

Dear Prime Minister

We want to outline, as clearly as possible, what we believe the cost implications may be for your imminent decision on whether to proceed with High-Speed 2 (HS2).

Cost estimates

As you know, the initial and official cost estimates have been consistently wrong:

- £28 billion project with a 50 per cent contingency: This was the figure given by Rt Hon Lord Adonis, former Secretary of State for Transport.
- £50.1 billion: This figure refers to the expected cost to construct HS2 in 2011 prices and purchase rolling stock, including all contingency.
- £55.7 billion: This figure was given in 2015 and confirmed by Ministers in July 2019.
- £81 billion to £88 billion: The figure from HS2 Ltd Chairman's Stocktake, August 2019.
- £106 billion: The anticipated upper estimate from the upcoming Oakervee Review.

In this context, we believe that the realistic cost of the project should be a critical consideration in your decision.

Cost increases

We believe that costs are likely to rise further still. As the recent report from the National Audit Office confirmed, a considerable number of Phase One costs are at risk of increasing: main civil construction, trains and railway systems, the extension of Euston station and overestimates of efficiency savings.

For Phase Two, HS2 Ltd estimates that it has only completed around 5 per cent of the initial scheme design. For Phase 2b in particular, the estimate does not include additional scope, such as junctions with the proposed Northern Powerhouse Rail or Midlands Connect, which the Department for Transport expects to fund separately.

We would not be surprised if the eventual costs, including associated expenditure and rolling stock, were closer to £150 billion.

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Deliverability

Given the undoubtedly rising costs, it is prudent to consider the deliverability of the project.

The Infrastructure and Projects Authority says that “successful delivery of the project is in doubt, with major risks or issues apparent in a number of key areas”. HS2 is the only major project to have received seven Amber/Red warnings in a row since 2013.

We are concerned that it may be difficult to deliver in its current form, despite significant increases in budget.

Benefits

Without a doubt, proceeding with HS2 would create some benefits, particularly in the construction supply chains and areas of development in London Euston and Birmingham.

However, we believe that many of the other benefits are overstated. HS2 is highly unlikely to achieve its aims of 18 trains per hour and a top speed of 400 kilometres per hour (km/h). Not a single high speed railway in the world has managed to run so many trains per hour. This raises doubts about the supposed benefits to capacity.

While train speeds of 400 km/h are possible (although not in tunnels, which are common to Phase One), the engineering required is vastly more complicated than ones that run at 320 or 360 km/h. Running HS2 trains at 300-320 km/h, the same as French TGVs, would again reduce the benefits.

In 2011, the Rt Hon Philip Hammond MP told a Select Committee that he would need to “seriously review the viability” of HS2 if the benefit-cost ratio fell below 1.5. We now believe that this may end up being as low as 0.78.

The benefits, such as they are, will be disproportionately accrued to large cities, including London and Birmingham. The official HS2 business case shows that almost half, 43 per cent, of the benefits go to London and the South East. This means the north-south rebalancing effect will be significantly lower than many assume.

Implications of proceeding

To facilitate HS2, a number of fast services will need to be removed on the East and West Coast Main Lines. This means that places such as Coventry, Stoke, Macclesfield, Stockport, Doncaster, Wakefield, Wolverhampton will lose some or all of their existing fast services, while being bypassed by HS2. This will not help level up these towns.

It will also have a significant environmental impact. HS2 could create 13.3 million tCO₂e in the construction phase, meaning it may never earn back its carbon budget. Many of the alternative transport projects available would likely reduce long term CO₂ emissions, via a combination of reducing congestion, more cycling, fewer car journeys and electrification of railway lines.

Implications of cancellation

Claims that sunk costs total £11 billion are over-inflated, based on assumptions about land sales and the value of existing contracts. A more realistic figure is in the region of £6 billion.

Those involved in the HS2 supply chain, including the chief executive of Balfour Beatty, have been clear that cancellation would have a “very small” impact on the construction industry.

Alternatives

Last year, we launched The Great British Transport Competition to identify alternative transport projects to HS2.

Travelling by rail accounts for only 3 per cent of all journeys in the UK by volume. Our competition considered how improvements to all modes of transport would benefit the country. A panel of experts selected 28 winning projects; the sum total of their construction costs came to £45.1 billion, approximately half the cost of HS2. Further details of this work are enclosed.

We believe that a national program of transport investment would be better value for money and would more directly benefit provincial English towns in the Midlands and North. These projects will enable greater social mobility, by better linking villages to towns and towns to cities.

Conclusion

The TaxPayers' Alliance believes that HS2's costs are likely to be significantly higher, and the benefits substantially lower, than many claim. Combined with the difficulties in delivery and implications for both 'left behind towns' and the environment, taxpayers' money would be better spent on a national programme of transport investment.

Yours sincerely



John O'Connell
Chief Executive
TaxPayers' Alliance