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Internal Treasury concerns mount over HS2

By George Parker and Jim Pickard



Treasury officials are privately warning that the cash cost of the controversial High Speed 2 rail line will hit £73bn, in a sign of the entrenched and escalating concern within the department over the project.

The official projected cost of the flagship scheme is £42.6bn, but senior Treasury officials are using a much bigger figure to add bite to their criticism of the scheme. In an attempt to flag up the enormity of the enterprise, officials include the effects of inflation and VAT over the project's 20-year lifespan to arrive at a £73bn cash figure.



HS2-much?

George Osborne is committed to the 225mph rail link between London and Birmingham, Leeds and Manchester, which he views as an emblem of the coalition's commitment to spread growth more evenly across the country.

But there is a widely held view in the Treasury's senior echelons that the scheme whose proposed budget recently rose by £8bn will drain investment from other projects which would do more to boost growth.

While Treasury officials are working to deliver the scheme, many privately believe an incoming Labour government would be forced to look again at the merits of Britain's biggest infrastructure project.

The government expresses the projected bill in 2011 prices at £42.6bn: that includes the £8bn escalation in the estimated bill announced last month. The cost of new rolling stock would take the bill on that measure to about £50bn.

To express the cost in constant prices relative to a base year is standard government practice. But senior Treasury officials who have told the Financial Times of their concern about a scheme that will dwarf other public infrastructure projects over two decades, have privately started using the higher figure.

They concede the Conservatives and Liberal Democrats are determined to drive the flagship project through, in the face of the Treasury's traditional preference for less glamorous local

road schemes.

“That argument has been had – the decision has been made,” said one official. But another said Labour would be forced to look again, especially if calculations on costs or expected benefits changed again.

Ed Balls, shadow chancellor, said last month Labour would not write a “blank cheque” for the project and an aide said on Tuesday: “We support it but it has to be value for money for the taxpayer and we are worried about rising costs.”

Labour’s concerns about the scheme – it has recently been disowned by former business secretary Lord Mandelson and former chancellor Alistair Darling – and Treasury opposition has created disquiet around the project.

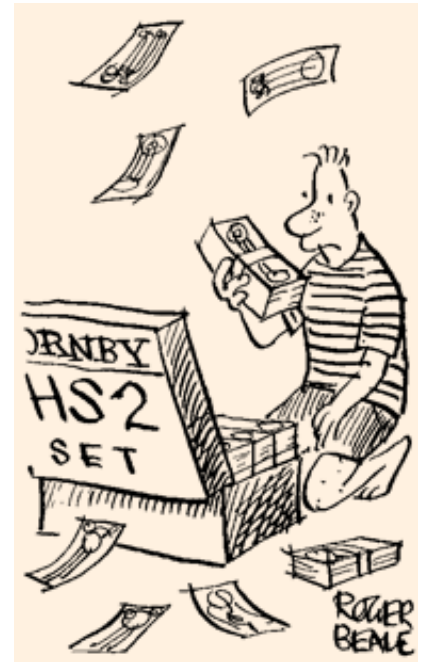
“There is definitely a feeling of paranoia in the air at the moment,” said one HS2 official. “Nobody knows what Labour would do if it got in. And there’s a sense that if the costs go up again then it’s game over, definitely.”

A crucial moment will come this autumn when the Department for Transport publishes new cost-benefit analysis of the scheme, amid criticism that its earlier exercise was flawed.

But Mr Osborne’s team say the chancellor is convinced the scheme will go ahead. “Labour say they’re about investment and growth – I don’t think they would want to be on the wrong side of this argument.”

The chancellor’s aides argue it is the Treasury’s job to say No to projects but that opposition to HS2 was “not the house view”.

A Treasury spokesman said: “The High Speed 2 programme is the most important investment in public infrastructure in a generation. HS2 has the full support of the whole government, including the Treasury.”



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