

## **Further written evidence submitted by Mr Malcolm Griffiths (IRP0068)**

Additional evidence concerning the DfT HS2 Phase 2b Western Leg – Strategic Business Case. (24 Jan 2022)

I am submitting evidence to the Committee as a private individual concerned about the future growth of the North, Midlands and UK economies.

The HS2 Phase 2b Business case [1] is compatible with most of the related predictive comments in my initial submission. Parts of the Business case warrant further comment.

### **Productivity Growth**

Page 4 of the Business case [1] states that the likely GDP impact from the Crewe to Manchester extension is an annual c£800 million in 2051. The UK GDP in 2021 is £2120bn OBR forecasts suggest that in 2051 GDP will be £6670bn in money of the day. By calculation the one off GDP growth between 2021 and 2051 is 0.012% for £14bn of discounted capital cost. This is consistent with productivity growth of 0.09% for the full IRP including HS2 phases 1, 2a & 2b

At this level of return whether in the Public or private sector the 1.5% annual productivity growth currently forecast by OBR would need about £1,700bn of investment every year. There is a huge disconnect between the Governments proposals for investment and the aspiration of annual growth increasing from the current 0.6%/ year, to 1.5%.

### **Capacity**

Figure 2.9 page 82 shows a graph of forecast demand growth in Long distance rail to 2050, the line showing the HS2 reference case shows a 30% increase of about 50 million journeys to about 200 million passenger journeys per year, after 2050 growth is flat. In contrast on page 38 the graphs show HS2 provides a 3-fold increase in seating capacity sufficient to provide 450 million passengers/year at current usage patterns. Given current ONS population forecasts there is little logic in providing so much over capacity city to city that may never be used when other local North & Midlands rail routes may need capacity expansion more urgently. [1]

### **Value for money**

The Business case shows that the BCR of the Crewe to Manchester section has a BCR of 0.9 equivalent to a rate of return of about 2.8%. The section on the environmental impact page 86 para 2.79 states that the Crewe to Manchester extension, will over 60 years, reduce car journeys by 30 million, air journey by

25 million, but increase rail journeys (generate new journeys above mode transfers) by 225m. Previous Business cases have not been as transparent in this aspect. [1]

It is these new journeys that without HS2 would not take place that cause the informed environmental lobby against HS2 angst and concern. With construction emissions and over 100 years of operation HS2 doesn't reduce green house gas emissions because it promotes more travel.

The loss of working time spent on these 250 million journeys versus spending time working in the office at home or via virtual meetings has not been included in the economics or the value for money calculation. Making 225million additional journeys equates to 3.75 million journeys /year at an average journey time, (Manchester to Birmingham/London) after HS2 time saving, of about 60 minutes. This equates at the combined business/leisure/commuting value of time to give a value loss of about £110 million/year. The NPV of this loss of value would be about £4bn. If this loss is applied to the BCR calculation the BCR becomes 0.6.

DfT methodology does not acknowledge that this component needs to be included into the calculations however it is illogical that it is not, the methodology takes credit for the time saved on journeys, the wider economic impact of the journeys, but not the time lost spent on the additional journeys that would not be made without HS2.

As yet neither the DfT nor as far as I know any other Government or Parliamentary entity appear to have understood and addressed this concern. The matter can be addressed either by amending the economics or explaining why the impact is not included. This is the impact on the Crewe to Manchester section, the issue impacts the overall HS2 scheme. The Environmental lobby against the project will not diminish; given the Climate Change objectives people are genuinely bemused by the Government want to persuade people to physically travel more rather than use technology

In the Phase 2b Business case the revised economics for the combined Phase 1, 2a and 2b projects show a BCR (with WEIs) of 1.2 equivalent to a rate of return of about 3.5%. While appropriate for decision making on whether HS2 construction should continue this is not the basis for assessing value for money as it disregards the £15.8bn of sunk costs (£9.8bn reported to April 2020 plus an additional £6bn reported in the Jan 2022 update). When sunk costs are taken into account the BCR becomes 0.9 equivalent to a 2.8% rate of return. If the loss of working time for the additional journeys is taken into account the BCR will also be about 0.6. [1]

However whether the BCR is 0.9 (2.8% rate of return) or 0.6 (2.1% rate of return) the question is whether taxpayers' money should be spent on such "Poor value for money" projects particularly at this time.

In September 2011 the then Transport Secretary advised the Transport Select Committee that if the BCR of HS2 fell below 1.5 it would need to be put under some very close scrutiny, it is now at 0.9 full life. The proposed Crewe to Manchester extension also has a BCR of 0.9

### **Levelling up?**

Using the information from the Business case update Jan 22 [1] and the Full Phase 1 Business case April 2020 [2] it is possible by deduction to estimate the economics of the cancelled full Y extension East leg to Leeds. After adjusting for the change in sunk costs it would appear as if the cancelled scheme would (on a discounted basis) have had costs between £36m and £44m, have benefits between £40m and £43m and revenues between £20m and £24m suggesting the BCR would be between 2 and 2.5 equivalent to a 5% rate of return. The current east leg proposal and the upgrades to the East coast and Midland main line are estimated to cost £12.8 million, if they manage to capture a significant part of the full leg extension benefits their BCRs may be above 3 (5% rate of return).

In terms of levelling and equal treatment the IRP proposals appear to significantly favour Manchester over Leeds. However Manchester will incur significant disruption during the construction period, not see benefits for 15 years and if increased connectivity actually sucks economy from Manchester due to the dominance of London then Leeds may end up better off not having a full link.

Annex 3 page 123 of the new business case provides a limited overview of international and HS1 impact of high speed rail on local economies the findings are mixed but seems to show a trend of higher value jobs migrating to the largest city and that small town (intermediate stops) economies do grow. The impacts are greater on Service industries than Manufacturing. [1]

January 2022

### **Data sources**

[1] DfT HS2 Phase 2b western Leg: Crewe to Manchester Jan 2022

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1049547/hs2-phase-2b-western-leg-crewe-to-manchester-an-update-on-the-strategic-outline-business-case.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1049547/hs2-phase-2b-western-leg-crewe-to-manchester-an-update-on-the-strategic-outline-business-case.pdf)

[2] DfT Full Business Case High Speed Two Phase 1

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/939905/full-business-case-hs2-phase-one.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/939905/full-business-case-hs2-phase-one.pdf)