



Spatial Economics Research Centre

Tuesday, 29 October 2013

The Strategic Case for HS2

[Posted by Prof Henry G. Overman]

A quick reaction to the government's new [Strategic Case for HS2](#) and revised [Economic Case](#).

- 1) The BCR hasn't changed much (it's been revised down as a result of a number of revisions, including to costs)
- 2) The BCR figures are presented differently. They now systematically *include* Wider Economic Impacts. As far as I can tell, this runs [counter to DfT's guidance](#) (p.5) which says that BCR should *not* include Wider Economic Impacts.
- 3) Excluding Wider Economic Impacts, consistent with DfT guidance, reduces BCRs. In terms of DfT's [Value for Money](#) guidance, phase 1 is low value for money and the full Y network is medium value for money (not high value, as stated in the Strategic Case).
- 4) The Economic Case provides the distribution of BCR around the central estimate. But other projects would also show variance around the central BCR figure. If the variance of the BCR for HS2 is higher this indicates that it is a more risky project so we should expect higher average BCR (to compensate us for taking on risk). The report often seems to imply the opposite of this ('look how high the BCR might be!')
- 5) The new Strategic Case shifts the focus to arguments around capacity and overcrowding on parts of the line. I find this confusing for a number of reasons. First, we have overcrowding on many parts of the network (some of it much more severe than the crowding experienced in to Euston). Second transport improvements can't hope to meet all demand so there will always be capacity issues on the network. Third, focusing on crowding per se ignores questions about the value of journeys and the costs of providing that capacity. These should be captured in a good BCR.
- 6) In terms of alternatives to HS2, the Strategic Case rules out the possibility of raising prices because this wouldn't deliver the accessibility and growth benefits that you get from HS2. This is true, but it would also avoid the costs. This simply points us back to the BCR as an appropriate comparison to alternative of pricing to deal with capacity constraints. If the BCR for HS2 doesn't look good then we should consider pricing as an alternative way of managing demand.
- 7) Another alternative would be to improve existing lines. This possibility has been considered by DfT and has a BCR (including WEI) of 3 - considerably higher than for HS2. We are told that this would involve 14 years of disruption at the weekends. Again, I'm confused by the focus on number of years it would take, rather than some assessment of the disbenefits. If we had that, we could adjust the BCR for the alternative options and see how this compares to HS2. [I also think it's unrealistic that we won't need some improvements on these lines before HS2 is completed and I'm sure that HS2 causes disruption which is ignored in the case for HS2]
- 8) All of this is about option generation for fixing capacity problems on the North-South train lines. That ignores the opportunity costs of these funds. Eddington's 2006 report for HMT suggest that these are substantial because we can identify alternative projects that address other capacity/connectivity problems and that would have higher BCR.
- 9) The BCR is a useful input in to decision making. But it is true that BCR doesn't capture all of the economic benefits of HS2. The government's preferred estimate for these additional benefits is somewhere between £8bn and £15bn per year. My blog post from September explains why I think these estimates are [too high by orders of magnitude](#). These additional growth impacts can't be directly compared to BCR (or added to them). Unfortunately, we don't have estimates of the additional growth benefits that would come from spending the £50bn on other transport projects, so we don't have a good point of comparison for these numbers. That said, the additional impacts of other schemes could be substantial (see, e.g., the low BCR for the Jubilee line which clearly under-estimated the overall benefits of the scheme).

There are other issues (e.g. around the demand cap assumptions) but that's all I have time for, for today.

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