2 gives you greater connectivity. It is a necessary but not a sufficient condition to give you the kind of growth and returns that we are looking for after spending £50 billion. Then you said there would have to be an appetite to take advantage. If we as a Committee were to come out and say that we think HS2 could be really successful, we would have to make a judgment that is not in any detailed calculations, as I understood it, about an appetite to take advantage. I think that was Baroness Blackstone's concern. How would we know how to make such a judgment?

Bridget Rosewell: There are several routes to do that. First, there is the review of how local economic strategies are developing and emerging. There is lots of evidence around that, and there are lots of people writing about it and talking about it at the moment. I have been sitting on the City Growth Commission, and it has been interesting how much appetite there has been and how much interest and excitement there is around precisely taking advantage of these kinds of investments. The stress in these areas is about the need for that transport investment and that connectivity, as Mr Steer says, to make those things possible. That is the political economy part of this: what are the views and what are people saying around how they think this thing should happen and what they need out of it?

The second way you can think about this is around how local economies are being and have been transformed, over the past 10 years in particular, but starting further back from that. The transport connectivity in London was one of the things that made it possible to make London

the powerhouse of growth that it has been. The spare capacity that existed in the public transport system in London is one of the things that made that possible. We have seen those sorts of transformations in other cities over the past 10 to 15 years, and we can see evidence—Mr Atter's models are one of the things that support that—of how that has generated productivity increases. Increasing the scale of that enables you to continue to do that. You also have some historic evidence that suggests that a trend exists that enables you to connect that upward path.

If you look at the relationship between the density of employment and wages—a good indicator of productivity and the statistics are better than they are for output in my view, so that is the one I tend to concentrate on—you can see that upward curve coming into play in places such as Birmingham, Manchester, Sheffield, Nottingham and other cities, including Bristol, although it is not on HS2, obviously. All these have higher densities generating higher wages and hence higher productivity. Those pieces are in place: cities, high wages, higher productivity and the relationship with connectivity. The appetite is a political economy question that you can gauge from talking to those kinds of authorities and their LEPs, for that matter.

Lewis Atter: There is a continuum here. You can imagine the impact something like HS2 will have if the economy does not respond very much at all. That is the sort of space where a conventional Department for Transport appraisal is looking. Then you can ask questions. If individual businesses react but do not necessarily move location—that is the kind of approach that sits underneath our figure of £15 billion, which I am sure we will get to a bit later—then you can ask what the full potential is here. What is the full potential in a place such as Birmingham, which requires the opportunities around Curzon Street to be maximised? That needs another set of compatible interventions around and on top of that. It is that last area

where the Government's Growth Taskforce is homing in and where we absolutely have to have that joint work between the cities and the national Government.

Q29 Lord Smith of Clifton: I believe my question is largely addressed to Mr Atter. KPMG's 2013 report into the effects of HS2 on the real economy concluded that there could be an annual uplift of some £15 billion by 2037. Can you explain the reasoning behind that conclusion please?

Lewis Atter: I will put the £15 billion number in a bit of context. It sounds like a big number—it is—and it is an estimate that we made of the difference there would be in the 2037 economy with and without HS2. The £15 billion is less than 0.5% of the economy as forecast in 2037, so in big picture terms it is about three months' growth. While the OBR is forecasting X for the middle of 2037, we get to X maybe three months earlier—call it March. That just puts it in context. Where does that figure of £15 billion come from? It comes from analysis that we have undertaken looking, in the real world today, at what differences in connectivity between cities translate into in terms of differences in productivity between those cities. The analysis looked at that and said: "If city A has connectivity X and city B has connectivity Y, what is that difference helping us to understand about productivity in those two different places?". In that approach, we addressed what evidence is out there today about the relationship between connectivity and productivity and asked, on the basis of the evidence provided to us by HS2 and DfT, what difference HS2 would make to connectivity. So there are two parts: step 1 is asking what we have done to connectivity, and step 2 is asking what the evidence out there says that changes to connectivity do to productivity. It is the net of those that gets to our £15 billion a year.

Lord Smith of Clifton: As you know, Professor Overman has criticised the methodology of the report, describing it as "essentially made up". How do you respond to his criticism?

Lewis Atter: We need to understand his criticism. His points on our work focus in on the second part of that equation: on the relationship between changing connectivity and changes in productivity. We have had a look at the work of Professor Overman's team, the Spatial Economics Research Centre, which has done a lot of work for the Northern Way on the impact of changing connectivity on productivity. We looked at those relationships. It is kind of an elasticity question: if I change connectivity by X, what do I change productivity by? We looked at his numbers, and they are actually higher than ours. We can let the Committee have a note on this, but when we repeated our work—not using our way of measuring connectivity or our elasticities but substituting them with the SERC ones—we found that we came to very nearly the same number. It was actually slightly higher than our £15 billion, but still rounding out to near that. As things stand, we do not recognise how a view could be arrived at of our work suggesting that SERC's work points to a higher number being significantly overstated. We can understand how that impression might have come about, because one of the things that Professor Overman's team have done, which is very valuable, is to look inside the question of why cities might be more productive. There is a people versus place debate going on here: are cities more productive because the people who want to live there are more productive or is it that, having moved there, people are more productive? Through this analysis, Professor Overman's team tried to take out the people effects, leaving the pure place-based effects. Our analysis has a relationship in terms of place that is smaller than what he is left with. Because we did not adjust for people effects—as the data did not allow it—he thinks that our number will be significantly higher than his. But actually, although we get there via a different route, our approach to actual application is very similar. If anything, his approach produces a bigger number. As I said, I will let the Committee have that note. That is a technical explanation but, to cut a long story short, we wind up from very different routes to round about the same sort of place.

Lord Smith of Clifton: Of course, your report did not include its findings that some places would be very disadvantaged, such as: Aberdeenshire, minus £220 million; Cardiff, minus £68 million; Dundee and Angus, minus £96 million; and Norfolk West, minus £56 million. These are the estimated changes in annual economic output measured in terms of the potential impact of investment in HS2. These are pretty severe negatives, are they not, for those areas?

Lewis Atter: One thing to remember is that any investment, whether it is HS2 or something smaller, is going to have bigger impacts on one place than on another. The reality is that businesses have choices about where they locate and people have choices about where they live. If one place benefits more than another, you will tend to see people and businesses flow towards that place. HS2 is not unique in that. Every investment project funded by the Department for Transport will have that sort of impact.

The Chairman: I am afraid that we are going to have to cut you off here, but you can come back to this.

The Committee suspended for a Division in the House.

Q30 Lord Lawson of Blaby: May I ask a supplementary? Mr Atter said at the beginning of his long explanation that if you increase connectivity by X, further things follow. I do not understand what that means. What does “increase connectivity by X” mean?

Lewis Atter: If we have a few moments, I will take you through an example that I used at a board at KPMG recently. It is a London example. Let us imagine that we wake up tomorrow and every rail journey within London and from London to the outside by tube, conventional rail or the Docklands Light Railway takes twice as long as it does today and costs twice as much. I am a commuter from Brighton, and I work in Canary Wharf. That is round trip today of three hours; it would be six hours. It is not £5,000 a year; it is £10,000 a year. Imagine

journeys like that right the way across London, within London and from London to outside. Everybody is the same physical distance apart. Brighton is no further away than it was the day before, but everybody will feel further apart. Everything that London tries to do, everything that a London business tries to do, is more difficult. Serving other businesses or customers, even getting the right kind of people to do the right sorts of jobs would be more difficult because London's labour market is smaller. It does not have me in it, for a start, with a six-hour round trip and £10,000 a year from Brighton. That is what I mean by connectivity. It is a big change.

In terms of the measures that we used in our report, the measure of connectivity for businesses under that scenario—double everything up—would go down by 60%. The measure of connectivity that the Spatial Economics Research Centre used for its work for the Northern Way would halve in that nightmare scenario. We have a measure of connectivity based on how easy it is for businesses to do business with each other, how easy it is for them to recruit, that is halved in the SERC example and is down by 60% in our example. What does that mean for London? London would be less productive than it would otherwise be because it is less connected, but how much less productive? The analysis that SERC did on the basis of differences in connectivity and wages between people depending on how connected they are and taking out all those people—controlling for skills and experience—says that if you halve rail connectivity you will reduce productivity by 2.5%. Our version of that says that if you reduce connectivity by 60%, perhaps you lose 2% in productivity.

What does that mean in my example for London with that doubling of rail fares and rail time? On the SERC example, it means that the average worker loses productivity of maybe an hour a week, and in our example it means perhaps 50 minutes a week. That is the kind of relationship that we are using in our analysis. When I hear that—my colleagues can comment on this—and think, “Gosh, double rail journeys and double rail fares and all I lose is an hour a

week per average worker in London”, that does not sound like a big response, but it is that relationship between connectivity and productivity that we use in arriving at our £15 billion number. We have significant changes, not necessarily in our numbers, producing significant changes in output. It is why some commentators suggest that our numbers are, if anything, on the low side.

Lord Lawson of Blaby: I do not think that answers my question because I do not see how you get your X.

Lewis Atter: The X in terms of the relationship between—

Lord Lawson of Blaby: You are saying that if you increase connectivity—I understand you to be saying that connectivity is improved if transport times and fares are reduced, or at least not increased—but I still do not know where you get your X from. It seems to me that you just pluck figures out of the air.

Lewis Atter: What we and SERC did in deriving our numbers is that we looked at the differences in connectivity between places. Let us have a look at the connectivity score for Manchester, Leeds—

Lord Lawson of Blaby: How do you put a number on it?

Bridget Rosewell: That is a slightly different question. One of the ways of measuring it would be to ask: how many people can I reach in 45 minutes? Or, in 45 minutes, how many businesses can I reach? You use different measures of the amount of time that you want to allow. In London, it is quite often 45 minutes. That is the average commute time into London. You would say, “For my measure of connectivity for this particular location, how many business can I reach within 45 minutes or how many jobs can I reach within 45 minutes?”. That is one way of thinking about the X, the measure of connectivity. That changes according to the capacity and the speed of the journeys that you can make. Is that the sort of information that you are looking for?

Lord Lawson of Blaby: It is a bit closer to it, yes.

Lord Griffiths of Fforestfach: Is that not a very static analysis? Let us assume that what you said happens, but you know that in, say, two weeks it will be different, we will be back to where we were. That is one way of looking at it. Let us now assume that it is permanent. As a result of that, if I am now running a business in Brighton, I may say to myself that I have to invest in more videoconferencing because of the cost of all this. It is not obvious to me that it is a one-off productivity fall. It is a very static computation, whereas if you have a dynamic computation, with the resourcefulness of business you will not get such a simple result.

Lewis Atter: One of the reasons why the relationship between that disaster scenario for rail and the productivity impact is quite low is that it is based on the differences between cities that we see today. Cities have adapted to their differences in connectivity levels. That is what you are seeing out there. Businesses run differently in Manchester because they do not have the same connectivity levels as London. That is what we are doing. There is very clearly a limitation on this. We are saying that differences in connectivity today translate into these sorts of differences in productivity. You could argue that the future looks different. It could be that the 45 minutes, the 2 hours, in future delivers more or less than it does today. We are neutral on that. We are saying that the importance of connectivity to productivity in the future is no more and no less than it is today. If you think it is more important in future, the number goes up; if you think it is less important, it goes down.

You are also right that there is a second round here. There is a productivity impact, and then businesses move and people move. Businesses adapt. That would take you into some of the areas that we have looked at in terms of differences between cities, and that is the point at which other policies really begin to matter. Productivity gain in Birmingham may well encourage businesses to move to Birmingham, but if the land is not available because the

growth strategy is not there, they cannot, in which case the impact on Birmingham is less than it would otherwise be.

Bridget Rosewell: There is one caveat.

The Chairman: We must move on.

Q31 Lord Shipley: I will ask a fairly open-ended question then. What complementary policies to HS2 do you think are required if regional cities are to benefit from HS2?

Jim Steer: First, I would say better interconnectivity between those regional cities themselves. HS2 does that to some extent—there is, for example, Birmingham to Leeds and Birmingham to Manchester—but there are an awful lot of other linkages. Contemplating the question of how businesses will react, I think they will react to an all round improvement in connectivity, and not just to London, which is extremely important, but also to other cities.

To go back to the question about this being a creator of economic opportunity, to grasp that opportunity I would point to there being shall I say sympathetic planning policies: policies on housing, policies on skills being adopted. That is the public sector side. There also has to be some entrepreneurial appetite, which can be fostered by the public sector, to exploit these opportunities. A great deal of things seem to me to go with significant investment in HS2 to bring economic benefits.

Lord Shipley: Can I quote to you what Buckinghamshire County Council has said? It has said that the “very substantial cost of the regional economic and transport spending necessary to realise the wider benefits should be included in the [benefit-cost ratio] but this has not been done”. Can you comment on that?

Jim Steer: I think we can all understand that this is going to cost a lot of money. Yes, but all of this will also bring its own benefits. It is not as if it is a matter of saying, “We should incur the cost of all these things, but it won’t bring any benefit”. There may be joint benefits, in truth. You need a really efficient, bigger-capacity transport system, which is what HS2

provides, and you need these other things too; they create joint benefits. But nobody has looked at these extra benefits, just as in some senses they have not looked at the cost.

The other answer, of course, is that some of this is about location: doing things in places that can take advantage of this that might have been done elsewhere and might have had less effective outcomes.

Bridget Rosewell: One of the things that I would add would be devolution: allowing more local authorities to do more of their own thing. Many of those would argue that doing that will enable them to spend the same budgets and take advantage of these opportunities for less money, not more money. There are some tradeoffs in all that as well. Flexibility and the ability to take advantage of these opportunities need not cost money.

Lewis Atter: We do, however, have to recognise that HS2 and the regional focus on it comes as an overlay to some very big imbalances between spending levels on these other things between cities. One of the statistics that I like is that the amount of money Greater Manchester gets in a year to spend on its transport systems London gets every week. London is about six times bigger than Greater Manchester, but it is not 52 times bigger. We have an HS2 proposition that is an overlay to a funding proposition that at the moment does not feel balanced.

Going back to an earlier question, I do not think that anyone has really asked, in the context of our kind of work, what impact we think public expenditure on transport in the UK over the last 10 years will have had on the economic distribution of activity in the UK. Our report on the green dots, the positive impact of HS2, and the red dots, the negative impact of HS2, got a lot of attention. I wonder what that map would look like if you applied the same approach to total public expenditure on transport in the last 10 years. We know that there would be at least one big green positive, and we would be sitting underneath it. Would there be any other green positive across the rest of the country? That is a very interesting question.

Q32 Lord May of Oxford: Do you think there are improvements in rail projects, for example those put forward by an alliance of 18 local authorities that call themselves 51m—which is rather infelicitous, I think, because I originally read my question as: do you think there are alternative rail projects, for example 51 million proposals—for improvements to the existing railway that would provide higher rate of return than HS2? You of course know what they are. They are rather simple suggestions, such as reconfiguring some of the first-class carriages to second class, lengthening the trains and so on. What is your view on that?

Jim Steer: These options have been looked at. Certainly in capacity terms we know what they can do. We know that around 11,000 seats an hour are provided on all peak-hour trains to Euston, for example - HS2 is really in its first phase in the Euston corridor. If you lengthen all those trains to the maximum length and do other things such as changing a first-class coach to second class, that gives you a few more seats, and if you squeeze a few more trains in, as 51m very sensibly says if you have some small schemes here and bring some improvements there, you could increase that 11,000 by about 36% and get it up to about 15,000 seats per hour. This is in a context where growth in usage at Euston is running at about 5% per annum, so very roughly that would buy you about five years' worth of growth—and these trains are pretty full already.

In capacity terms, I am not critical of a 51m kind of package; there are some good ideas in there and they are probably good things to do, but they do not get you very far. HS2 will not get implemented for another 12 years. Presumably it will last for decades. What capacity increase does that give you? It trebles the number of seats out of Euston, basically by adding high-speed train services into the existing network. These two things are quite difficult to compare and contrast. In my view, the 51m proposals probably have some merit as an interim kind of measure, but once you take responsibility for the longer term you cannot really

contend that they provide the capacity needed. I accept that there are other questions, but on that specific measure I think the 51m measures fail.

Lord May of Oxford: One aspect of this sort of question is particularly important, and it is whether HS2 would be better value for money if it was designed to run at slower speeds. The current proposals are very ambitious: 250 miles an hour. We have had evidence suggesting that they will do at most 80% of that, and that once that threshold is exceeded the economic benefits are questionable. What is your view?

Jim Steer: I tend to think it is a bit of a non-issue, quite honestly. As far as I understand the position, the infrastructure has been designed exactly as you say: to allow for a 250 mile an hour operation where it is possible to do so, such as going into and out of London. Actually, in any lengthy tunnel, the economics of accommodating incrementally higher speeds once you get above a certain speed means that it becomes cost-ineffective. Actually, the contemporary design of a high speed train has a top speed of—I am sorry, I am going to put this into kilometres an hour rather than miles an hour—360 kilometres an hour.

Lord May of Oxford: About 220 miles per hour.

Jim Steer: Yes, so in a sensible approach to procuring the train fleet, the first phase of HS2 will be to buy trains that can do 360 kilometres an hour. That is not 400 kilometres—250 miles—an hour. Have we lost something in that? I would have thought not. I think you have to cast your mind back to the Brunel era: a railway was built from London to Bristol and the maximum speed of a train was 60 miles an hour at the time, and it is happily supporting trains travelling at 125 miles an hour. Why would you not build in a bit of flexibility for uplift in technologies?

Incidentally, the analysis that supports all these economic questions is based on assuming a train that can travel at a maximum speed of 360 kilometres an hour and allows for the fact that it cannot do that everywhere and that it will not operate at that speed in the timetable anyway.

It will run at about 330 kilometres an hour, and if there is any minor delay the float will be used, in the way high-speed rail services are operated, to get back on schedule. A lot has been made of this, but these numbers are coming down—360, 330. Bear in mind that High Speed 1, the Channel Tunnel rail link, runs at 300 kilometres an hour. There is a range there. There is proven technology, these things run reliably and safely at that speed, and you add a bit in for future technological development.

Bridget Rosewell: Otherwise, technology regret is where you might end up. The East Coast Main Line electrification was done about 30 years ago and it was done on the cheap, and as a result we are regretting it. They put the struts too far apart, they did not put fixed bars across the top—there are technical terms for all this which I can never remember. The East Coast Main Line is unreliable because our thinking was that we would do it as cheaply as possible. Of course, to go back and fix that now is an immensely difficult and expensive task, so my plea would be to allow for the possibility of technological change and to increase our headroom, if you like, to make that happen.

The West Coast Main Line was built god knows when—some time in the 19th century—with lots of curves in it, because nobody thought that trains would go very fast. That is one of the main reasons for the difficulty of getting extra capacity on it now, and one of the reasons why we need a new railway.

Q33 Lord McFall of Alcluith: I note that the transport user benefits were calculated using fixed values of time, as it is denoted, for different types of rail passengers, and that the values of time were defined by the Department for Transport as what people and businesses would be willing to pay for quicker journeys. Given that background, I also note that the vast majority of the benefits presented an economic case based on an estimate of the amount that businesses are willing to pay for quicker journeys. Do you think the estimate of £59.8 billion, which accounts for 84% of the benefits, is a robust estimate?

Jim Steer: It is entirely consistent with the kind of estimate that has been used for every other transport project for the last 10, 20, 30 years, so my first answer is that at least it is consistent with everything else. If this is wrong, the case for Crossrail was wrong, as was the case for the Jubilee Line extension, which was not very good incidentally—it seemed to ignore some of the effects that Mr Atter talked about earlier. If this is wrong, all these things were wrong. It is pretty robust; this is based on what we can observe - in various ways: how businesses value the time spent by their employees.

I will give you just one statistic, which may or may not reassure you. I do not think that people have understood in general just how dominated by business travel our long-distance rail network now is. I can recall a time when business travel was in a bit of a minority. Most people were travelling on leisure journeys. That has changed. The growth in business travel by rail over a 10-year period to 2005 was 168%. There has been a huge uplift in business travel by rail: this is based on research done using national travel survey data. It is interesting because it has coincided with the advent of all this wonderful mobile technology—iPads, mobile phones and all the rest of it—which means that travelling by rail is pretty productive. So there is a lot of business travel, and I think there is a long pedigree of evidence behind the estimates of the time savings to business travellers.

Lewis Atter: In the light of the controversy about business values of time on rail, we applied a sensitivity to our analysis. We said: what if the Department for Transport's number was halved? I am not saying that it is half, we just applied it, and our £15 billion-a-year estimate fell to £12 billion a year. So in practice, when we looked at the impact on productivity and the real economy, the actual value of time you plug into a conventional appraisal did not make a significant difference.

Lord McFall of Alcluith: I note that the reduction in crowding would account for £7.5 billion of benefits, but we have heard from elsewhere that perhaps in peak time the trains will be just as crowded as they are in the moment. Could you give us an insight into that?

Jim Steer: I can only say that the increase in capacity that HS2 brings is huge. Having said that, of course, one wants the trains to be well used, and it becomes a management question to some extent. Despite 50 years of developing transport appraisal techniques, we do not have brilliant ways of measuring the benefit of reducing overcrowding. As I think your Committee is aware, the appraisals use reductions in journey time, which is not quite the same thing, so we are looking at the different values that people put on travelling in crowded and less crowded conditions to try to get at that benefit measure.

The prognosis without an increase in capacity is very severe overcrowding, and this is a solution to it.

Bridget Rosewell: Another way of looking at the crowding question and whether it ends up at pretty much the same level is essentially to say that more people will be making more trips. If they are making more trips, they are making them for a purpose. If you have that value of time perfectly right, that value time becomes the value of the trip you are making. Of course, we will not have got it completely right, but the idea is that if you are still willing to have the crowding and you get on the train it is because there is a purpose to the trip. That purpose has value. It might have economic value because you are going to do new business, it might have a leisure benefit because you are doing a leisure trip, but it will have a value.

Lord McFall of Alcluith: Then the reduction in overcrowding for £7.5 billion goes out the window.

Bridget Rosewell: But that £7.5 billion of crowding benefit turns itself into £7.5 billion of economic benefit because you are now doing that trip for a purpose.

Lord McFall of Alcluith: I never realised there was such symmetry to it, but there you are.

Lord Smith of Clifton: There is some contradiction here. There has been an increase in business travel and, as I know when I go north, that is because all sorts of people are working on their laptop. If it is crowded, they will not be able to get their laptops out. There is a disjunction between these two sets of assumptions.

Jim Steer: The comparison is between a rail network that is pretty much as today, perhaps with some minor improvements, which will be very overcrowded on all the projections we have, or that plus an investment designed to relieve that overcrowding, in which case there will be some more people travelling but we have a fighting chance of tackling the overcrowding problem.

Q34 Lord McFall of Alcluith: Can I go back to what Ms Rosewell said at the beginning? You said that we can be bedevilled by too much analysis. If this Committee is going to make a recommendation on behalf of HS2, what core analysis should we make in order to base our judgment?

Bridget Rosewell: There is a set of core things. The reason for making a decision in favour of HS2 is that there are a number of different pieces of analysis, some of them done in quite different ways, that all end up in the same kind of place. For example, KPMG's analysis shows the productivity benefits that are coming out of this way of doing things. If you use somebody else's numbers in the same kind of way, you get to a similar number. To me, that is a very strong place to be. If you look at all the different iterations over the years on the user benefits—welfare benefits are not real money, although we put a pound sign on them, but time savings are welfare benefits, not output benefits—they all come up with amounts of benefit that more than give a return.

On top of that—Mr Atter mentioned this at the beginning, and this is the point I could not make earlier, so this is great—is the fact that this is within a fixed pot. This is all at the minimum end of what this investment could achieve. All the analysis that we have seen so

far, whether standard user benefits or productivity benefits, are all within the constraint of everybody who has a job wants a job. Essentially, all this analysis does is move things from one place to another. So when you say that there is a negative for Aberdeen, say, it is because it is all within a fixed pot, which is something that is going to happen. Growth gets moved to Manchester and away from Aberdeen. To the smallest extent that this investment creates more growth in the UK economy, that is not counted in any of the numbers that we have on the extent to which that could happen. If 10% of the jobs created along the line of High Speed 1 and in Kings Cross and St Pancras were new jobs to the UK economy, it more than paid for all the spending on High Speed 1. That is all it needs.

Q35 Lord Griffiths of Fforestfach: I assume that the case made by the Department for Transport in presenting its business case is that fares charged by the operating companies would, perhaps with some adjustment for inflation, be what they are today. In other words, there is no premium fare charged for travelling on HS2. If you now assume that premium fares were charged for travelling on trains on HS2, what difference would that make to the strategic case?

Jim Steer: It would probably improve the numbers, in short. It is clearly a simplifying assumption. It makes it much easier to do the analysis. The demand projections are based on thinking reflecting on growth, population growth and all the rest of it. There is going to be a lot of demand for these services. You could probably put the price up and still get a very healthy return. The question is how you get the optimum revenue, given that you have invested in this. You could probably increase the fares and improve the revenues. Governments may take a view on that: “I have spent all this money and I want the fares to be reasonable”.

You can look at the precedents. For instance, Eurostar, which is still partly a government-owned company, is given a free hand to set fares and it has chosen to keep what it calls an

entry-level fare going pretty much since it started, which is actually 20 years ago. It said that if you want to go to Paris and you book ahead for a weekend you can travel on Eurostar for £59. I think the equivalent fare is still £69. It has certainly not kept up with inflation. Of course, there is a stack of higher fares if you are a business traveller or want flexibility and all the rest of it. You can see that if a similar regime was applied to the operator on HS2, perhaps a similar thing would happen. I do not think we have to be terribly nervous about this and think that this is some great new world. I stood on Crewe station six months ago without a rail ticket needing to get back to London and thought, “What’s my choice?”. The choice was £50 on a fast train and £10 on a train that took an hour longer. There are these choices in existence at fairly specific places on the rail network today. It will not destroy the system. It also shows that you can have competition. We are not in a world where you only have HS2 and perhaps it charges premium fares. Nobody has taken a view on this yet. You can have the lower-cost alternative. We are not going to close the West Coast Main Line because we have built HS2. There will be services on it, and they will probably be cheaper.

Lewis Atter: In terms of our number—the £15 billion impact on the economy—other things being equal, higher fares will reduce that £15 billion because they reduce the connectivity gain as a result of HS2. To complete the analysis, we have to ask what the revenue you generated was spent on. If you have spent that revenue generated on something that created even more connectivity, then the number might go up net, but just looking at the impact on fares, it would reduce the connectivity gain from HS2, which would reduce the productivity number.

Q36 Lord Carrington of Fulham: All your conclusions follow your assumptions about the way people behave if they have high-speed rail, which is fine. I do not have a problem with the analysis that you are doing on the basis that people will become more productive if they have faster communications. My concern is whether they will behave in the way that you

think they are going to behave. In other words, if you have a faster rail link to Birmingham—that, after all, is what we are talking about, although Manchester would be nice and the Y at the top would be wonderful and it might well be built sometime, and equally given the nature of government projects it might not be built—and you look at the regeneration of Birmingham from the construction of HS2, it has been suggested to us that it might have the opposite effect to the one you are suggesting. It might actually suck people from Birmingham into London to work rather than people generating productivity in Birmingham. There is no way of knowing the answer to that—I accept that—except perhaps by looking at what has happened in other countries. Do you have a view about how successful high-speed trains in France have been in creating prosperity in places such as Bordeaux, Lille, to some extent, and Avignon, for instance, where I think the high-speed rail link to the south of France ends? How successful has it all been in doing what you think it will do in this country?

Bridget Rosewell: The French experience is quite instructive because of the differences in the experiences. It supports the contention that we are all making that it is what else you do that will really make a big difference. Lille is not far from Paris, and there could well have been a draw from Lille to Paris and people would have gone there to work. The reaction of the local authority and local leaders to the high-speed train was extremely positive about how they would make sure that they could get an advantage out of it, redevelop and link to other places in the vicinity to create a new economic centre. I think the whole of the Lille region would say that that has been a huge success.

Avignon, on the other hand, built an out-of-town station. There is no city-centre station. The local authority really did not want it and pushed the whole thing away, with the result that there is a car park and a car hire location and you can drive somewhere else nice that you might want to go to. At least, that is what I did when I went to Avignon. There was nothing

there at all. That is really because there was a pushing away of making anything happen. It comes back to that point.

Bordeaux has not got there yet, so that is still a game to be played. The Lille and Avignon comparison is quite instructive. You will certainly see more people going between Birmingham and London, but probably also more people going in the other direction too.

Jim Steer: The best answer I saw on this subject was given by a senior person from SNCF, who was asked about this by the Transport Select Committee next door. He explained that some of the complexity of the dynamic changes that they had looked at happened in relation to Lyon, which was the first city linked to Paris by TGV in 1981. Instead of four hours, it took two hours. It was a massive change and had a huge impact. He was asked what the impact was. He said that it has changed over time. There is evidence that some of the businesses in Lyon, which had been set up in what was then a relatively remote regional provincial city, decided that they did not need to be there and could be serviced from their Paris headquarters, so the office in Lyon closed, which was not good for a regional city. Over time, that reversed, driven apparently, so the analysis mainly suggested, by the cost of having a larger headquarters than was needed in Paris. That kind of rings a bell for me. I have a business with offices in London and Leeds. If you connected the two by High Speed 2, would we close the Leeds office? No. Would we do things differently between them? Possibly. It is very hard to judge the balance. We would certainly be able to work better together.

It will be complex but on the £15 billion question out of Mr Atter's work, quite honestly whether it is £15 billion or £17 billion does not massively change my view of this project. What should change views on this project was an incredibly helpful piece of evidence. It is the answer to the question about the distribution of benefits in particular between London and the south-east and provincial cities in the Midlands and the north. Having been subject to various sensitivity tests, there is a clear answer: the Midlands and the north benefit more.

That is one analysis. You could look for lots of evidence and you quite rightly point to European experience and you will get these complex pictures, but the only piece of analysis—which is why I thought the KPMG work was terribly interesting—that specifically sought to address this question came up with that answer.

May I add one last point? The first phase of this project in infrastructure terms is just London and Birmingham, but in service terms it is London-Birmingham, London-Manchester, London-Liverpool, London-Glasgow and probably London-Edinburgh and London-Chester too. There are a lot of cities that are going to get half an hour off the journey time to London from the first phase, not just Birmingham.

Lewis Atter: Perhaps I could unpick that. A lot of attention has been given to our £15 billion figure, which was all about productivity. Actually, that was a by-product of our report, which was really addressing this question of what the likely net impact for the south versus the Midlands and the north is likely to be. The thing to remember about something like HS is that it does two things: it affects the productivity of different places by different amounts and it also reduces the barriers to competition between them. To unpick what happens, you have cities in the north where, per head of population or per worker, productivity is lower than in London, but you have higher costs in London. When you look at the comparison between the two, you have net unit cost advantages in the Birminghams, the Manchesters and the Leeds, but that does not translate into a better balance because the costs of doing business between them are so high. What we are doing with HS—or anything else that would do the same amount of bringing together and lowering the costs of trade—is lowering the barriers to competition between more competitive and cost-effective locations in the north and London. At the same time, because the connectivity improvements outside the high-speed to the Manchesters, the Birminghams and the Leeds are also boosting their productivity, we do two good things for them. When it comes to the net impact, we ran various versions of analysis of

how all this works, and did not find the combination of assumptions that, net, would suck jobs south, because of the cost advantages of the north and the fact that we had lowered the barriers to trade and competition between the two areas. In practice, both north and south won, but the movement of jobs was north not south.

Q37 Lord Carrington of Fulham: I shall ask a more detailed question following something that we talked about with respect to Avignon. You were saying that a station out in the countryside with a good car park is wonderful if you are going to Nice, Grasse and such places and are going to bathe in the sea. We are planning stations in the wilds of Yorkshire, as I understand it, because we will not take them into the towns. Are you saying that that is a serious mistake and that HS2 has to go pretty much to the population hub that it trying to serve, otherwise it will not work?

Bridget Rosewell: Yes, that would be my position. Getting into the city centres is one of the key things that you have to do. You may want something on the edge of the zone—for example, having the Birmingham interchange with access to the airport and the capacity for some new development there is a big positive—but you need to go into the city centre as well, whether it is Birmingham, Manchester, Leeds or Sheffield et cetera.

Jim Steer: There are two reasons for that. One goes back to this story about having employment where the most productive jobs are. That is the place that you want to stimulate in economic terms. The other point is that that is where all our access transport systems are focused. Going back to the question about whether you have to add on all these other local cost effects, if you build a station ‘in the sticks’, you have to solve an access transport problem, which can be expensive. It is much better, for those two reasons, to focus on city centres.

The Chairman: I think we are going to have to draw this session to a close, somewhat late in the day, because we have another witness. Thank you very much indeed. You are very welcome to stay and listen to the other witness if you wish.