



Transport Committee

Oral evidence: [High speed rail: follow up](#), HC 851 Tuesday 26 November 2013

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Written evidence from witnesses:

- [Department for Transport](#)

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Members present: Mrs Louise Ellman (Chair), Jim Fitzpatrick, Karen Lumley, Jason McCartney, Karl McCartney, Adrian Sanders, Chloe Smith, Graham Stringer and Martin Vickers

Questions 1-109

Witnesses: **Richard Threlfall**, UK Head of Infrastructure, Buildings and Construction, and **Lewis Atter**, Associate Partner, Global Infrastructure, KPMG, gave evidence.

Q1 Chair: Good afternoon and welcome to the Transport Select Committee. Would you give your name and organisation, please?

Richard Threlfall: I am Richard Threlfall, UK head of infrastructure, buildings and construction at KPMG.

Lewis Atter: I am Lewis Atter. I head up KPMG's corporate finance infrastructure strategy. We work on bringing together economics, funding and financing a decision.

Q2 Chair: The headline finding of your report was that HS2 could generate “£15 billion of additional output a year for the British economy in 2037”. Could you tell us exactly what you mean by that?

Richard Threlfall: That is correct. £15 billion is our best estimate of the real impact on the UK economy of building HS2 measured in GDP, as you have said, comparing the UK in 2037 with and without HS2. It is based on the best available methodology. We applied it to the best available data. Indeed, as my colleague makes plain later, it is more accurate data than anyone in the country has used before.

We believe that being able to answer that question—what is the real impact on the economy of a scheme like HS2?—is a fundamentally important question, but it is not one that has been asked before by the Government for a major infrastructure project. We have devoted huge amounts of time and effort to ensure that the work we have done is robust. Indeed, we have done some further work over

recent weeks, which we have shared with this Committee, which gives us further confidence in the conclusions that we drew.

Q3 Chair: Are you saying that this estimate is based simply on an increase in GDP? That is what it is.

Lewis Atter: Yes. It is equivalent to about 0.5% increase in GDP in 2037, remembering that the OBR is forecasting UK GDP to be something like £3 trillion by 2037 compared with a little over £1.6 trillion today. Although the £15 billion sounds like—and is—a large number in absolute terms, it is about equivalent to 0.5% extra growth in 2037.

Q4 Chair: Are you saying that this is a new way of looking at the increase in benefit? Why did you do this; why did you look at this?

Lewis Atter: It is a new way in terms of a national view of a national infrastructure project. It is not a new way of looking at the impact of transport from UK cities. You will find most UK cities today—and it is an initiative started by Greater Manchester—will look at the impact of transport not in terms of traditional time savings but in terms of impact on jobs and productivity. This is an extension of those sorts of techniques, from city-by-city work, to looking at a national infrastructure project.

Q5 Chair: The DFT's strategic case already includes what it calls wider economic benefits. Is that the same thing that you are talking about or is your figure in addition to that?

Lewis Atter: It is a different thing. The DFT's methodology looks at a broad set of impacts. It looks at what is described as wider economic impacts as an add-on to everything else. We do not look at this as an add-on; we look at this as our sole outcome.

Q6 Chair: I am not asking you that. I am asking you if the features that you have identified are included in the wider economic impacts already taken into account by the Government's assessment.

Lewis Atter: We think they are different. Some of them will be included; some of them go beyond the standard DFT approach. We are not in a position to unpick which of our numbers would be additional. It is not a simple case of adding our numbers to the DFT's.

Q7 Chair: But we do need to know a bit more, because, if we are looking at the business-cost ratio, how do we know if the figures you have produced would increase the benefit-cost ratio, as we have it, or whether it would stay the same? What difference would it make?

Richard Threlfall: In a sense, they are two completely different ways of looking at the question. The question we answered was the specific one that was asked of us by HS2, which is to look at what the productivity impact is on the UK of HS2. We just answered that specific question using the methodology that Lewis has outlined. Therefore, it is a different way of coming at the question from the standard economic appraisal that is used by the Department. If you like, it jumps straight to that answer of, "What will be the impact on this economy of doing this scheme?"

Q8 Chair: How would this affect the benefit-cost ratio that has been produced, or is it something that is entirely outside that?

Richard Threlfall: It does not affect the cost-benefit. The two sit, if you like, at two different ways of looking at the question. Would you agree?

Lewis Atter: They are two different ways.

Q9 Chair: Could you explain to us how there are two different ways and what the differences are?

Lewis Atter: I could give you some examples. For some time the Department for Transport has analysed the impact of transport schemes on the assumption that the transport schemes do not affect the real economy. So they do not change the number of jobs, where people live or where businesses relocate. Clearly, against the background of that kind of assumption, it is difficult to get at the kind of impact that something as transformational as HS2 will have on the economy. Our analysis is not restricted in that way. We have cut to the chase and answered the question, “What impact will this national infrastructure project have on the national economy?”, and then gone on to say, “If we make the national cake bigger, how does that divvy up between the regions and the cities?”

Q10 Chair: How does this translate into jobs?

Lewis Atter: In this analysis to date we have not assumed any increase in total employment. It is one of the things that we identify in our report for HS2 in September as on the to-do list for the next stage of work. This is an impact that does not assume any increase in the total work force or any increase in the total amount of capital invested in the UK. We would seek to relax both of those assumptions in a further stage of this work.

Q11 Chair: When are you going to do the further stage of the work?

Lewis Atter: That is something we are discussing with HS2 at the moment.

Q12 Chair: So there is more work to come, where you would look at the jobs.

Lewis Atter: We believe so. It would be to address a number of outstanding issues, one of which is the definition of the network. We based our work on the then available definition of the HS2 network, which was the one available in 2012.

Q13 Chair: What does that mean? The concept of HS2 as put forward by the Government is that there is a new north-south line built and that the free capacity on the existing classic line can then be developed to have more services for passengers and freight. Are you assuming that that happens in your analysis, or is that something that you have not looked at?

Lewis Atter: We have some of that, but in our work we reflect the assumptions and plans as they stood in 2012. They have moved on. A big example is that the 2012 network did not have a station at Manchester airport. That is now part of the plan. It is not part of our numbers because it was not part of the plan on which we based our work. That plan was not available when we did our work. The subsequent plan that does include a station at Manchester airport should be available now and we would expect to reflect that in any further work.

Q14 Chair: Have you made any assumptions about the extent to which there would be additional services provided on lines freed by the building of the new high-speed line?

Lewis Atter: We have. They are the ones that HS2 were making when they defined the network in 2012. Those assumptions continue to be worked on. There were clearly some gaps in those assumptions in the 2012 work. Our understanding is that those gaps have been closed.

Q15 Chair: Are you telling us then that this is ongoing work and that your report is, as you see it, based on the previous information and not based on up-to-date information?

Lewis Atter: Absolutely. Our report makes it clear that it is provisional results based on the definition of the network as it stood then.

Q16 Chair: Is your work objective? Some critics have suggested that because you were working for the Department perhaps your work is not as objective as it might be. What would you say to that?

Richard Threlfall: We feel very strongly that the work that we did was very objective. The reputation of our business is far more important to us than the conclusions of a single piece of work. That objectivity comes through in terms of the amount of transparency that we put into what we did. We have set out in what is quite a long report and in considerable detail the methodology, the assumptions and the output that we used. Indeed, it is because of that level of disclosure that it has been possible to have the debate that has followed on from what we have done. So it is objective. It is objective to the level that other economists are able to pick up what we have done, look at the results and challenge and replicate them.

Q17 Chair: Who peer-reviewed the work?

Lewis Atter: There is a panel of experts that HS2 has brought together to look at, inform and help with work of this sort. This is but one of the work streams that HS2 has under way into what might be described as the real economic impacts of high-speed rail. There is a panel of advisers to help with that, and we engaged with that panel at three stages during this process before it started, as ideas were emerging, and then in terms of the initial results.

Q18 Chair: You say that you have more work to do with the latest information. Could you make any kind of assessment about how that information might affect the results you have found?

Lewis Atter: We expect swings and roundabouts. We expect there to be things to emerge from the subsequent round of analysis that would bring that central estimate down, but the list of things that is likely to take it up is longer. We may be surprised, but, on balance, we would expect the number to go up.

For example, one of the things we have not mentioned yet is that nowhere in this analysis at the moment is there any assessment of the economic benefit of additional capacity for rail freight.

Richard Threlfall: We provided to the Committee yesterday—I appreciate you might not have had a chance to look at it—a list of all the various things we think could change if we look at the work further. As Lewis has said, on balance, the expectation would be that the number would far more likely go up than it would go down.

Q19 Chair: When do you expect to be in a position to bring forward a new report?

Lewis Atter: That is something we need to discuss with HS2, but it is a work of months and not weeks.

Q20 Chair: What would happen if high-speed rail pushed up house prices and rents in the cities it served? Would that make a difference to your conclusions?

Lewis Atter: We would expect these productivity impacts in HS2 to translate into increases in prices and wages. It is one of the aspects that we would like to develop further work on, but we would expect wages and prices to rise as demand increased for the places benefiting from HS2. As prices and wages rise, we would expect labour to shift and more capital to be brought into those economies. You have to look at both sides of this equation. Once you start relaxing prices, yes, you might price off some of the growth, but you draw in more inputs. Our next stage of the work will

be relaxing both sides of that equation. Will it take the numbers up or down? It is probably neutral, but until we have finished the work I am not in a position to say.

Richard Threlfall: Essentially, you are adding a massive increase in connectivity across the country. To some degree, you are starting to level up some of the north-south divide by putting this scheme in place. That effectively leads to that levelling over time to which Lewis has referred.

Q21 Jim Fitzpatrick: Lord Rodgers in the Lords debate said connectivity could not be found in his Oxford English Dictionary; so you might want to comment on that. Your submissions seem appropriately qualified, using words like “provisional”, “potential”, “ongoing” and “further studies”. The Chair has asked about your conviction on the numbers. Given that you say that HS2 could potentially generate £15 billion in 2037, we are possibly investing half of all the money that we are committing to infrastructure on this one project. Is that a fair return for the money that we are investing?

Richard Threlfall: There are a number of points in that question. I will start with the point about the relativity of this scheme compared with others.

Lewis Atter: One of the things to look at in relation to impact is our overall assessment of the change in GDP in 2037 of about 0.5%. If we compare that, for example, with the work undertaken by the LSE team headed by Henry Overman for the Northern Way into the impact of a 20-minute journey-time saving between Leeds and Manchester, that analysis found that the productivity in Leeds and Manchester increased by up to 0.5%. It is a broadly comparable impact in terms of productivity but on a much bigger scale, because we are not just affecting Leeds and Manchester but right the way across the country. That helps scale it for you.

Another way of looking at this is that, when we apply our techniques to the example that worked for the Northern Way, we find they deliver a slightly lower number than that LSE SERC Henry Overman impact analysis. In terms of proportionate impact on connectivity and economic outcome, we are not that different from the kind of analysis you find in the literature and, indeed, some of the analysis that has been drawn on to criticise our work. What is different is the scale. HS2 transforms connectivity right the way across the country, whether cities are on or off the line. That is the big difference between what you see in our numbers and classic analysis by others.

Richard Threlfall: You also need to put the cost of the scheme in perspective. Clearly, it is a very big sum of money to spend on a single scheme. It is a bigger sum of money than we have spent on any single scheme before. It is being spent over a period of nearly two decades. Over that time, the UK will be investing about £1.2 trillion or so in capital based as a percentage of GDP if we carry on at the same sort of rate as we do today. It needs to be seen in that context. The challenge that you have placed a number of times is whether there is room in all of that £1.2 trillion for a scheme such as this.

Q22 Jim Fitzpatrick: Your report says that the results are provisional and that there are changes in Government support for the different locations. The suggestion was that Government may have to withdraw funding from certain areas to make sure that the connectivity elements are returned in other areas. When you take into account the balance of the withdrawal as opposed to the support, does that alter your figures at all?

Lewis Atter: No; the £15 billion is the net figure. It is where you wind up after you take all the pluses and the minuses. Our first question was how much bigger HS2 makes the national cake. The second question was how that cake is now divided up. When we think about impacts across the country, there is a map with red and green. The thing to remember about that is that this is just but one part of what would be a much larger 20-year investment programme.

Q23 Jim Fitzpatrick: In that instance we are talking about the national cake and there will be losers as well as winners in this. Yet the indication of who and where the losers are is less prominent in your report and the DFT report than the prominence that was given to the benefits—or is that an unfair comment?

Richard Threlfall: We would not say it was less prominent. We thought that presenting some maps on page 54 of the report, showing red and green blobs, was a very clear way of showing it. If anything, the reason the red blobs are less prominent is because they are much smaller than the green blobs on the map because the net impact is £15 billion positive. The biggest winners are winning significantly more in those terms than the areas that are losing out.

The other point that Lewis was making, which is really important here, is that, because this is just in relation to this scheme, you would also expect those regions and Government generally to be spending on a whole range of other investments in these areas over that time. It is not the case that the places that are red blobs are going to be losing out in the round. It is just saying that in relation to this specific scheme that would be the distribution.

Lewis Atter: There will be winners and losers from all Government investment, not just transport. Total Government investment over this period will be in excess of £50 billion a year. The average spend on HS2 over these 20 years is about £2 billion out of a total of £50 billion. If you really wanted to understand the distributional impact of Government capital expenditure, you also have to ask about the other £48 billion.

Chair: Mr Sanders wants to pursue the issue of the losers on this.

Q24 Mr Sanders: Do you accept that it was an error not to have been more open in your report about the parts of the UK that you think might lose out?

Richard Threlfall: We felt we were very open about this. We thought that it was much clearer to show the position graphically on a map. If you produce it just as a table, then you have to have a pretty good knowledge of UK geography to understand where the impacts are. We were trying to do two things in that map. We were trying to show both the relativity of the beneficiaries and those who were losing, but also spatially where the impacts were clustered. Clearly, there are some parts of the country that have more advantage from the scheme than others. That really only comes through if you put it on a map.

Q25 Mr Sanders: In terms of those that do lose out, who exactly in those areas will lose out? Is it individuals? Is it jobs? Is it small businesses? What is it that they lose out on?

Lewis Atter: Remember, this is a comparison between 2037 with and without HS2. This is a measure of GDP but a mixture of businesses and people moving. It is output. There would be implications for jobs here. It is more businesses asking the question, “If I am doing this activity, where is it that I want to locate?” Everywhere across the country is forecast to grow economically over this period. It is just that, where you see red as opposed to green, the growth rate is a little bit slower than it would otherwise have been.

Q26 Mr Sanders: But in your paper it says that areas such as Devon and Cornwall will lose over £140 million. That is not growing at a slower rate; that is losing.

Lewis Atter: That is losing one vision of 2037 versus another. It does not say between now and 2037.

Richard Threlfall: It is specifically as a result of this scheme. So it is not taking into account all of the other things that you would expect to be done to invest, for example, in the south-west over that period that would grow that economy generally.

Q27 Mr Sanders: You are pre-supposing that that investment is there. At the moment there is nothing planned, so the only game in town is HS2. Viewed from the far south-west and some other parts of the country such as East Anglia, this is not good news. More connected areas will become more connected more quickly than they already are against areas that lack connectivity and have some of the slowest journey times and highest fares. Viewed from outside it does not look good. What I want to find out is, if you wanted everywhere to really grow at the same time, wouldn't you be recommending that that investment is made at least equal to that amount of money in those areas that are losing?

Lewis Atter: You touch on an important point here about this kind of analysis. As I said earlier, this kind of analysis is not new to the UK. The large cities look at transport like this. What is different about this is that it is the first time that this question has been asked at a national level.

Chair: We will suspend the meeting for 10 minutes.

Sitting suspended for a Division in the House.

On resuming—

Q28 Mr Sanders: Can you summarise which areas will lose as a result of HS2?

Lewis Atter: In our analysis the winners and losers are set out in the maps on page 54 of our report. Where a place has a red blob it is a loser; where it has a green blob it is a winner.

Q29 Mr Sanders: For the record, are you not able to detail which areas?

Lewis Atter: Yes. The model on which this analysis is based has 235 different zones in it. There are 235 different impact assessments.

Q30 Mr Sanders: The red blobs are not necessarily identifiable as communities, are they, unless you have the original map under which it was transposed? That is why it would be helpful to know precisely which areas.

Lewis Atter: I think in future versions of this analysis we will produce both the map—

Q31 Mr Sanders: It is not very transparent though, is it?

Lewis Atter: We took the view that the map was the most transparent way of providing this information on where the winners and losers were and the scale of the relative impacts. Do you mean just a list of places on its own?

Q32 Mr Sanders: A list of places with an attachment of what they stand to lose would be the kind of analysis that would help people make informed choices about this massive investment that we, as taxpayers, are being asked to make.

Richard Threlfall: We recognise that there is clearly great interest in that information. As Lewis has said, when we do an update of this work, if HS2 asks us to do that, it would clearly be helpful to the Committee if we produced a map together with the underlying data.

Q33 Chair: When you do your update, you will be producing clearer information about the areas that are or may be losing.

Richard Threlfall: When we produce an update of this work, we understand it will be helpful to produce both the map and the underlying data, with the 235 areas and the impact on them individually identified.

Q34 Jason McCartney: We have been talking about who is going to lose out from the new north-south line. Who has most to gain from this project?

Lewis Atter: The cities most directly benefiting from improvements in connectivity. Again, the map on page 54 sets it out. The places that gain the biggest increases in connectivity between businesses and labour markets are the places that gain most out of this. Those are the places on the map, on page 54 of our report, where you see the largest green blobs, for want of a better description of what is on that map.

Q35 Jason McCartney: Your analysis shows that South Yorkshire is one of the counties—the areas—that will benefit most.

Lewis Atter: Correct.

Q36 Jason McCartney: Why do you say that is?

Lewis Atter: For a combination of reasons. Remember that the impact of HS2 is not just for the connectivity benefits it provides on the HS2 network. It is also as a result of the improvements that are provided through the freed-up capacity and the additional services provided on the network. Our analysis takes both of those things into account in the description of HS2 services and the impact on the wider network as it stood in 2012. The design of the network itself has moved on and, indeed, HS2 and the Department for Transport have further developed their plans on the use of freed-up capacity.

Q37 Jason McCartney: Would you say that your report on economic benefits was out of date as soon as it was published? I am a Member of Parliament in West Yorkshire and connectivity is changing all the time. For example, we have just had a resumption of British Airways shuttle flights from Leeds Bradford airport to Heathrow, which obviously changes the dynamic for business travel. I live on the outskirts of Huddersfield and we have a small single-track line with a bit of overtaking on the Huddersfield-Penistone-Sheffield line. If capacity or speed is increased there, that will increase the connectivity with Huddersfield and the community I represent to the station outside Meadowhall. Would you agree that as soon as your economic impact assessment was published it was basically out of date because it is a massively moving feast?

Richard Threlfall: It is the nature of any piece of analysis such as this that you can only do it on the assumptions that you have at that time. Then you need to make a judgment. In this case it is a judgment for our client—for High Speed 2—as to when it would be appropriate to update that because enough things have changed that it might move the result significantly. The work that we have done since the report was published shows us that it is more likely that the estimate we have today is going to go up than down as a result of the changes that have been notified to the scheme since we first did the work and the other pieces of work that we set out in the report still to be done—for example, the impact on freight and so on.

Q38 Jason McCartney: Do you think it is generally accepted by people that the economic benefits in the analysis are going to go up and it is going to improve?

Richard Threlfall: We have done significant work to look at what we have done and compare it with the work that some others have done and which they have used to comment on this report. We are very confident in the results that we have come up with and, as I think we have said once or

twice before, confident that the numbers are far more likely to go up than to go down. Lewis made reference before to the work he had done looking at the elasticities that we use in this work—that has been a matter of some debate—compared with the elasticities that were used on the Northern Way work, for example, which has been used to argue that the results that we came up with were between six and eight times overstated. We have now looked back at that work and concluded quite definitively that our elasticities are such that, if anything, it would suggest that the number we have come up with is understated.

Lewis Atter: That is correct. In the conversations about this work with the expert panel appointed by HS2, opinion was divided. There were those who thought that on the basis of the analysis to date the number would go up and those who thought the number might go down. When the list of things we have not yet included was included in that conversation, the consensus was that the number was likely to go up.

Q39 Jason McCartney: Mr Threlfall, you commented after the Government’s major UK infrastructure announcement that “the reality is that the UK is spending less than most of its global competitors on new infrastructure”.

Richard Threlfall: That is correct.

Q40 Jason McCartney: Obviously, this is potentially a major infrastructure investment. Do you believe that making the business and economic case to the country and to the political leaders who will make the decisions is the nub of this?

Richard Threlfall: That is a very good question. I believe that the economic analysis around this scheme is a fundamental piece of the analysis. Clearly, it cannot be the only consideration. HS2’s strategic case sets out a whole variety of other issues that Government and Parliament will no doubt take into account in relation to the scheme. I do think it is a fundamental issue because I believe, as you have quoted me there saying, that we should be investing in the future of this country by investing in its infrastructure.

Q41 Jason McCartney: Do you get frustrated when you hear people and local business leaders with whom you come into contact saying, “We must invest in the UK’s infrastructure,” and then when a plan is presented it does not necessarily get widespread support? Are you frustrated by that?

Richard Threlfall: I would not say I was frustrated by that. I would say it is inevitable for any large infrastructure project that it always encounters a degree of controversy. There are always those people who benefit from it and those people who will not, or who in some cases may be personally disadvantaged by it. It is inevitable in any major infrastructure project in any country that that sort of controversy arises. The important thing, such as we have done here, is to put some objective evidence on the table to help try to inform the debate as to what, in this case, we believe the benefit of this particular scheme would be to the country as a whole.

Lewis Atter: I would like to add to that. The traditional way of thinking about these wider economic impacts is as an add-on to a conventional appraisal. The scale of these impacts and the importance of the real economic impact for the future of the economy, particularly in terms of tax receipts that would help pay for this infrastructure, suggest to me that this is not the last question you ask about infrastructure—it is the first question you ask about infrastructure.

Q42 Graham Stringer: Looking at your conclusions, there were two parts that surprised me. One was the impact in London and the second was the impact in Manchester. You mentioned earlier that Manchester airport was not included in this analysis but will be in the next one. Can you say

roughly how you would expect that to change the impact? Why is the impact so relatively low in London? People intuitively feel that London might benefit more than anybody else out of this and yet your figures do not show that.

Lewis Atter: No. In terms of the numbers for Manchester, they are impacted not just by the absence of the station at Manchester airport but also, we suspect, by the relatively low level of work at the time on what capacity freed up at Piccadilly would be used for. In terms of the analysis we have done, when we looked at the impact on labour markets around Greater Manchester, which is pretty fundamental to driving that economy, they are very low because at the time this was done there was not a lot of work at that point on how the freed-up capacity would be used to drive labour markets around Greater Manchester.

Q43 Graham Stringer: Does that mean you do not assume that the Northern Hub is completed in this work?

Lewis Atter: This is all over and above what the Northern Hub could deliver. The reality is that high-speed rail would provide additional capacity for more Northern Hub-type investment and additional capacity. That is not in these numbers at the moment.

In terms of the relativities between London and elsewhere, there are a number of things going on here. The improvements in connectivity and productivity proportionately are bigger for the places that London is competing with. What HS also does—and this is very interesting—is lower the barriers to competition between London and other places. The truth is that, yes, London is more productive than these other cities, but it is also much more expensive. When we look at the hard numbers, the cities in the midlands and the north have a net cost advantage over London. One of the reasons they are not competing as well as they might with London at the moment is because the transport costs between them are too high. High speed reduces those transport costs. It means that the north and the midlands can take advantage of their significant cost-benefits over London.

Q44 Graham Stringer: You also mentioned that freight was not included in the analysis; nor, as I understand it, is international trade.

Lewis Atter: Correct.

Q45 Graham Stringer: What impacts would you expect the analysis to have if you included international trade?

Lewis Atter: We have not done the analysis yet to give you a scale, but, directionally, it is clear that improvements in UK productivity improve terms of trade. We would expect the numbers to go up.

Q46 Graham Stringer: I want to give you a scenario in 2037 when the whole scheme is complete. One of my major worries as a Manchester and Salford Member of Parliament is that there will be, for the period when the route is running between Birmingham and London, a real disbenefit to Leeds and Manchester as the benefits are felt in that southern part of the Y structure. Have you done any more dynamic analysis of what will happen at that period in the scheme?

Lewis Atter: No, we have not as yet.

Q47 Graham Stringer: Are you going to?

Lewis Atter: If we are asked to, we will. As you are probably also aware, as part of the work of the High Speed 2 Growth Task Force, Greater Manchester and the task force are examining ways of accelerating some of the benefits of HS2 in the long term for Greater Manchester by looking at what could be done earlier at Piccadilly.

Q48 Jim Fitzpatrick: Taking you back, I think it was Mr Atter who said that transport schemes do not mean that business relocates, which confused me. Forgive me if I am misquoting you. That is why I asking the question whether you did say that.

Lewis Atter: Differences in productivity between places will influence business location decisions. Making one place much more productive than another will influence where business is located.

Q49 Jim Fitzpatrick: To follow on from Mr Stringer's question about where the benefits lie, coming from east London with the Docklands Light Railway, Crossrail coming and the Jubilee line, the centre of gravity of London has been moving east for the past 30 years. It is going to continue for the next 30 years as transport infrastructure continues to be supported. My question, therefore, is, given that that commuter reach, wherever it goes, encourages people to live outside London but to commute into London, what element of risk is attached to HS2 taking that commuter reach further and just benefiting London as opposed to benefiting the midlands and the north?

Lewis Atter: When we look at the difference HS2 makes over and above everything else—remember that we are basing this on a view of 2037 with everything that is in existing plans already delivered and this is the incremental impact—and we look at the incremental impact across the country and about where these connectivity benefits are, yes, London gets a significant improvement, but these other places get more. In a world where “more” means more productivity, inevitably the impact is not solely to the benefit of London.

Q50 Chair: What assumptions have you made about fares on the new line?

Lewis Atter: The assumptions on fares, journey times and everything else to do with service patterns are exactly the same as HS2 were making when they produced their business case in 2012.

Q51 Graham Stringer: That is current fares, is it? They have based that on the current fares on the West Coast Main Line.

Lewis Atter: From memory, yes. In any event it is the same assumption.

Q52 Chair: You have explained to us this afternoon that there is more work that you are doing, that some of the information you have used to produce your report is not fully up to date and more work has been done. How then should we view your report in terms of assessing the investment in this project? Do you regard this as interim work and do we have to wait to get more information from you? How do you think we could use this information?

Richard Threlfall: I think you should take away the message that we are very confident in the work that we have presented in the report that was published on 11 September. Inevitably, it was based on the assumptions that we had at that time. Some of those assumptions have moved on and we said that there were also a number of areas in the report that deserve further work. We are very confident with this as a starting point. There is more work to be done. The analysis that we have done over the last few weeks has led us to conclude that it is far more likely that our central case £15 billion impact assumption will go up rather than down.

Q53 Chair: I want to return to the issue of connectivity because that is really the major theme of your report: GDP producing greater connectivity. In reply to Mr Stringer's question, you said that you had not taken fully into account the use of existing line for new services. If that applies in other places as well, is that something that would make the benefit go higher on your assumptions?

Lewis Atter: We would expect the benefits to go up as the train planners get more inventive on the use of the freed-up capacity that would be available in the mid-2020s and the early 2030s and more imaginative about what they can do with that.

Q54 Chair: Do you regard that as a critical part of looking at benefit in terms of productivity, connectivity and jobs?

Lewis Atter: The impact on the labour market is increasingly important for cities in their ability to grow; otherwise they tend to be constrained in how fast they can grow. If you do not have an effective labour market above a certain size, it is difficult to grow above a certain size. It is increasingly important over time.

Q55 Chair: Which areas have you looked at? In the west midlands Centro have done a lot of work in looking at this area.

Lewis Atter: That is right.

Q56 Chair: Manchester has started to do some work. In other areas I do not think the detail like that has been done. What is your assessment of where further work is to be done in that area?

Lewis Atter: Until we have seen the details of the latest version of HS2's network and wider freed-up capacity plans, we are not in a position to judge that. This is a moving feast. I think these numbers will improve over time. I do not know yet exactly where we are today because we have not seen the numbers from HS2.

Q57 Chair: When do you expect to see that work?

Lewis Atter: I think very shortly.

Q58 Chair: Can you be any more specific?

Lewis Atter: Within weeks.

Q59 Chair: You will then be doing more work based on that information; is that correct?

Lewis Atter: That is the plan, but turning that additional information into the next round of analysis is a matter of months and not weeks.

Chair: Thank you very much.

Examination of Witnesses

Witnesses: **Rt Hon Patrick McLoughlin MP**, Secretary of State for Transport, and **David Prout**, Director General of High Speed 2, Department for Transport, gave evidence.

Q60 Chair: Good afternoon, Secretary of State, and welcome to the Transport Select Committee. Would you like to introduce your team, or perhaps Mr Prout can tell us who he is?

Mr McLoughlin: This is David Prout, the Director General responsible for HS2 in the Department for Transport, and of course myself.

Q61 Chair: Thank you. I understand that you want to make a statement.

Mr McLoughlin: I just wanted to say a few opening words, if I may.

Yesterday, as everyone will know, we published the hybrid Bill. There are almost 50,000 pages of detailed description work. It is the first time, I believe, that a whole hybrid Bill has been put on a computer stick, so this stick in my hand represents the entire workings of the 50,000-page document.

I believe that HS2 is vital to our economy and for the future prosperity of the United Kingdom. With the hybrid Bill we introduced yesterday, I want to point out that we have taken great care and there has been close consultation with the local communities in developing this railway. Although we published the Bill yesterday, most communities and organisations have been consulted with over a long period of time.

There have been five months of line consultation on the route itself and its appraisal and feasibility. That was done between February and July 2011. There were two months on the draft environmental statement from May to July 2012. There were two months on the scope and methodology for the report and the environmental statement, almost six months on two property consultations and two months on design refinement of the route between May and July 2013.

The hybrid Bill and the environmental statement may be long, but it has to be carefully designed in geographical chunks. It is fully searchable so that people can easily find, digest and comment on sections that are most relevant to them. That means reading about 300 pages and not the 50,000 that have been talked about. It is also worth noting that nearly 10,000 pages of the environmental statements are in fact maps and drawings and not text, which is quite important.

It is essential that we build HS2 for a number of reasons, including capacity and connectivity. Also, no railway has been built north of London for over 120 years. It is worth noting that this is not at a cost to the rest of the railway system or structure. Indeed, in the six months to 30 September this year, some £2.7 billion—basically £15 million a day—has been invested in improving the rail network. That is 53% higher than it was four years ago. What you see from the Government is a commitment to build and to ensure that we have the infrastructure for the long term, but also not neglecting the rail infrastructure that we use today. Thank you.

Q62 Chair: This is a major project and a major investment. What is it really about? Is it about capacity or connectivity?

Mr McLoughlin: It is a major investment; it is a major scheme. I do not think you build a scheme like this for one particular reason. I believe it is about capacity, which is very important. The truth of the matter is that, on our railways 20 years ago, we were moving 750 million people. Last year the figure was 1.5 billion people using our railways. We have seen growth every year, as is pointed out in the strategic case for HS2 that was published a few months ago. There is a capacity problem and a connectivity problem, as far as the great cities are concerned. At the moment going from Birmingham to Leeds takes over two hours. It will take just over an hour once HS2 is in operation.

It is also about freeing up track space so that we can increase the freight on our railways. We have seen a massive increase of freight on the railways in the last 10 years. It is up by some 62%. The thing stopping it at the moment is capacity. So it is capacity and connectivity, and I think speed makes a difference. The fact that Manchester will be one hour 12 minutes from London will be a major positive for Manchester and Leeds alike.

Q63 Chair: There is a great deal of concern that this would be such a big investment that it would swallow up a significant amount of funds available at the expense of investment in the classic line or to the detriment of areas that will not be served by the new high-speed line. What would you say to answer those concerns? Indeed, can you answer them?

Mr McLoughlin: As I have just said in my opening statement, for the six months up to 30 September of this year we spent some £2.74 billion. That is £15 million a day investing in and improving the present railway infrastructure. This is not an either/or; this is a complementary to what is already happening in the system. Over the next five years in CP5 of Network Rail's investment plan, they will spend some £38 billion on the present railway system. That includes

finishing off the Reading and Birmingham station developments, the electrification of 880 miles of track and also the Northern Hub, which will mean greater connections between Liverpool across to Leeds and Newcastle. That will make major improvements in the present railway network.

Q64 Miss Smith: Thank you very much, Secretary of State, for coming to answer questions. I would like to go into the KPMG report that we have been looking at before you came in. For clarity, I have always treated this report from the position that it does not include the wide range of investment that will be made elsewhere. You might want to tell us a bit more about it.

Could you give us your take on the challenge that arose immediately around this report about the areas that lose out and that are not, apparently, buried on page 54 of the last but two of the reports? What is your view on how we should approach HS2 when we also care about regional investment elsewhere in our railways?

Mr McLoughlin: Indeed, Miss Smith. What I would point out there is that the KPMG report talks about just the benefits from HS2. It is true to say that some areas, particularly where the stations are, will get more benefit than areas where there is not a station. I do believe those other areas will get benefits because releasing capacity and increasing the freight on the railways has a great effect across the rest of the country.

I was with you in the summer just outside your constituency looking at the A11 and the upgrades we are doing in making that dual carriageway all the way. If I also look at East Anglia, I would look at the work we propose to do on the A14. I know your Select Committee this morning published a report about port connectivity and talked about the A14. That is a very large scheme in the next roads programme.

The KPMG report looked very closely at one subject: i.e. HS2 and what impact it has. Obviously, as a Government, we have the responsibility then of looking at all the other road and rail investment that we need to see across the whole piece. I am very keen, along with the Chancellor's announcement, to do Norwich to London in 90 minutes. I very much support and want to make sure that we work on ways to deliver that particular campaign, which I think is very important.

Q65 Miss Smith: I have one follow-up question in that case. Could you give us your view on the economic case as presented in this report and how it helps or even perhaps hinders you building the case? What does it do to the rest of the discussion you want to have around it?

Mr McLoughlin: The KPMG report makes a case for the benefit it brings overall to the United Kingdom, but we are looking at one very specific area. It is just talking about HS2 and what we have to do. If you look at the announcements made by the Chancellor in the autumn statement in the next Parliament, we are looking to spend £73 billion on the transport infrastructure of this country over that particular period of time. I have just outlined what Network Rail will be doing separately on rail. The £73 billion is not the whole subject because Network Rail gets money from other avenues as well. So we are very serious about proper investment in our infrastructure in the United Kingdom.

Q66 Martin Vickers: Secretary of State, you will be aware that my constituency in Northern Lincolnshire includes Immingham docks, which is a major freight centre. If HS2 were not to go ahead, how do you think it would impact on the movement of freight and the economic growth that that generates?

Mr McLoughlin: I am afraid we are already at quite a testing time as far as railway capacity is concerned. A little while ago Virgin wanted to operate two new services from Shrewsbury and Blackpool. These were commuter services, not freight services. They were told that they could not do it then. We have hopefully subsequently managed to secure some changes as far as Shrewsbury

goes, but it certainly will not be a peak-time service. We are at capacity as far as the peak railway usage in this country is concerned.

The West Coast Main Line—I think I am right in saying this—is the busiest mixed railway line in Europe as far as usage is concerned. A lot of the freight wants to use the West Coast Main Line or parts of it, so we are putting in that investment. We have seen a substantial growth in freight on the railways, but it is very difficult to see it growing any further at the moment.

Q67 Martin Vickers: You mentioned other capital investment in the railways in your opening comments. Of course, roads and other parts of the transport budget also need to be increased to meet demand. How would you refute the argument that HS2 will take investment away from roads?

Mr McLoughlin: If you look at the strategic case on page 12, you will see there the table we have with regard to the money we are increasing both in the Highways Agency and also to local transport authorities. You will see a real step up in what we are doing. I was talking earlier on about the £73 billion that has been given to the Department for investment in our infrastructure. The Highways Agency grows from basically £1.5 billion to over £3 billion in 2019. Local authority transport can also be used for road infrastructure. What you see overall is a very balanced approach to transport across the board.

Q68 Jason McCartney: Secretary of State, I do not know if you are a gambling man—we have just been voting on the Gambling Bill—but what would you say are the odds for this north-south line project actually going ahead?

Mr McLoughlin: I believe it is absolutely essential for the long-term interests of the United Kingdom that this railway goes ahead, so I am 100% confident that it is both the right thing for the United Kingdom and for us to be able to compete in a global economy.

I would make the point that the argument about high-speed lines is nothing new. I am afraid some might perhaps say I have been in the House for too long. I remember those exact same arguments around High Speed 1 when that was being built and the problems that it would cause for us. It was said that it was not going to be used or worth while. Just look at the redevelopment now that we are seeing around places like King's Cross and St Pancras. It is absolutely amazing. I believe that part of the reason why we are seeing that development is because they are served by such good rail connections.

Q69 Jason McCartney: I have to declare an interest in this next question. As somebody who uses the East Coast Main Line in peak times, quite frankly I am fed up with standing outside the toilets or being cramped into my little seat unable to do any work or move at all. When I say that to people, though, they come back and say, "Why not just scrap first class,"—I sit in standard class, by the way—"add another carriage, lengthen the platforms or put on a couple of extra trains", which sounds very appealing, "instead of spending £50 billion?"

Mr McLoughlin: It does not sound very appealing, to be honest. It might sound appealing to scrap first class, and one can take one's own view on that. The point I would make, though, is, yes, it would have a little bit of an impact for a little while, but with the way we are seeing growth on our railways it would not provide us with a long-term solution.

This is one of the things that are often said. You can find other ways by getting rid of first class, extending the trains and making the platforms longer. They still do not add that much to the growth that we have seen over the past 10 years, let alone the last 20 years, as far as rail is concerned. We based our growth on the railways at fairly modest levels. We have not gone for what has actually happened in real terms, which is addressed on page 46 in a very good bar chart. You can there see the actual massive growth as far as rail demand is concerned between 1950 and 2010. Even if you just look from 2002 on the bar chart on the next page, you will see that on long-distance travel we have

seen increases every single year, including in 2009-10, when journey numbers fell slightly because of the impact of the recession. However, the following years it went back up massively.

This is about providing long-term capacity. Other people on the Transport Select Committee are urging me to provide more train services to their cities. I can see Mr McCartney, who is very keen for us to have more services as far as Lincoln is concerned, and no doubt Mr Vickers would join him in saying that that is the right thing to do. The thing that is preventing that at the moment is the capacity availability, even on the East Coast Main Line, although the West Coast Main Line is tougher.

Q70 Jason McCartney: Do you think the doubters could be won over as well, even if they were not using the new north-south line, if they could see that it was benefiting the area? For example, I am thinking about the number of apprenticeships and local jobs created. In South Yorkshire we still have steel companies. If they could be guaranteed a certain amount of work and jobs, if the trains could maybe be made in the north-east, do you think that would help win over a certain number of doubters if they could see economic benefits from the jobs and apprenticeships in their communities from this project?

Mr McLoughlin: There are a lot of communications to do around that. There are a huge amount of job opportunities that it will bring to the cities too. I was at a suppliers' conference organised by HS2 a few weeks ago in the International Convention Centre in Birmingham. There were 600 companies that had come and 800 people at that particular convention. There were 400 companies turned away because there was not room for them to be there. That shows the huge interest there is in the supply chain.

One of the things I am very determined that we should do—and I know that HS2 are also determined to follow this through—is to advertise the supply chain so that companies know what is coming so they can compete for those jobs and those orders. One of the lessons we have learned from the way in which Crossrail has been successfully built in London is that they have used local suppliers and both the supply and engineering chain. I was at the university with you not far from your constituency in Huddersfield. We were talking to the rail engineers in that particular university. They were coming from all round the world to study at Huddersfield university.

Q71 Jason McCartney: In 1863, which you probably won't remember, Secretary of State—
Mr McLoughlin: No; I was not in the Commons then.

Jason McCartney: —when construction of the underground system started in London on the Metropolitan line, the *London Times* reported some of the opposition to that project. Some of the phrases being used included that it was going to be a white elephant, it would be a rich man's toy and we should spend the money on the existing trolley-bus system instead. The underground system now transports 3.3 million people a day. Do you think that we will look back in 25 years' time, with us having travelled here on the new HS2, and think, "What was all the fuss about?"

Mr McLoughlin: I think that will absolutely be the case. What you see with any major infrastructure is that once it is built people do wonder how on earth they managed before that infrastructure was built. That was the case with the M40, the M25 and the M1, which were all fiercely contested at the time. We then say, "Why didn't we build it earlier and why didn't we build it bigger and better?"

David Prout: It is true to say, Secretary of State, that the very first Railway Bill failed to get through the House because people thought the canals could do the job.

Mr McLoughlin: That is right—from Birmingham to London.

Q72 Chair: Secretary of State, you have also spoken about growth as justifying this potentially massive investment, but is the growth big enough to justify this? After all, at the time that

HS2 was put forward, we were looking at growth figures of around 10% a year. The figure now is more like 2% to 3%. Does that really justify this investment and how do we know what the growth will be in the future?

Mr McLoughlin: How do you know what growth will be? Well, we can look at past trends. Actually we based our growth on very modest presumptions. I think we based it on 2.2% per annum and, basically, it has been over 4%. We have been very modest in our projections. As I say, it is not just about what is going to happen as far as growth in passenger numbers is concerned. It is also about the capacity today and what the state of the railways would be in 10 years' time if we had not started to make alternative plans.

Q73 Graham Stringer: We have just had KPMG explaining their analysis to us. If anything, I think they underestimate the national benefits because of what they have left out of their analysis. What worries me as a northern MP is not the finished scheme, which I think will be beneficial, but the period when the line is only running between Birmingham and London. I fear there may well be negative impacts on South and West Yorkshire and Greater Manchester.

Do you not think it would be a good idea to build north-south as well as south-north on this railway so that you do not have this hiatus when it could have a negative impact on the north of England?

Mr McLoughlin: One of the things that Sir David Higgins will want to do when he takes over his post in January and full time in March is to look at some of these particular issues. You are quite right, Mr Stringer, that one of the things I am often urged to do is to build it quicker and faster, but we have to go through the proper procedures. There are judicial reviews currently before the Supreme Court. We have won on a number of judicial reviews that have so far been lodged with the court. It has to be done properly. Anybody who looks through the environmental statement and all the papers that were published yesterday will see that the very fact that this project was started at the tail end of the last Government, which decided to do London to Birmingham first, has put constraints on whether we could start north-south. But David Higgins is going to look at some of the issues around delivery.

I would point out, though, that as from day one of the line being operated to Birmingham it will be possible for the trains to carry on, having used high speed up to Birmingham, on the conventional routes. Those of us with that sort of memory will remember that, well before the high-speed line was operating from St Pancras or even from Waterloo, you used to go down to the coast at a slower speed, then once you hit the tunnel you went a lot faster, and once you were in France you went faster all the way to Paris. I would just point out that that will be from day one of it opening. Although it seems a long way away—it is 2014 next year—we hope to see the first trains operating in 2026. It is only 12 years away.

Q74 Graham Stringer: That is a fair point. Can you tell us a bit more about the schedule? The Bill has now been published. Do you expect the Bill to get Royal Assent by the end of this Parliament? When do you expect to be able to publish the next hybrid Bill for the second phase of the scheme?

Mr McLoughlin: Having done my previous job, I am always reluctant to second-guess.

Graham Stringer: I thought you would be confident, Secretary of State, as an ex-Chief Whip.

Mr McLoughlin: I am confident not to predict what might happen in the Chamber as far as what happens with hybrid Bills. So far, we have met the timetables we have set out. A number of people did not think that we would have published the hybrid Bill before the end of the year. In fact, the PAC said that there was no way that the Bill would be ready to be published, but it has been published and we have made the progress that we wanted to make so far. I have the timetable very much in mind.

As far as the Birmingham to Manchester and Birmingham to Leeds route is concerned, of course that is out to public consultation at the moment. That finishes at the end of January. I attended one of the sessions the other Saturday morning at Long Eaton just as somebody turning up without giving prior warning that I was going to go. There was a lot of community involvement and activity, and a number of people making some very positive suggestions around the route that was being planned there and then. Once I got there, obviously, I was recognised.

Q75 Graham Stringer: In a democratic society it is quite legitimate and expected that people will use their rights and oppose the scheme. When this Committee and others have looked at large infrastructure projects elsewhere in Europe, one of the reasons they cost less and happen more quickly is because the compensation rates paid are higher than market rates. In the long term that ends up cutting the costs. Have you looked at that, Secretary of State?

Mr McLoughlin: It is one of these things that are quite often mentioned to me. One of the things I would say as far as compensation is concerned is that we are out to consultation at the moment on that, following the only judicial review that was successful. We decided to go through the whole process of consultation on that again. The suggestions that we were following were, I believe, quite generous. Of course, a lot of the countries you are talking about in Europe were not doing it in quite such developed or dense areas as London to Birmingham or through some of our most outstanding landscapes. That is one of the reasons why the cost, particularly for phase one, has probably been more that we would want it to be, because we have gone the extra deal to do those environmentally sensitive things in tunnelling quite a bit of the first part of the project.

Q76 Karen Lumley: What extra experience do you think Sir David Higgins will bring to HS2?

Mr McLoughlin: I would first like to say that Doug Oakervee has done a fantastic job in getting us to the position where we are preparing the Bill. I would pay tribute to the work that both Doug and Alison have done so far in getting us ready and up to the stage we were yesterday. I was delighted to go and receive from Doug my little stick that gives me all the information I need to know.

David was involved both with his work as chief executive of Network Rail and the building of the Olympic Park. He has been very involved in some huge infrastructure projects. I think he brings that degree of expertise to his new post.

Q77 Karen Lumley: You would obviously expect me to mention Birmingham as I am from there. Do you think that in the future HS2 will help with airport capacity, such as Birmingham?

Mr McLoughlin: I know Birmingham airport, which I sometimes accuse of almost stalking me. They are at nearly every function I am at, doing an incredibly good job of putting the case for Birmingham airport. At the moment they have extended the runway and I think Birmingham airport is very supportive of this particular project, as they do almost get a train station right by where they are.

Q78 Karen Lumley: What do you think the consequences for UK plc would be if we did not go ahead with this project?

Mr McLoughlin: It is one of these things where you cannot really say what the end consequence of not going ahead with something is because you never know the benefits you got from building it. The other day I was going up to Birmingham from Euston station. There had been an incident at Stafford station. We were then following a freight train, which meant we were delayed by half an hour.

Mr Stringer and the Chair will know of the huge devastation that was caused in the upgrade of the West Coast Main Line. We have spent £9 billion. It is worth pointing out that £9 billion has been spent

upgrading the West Coast Main Line north of Rugby and it has not really helped us that much with capacity as far as London is concerned or the end consequences into that. It has made some improvements, but Lord Adonis speaking last week in the House of Lords said that, had we started the high-speed project earlier than we did, we might not have spent or wasted quite so much money on the West Coast Main Line and we would have had a better rail system in existence.

Q79 Jim Fitzpatrick: Secretary of State, I have a couple of questions for you but perhaps I can give you a breather and ask Mr Prout a question. You are quoted, Mr Prout, as saying that, without HS2, London will be a global city surrounded by a rust belt. Is that an accurate reflection of what you said? How far does a rust belt stretch? Is it to the midlands and just to the north-west, or does it go all the way to the north of Scotland?

David Prout: I do not think it is a completely accurate quote.

Jim Fitzpatrick: I did not think it was, but I thought I would give you the chance to qualify it.

David Prout: I was asking what kind of country we wanted to live in, in this century. Did we want to live in a country where we had a very dominant capital city, and I think I said “surrounded by a rust belt”, or did we want to live in a country with a capital city surrounded by strong cities supporting it? I said I would like to live in a country where I have a capital supported by strong cities around, and that is what HS2 would help us to achieve.

Q80 Jim Fitzpatrick: Secretary of State, can you tell us what impact you think HS2 will have on fares between our great cities and London? Will they be comparable to those that exist today or will they be entirely different?

Mr McLoughlin: We are not building a brand new railway and operating new trains to make it that nobody wants to travel on it. We will want them to be competitive and fares where people can make the choice as to whether they go by high speed or by other routes.

Q81 Jim Fitzpatrick: Given that wherever there are good transport links the London commuter reach has increased to reflect that, do you think that HS2 will benefit London more than the rest of the country because it will bring it within the reach of more people to come in and work in London and could actually drain business from some of our other regions?

Mr McLoughlin: I was slightly worried about this and I put this particular point to Richard Leese, who is the leader of Manchester city council. He said, “Well, if you followed that logic, we might as well dig up the M6 and the M1 and pull up the West Coast Main Line, and then people would have no choice about travelling.” He did not follow that logic. He believed absolutely that HS2 and better connections will be better for his city. That is the case with all the regional leaders. There is Sir Albert Bore in Birmingham, Councillor Wakefield in Leeds and Julie Dore in Sheffield. They are all of the view that this will help their cities.

I do not think we should just look at the relationship between London and Birmingham or London and Manchester, but the relationship between Leeds and Birmingham and Birmingham and Manchester. Some of the more frustrating journeys can be those slow journeys. If I try to get back from Manchester to Derbyshire, at the moment it is quite a frustrating and long journey. It usually involves changing at Crewe and, as the railways are today, it might sometimes even be quicker to come back to London. I think we need to look at the whole railway story and structure.

Q82 Jim Fitzpatrick: Given that the KPMG report refers to some areas being losers as well as some being winners, do you say that there will be any disbenefit from the investment in HS2 against overall investment in our railways and that some of the projects that you would like to see

going ahead would not proceed on the basis of limited finance available to Government to spend on infrastructure?

Mr McLoughlin: I think I would buy that. There was a lot of criticism that somehow this had not been published. Actually, the maps about this are very well published. As I said to Miss Smith a little earlier on, the fact is that that report concentrates solely on what HS2 is about. It does not talk about the other investment that we are doing across the country. I dare say that, if we did a KPMG report on the benefits of Crossrail, there would be a heck of a lot of parts of the country that would be negative losers, but Crossrail is very positive for London—and, no doubt, Mr Fitzpatrick, for your constituents as well.

We are spending in the region of £15 billion at the moment in providing Crossrail. We are spending £8 billion doing Thameslink, which will bring massive benefits to the areas that it serves. It does not bring huge benefits to the areas it does not serve. We are dualling the A11 at the moment. That will bring massive benefits into Norwich, but it probably does not serve Derbyshire very well as such. However, it is beneficial to the overall infrastructure in the United Kingdom.

Q83 Jim Fitzpatrick: There are some sceptics in the other place lined up against you, in particular Lords Heseltine, Mandelson and—

Mr McLoughlin: I think Lord Heseltine is very much not a sceptic.

Jim Fitzpatrick: Lord Heseltine is quoted as saying, with the greatest of respect to your colleagues from KPMG, that the “mumbo-jumbo” forecasts from “guys with slide rules” should not determine whether or not HS2 goes ahead. I am a big fan of Lord Heseltine because of what he delivered in my constituency, where Crossrail will be operating within a few years, thanks to his joint support. Lord Mandelson said that the risk is that transport policy can become the pursuit of icons. Lord Rodgers was asking for the hyperbole to be scaled down and a more rigorous and sceptical analysis of the case for HS2 to be offered. Does that give you any pause for thought, or do you think that in a democratic society there are always going to be critics?

Mr McLoughlin: I will just deal with Lord Heseltine first. When he talked about the “mumbo-jumbo” of numbers, I think he was more saying, “Get on with the project. The project is right for the United Kingdom and it is right for the northern cities.” Of course he would use his own language to make his particular point. As far as Lord Mandelson is concerned, I remember discussing HS2 with him. It was when I was on HS1. It is fine that you can go from London to Brussels on high-speed trains but he does not seem to want to go to our northern cities. I am very proud of our northern cities and I do not mind going to them on high-speed trains. I am sorry but I missed the other Lord you mentioned.

Jim Fitzpatrick: Lord Rodgers.

Mr McLoughlin: I can’t remember. One of the things that would be very interesting, Mr Fitzpatrick, is that, if Mr Stringer wanted to come and see you in your constituency, at the moment the journey would take over three hours, should he wish to make that sort of journey from his constituency. Once Crossrail and HS2 are complete, the journey time will only take one hour 46 minutes.

Q84 Jim Fitzpatrick: That will be a great attraction to all Man City fans to come and watch West Ham beat them, hopefully. That will make me happy.

I have one more question. The Government explanation was originally on speed. That has now shifted to capacity. I am not blaming the coalition; that was certainly the explanation and the justification started by the previous Government. Does that indicate that you lost the argument on speed or that you got the emphasis wrong?

Mr McLoughlin: I think you were Under-Secretary of State when Lord Adonis was Secretary of State.

Jim Fitzpatrick: For a day.

Mr McLoughlin: Lots of things can happen in politics in 24 hours, as we know. Lord Adonis did say the other day—and it is true—that, although speed has become the focus possibly because it was called High Speed 2, there is a need for increased capacity. As I say, I do not think that a scheme like this is one thing in particular. I believe that capacity is certainly important on the first phase, as far as London to Birmingham is concerned. With regard to time overall, an hour off the journey from Manchester to London is important. An hour off the journey and almost halving the journey time from Leeds to London is important, but also the other connections within the network are very important.

As I said when I started off, a scheme like this is not just for faster trains. It is a scheme for better capacity and better connectivity between our cities, and, yes, we get faster trains as a result. If we were to build a brand new railway line in this country, it would cost us 90% of what we are spending on HS2. If you are going to build a new line, you might as well build the best and build the route with the most connectivity that you can.

Q85 Karl McCartney: Secretary of State, I never had you down as a matchmaker for Labour MPs, but that is another string to your bow.

Mr McLoughlin: I have been trying to do that ever since I was—

Karl McCartney: I have a question following on from Mr Fitzpatrick's questions regarding Crossrail, which was very nearly killed by politicians back in the early 1990s and, therefore, it took a long time before the process moved from the drawing board to being built. Are there any positive lessons from Crossrail and that project or, indeed, any other major infrastructure projects you would like to let us know about, that have been taken on board and will impact positively with HS2?

Mr McLoughlin: You do not do these kinds of big projects and not learn lessons from them. We have learned lessons from big infrastructure projects. I would also say that we have learned lessons in the way we are building these projects on time and in budget. The projects I have talked about are not necessarily on the scale of HS2, but, for instance, the one at Reading station is a massive project of almost £1 billion. It is costing £880 million. The Olympic Games was a huge project and it was overseen and delivered within budget, and it had to be delivered on time because the Games were a certain two weeks. A lot has been learned as far as those big projects are concerned.

It is also right to have the kind of advanced planning that goes into these schemes. We are seeing all that now and you are seeing it in the environmental assessments and the like that we have been publishing.

David Prout: Going back to Mr McCartney's question earlier on, we are learning from Crossrail in terms of the skills and apprenticeship agenda. We want to be building and improving on what they have done.

Q86 Karl McCartney: I am very pleased to hear that the project managers and the well-paid management consultants are learning lessons from major infrastructure projects. However, do you think politicians have learned lessons from those major infrastructure projects, considering the fact that Crossrail was delayed for nigh on 15 years from when it perhaps should have been done? Would you like to see the political machinations removed from this project?

Mr McLoughlin: Mr McCartney, you are asking me about politicians. I am afraid you share collective responsibility for that group of people. I hope we have learned lessons. John Armitt, in his report for the Labour Party that was published a few months ago, said that these big infrastructure

projects which do go over long periods are best if they have fairly broad support across the political spectrum. I am very pleased to say that HS2 does seem to have that broad political support because I think it is very important in a big project like this.

Q87 Chair: Secretary of State, you mentioned fares. Could you be more precise? What will the fare structure be on High Speed 2? What assumptions are written into the work on it and the assessments?

David Prout: The assumptions in all the modelling that we have done are that the fare structures are the same as they are today.

Q88 Chair: They are the same as they are on the line generally.

David Prout: Yes; the same as they are today.

Q89 Chair: And that is what is written into the assessments.

David Prout: Yes. That is what is written into the benefit-cost analysis.

Q90 Chair: A great deal of emphasis has been put on the importance of connectivity. You have raised this yourself, Secretary of State, and KPMG in their assessment of economic benefits talk a lot about connectivity. Has the strategic case looked properly at connectivity in terms of people being able to get to the high-speed line itself—its links with other lines or other forms of transport—and also about the use of free capacity on the line to develop connections to other places, locally or regionally? We keep hearing reference to this, but I am not getting a very clear picture of exactly what is being done about it.

Mr McLoughlin: A lot of work has been done on that, but I certainly expect a lot more work to be done in the forthcoming years. It was certainly something I was talking to David Higgins about just the other morning. At the moment we are talking about and dealing with CP5 as far as Network Rail is concerned. There is £38 billion of investment, as I say, over the next five years going into the present railway structure. There will be another round, CP6, before HS2 opens. I would certainly expect some of the work that we do in that particular round to be about connectivity to other stations and making sure that we are in the best position to take full advantage.

For instance, I am very pleased to say that there is a new railway station that will be opening at Ilkeston next year. If you do not know where Ilkeston is, and there is no reason why it should immediately stick out, it is a large town in Derbyshire, which at the moment is not served at all by a railway station. A railway goes through it but there is no railway station. We are going to put the station back into Ilkeston, which is about seven or eight miles away from where Toton is. All those kinds of things will help in the connectivity and connecting up the present railway system with the future railway system.

Q91 Chair: The benefit-cost ratio has not changed very much, although the costs have increased. How can that be?

Mr McLoughlin: I am going to hand over to David to go into much further detail as far as the BCR is concerned. I would just point out that the BCR is independently assessed. It is not our own figures.

David Prout: The BCR is made up of a whole range of inputs, which are regularly updated for all projects that the Department assesses. In the case of HS2, the increase in costs pushed the cost-benefit ratio down. The reduction in the value of business time pushed the cost-benefit ratio down. There are also inputs that pushed the cost-benefit ratio back up again. We have done a lot of work understanding the kind of passenger flows on HS2. It is clear that, when you compare it with the

national average, there are going to be more business travellers on HS2 than nationally. We have increased the number of business travellers, and that has pushed the cost-benefit ratio up again. We have also done a lot more modelling of the release capacity and the benefits we get from that, and the optimisation of the rail service on HS2. That has pushed the BCR up again. There are swings and roundabouts in benefit-cost ratios. They are alluded to in the strategic case and explained in more detail in the economic case published by HS2. When it all came out in the wash, we had a slight reduction in the end in the BCR for the whole scheme—phases one and two—but on phase one there was in fact no change in the benefit-cost ratio.

Q92 Chair: Euston is not the most crowded station, so why is it so important to have more capacity there?

Mr McLoughlin: It is a fairly crowded station. As I said about the West Coast Main Line, it is one of the busiest lines across the whole of Europe as far as usage for freight and other things is concerned.

Q93 Jason McCartney: Secretary of State, I talked a little bit earlier about some of the arguments that have been made against this project. It is clear in the north from a lot of council leaders—and I am sure you are aware of this—that there is pretty widespread support. In fact, only a couple of weeks ago the chairman of Metro, Councillor James Lewis, praised the latest strategic case for HS2. He talked about how important it was to the region's future and economic success with the addition of 13,000 new jobs in the Leeds City region, which is all positive stuff. But one of the things I regularly hear from critics is, "Why can't we start the building from the north, to start the economic benefits straight away?"

I want to be very specific here. What is getting in the way of that happening? If we needed a new hybrid Bill, how long would it take to prepare that? What is in the way of that happening in reality?

Mr McLoughlin: I did explain earlier on that it is a fact that we have still yet to finish the consultation on that. There has to be a period of submissions made to me as a result of that consultation. Then, once I have agreed the line, brought it to Parliament and informed the House of Commons as to what the exact line of the new route will be, there then has to be an environmental assessment done over a 12-month period on the particular area we are talking about. I am afraid that we are stuck with doing this. I get the message about people wanting to see it done quicker and faster. I will use all my endeavours, and once David Higgins comes into post I will be asking him to look at some of the suggestions around how that can be done.

Q94 Jason McCartney: So it is still a possibility; it is still alive.

Mr McLoughlin: I am not saying that we can start that. We are going to start with the Bill that we have, which has now started its process through the House of Commons. I think Mr Stringer was saying earlier on that I have been a bit too ambitious about that. We have matched our time scales so far.

Q95 Graham Stringer: I do not think I was saying that you were being too ambitious. I was just looking for reassurance that we would get Royal Assent on the Bill. It was in the Second Reading of the Paving Bill that you announced the large increase in the contingency fund to about a third of the costs. There has been speculation in the press that this was an attempt by the Treasury to sabotage the scheme by shifting the criteria for the assessment of the scheme to a 95% certainty of fixing that rate. What would you say to people like Will Hutton and Christian Wolmar, who have said that the Treasury are trying to sabotage this scheme?

Mr McLoughlin: What I would say as a loyal Member of the Cabinet is that I have had nothing but support from the Prime Minister, the Chancellor, the Chief Secretary and the Deputy Prime Minister in my aims to get this through.

There are lots of conflated figures out there. I have seen people saying that this project is going to cost £80 billion. What that particular organisation did not say was that it had put in a lot of add-ons that were never in our Bill. What I have charged HS2 with doing is building phase one well within the budget of £21.6 billion that we have allocated to them. I have said that it should be built for £17.16 billion. I am told that they anticipate doing that, so I hope we come well within budget.

Q96 Graham Stringer: I have no doubt that the Chancellor of the Exchequer is supportive of this scheme and has been since the beginning. It was really more of a “Sir Humphrey” question about whether the officials are, without any change in the circumstances, increasing the contingency so that it looks like another wretched Government computer scheme that is out of control. Do you think there is any truth in that?

Mr McLoughlin: I am very content with the negotiations I have had with the Treasury and with the budget we have for it.

David Prout: There is one additional point. A lot of colleagues around the table have been concerned about protecting spend on other transport projects. A P95 figure translates into an allocation from the Treasury to the Department for Transport. The funding is allocated at a P95 level. That protects other transport spend because we have that money in the budget. We do not expect to spend it all, but it protects the spend that is there for roads and other rail projects.

Q97 Graham Stringer: That is very interesting. That figure increased the intensity of the debate around High Speed 2. On 2 September the Public Accounts Committee said that you had not presented a convincing strategic case for High Speed 2. What is your answer to the Public Accounts Committee, for the benefit of this Committee?

Mr McLoughlin: My answer would be, “Here it is.” The truth is that I do not think there is a project that has quite had the intensive reporting around it that this particular project has had. At the moment we are building Crossrail across London. Overall, it is a £15 billion scheme. I have not seen that many reports saying that that money is not well worth being spent. Likewise, I believe that this is a huge project for the benefit of the United Kingdom overall. It is right that we get that criticism, but it is also right that we keep updating the case because elements in the case will change.

One of the things we have not yet done is to test how much private sector involvement there may be in some of the possible station sites and the way in which those station sites may well be promoted. We have certainly allocated a fair sum of money for the stations. We have allocated £3 billion for the stations on the first part of the route.

Q98 Graham Stringer: Just to repeat the question, are you now satisfied that a complete and comprehensive case has been put for High Speed 2?

Mr McLoughlin: Yes.

Q99 Jim Fitzpatrick: I have two questions but I will put them together. You mentioned cross-party support. There have been recent comments from senior Labour figures saying that it is not a blank cheque for HS2 and costs have to be contained. You do have the contingency fund built in quite sensibly. You have to have that for any project. How worried are you that you might have to delve into the contingency fund for any compromises or adjustments you might have to make to the route, given the publication yesterday of your 50,000 pages or your 300 pages, whichever version you read? I think I know which version I will have a look at.

Secondly, on fares, David Prout said in response to a question from the Chair that the BCR was adjusted on the basis of more business travellers. Were those DFT or KPMG estimates? Are KPMG using yours or are you using theirs?

Mr McLoughlin: I will let David deal with the point in a moment, but I will deal with the first point as far as the overall case and the budget is concerned. As I say, we have the budget and we have set it for HS2. We know what we want to do, but I will look at other areas of trying to reduce that budget. I have certainly asked David Higgins to give us a report on that particular area. Costs are going to be very important, but this is a big scheme and I believe it will be brought in within the budget that we have allocated. David, can you deal with the other point?

David Prout: In terms of business travellers, they are DFT figures based on the National Passenger Survey.

Q100 Chair: So those figures have come from the National Passenger Survey.

David Prout: Yes.

Q101 Chair: It is not anyone's assessment.

David Prout: No.

Q102 Martin Vickers: Secretary of State, you mentioned earlier that to build a conventional and new north-south line would be roughly 90% of the cost of HS2. We are all aware of the arguments against the upgrade of the existing classic lines. In recent weeks the upgrade of the former Great Central line has emerged. Could you dismiss that as a complete non-runner or does it have any merit at all?

Mr McLoughlin: My understanding is that it does not serve our main cities so it does not really deliver what is required. All those different options were looked at and they are being constantly looked at. I do not think there is an easy answer that comes in a lot cheaper and provides the kind of connectivity or capacity that HS2 will do for the United Kingdom.

Q103 Chair: Is the information from the National Passenger Survey publicly available in terms of the business travellers? Is that something that we could see?

David Prout: I imagine so. We can certainly write to you about the argumentation and the facts behind our amended projections.

Q104 Chair: That would be helpful. On fares, you have told us twice now that they will be as the current system. Does that mean you can give a commitment that that will be the case when High Speed 2 opens?

Mr McLoughlin: That is certainly what our assumptions are based on. If I am still Secretary of State by the time the line is built, I will try and give you that assurance. It would give me a record. I think you are going to do everything you possibly can, Chair, to ensure that I am not Secretary of State by the time the line is built, but I do not mind returning to it.

Q105 Chair: We will not go into that just now. Is cross-party support essential for this scheme?

Mr McLoughlin: It is very important. The Prime Minister made this point a few weeks ago. I was very encouraged by what both the Shadow Secretary of State said on the Third Reading of the Paving Bill that we had in the House of Commons and, indeed, what Lord Adonis said when he

was opening the debate in the House of Lords for the Labour Party last week on the Paving Bill. I believe that cross-party support is there. We have what Frances O'Grady has said and what the leaders of the local authorities in the north have said. I am referring to Richard Leese, Julie Dore, Sir Albert Bore and various other leaders as well. I believe that that support is overwhelmingly there because they see the benefits for their cities and their areas.

Q106 Miss Smith: I want to ensure that we also cover the question of the organisational side of your Department in this session, Secretary of State. Clearly, there have been some upheavals in recent times within some of your rail teams. Would you be able to give us the assurance that you are putting your civil servants through their paces, as indeed I am sure Mr Prout is doing, in order to be able to deliver this project over the long term as well as doing everything else you hope to do on rail franchising?

Mr McLoughlin: It is personally one of the reasons why I believe the Paving Bill was important. The Paving Bill does now have the authority of Parliament having discussed the issue and having an overwhelming vote of over 350 in favour of it, so over 50% of the House, with a few people voting against it. They were those with legitimate concerns about the route that goes through their constituency. So I think the Paving Bill was very important.

When people say, "When is work starting on HS2?", I just say, "Go and see all the people I saw yesterday at Eland House who are working on HS2 in the company." There is a huge amount of work going on and we have some excellent people working on it.

Q107 Jason McCartney: Following on from your question about fares, one of the welcome new additions to the East Coast Main Line has been the open access agreement with a company like Grand Central, which provides extra services—I think it is three a day—from Yorkshire down to London and back again. I do not want to name particular companies, but from online train ticket companies you can get a ticket two weeks ahead for £11. What role or opportunities do you think there will be for those equivalent companies to get benefits and offer really good-value ticket deals to passengers once we have this new north-south line?

Mr McLoughlin: Mr McCartney, you have just said it really. The truth is that there are some very good deals that people can get. If you can pre-book your tickets, you can get some incredibly cheap rail journeys. If you turn up on the day without any notice, then they can be very expensive journeys. That is something the companies are learning. I think we will see more development of that with the technology improvements that are coming, but I hear what you say about your praise for open access.

Q108 Chair: I have two final questions for you. Are you completely satisfied with the latest information you have that all alternatives to increasing capacity by other means, rather than building a new HS2 line, would not be adequate and would not meet the need? I know you gave this answer before, but, looking now at all the most up-to-date information and projections, are you completely satisfied that HS2 is the only way that the needed capacity and connectivity can be achieved? Is there any other way of doing it?

Mr McLoughlin: I am. With all the pressures that are faced by the railways, with the desire to see increased freight and the growth that we are seeing in passenger numbers, none of the alternatives gives us anything like the solution that HS2 does in the long term for the United Kingdom. It is fairly clear-cut. Nothing gives the kind of increase in capacity on the railways or the freeing up of other rail services that will answer some of those questions for more services from other cities, or does the job as effectively or efficiently as HS2 will do.

Q109 Chair: How do you see your role from now in relation to HS2? It is a very controversial project. It has its supporters and it has people who are very opposed to it. It has people who are very concerned about the implications of that level of spend over so many years. What is your role now?

Mr McLoughlin: My role now is to try and convince people and to show that we have done our work on this; that we will try to build it responsibly and listen to the concerns that people have. At the end of the day, we must also make sure that our great cities such as Manchester, Birmingham, Leeds, Sheffield, Nottingham, Derby, Crewe and places like that have a rail service that warrants a modern economy.

Chair: Thank you very much.