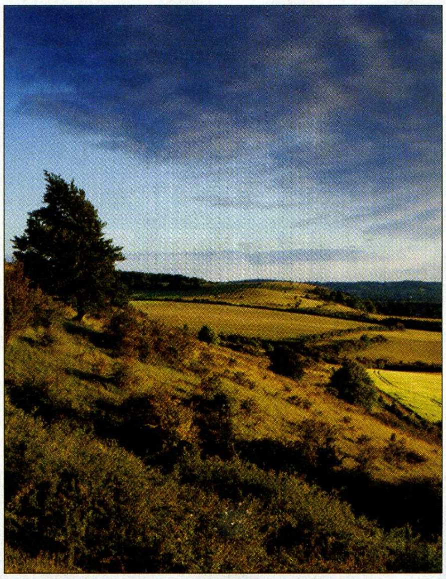
Should we go ahead with HS2?

The government has approved plans for a high-speed rail network (HS2), but opposition is strong. Does the economic case stack up? Simon Wilson reports.

What's been announced?

The government has agreed to build High Speed 2 (HS2), a new £32.7bn high-speed (225mph) rail network linking London to Birmingham, cutting the journey time to 45 minutes – and eventually connecting to both Leeds and Manchester. Last week, the transport secretary, Justine Greening, gave the line the go-ahead, and announced a series of adjustments to the route from Euston to Birmingham to appease campaigners from southern England's Tory heartlands; about 22.5 miles of the new route will now be underground, an increase of 50% on the original plan. The announcement means it's now more likely that HS2 will be built, but it's far from a done deal.



The case for driving a train through it is weak

Why's that?

Given the incredibly lengthy building timetable and the weak economic case for going ahead with the line, it is feasible that the political will to carry on will wilt. Between now and April, 18 local authorities opposing the line could seek a judicial review, introducing delays at the outset. Consultation on compensation for affected property-owners begins this spring, a parliamentary bill to approve the first phase is due in autumn 2013, and construction is due to last from 2017 to 2026 (Birmingham) and 2033 (Leeds and Manchester). The bulk of the media reaction – greeting HS2 as insanely expensive and built on all kinds of false premises – will have offered encouragement to those determined to stop the scheme. John Redwood, the Tory ex-cabinet minister, was one of many voices arguing that HS2 "doesn't offer sufficient value for money at the moment". He predicts that the next government in 2015 might drop it.

Who is against the scheme?

Both the Financial Times and The Economist regard HS2 as a Concorde-style vanity project that should be scrapped; an expensive way of achieving very little and conceivably doing a great deal of harm. The trenchant opposition of Britain's two leading business newspapers is worrying, given the whole point of the exercise is to boost British business. HS2 has been sold as an opportunity to bridge the north-south divide and transform the north's prospects. But the evidence from France and Spain is that the already-dominant hub city (Paris, Madrid, London) benefits far more from high-speed links than the regional city (Lyon, Seville, Birmingham). Moreover, previously well-served cities that the new line bypasses (eg, Stoke, Crewe, Rugby) inevitably suffer. The modest time savings involved (given business people can work perfectly happily on their laptops on existing trains) mean the cost is hard to justify on economic grounds.

Are there no economic benefits?

Super-high-speed rail makes sense for countries with cheap energy and long distances between big cities – like China or the United States. But for countries such as England, it's very different. The nearest comparable system is the new "Frya" high-speed service in the Netherlands, which opened two years ago and is already close to financial collapse, reports Andrew Gilligan in The Sunday Telegraph. Like Britain, Holland has a dense network of conventional services and relatively short distances between big cities. In light of the modest amount of time saved, passengers have shunned the premium high-speed fares and trains are running up to 85% empty. The 103-mile route, linking Amsterdam, Rotterdam, Breda and Antwerp (in Belgium), cost more than £7bn to build and is losing £320,000 a day.

How much will HS2 cost?

Even by the government's own figures, the economic case for HS2 is unconvincing. The Department for Transport assesses projects by using a benefit/cost ratio (BCR), taking anything below 1.5 (ie, a projected £1.50 return for each £1 invested) as "low value for money". In March 2010, the (Labour) government put the BCR at 2.7; by February last year it fell to 2.0, and in the economic rationale for the project published last week, the projected ratio was just 1.7. Worse, that figure includes guesses for so-called "wider economic impacts" with no "firm evidence base" – such as the putative boost to business from making it easier to visit customers and investors, and speculative guesses about how many new jobs might be created. Discounting them, the ratio falls to 1.4, and even – if you include the government's latest predictions for economic growth and demand for rail – down to 0.9. In other words, it's loss-making. At the same time, the projected BCR for upgrading the current west-coast line (longer trains, platforms, etc) has jumped from 1.9 to 4.0 – offering solid value for money. HS2 has been given the green light, but the debate is only just beginning.

What's the case in favour?

There are plenty of pro-HS2 voices in the north of England. For example, Sir Richard Leese, the leader of Manchester City Council and long-time advocate of HS2, argues that a new, separate, high-speed rail network is the "only cost-effective way of extending an existing network that is becoming increasingly congested". Moreover, it will free up capacity on the existing network for commuter services and inter-city services for smaller towns. Leese and other advocates also argue that however expensive HS2 might seem, it will ultimately be self-financing by giving a boost to jobs and investment. Leese reckons the Paris-Lyon line, opened in 1981, has paid for itself in this way, and that the high-speed lines in Spain are the only profitable bits of that network.