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Doubts over value of HS2 rail project

By Mark Odell and Jim Pickard



The economic case for the first stage of the government's £32.7bn high speed rail line has weakened so much over the past year that the London to Birmingham section is now considered "low" value for money, according to its own calculations.

Announcing the High Speed 2 project on Tuesday, Justine Greening, transport secretary, told MPs that she had pressed ahead with the ambitious railway line because it was a "good value-for-money project". Citing the example of the visionary Victorians who built the country's first railways, she added: "We can't afford not to do this."



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However, critics of the HS2 project who have long questioned its economic cost and environmental impact, highlighted the government's calculations in its accompanying Value for Money Statement.

This shows that the traditional measure of value for money of infrastructure schemes – or the cost-benefit ratio – for the first 140 miles of the route from London to Birmingham has dropped from a gain of £1.60 for every £1 invested, when last calculated in February 2011, to £1.40.

"The Treasury wouldn't normally get out of bed for that," said Stephen Glaister, a transport economist and executive director of the pro-motoring RAC Foundation. "The economic case for HS2 had not been made." Other rail and road schemes were "much more attractive", he said.

The official analysis shows that a large part of the fall is due to the change in the government's economic forecasts but a rise in the estimates of the operating costs of high speed services also had a significant impact.

The change moves the case for the first phase of the route, which is due to open at a cost of £16.3bn in 2026, from the "medium" to "low" value for money category as defined by the government. The analysis for the whole route, which will see a Y-shaped network built north of Birmingham to Manchester and Leeds, by 2033 at a further cost of £16.4bn, is estimated to have a ratio of between 1.6 to 1.9 times but contains less certainty as the route will not be decided on for another 2 years.

Ms Greening said the first phase of the scheme would create up to 40,000 jobs and rejected the case made by opponents that the projected capacity shortfalls could be solved with upgrades of the on the existing line as a "patch and mend" approach.

The line will allow trains to run up to 250mph, boost capacity by 26,000 seats an hour, and cut journey times between London and Birmingham by 39 minutes. It will connect to the Channel Tunnel Rail link and eventually Heathrow airport.

John Redwood, the Conservative former cabinet minister, said the project "doesn't offer sufficient value for money at the moment". He predicted that the next government in 2015 might take a different view on whether to proceed with the project.

Officials conceded the economic case had been "revised down slightly" due to the economic climate but chose to focus on a higher iteration of the benefit cost ratio, which includes a measure of wider economic impacts such as the scheme's effect on the labour market. This gives the first stage of the scheme a ratio of 1.6 and the whole network a range of 1.8 to 2.5 times, which at the top end puts it in the "high" value for money category.

HS2 Timeline

Jan to April 2012 - Three-month period in which 18 local authorities opposing the line could seek a judicial review of the decision, introducing significant delays into the process

Spring 2012 - Consultation on compensation starts for those with property affected by the route between London and Birmingham

End of 2013 - Planned introduction of the bill seeking parliamentary approval for the first phase of HS2

End of 2014 - Decision on preferred route for the second phase from Birmingham to Manchester and Leeds and a spur to Heathrow

2016 - Preparatory work begins on first phase of the line, with construction starting in 2017

2026 - London to Birmingham line opens

2033 - Y-shaped route from Birmingham to Manchester and Leeds opens

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