



Treasury Committee

House of Commons, Committee Office, 14 Tothill Street, London SW1H 9NB
Tel 020 7219 5769 Fax 020 7219 2069 Email treascom@parliament.uk Website
www.parliament.uk/treascom

Rt Hon. Chris Grayling MP
Secretary of State for Transport
Department for Transport,
Great Minster House
33 Horseferry Road
London
SW1P 4DR

14 September 2016

Dear Secretary of State,

The economic case for airport expansion and HS2

Thank you for our conversation on 15 August. We discussed the need for clear answers on the economic case for Heathrow and Gatwick. I explained the gaps in the information provided to support the economic case in the Davies review.

Unfortunately, neither the Department for Transport, nor the Treasury, have felt able (for over 10 months) to supply this information. For the fifth time, I am attaching these questions. Failure to answer them will lead people either to conclude that this work has not been done – in which case it would be unacceptable for a decision to be made without the evidence to support it - or that it has been done, and gives answers that do not necessarily support the conclusions of the Davies report. I do not suggest that either of these are the case. The best way to answer these concerns is to publish the information immediately. As we discussed, I have written in similar terms to the Chancellor.

We also discussed HS2. In your speech in Derby on 21 July, you made clear your support for the project, justifying HS2's economic case on the basis of both capacity and speed. But the numbers do not support such an argument, as the Treasury Committee found when it took evidence from KPMG and a panel of academics in November 2013. HS2 has the weakest economic case of all the projects within the infrastructure programme, yet it is being pushed through with the most enthusiasm.

The question of whether it is possible to improve capacity at lower speed and, consequently, at a lower cost, has not been comprehensively examined. In its strategic case for HS2, the Department for Transport asserts that the nine per cent cost savings attributable to the construction of a new conventional railway – along the proposed high speed route– would be

outweighed by the economic benefits to be gained from reducing journey times and improving connectivity between our main cities.

As the Lords Economic Affairs Committee and the Institute of Transport Studies at the University of Leeds have concluded, the evidence behind these benefits was unclear. The Lords Committee recommended that “the Government review opportunities to reduce the cost of constructing HS2 through a change in the design of the scheme to one with a lower maximum speed”. This work has yet to be completed.

The question about what route a high speed line might follow was addressed over 12 years ago in a feasibility study commissioned by the Strategic Rail Authority. The Government has failed to explain clearly why it regards this feasibility study as providing the evidence to select the corridor through the Chilterns. Some details of other alignments to the Chiltern alignment have been set out in subsequent reports – including in the London-West Midlands Environmental Statement published by the Department for Transport in November 2013 – but these do not appraise the costs and benefits of constructing a conventional rail line along a different route to the high speed option at a level of detail that should be a requirement of a project of this scale and cost.

The case for providing sufficient detail to enable other ways of improving rail capacity – including at lower speed - to be fully assessed, remains very strong.

I will be putting this letter in the public domain.

Yours sincerely,

James Rigg

pp.

RT HON ANDREW TYRIE MP
CHAIRMAN OF THE TREASURY COMMITTEE

Annex

Parliamentary Questions to which answers are requested:

1. To ask the Chancellor of the Exchequer, if he will make an assessment of the probability that the net present value of each of the three shortlisted schemes examined by the Airports Commission is zero or negative. Commons **18078**
2. To ask the Chancellor of the Exchequer, if he will instruct the Infrastructure and Projects Authority to reproduce Table 7.1 of the Final Report of the Airports Commission, published in July 2015, using the Commission's (a) global growth, (b) relative decline of Europe, (c) low-cost is king and (d) global fragmentation scenarios. Commons **18066**
3. To ask the Chancellor of the Exchequer, if he will instruct the Infrastructure and Projects Authority to provide 90 per cent confidence intervals for each of the figures in Table 7.1 of the Final Report of the Airports Commission, published in July 2015. Commons **18068**
4. To ask the Chancellor of the Exchequer, if his Department will make an assessment of the implications for his policies of the economic impacts of the recommendations of the Airports Commission's Final Report published in July 2015. Commons **18076**
5. To ask the Chancellor of the Exchequer, whether the Infrastructure and Projects Authority will assume responsibility for future projects to increase airport capacity in the South East. Commons **18077**
6. To ask the Chancellor of the Exchequer, with reference to Table 7.1 of the Final Report of the Airports Commission, published in July 2015, if he will commission an assessment of the effect on the data in that table under the Commission's (a) global growth, (b) relative decline of Europe, (c) low-cost is king and (d) global fragmentation scenarios. Commons **18072**
7. To ask the Chancellor of the Exchequer, with reference to Table 7.1 of the Final Report of the Airports Commission, published in July 2015, if his Department will make an assessment of the effect on the data in that table under an appraisal period of (a) 10, (b) 20 and (c) 30 years. Commons **18067**

8. To ask the Chancellor of the Exchequer, if his Department will make an assessment of the effects on the conclusions of the Airports Commission's Final Report, published in July 2015, of the Commission's decision not to take account of high value-added international sectors in measuring the agglomeration benefits of the three shortlisted projects. Commons **18075**

9. To ask the Chancellor of the Exchequer, whether the Airports Commission estimate of net present value of the three shortlisted schemes took account of the (a) extent to which the cost of each such scheme would be passed to passengers in higher fares and (b) effect of such higher fares on passenger demand. Commons **18070**

10. To ask the Secretary of State for Transport, whether the Airports Commission estimated the probability that the net present value of the three shortlisted schemes would be zero or negative, and what the probability was for each shortlisted scheme under the carbon capped and carbon traded policy frameworks. Commons **18069**

11. To ask the Secretary for Transport, for what reasons the Airports Commission used his Department's National Air Passenger Demand Model and National Air Passenger Allocation model in its work; whether the assumption of homogenous capacity in those models affected the net present value figures in Table 7.1 of the Commission's Final Report, published in July 2015, compared with a model that distinguished between long and short-haul, business and leisure, and domestic and international capacity; and what assessment he has made of whether the use of a model that distinguishes between such different types of capacity would increase or decrease the net present value of each of those shortlisted schemes. Commons **18071**

12. To ask the Secretary of State for Transport, what account the Airports Commission took of the concern raised by its expert advisors that the failure to account for high value-added international sectors in measuring the agglomeration benefits of the three shortlisted projects was a significant limitation. Commons **18065**