



Treasury Committee

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Rt Hon Chris Grayling MP
Secretary of State for Transport
Department for Transport,
Great Minster House
33 Horseferry Road
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4 January 2017

Dear Chris,

The economic case for HS2

Thank you for your letter of 12 October, in response to mine of 14 September.

Since receiving your letter, the Department for Transport has published appraisals on HS2 Phase 2b, which include updates to the economic case and benefit-cost ratios for the full HS2 network. The benefit-cost ratio for the project has increased from the November 2015 Economic Case estimate of 1.8, excluding Wider Economic Impacts, to 2.1, and is therefore now – for the first time - considered able to deliver “high” value for money, in line with the Department’s guidance.

The analysis published raises further questions on the economic case for HS2. I would be grateful for your response to the following:

Demand update

The largest impact to the benefit-cost ratio for the full HS2 network comes from more recent outturn demand data from 2011 to 2014. It is demonstrated in Figure 1.2 in the Department’s economic case for HS2 that the impact of this increase on the benefit-

cost ratio is 1.6.¹ If the demand update were to be removed, the benefit-cost ratio falls dramatically, from 2.7 for the full network, to 1.1. In other words, without this latest data, the business case suggests that HS2 is scarcely worth the candle. The project would be delivering “low” value for money, in accordance with the Department’s own guidance on “Value for Money Assessments”, and rightly adjudged to be doing so.

So, the credibility of this sharp rise in forecast demand is crucial to the whole HS2 project. One of the causes has been a much more rapid growth in passenger demand between 2011 and 2014 than predicted by HS2 Ltd. That the forecasting model used by HS2 Ltd failed to provide a reasonably accurate prediction for 4 years’ worth of growth is a serious concern.

- What evidence do you have to hand now that was unavailable in November 2015 in support of this large increase in passenger demand?
- How can you be confident that this growth in demand will not be reversed in the next forecasting period?
- What is the Department doing to improve the forecasting model used by HS2 Ltd?

Business travellers

Business time savings remain the main source of benefits. The Department’s latest analysis provides important new evidence on the value business travellers place on time savings, and marginally increases the benefits of the scheme.

- What proportion of passengers will be on business?
- What is the evidence to support this?
- I would be grateful if the Department provided the Committee with the sample data of transport users, on whose stated behaviour the new values of time were based.

¹ Department for Transport, High Speed Two Phase 2b Strategic Outline Business Case: Economic Case, p.11

Revised growth forecasts

The latest rail demand forecasts which underpin the Department's analysis of Phase 2b are predicated on the OBR outlook for the economy. On 24 November, the OBR downgraded its forecasts for GDP growth. I would be grateful for the Department's assessment of the impact that these changes will have on the rail demand forecasts, and therefore the impact on the benefit-cost ratio for the full network.

I will be placing this letter, and your response in due course, in the public domain.

Yours ever,
Andrew

RT HON ANDREW TYRIE MP
CHAIRMAN OF THE TREASURY COMMITTEE