House of Commons
Transport Committee

High speed rail: on track?

Ninth Report of Session 2013–14
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Report, together with formal minutes relating to the report

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The Transport Committee

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Summary

In 2011 we examined the Government’s proposals for a high speed rail line from London to Birmingham, and then northwards to Manchester and Leeds (HS2). We broadly supported the project because it would provide a step change in capacity on the West Coast Main Line, benefitting both passengers and rail freight, and bring strategic economic benefits to the nation as a whole. We decided to look again at the project following the publication of a revised business case and new research by KPMG on the project’s possible regional economic benefits.

We support the strategic case for HS2 and stand by our conclusion that HS2 is needed to provide a long-term increase in the capacity of the railway and that alternative proposals to increase capacity are not sufficient to accommodate long-term forecast demand. Connectivity, which can encourage economic activity and increase productivity, is also part of the justification for HS2, especially for the lines north of Birmingham. In our 2011 report we said “It is also disappointing that as a major justification for HS2 phases I and II is the rebalancing of the economy, a full assessment of the case for building north to south has not been undertaken. This work should be carried out as a priority.” Since then Sir David Higgins has told us that when he takes up his post as the Chairman of HS2 Ltd he will look at the case for building north to south concurrently with building south to north. We believe that the economic, transport and political case for this has strengthened since our last report. We look forward to Sir David reporting back to us on this matter.

In our view, HS2 can help promote economic growth in the UK’s major city regions and contribute to a rebalancing of the economy. However, this will not happen automatically. Local authorities and Local Enterprise Partnerships must develop economic development strategies to make the most out of HS2 and they must be supported in doing this by central Government.

KPMG has published useful and important research on HS2’s regional economic impact, which suggests that the project could add 0.5% to GDP by 2037. However, there are currently a number of limitations with the KPMG study and we recommend that HS2 Ltd continue to commission research in this area.

The KPMG research draws attention to the possibility that HS2 would affect different parts of the country in different ways and that some areas could lose out. In our view, it is essential that the benefits from HS2 are spread as widely as possible. This could be achieved by prioritising rail projects which enable trains from a wider range of areas than is currently envisaged gaining access to the high speed network; building additional links between the conventional and high speed networks; and bringing forward projects to speed up journey times on the conventional network, perhaps using the HS2 brand. Work to identify new service patterns on capacity freed up by the construction of HS2 should be speeded up. We recommend that steps be taken to achieve this.

KPMG’s estimates of the wider economic impacts of HS2 are not included in the existing
benefit/cost ratio. The appraisal methodology used by DfT focuses on benefits to individual travellers. We recommend that DfT review the appropriateness of applying its standard appraisal methodology to large projects with national significance.

DfT’s communications about HS2 should emphasise that the estimated cost is £28 billion, not £50 billion, and that cost increases to date have largely been due to the decision to undertake more tunnelling and other work to mitigate the impact of the project on people living near the route. We recommend that Sir David Higgins, the incoming chairman of HS2 Ltd, report to ministers by the end of 2014 on options for speeding up HS2 so that trains run north of Birmingham on high speed routes well before 2032/33, as currently envisaged.

There is little evidence to suggest that the Government will squeeze transport spending in other areas to channel money into HS2. If anything the opposite is happening in the rest of this decade, with several major rail projects beginning and steps being taken to provide more predictable funding for roads. We would not accept a situation in which other vital transport projects were delayed because of HS2’s funding requirements.

Our support for HS2 is not unqualified. For example, aside from the recommendations in this report, we remain concerned about how Heathrow will be incorporated into the plans for phase 1 and what impact including a Heathrow stop would have on the budget. Many important local issues will be debated and resolved by the hybrid bill committee and there will be detailed debates about many aspects of the project. However, we are convinced that it is essential for the UK for HS2 to go ahead, and to do so as a project which has the backing of all three major political parties.
1 Introduction

1. The HS2 project is the largest and most controversial transport scheme currently being proposed in the UK. If it proceeds as planned, the first part of the new high speed rail line (“Phase 1”), from London to Birmingham, will be constructed from 2017 to 2025. Trains will begin running in 2026. The second phase involves two lines north from Birmingham, to Manchester and Leeds, which are planned to be completed by 2032/33. HS2 is a major financial commitment for the nation. The “funding envelope” for the two phases is £42.6 billion, although this includes around £14 billion of contingency.1 Ever since the previous Government first began looking at the options for a new high speed rail line in 2009, debate has raged about whether the project is needed and represents good value for money.

2. We looked in detail at the strategic case for high speed rail in 2011. We concluded that:2

There is a good case for proceeding with a high-speed rail network, principally because of the substantial improvements in capacity and connectivity that it would provide, not only for services to and from London but also between the major cities of the Midlands, the North and Scotland. There would also be substantial benefits to passengers and freight on the classic network from the released capacity that would result. Its development should be closely integrated with plans for the classic rail network and other major transport infrastructure ... We believe that high-speed rail could have strategic economic benefits and should be planned on a strategic basis. It should be integrated with economic development planning.

In addition, we drew attention to a number of issues which the Government needed to address in taking the project forward, including greater clarity about the policy context, the assessment of alternatives, the financial and economic case, the environmental impacts, connections to Heathrow and the justification for the particular route being proposed.3

3. Recently, the Government published a new strategic case for HS2 which includes the latest estimate of the benefit/cost ratio (BCR) for the project.4 Work undertaken by KPMG on the wider economic benefits of HS2, which was commissioned by HS2 Ltd, has also been published.5 We decided to look again at the case for HS2 in the light of these developments, to see if the conclusion we reached in 2011 was still supported by the evidence. We heard oral evidence from KPMG and the Secretary of State for Transport on 26 November. We are grateful to them, to those who submitted written comments on the strategic case and the KPMG report, and to our specialist adviser, Bob Linnard.

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1 Railways: high speed rail (HS2), Standard Note, SN00316, House of Commons Library, 27 November 2013, pp15-16 and Department for Transport (HSR 011) paragraph 34. Also see High Speed Rail (London – West Midlands) Bill Estimate of Expense.

2 Transport Committee, Tenth Report, Session 2010-12, High Speed Rail, HC 1186-I, (hereafter High Speed Rail) paragraphs 118-19.

3 High Speed Rail paragraph 123.

4 The Strategic Case for HS2, Dft, October 2013.

5 HS2 Regional Economic Benefits, HS2 Ltd, HS2/074, September 2013.
4. On 25 November the Government published the hybrid bill which will authorise the construction of the line from London to Birmingham, along with a 40,000 page environmental statement, which is now the subject of consultation. The hybrid bill will be scrutinised by an ad hoc committee which is likely to be appointed after Easter 2014. Detailed matters relating to the route and mitigation of the impact of the line on the environment will be considered by that committee. In this report we focus on the rationale for HS2; the project’s benefits and costs; and, in our concluding chapter, the project’s timescale and its relationship with other transport projects, including expenditure on the existing rail network.

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6 Further information can be found on the internet at this address: [http://www.hs2.org.uk/hs2-phase-one-hybrid-bill](http://www.hs2.org.uk/hs2-phase-one-hybrid-bill).

7 Further information on the bill can be found on the internet at this address: [http://services.parliament.uk/bills/2013-14/highspeedraillondonwestmidlands.html](http://services.parliament.uk/bills/2013-14/highspeedraillondonwestmidlands.html).

8 For a view on environmental matters see Dr Paul Harlow (HSR 014) and Stephen Plowden (HSR 023).
2  Is there a case for HS2?

The Government’s argument

5. Increasing rail capacity to accommodate rising demand is the principal justification for HS2. The Department for Transport (DfT) argues that demand for rail, both from passengers and freight, is growing strongly and that a variety of projects are in place across the country to enhance the rail network.9 Whilst plans are in place to upgrade some lines:10

The West Coast Main Line, the busiest mixed use railway in Europe, is under particular pressure, with no easy fixes ... Despite a £9 billion upgrade lasting a decade, it is now close to its planned capacity in terms of the number of trains at peak times. Already reliability is suffering.

6. The Government has ruled out using price to control demand or expanding domestic aviation and argues that increasing road capacity alone is not the solution.11 Nor does it believe that further upgrades to the West Coast Main Line will meet the expected long-term growth in demand:12

We have carried out extensive analysis of incremental improvements to the existing network ... While they may have positive benefit to cost ratios, they cannot provide the step change in capacity needed to meet the long term demand on the north-south railways. Nor can they offer anything like the reductions in journey times that HS2 can, and they would be likely to exacerbate the problems with service performance. The best rail upgrade alternative to HS2 would only offer a 36% increase in peak hour capacity at Euston, would cost £20 billion, deliver less than half the overall benefits, and result in 14 years of weekend closures.

Consequently, the Government has decided in favour of building a new north-south rail line to free up capacity on the West Coast Main Line. This should be a high speed line because, in the Government’s view, the difference in cost between a high speed and a conventional line is modest and would be outweighed by “the economic benefits from radically reducing journey times between our main cities”.13

Alternative views

7. All of the Government’s arguments relating to rail demand and the capacity of the West Coast Main Line have been challenged. In relation to demand, the DfT’s strategic case for HS2 rests on a prediction of long-distance passenger demand growth of 2.2% per annum to 2036, after which demand is assumed to stop growing only three years after completion of

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9 HSR 011 paragraphs 8-9.
10 HSR 011 paragraph 9.
11 HSR 011 paragraph 15.
12 HSR 011 paragraphs 17-18. The 14 years figure comes from HS2 Strategic Alternatives, DfT, Oct 2013, Table 6-13.
13 HSR 011 paragraph 19.
the project. This is roughly in line with growth over the last two years, though well below the growth of around 10% per annum from 2009 to 2011 following upgrading of the line and introduction of a high frequency timetable. In an analysis we commissioned at the time of our previous inquiry, transport consultants Oxera concluded that HS2’s forecasting was consistent with industry best practice. However, some witnesses argued that future rail demand would be influenced by factors which could not yet be determined, such as future energy prices or technological developments which would reduce the need for business travel.

8. There has been strong criticism of the Government’s assessment that the West Coast Main Line is “full”. Witnesses argued that London Euston is not one of London’s busiest stations and that InterCity West Coast trains “are only c59% full at peak times”. In addition, it has been argued that there are numerous, simpler and cheaper ways of enhancing capacity on the West Coast Main Line, including converting first class carriages to standard class and tackling pinch-points on the line.

9. High speed lines must be relatively straight in order for trains to reach top speed. This influences the choice of route. It has been suggested that if a new line is needed it ought to be a conventional one so that a route with less environmental impact can be devised.

**Conclusion**

10. None of the arguments which challenge the capacity argument for HS2 is new: we discussed them all in our 2011 report. For example, we pressed Network Rail to explain what it meant for a rail line to be “full” and were told that it meant that demand for additional train paths at peak times could not be met. It is not necessary for every train leaving and arriving at Euston to be full for there to be a capacity problem with the West Coast Main Line.

11. The key issue is whether there are cheaper alternatives to HS2 which could meet forecast future demand. We analysed the package of alternative measures put forward by 51m, a group of local authorities challenging HS2, and found that although it might meet forecast average daily demand in 2043 it would not be able to accommodate higher growth or deal with peak period crowding. We concluded that HS2 would provide a step change in

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14 For a view on this point see Greengauge 21 (HSR 012) paragraphs 8-9.
15 High Speed Rail paragraph 28. Also see Andrew Green (HSR 027).
16 High Speed Rail paragraph 31.
17 See for example Philip Lund (HSR 006).
18 See for example, High Speed Rail: Investing in Britain’s Future, DfT, February 2011, p10.
19 Whittington and Lichfield District Stop HS2 Action Group (HSR 004) section 4. Also see 51m (HSR 008) section 3, Andrew Bodman (HSR 002), The Taxpayers’ Alliance (HSR 010) paragraph 5 and Chiltern Ridges HS2 Action Group (HSR 022) paragraphs 20-22.
20 For example John Bradley (HSR 001), Whittington and Lichfield District Stop HS2 Action Group (HSR 004), and Philip Lund (HSR 007).
21 See Mike Rawson (HSR 003) and A. Cordiner (HSR 018).
22 High Speed Rail paragraph 32.
capacity that would improve the connectivity of some of the UK’s largest cities and free up space on the West Coast Main Line for commuter and freight traffic.23

12. Although the growth in passenger numbers on the West Coast Main Line has slackened in the last two years, it remains broadly consistent with the DfT’s long-term forecast. The Government cannot ignore this problem and nor, in our view, should it pursue options which are likely to prove insufficient. We concluded in 2011 that “we do not wish our successors to be faced with a situation in ten years’ time where demand has continued to grow but insufficient time remains to provide the necessary capacity”.24 We support the strategic case for HS2 and stand by our conclusion that HS2 is needed to provide a long-term increase in the capacity of the railway and that alternative proposals to increase capacity are not sufficient to accommodate long-term forecast demand.

13. Recently, Network Rail published an analysis of the work required to upgrade the East Coast, West Coast and Midland Main Lines, as an alternative package to HS2. The headline from this work, quoted by the Government in its evidence to us, was that this work would entail 14 years of weekend line closures.25 51m pointed out that some of this work is due to go ahead anyway; closures could be concurrent rather than sequential; and there are less disruptive alternatives to weekend closures for engineering work.26 The HS2 Action Alliance described the analysis as a “complete fabrication”.27 However, this debate should not obscure the central issue. Even if existing lines could be upgraded more easily than Network Rail and the Government think, they would not provide anything like the extra capacity of HS2.

14. The Secretary of State emphasised that connectivity (which is a function of the speed of the line) is also part of the justification for the entire HS2 project.28 Connectivity matters because it can encourage economic activity and increase productivity. However, the overall economic impact of making certain UK cities better connected with each other is very difficult to assess. We will consider this issue in our next chapter.

23 High Speed Rail paragraphs 39 and 44.
24 High Speed Rail paragraph 44.
25 See footnote 12 and HSR 011 paragraph 18.
26 HSR 008 Section 4.
28 Q62.
3 Benefits and costs

Costs

15. We have previously noted that the budgeted cost of HS2 was increased in June, as follows:

<table>
<thead>
<tr>
<th>Table 1: Estimated cost of HS2</th>
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<tr>
<td></td>
</tr>
<tr>
<td>Estimated cost</td>
</tr>
<tr>
<td>Phase 1</td>
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<tr>
<td>£bn</td>
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<tr>
<td>Phase 1</td>
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<tr>
<td>Estimated cost</td>
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<tr>
<td>Contingency</td>
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<tr>
<td>Total budget</td>
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*Includes reserve contingency (£4.24 billion)


The cost increases were attributed to alterations to the route and additional environmental mitigations.29

16. Table 1 shows that the estimated cost of HS2 is around £28 billion. However, with the addition of contingency and a further £7.5 billion estimated cost of rolling stock,30 the project is now commonly regarded as costing £50 billion and rising. This has led to exaggerated references to HS2 requiring a “blank cheque” from Government.

17. The incoming chair of HS2, Sir David Higgins, has been asked to find ways of reducing the cost of HS2.31 We welcome this: successful management of the budget for phase 1 will determine public perceptions of the cost of the project as a whole. Indeed, the most recent estimate of cost for phase 1, published with the hybrid bill, has already reduced the ‘with contingency’ cost by £2 billion.32 DfT’s communications about HS2 should emphasise that the estimated cost is £28 billion, not £50 billion, and that cost increases to date have largely been due to the decision to undertake more tunnelling and other work to mitigate the impact of the project on people living near the route.

18. Sir David has also been asked to look at different ways of delivering the project, in response to pressure to build the line more quickly.33 We previously recommended that the Government should look at options for building the line from the north southwards.34 The Secretary of State said that there were practical and legal obstacles to doing this.35 However, Sir David Higgins has told us that when he takes up his post as the Chairman of HS2 Ltd he will look at the case for building north to south concurrently with building south to

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29 HC Deb, 26 Jun 13, c343.
31 HSR 011 paragraph 37.
32 See footnote 1 but also see 51M (HSR 035) section 6.
33 Q73.
34 High Speed Rail paragraph 63.
35 Q73.
We believe that the economic, transport and political case for this has strengthened since our last report. We recommend that Sir David Higgins report to ministers by the end of 2014 on options for speeding up HS2 so that trains run north of Birmingham on high speed routes well before 2032/33, as currently envisaged. We would also like Sir David to report on building north to south concurrently with building south to north.

Benefits

19. All major transport projects must be supported by a business case which compares the cost of the project with its expected benefits. The DfT has published guidance on how costs and benefits should be worked out. In table 2 we set out how the BCR for HS2 has changed since the first business case was published in 2010.

**Table 2: Changes in the HS2 BCR since 2010**

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<tbody>
<tr>
<td>Phase 1 (with WEIs)</td>
<td>2.7</td>
<td>2.0</td>
<td>2.0</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Phase 1 (without WEIs)</td>
<td>2.4</td>
<td>1.6</td>
<td>1.6</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Full network (with WEIs)</td>
<td>-</td>
<td>2.6</td>
<td>2.6</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Full network (without WEIs)</td>
<td>-</td>
<td>2.2</td>
<td>2.2</td>
<td>1.9</td>
<td>1.8</td>
</tr>
</tbody>
</table>

From: Railways: high speed rail (HS2), Standard Note, SN00316, House of Commons Library, 27 November 2013, p15 and High Speed Rail, paragraph 60

WEI stands for wider economic impacts.

20. The table shows that HS2’s BCR has declined since 2010, particularly as a result of revised assumptions about economic growth and rail demand. A number of commentators have argued that the BCR for HS2 is too low for the project to be allowed to proceed and that there are other, smaller projects with much better BCRs which ought to be prioritised. The Government’s view is that the BCR for the full project remains “high” and similar to other major projects such as Thameslink and the Jubilee Line extension. Philip Hammond, the then Secretary of State, told us in September 2011 that only if the BCR fell below 1.5 would the project require “very close scrutiny” by ministers.

21. The most recent iteration of the business case incorporated increased cost estimates announced in June. This was expected to depress the BCR but in the event the current BCR estimates are very similar to those made one year ago. The DfT said that increased cost and

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37 The distinction between the business, or strategic, case for HS2 and the economic case is explained in The Strategic Case for HS2, page 37.
38 For further information see https://www.gov.uk/transport-analysis-guidance-webtag.
39 For example see 51M (HSR 008) and The Taxpayers’ Alliance (HSR 010).
40 HSR 011 paragraph 31.
41 High Speed Rail paragraph 62.
a reduction in the value of time savings made by business travellers had lowered the BCR. However, changed assumptions about service patterns on the high speed and classic lines as well as an increased estimate of the proportion of business travellers likely to be travelling on HS2 had worked in the opposite direction.\(^\text{42}\) Taken together, the various changes almost cancelled each other out.

22. The majority of the benefits arising from HS2 captured by the BCR are due to time savings, particularly for business travellers.\(^\text{43}\) There has been considerable debate about whether these benefits are genuine in the age of the laptop and the tablet computer, when time spent sitting on a train may be used for work.\(^\text{44}\) We called on the DfT to lower the value attached to time savings in the business case.\(^\text{45}\) In the current business case, the value of time savings has been reduced by one third, to reflect more flexible working practices, following a “comprehensive review of the valuation of travel time savings”.\(^\text{46}\)

23. We pressed the DfT to explain why it had increased the proportion of business travellers likely to use HS2, compared to the national average. This change had a positive effect on the BCR, because it is assumed that business travellers value time savings much more highly than other types of traveller. The HS2 Action Alliance described this change as “profoundly unsatisfactory” because of the absence of supporting evidence to justify the change.\(^\text{47}\) The DfT has now provided us with more information about the basis for the change, which reflects changes in the type of tickets bought by business travellers. We are publishing the DfT’s letter on our website for further comments.\(^\text{48}\)

24. The BCR is an important element of the overall case for a major transport project but it is far from being the only significant aspect to be taken into account. Although the costs of a project can be estimated with some degree of accuracy, the benefits are much less tangible. Furthermore, DfT methodology focuses on benefits which accrue to individual travellers. While this approach might be appropriate for small-scale projects it cannot do justice to large projects which are likely to have a wider economic and social impact on the nation.\(^\text{49}\) Also significant in this regard is the omission of environmental impacts from the BCR. \textit{We recommend that the Government review the appropriateness of applying its standard appraisal methodology to large projects with national significance, with the aim of ensuring that the appraisal of such projects in future is not unduly based on benefits accruing to individual travellers rather than wider society.}

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\(^\text{42}\) Railways: high speed rail (HS2), Standard Note, \texttt{SN00316}, House of Commons Library, 27 November 2013, pp16-18 and Q91.

\(^\text{43}\) The Strategic Case for HS2 figure 5.6.

\(^\text{44}\) Andrew Bodman (HSR 002) and Bluespace Thinking (HSR 016).

\(^\text{45}\) High Speed Rail paragraph 69.

\(^\text{46}\) The Strategic Case for HS2 paragraphs 5.4.36 to 5.5.2.

\(^\text{47}\) HS2 Action Alliance (HSR 020) paragraphs 23-28.

\(^\text{48}\) HSR 0038.

\(^\text{49}\) HS2 Regional Economic Benefits paragraph 3.1.2.
Wider economic benefits

25. Table 1 shows that the DfT has made an assessment of the wider economic impact of HS2 and that this boosts the BCR for the project by 50p for each £1 spent. These benefits are greater business interaction because of reduced travel costs, increased production, and lower labour costs. In addition, HS2 Ltd commissioned KPMG to:

Develop a methodological framework to analyse the potential scale, range and distribution of regional economic impacts associated with service changes brought about by Phase Two [of HS2] and the associated redeployment of released capacity on the classic rail network.

This work is different from DfT’s assessment of wider economic benefits because it focuses on the impact of increased connectivity between different places on the network on business productivity, rather than on travel times and costs changes. However, Lewis Atter of KPMG said that there was some overlap between the benefits calculated by DfT and those in his study.53

26. The main finding of the KPMG study is that:

£15 billion is our best estimate of the real impact on the UK economy of building HS2 measured in [annual] GDP ... comparing the UK in 2037 with and without HS2.

This is equivalent to 0.5% extra GDP in 2037 if HS2 is constructed compared to the situation if HS2 is not built.

27. KPMG emphasised that their new methodology is still something of a work in progress. The calculations were based on the 2012 business case. There have been some significant changes since then, including the addition of a stop at Manchester Airport and the removal, for the time being, of provision for Heathrow. The analysis makes no reference to freight, or to possible changes in prices, rents and wages in specific locations. Nor does the KPMG work include any reference to the impact of other work on the rail network, either underway or currently planned. Richard Threlfall of KPMG said that if the model were expanded to include such factors “the expectation would be that the number [£15 billion] would far more likely go up than it would go down”. Mr Atter said that his firm was discussing with HS2 Ltd the possibility of undertaking further work in this area.

50 The Strategic Case for HS2 paragraph 4.2.2.
51 HS2 Regional Economic Benefits paragraph 1.2.1.
52 HS2 Regional Economic Benefits paragraphs 1.2.5 and 1.2.6.
53 Q6. Also see Qq5, 7-8.
54 Q2.
55 Q3.
56 HS2 Regional Economic Benefits paragraph 4.6.1 and Q13.
57 Q18.
58 Q19.
28. KPMG’s methodology has attracted strong criticism from a number of transport economists. In evidence to the Treasury Committee, Professor Dan Graham of Imperial College, London, said “I do not think the statistical work is reliable”. KPMG’s approach as “essentially made up”. KPMG emphasised that their results were provisional and conceded that their methodology “does not have a firm statistical foundation”. Nevertheless, Mr Threlfall said.

We are very confident with this as a starting point. There is more work to be done. The analysis that we have done over the last few weeks has led us to conclude that it is far more likely that our central case £15 billion impact assumption will go up rather than down.

29. The DfT’s written evidence clearly identifies the limitations with KPMG’s research, referring to “challenging” forecasts and “uncertain” results. However, in other contexts the Department has referred to HS2 generating “£15 billion of economic benefits annually” without significant qualification. We recommend that the Government recognise the current limitations of the work undertaken by KPMG in making public use of the KPMG estimate of wider economic benefits arising from HS2. We look forward to this analysis being further developed, including by recognising the impact of other continuing and proposed rail investments.

Regional impact

30. One of the most striking aspects of KPMG’s work was the publication of estimates of the impact of HS2 on different parts of the UK. The regional impacts are set out in table 3.

<table>
<thead>
<tr>
<th>City regions</th>
<th>Change in labour connectivity by rail</th>
<th>Change in business connectivity by rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derby-Nottingham</td>
<td>14.7%</td>
<td>23.2%</td>
</tr>
<tr>
<td>Greater Manchester</td>
<td>1.4%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Greater London</td>
<td>6.9%</td>
<td>8.8%</td>
</tr>
<tr>
<td>South Yorkshire</td>
<td>31.8%</td>
<td>22.5%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>15.7%</td>
<td>21.1%</td>
</tr>
<tr>
<td>West Yorkshire</td>
<td>9.1%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Rest of Great Britain</td>
<td>5.3%</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

We questioned KPMG about these figures, which in their analysis correlate with economic benefits. For example, some academics argue that London stands to gain most from HS2

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59 Oral evidence taken before the Treasury Committee on 5 November 2013, HC (2013-14) 788, Q97.
60 Treasury Committee oral evidence on 5 November 2013, Q99. Also see William Thomson (HSR 013), Transport Watch (HSR 015), Bluespace Thinking (HSR 016), T. Martin Blaiklock (HSR 019), Stephen Plowden (HSR 023) paragraph 2, Professor M Geddes (HSR 031) and Professor Peter Mackie (HSR 036) question 6.
61 HS2 Regional Economic Benefits p15 and paragraph 6.3.38.
62 Q52.
63 HSR 011 paragraphs 39-49.
64 DfT press release 29 October 2013.
because the new line will broaden the city’s hinterland and commuter belt still further.65

Mr Atter said that his analysis showed that although London stood to gain from HS2, other parts of the country would experience greater productivity gains.66

31. However, the KPMG analysis suggests that some parts of the UK could lose out as a result of HS2, particularly in south west England, south Wales, north east Scotland and East Anglia.67 The KPMG report includes an illustration of the winners and losers at regional level but more useful disaggregated data was only released in response to a Freedom of Information request.68

32. A major transport project like HS2 will inevitably benefit some parts of the country more than others. This is true of all major transport projects, such as Crossrail, as the Secretary of State pointed out.69 However, it is essential that the benefits are spread as widely as possible. This could be achieved by prioritising rail projects which enable trains from a wider range of areas than is currently envisaged gaining access to the high speed network (for example, services from the south west to London and the north); building additional links between the conventional and high speed networks; and bringing forward projects to speed up journey times on the conventional network, perhaps using the HS2 brand. This work should be prioritised and not left to Network Rail to pick up in the planning for expenditure on projects after 2020. We recommend that DfT, HS2 Ltd and Network Rail work together on identifying potential “High Speed Britain” projects by the end of 2014, for inclusion in the post-2020 Control Period 6 planning round, aimed at ensuring that the benefits of HS2 are felt across the country.

33. Work to identify new service patterns on lines freed up by the construction of HS2, as well as other current projects such as the Northern Hub, should also be speeded up, in order to provide firmer evidence of the project’s broader benefits.70

34. Relatively little attention has been paid so far in the debate on HS2 on the jobs and business opportunities the project would create for workers and the supply chain. DfT told us that HS2 could create 3,100 jobs in running the railway, around 24,600 construction jobs (excluding the supply chain) and up to 400,000 jobs in additional developments brought forward in areas close to HS2 stations.71 The Secretary of State said:72

One of the things that I am very determined that we should do ... is to advertise the supply chain so that companies know what is coming so they

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65 For example, oral evidence given by Professor John Tomaney to the Public Bill Committee on the High Speed Rail (Preparation) Bill, 9 Jul 13, Q60. Also Nancy Neville (HSR 021) and Stephen Plowden (HSR 023) paragraph 5.
66 Q49.
67 HS2 Regional Economic Benefits p54 and for more detailed information see http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/18_10_13_newsnight_hs2.pdf.
69 Q82.
70 See TravelWatch North West (HSR 017) and BiblioFox Research (HSR 033).
71 HSR 011 paragraph 27. But see Bluespace Thinking (HSR 016) paragraph 21.
72 Q70.
can compete for those jobs and those orders. One of the lessons we have learned from the way in which Crossrail has been successfully built in London is that they have used local suppliers.

The HS2 Growth Taskforce is considering how best to unlock the economic potential of HS2, including the potential opportunities for the supply chain and workforce. The Taskforce is due to publish a report early in 2014.73

35. We recommend that, as soon as possible after receiving the Growth Taskforce’s report, the Government publish a strategy for ensuring that UK firms and workers gain maximum benefit from HS2, building on current experience with the Crossrail project. This work should help ensure that the benefits of HS2 are spread throughout the UK and are seen to be relevant to the whole of the country.

Conclusion

36. There is continuing debate in academic circles about the nature of the linkages between transport connectivity and economic activity. For example, whilst some studies show how cities have benefited from high speed rail links, others show the opposite effect.74 KPMG’s analysis is a useful and important addition to the literature. We recommend that HS2 Ltd continues to sponsor further, independent research on the wider economic impacts of HS2.

37. In our 2011 inquiry into high speed rail we surveyed a wide range of academic evidence on the relationship between high speed rail and economic benefits and also visited towns and cities on high speed routes in France and Germany. We concluded that:75

First, it is obvious that the economic impacts of high-speed rail can vary and are not easily predicted: only time will tell whether or not HS2 will, for example, help to rebalance the economy and reduce the north-south divide. Our judgement is that HS2 could indeed be the catalyst for these economic benefits. Our second conclusion ... is that if high speed rail is to realise its full potential the Government’s plans for HS2 must be accompanied by complementary regional and local strategies for transport, housing, skills and employment.

The KPMG report makes a similar point.76

In order to realise the potential forecast impacts on business location across Britain, there may be a need for complementary changes to create an environment in which business can develop.

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73 The Strategic Case for HS2 p95.
74 For a discussion of this issue see High Speed Rail paragraphs 50-58.
75 High Speed Rail paragraph 58.
76 HS2 Regional Economic Benefits p15 and paragraph 5.3.2. For a related point see Professor Peter Mackie (HSR 036) question 4.
38. In our view, HS2 can help promote economic growth in the UK’s major city regions and contribute to a rebalancing of the economy. However, this will not happen automatically. Local authorities and Local Enterprise Partnerships must develop economic development strategies to make the most out of HS2 and they must be supported in doing this by central Government. Our recommendation on this issue was taken up by Government, which established the HS2 Growth Taskforce “to help government and local areas deliver maximum value from every pound invested in HS2”. As noted above, its final report is due in early 2014 and we look forward to scrutinising it.77

4 Conclusion

39. Having reviewed the revised business case for HS2 and the KPMG report on regional economic benefits we remain convinced that the project is justified. Capacity constraints on the West Coast Main Line cannot be ignored and nor should demand be controlled by pricing people off the railway. Alternatives to building a new line will themselves be costly and disruptive and their benefits could be relatively short-lived if demand continues to grow as forecast. Only a new line can bring the step change in capacity which is required. Bringing high speed rail to the northern cities has the potential to transform the nation’s economic geography. The Government has a role in making sure this happens and it must also take steps to ensure that the whole of the nation benefits from high speed rail.

40. The risk in going ahead with HS2, often articulated by opponents, is that money will be wasted on a white elephant. Comparisons are drawn with HS1, which went significantly over budget, is not as popular as originally forecast and has had a mixed economic impact. We recognise that forecasting international passenger numbers on a new route is inherently more difficult than passenger numbers between UK cities. However, the Government has ample opportunities to ensure that HS2 is fully integrated with the rest of the transport network; tickets are competitively priced; and economic development plans maximise the line’s economic potential.

41. It is also worth noting that the cost of the project is spread over 15 years and should amount to around £2 billion per annum, on a par with current spending on Crossrail. Put another way, Mr Threlfall said that the UK would spend £1.2 trillion on capital projects during the HS2 construction period: “is [there] room in all of that £1.2 trillion for a scheme such as this?” In this context, there is little evidence to suggest that the Government will squeeze transport spending in other areas to channel money into HS2. If anything the opposite is happening in the rest of this decade, with several major rail projects beginning and steps being taken to provide more predictable funding for roads. The Office of Rail Regulation has agreed that Network Rail can spent some £12.8 billion on enhancements to the network in the 2014-19 period, compared to £11.3 billion during the previous five year period. We would not accept a situation in which other vital transport projects were delayed because of HS2’s funding requirements.

42. In our view, the risks of not going ahead with HS2 significantly outweigh the risks of doing so. Without HS2, the West Coast Main Line will become increasingly

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78 See for example The Completion and Sale of High Speed 1, National Audit Office, HC (2010-12) 1834, March 2012. Also see Whittington and Lichfield District Stop HS2 Action Group (HCR 004) paragraph 6.3 and Chiltern Ridges HS2 Action Group (HSR 022) paragraph 18.

79 See Qq 80, 87, 104.

80 For an alternative view see Andrew Green (HSR 027).

81 Q21.

82 Periodic Review 2013: Final determination of Network Rail’s outputs and funding for 2014-19, Oct 13, Summary, paragraphs 78-83. For an alternative view see Andrew Bodman (HSR 002) paragraph 38.
overloaded. Commuters will suffer from overcrowding and there will be fewer passenger services on the line than the market could sustain. Future Governments will be tempted to use price to control demand. Growth in rail freight will be stifled, leading to more lorries on the roads. Perhaps more significantly, the chance to reshape the national economy and boost growth in the north and the Midlands will have been lost. As the continuing problems with expanding airport capacity in south east England have shown, once the chance to make a bold investment decision has been lost it does not necessarily recur.

43. Our support for HS2 is not unqualified. For example, aside from the recommendations in this report, we remain concerned about how Heathrow will be incorporated into the plans for phase 1 and what impact including a Heathrow stop would have on the budget. Many important local issues will be debated and resolved by the hybrid bill committee and there will be detailed debates about many aspects of the project. However, we are convinced that it is essential for the UK for HS2 to go ahead, and to do so as a project which has the backing of all three major political parties.
Conclusions and recommendations

Costs

1. DfT’s communications about HS2 should emphasise that the estimated cost is £28 billion, not £50 billion, and that cost increases to date have largely been due to the decision to undertake more tunnelling and other work to mitigate the impact of the project on people living near the route. (Paragraph 17)

Construction

2. We believe that the economic, transport and political case for [building north to south] has strengthened since our last report. We recommend that Sir David Higgins report to ministers by the end of 2014 on options for speeding up HS2 so that trains run north of Birmingham on high speed routes well before 2032/33, as currently envisaged. We would also like Sir David to report on building north to south concurrently with building south to north. (Paragraph 18)

Appraisal methodology

3. We recommend that the Government review the appropriateness of applying its standard appraisal methodology to large projects with national significance, with the aim of ensuring that the appraisal of such projects in future is not unduly based on benefits accruing to individual travellers rather than wider society. (Paragraph 24)

Wider economic benefits and regional impact

4. We recommend that the Government recognise the current limitations of the work undertaken by KPMG in making public use of the KPMG estimate of wider economic benefits arising from HS2. We look forward to this analysis being further developed, including by recognising the impact of other continuing and proposed rail investments. (Paragraph 29)

5. A major transport project like HS2 will inevitably benefit some parts of the country more than others. This is true of all major transport projects, such as Crossrail, as the Secretary of State pointed out. However, it is essential that the benefits are spread as widely as possible. This could be achieved by prioritising rail projects which enable trains from a wider range of areas than is currently envisaged gaining access to the high speed network (for example, services from the south west to London and the north); building additional links between the conventional and high speed networks; and bringing forward projects to speed up journey times on the conventional network, perhaps using the HS2 brand. This work should be prioritised and not left to Network Rail to pick up in the planning for expenditure on projects after 2020. We recommend that DfT, HS2 Ltd and Network Rail work together on identifying potential “High Speed Britain” projects by the end of 2014, for inclusion in the post-2020 Control Period 6 planning round, aimed at ensuring that the benefits of HS2 are felt across the country. (Paragraph 32)
6. Work to identify new service patterns on lines freed up by the construction of HS2, as well as other current projects such as the Northern Hub, should also be speeded up, in order to provide firmer evidence of the project’s broader benefits. (Paragraph 33)

7. We recommend that, as soon as possible after receiving the [HS2] Growth Taskforce’s report, the Government publish a strategy for ensuring that UK firms and workers gain maximum benefit from HS2, building on current experience with the Crossrail project. This work should help ensure that the benefits of HS2 are spread throughout the UK and are seen to be relevant to the whole of the country. (Paragraph 35)

8. We recommend that HS2 Ltd continues to sponsor further, independent research on the wider economic impacts of HS2. (Paragraph 36)

9. In our view, HS2 can help promote economic growth in the UK’s major city regions and contribute to a rebalancing of the economy. However, this will not happen automatically. Local authorities and Local Enterprise Partnerships must develop economic development strategies to make the most out of HS2 and they must be supported in doing this by central Government. (Paragraph 38)

Conclusion

10. We support the strategic case for HS2 and stand by our conclusion that HS2 is needed to provide a long-term increase in the capacity of the railway and that alternative proposals to increase capacity are not sufficient to accommodate long-term forecast demand. (Paragraph 12)

11. Having reviewed the revised business case for HS2 and the KPMG report on regional economic benefits we remain convinced that the project is justified. Capacity constraints on the West Coast Main Line cannot be ignored and nor should demand be controlled by pricing people off the railway. Alternatives to building a new line will themselves be costly and disruptive and their benefits could be relatively short-lived if demand continues to grow as forecast. Only a new line can bring the step change in capacity which is required. Bringing high speed rail to the northern cities has the potential to transform the nation’s economic geography. The Government has a role in making sure this happens and it must also take steps to ensure that the whole of the nation benefits from high speed rail (Paragraph 39)

12. We would not accept a situation in which other vital transport projects were delayed because of HS2’s funding requirements. (Paragraph 41)

13. In our view, the risks of not going ahead with HS2 significantly outweigh the risks of doing so. Without HS2, the West Coast Main Line will become increasingly overloaded. Commuters will suffer from overcrowding and there will be fewer passenger services on the line than the market could sustain. Future Governments will be tempted to use price to control demand. Growth in rail freight will be stifled, leading to more lorries on the roads. Perhaps more significantly, the chance to reshape the national economy and boost growth in the north and the Midlands will have been lost. As the continuing problems with expanding airport capacity in south
east England have shown, once the chance to make a bold investment decision has been lost it does not necessarily recur (Paragraph 42)

14. We are convinced that it is essential for the UK for HS2 to go ahead, and to do so as a project which has the backing of all three major political parties. (Paragraph 43)
Formal Minutes

Monday 9 December 2013

Members present:

Mrs Louise Ellman MP, in the Chair
Sarah Champion
Jim Dobbin
Jim Fitzpatrick
Karl McCartney
Mr Adrian Sanders
Chloe Smith
Graham Stringer
Martin Vickers

Draft Report (High speed rail: on track?), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 43 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Ninth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 154.

[Adjourned till Monday 16 December at 4.00 pm]
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee’s inquiry page at www.parliament.uk/transcom.

Tuesday 26 November 2013

Richard Threlfall, UK Head of Infrastructure, Buildings and Construction, and Lewis Atter, Associate Partner, Global Infrastructure, KPMG Q1-59

Rt Hon Patrick McLoughlin MP, Secretary of State for Transport, and David Prout, Director General of High Speed 2, Department for Transport Q60-109

Published written evidence

The following written evidence was received and can be viewed on the Committee’s inquiry web page at www.parliament.uk/transcom. INQ numbers are generated by the evidence processing system and so may not be complete.

1 Dr Alex Weiss and John Bradley (HSR 001)
2 Andrew Bodman (HSR 002)
3 Mike Rawson (HSR 003)
4 Whittington And Lichfield District StopHS2 Action Group (HSR 004)
5 Brian Simpson (HSR 005)
6 Philip Lund (HSR 007)
7 51M (HSR 008)
8 Vincent Nolan (HSR 009)
9 The TaxPayers’ Alliance (HSR 010)
10 Department for Transport (HSR 011)
11 Greengauge 21 (HSR 012)
12 William Thomson (HSR 013)
13 Dr Paul Harlow (HSR 014)
14 Transport Watch UK (HSR 015)
15 Bluespace Thinking Ltd (HSR 016)
16 TravelWatch NorthWest (HSR 017)
17 A Cordiner (HSR 018)
18 T. Martin Blaiklock (HSR 019)
19 HS2 Action Alliance (HSR 020)
20 Nancy Neville (HSR 021)
21 Chiltern Ridges HS2 Action Group (HSR 022)
22 Stephen Plowden (HSR 023)
23 M. Wahlberg (HSR 024)
24 Liverpool High Speed Too Group (HSR 026)
25 Andrew Green (HSR 027)
26 Heathrow Hub Ltd (HSR 028)
27 Dr Marilyn Fletcher (HSR 029)
28 Professor M. Geddes (HSR 031)
29 BiblioFox Research (HSR 033)
30 51m (HSR 035)
31 Peter Mackie, Professor of Transport Studies, University of Leeds (HSR 036)
32 Department for Transport (HSR 037)
33 Department for Transport (HSR 038)
## List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee’s website at [www.parliament.uk/transcom](http://www.parliament.uk/transcom). The reference number of the Government’s response to each Report is printed in brackets after the HC printing number.

### Session 2013–14

<table>
<thead>
<tr>
<th>Report</th>
<th>Title</th>
<th>HC Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ninth Report</td>
<td>High speed rail: on track?</td>
<td>HC 851</td>
</tr>
<tr>
<td>Eighth Report</td>
<td>Access to ports</td>
<td>HC 266</td>
</tr>
<tr>
<td>Seventh Report</td>
<td>Local authority parking enforcement</td>
<td>HC 118</td>
</tr>
<tr>
<td>Seventh Special Report</td>
<td>The new European motorcycle test: Government Response to the Committee’s Sixth Report of 2009–10</td>
<td>HC 656</td>
</tr>
<tr>
<td>Sixth Report</td>
<td>Flight Time Limitation: Follow-up</td>
<td>HC 641 (HC 795)</td>
</tr>
<tr>
<td>Firth Report</td>
<td>Access to transport for disabled people</td>
<td>HC 116 (HC 870)</td>
</tr>
<tr>
<td>Fourth Report</td>
<td>Cost of motor insurance: whiplash</td>
<td>HC 117 (CM 8738)</td>
</tr>
<tr>
<td>Third Report</td>
<td>The work of the Vehicle and Operator Services Agency (VOSA)</td>
<td>HC 583 (HC 678)</td>
</tr>
<tr>
<td>Fifth Special Report</td>
<td>The European Commission’s 4th Railway Package: Government Response to the Committee’s Twelfth Report of Session 2012–13</td>
<td>HC 439</td>
</tr>
<tr>
<td>Third Special Report</td>
<td>Rail 2020: Rail Delivery Group and Passenger Focus responses to the Committee’s Seventh Report of Session 2012–13</td>
<td>HC 81</td>
</tr>
<tr>
<td>Fourth Special Report</td>
<td>Land transport security—scope for further EU involvement?: Government Response to the Committee’s Eleventh Report of Session 2012–13</td>
<td>HC 177</td>
</tr>
<tr>
<td>First Report</td>
<td>Aviation strategy</td>
<td>HC 78 (HC 596)</td>
</tr>
<tr>
<td>First Special Report</td>
<td>Cancellation of the InterCity West Coast franchise competition: Government Response to the Committee’s Eighth Report of Session 2012–13</td>
<td>HC 80</td>
</tr>
</tbody>
</table>

### Session 2012–13

<table>
<thead>
<tr>
<th>Report</th>
<th>Title</th>
<th>HC Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twelfth Report</td>
<td>The European Commission’s 4th Railway Package</td>
<td>HC 1001(HC 439)</td>
</tr>
<tr>
<td>Eleventh Report</td>
<td>Land transport security—scope for further EU involvement?</td>
<td>HC 875</td>
</tr>
<tr>
<td>Ninth Special Report</td>
<td>Rail 2020: Government and Office of Rail Regulation Responses to the Committee’s Seventh Report of 2012–13</td>
<td>HC 1059</td>
</tr>
<tr>
<td>Ninth Report</td>
<td>Marine Pilotage</td>
<td>HC 840</td>
</tr>
<tr>
<td>Eighth Report</td>
<td>Cancellation of the InterCity West Coast franchise competition</td>
<td>HC 537</td>
</tr>
<tr>
<td>Eighth Special Report</td>
<td>Plug-in vehicles, plugged in policy?: Government Response to</td>
<td>HC 884</td>
</tr>
</tbody>
</table>
the Committee’s Fourth Report of Session 2012–13

Seventh Report  
High speed rail: on track?  
Rail 2020  
HC 329

Sixth Report  
The Coastguard, Emergency Towing Vessels and the Maritime Incident Response Group: follow up  
HC 647

Fifth Report  
Future programme: autumn and winter 2012–13  
HC 591

Fourth Report  
Plug-in vehicles, plugged in policy?  
HC 239

Third Report  
Competition in the local bus market  
HC 10 (HC 761)  
(Incorporating HC 1861–i–iii)

Fifth Special Report  
Flight Time Limitations: Government Response To The Committee’s First Report Of Session 2012–13  
HC 558

Fourth Special Report  
Air Travel Organisers’ Licensing (Atol) Reform: Government Response To The Committee’s Seventeenth Report Of Session 2010–12  
HC 557

Second Report  
Road safety  
HC 506 (HC 648)  
Incorporating HC 1738

First Report  
Flight time limitations  
HC 164  
Incorporating HC 1838

Third Special Report  
Sulphur emissions by ships: Government Response to the Committee’s Sixteenth Report of Session 2010–12  
HC 87

Second Special Report  
HC 15

First Special Report  
Draft Civil Aviation Bill: Pre-Legislative Scrutiny: Government Response to the Committee’s Thirteenth Report of Session 2010–12  
HC 11

**Session 2010–12**

Seventeenth Report  
Air Travel Organisers’ Licensing (ATOL) reform  
HC 1798

Sixteenth Report  
Sulphur emissions by ships  
HC 1561

Fifteenth Report  
Counting the cost: financial scrutiny of the Department for Transport 2011–12  
HC 1560

Fourteenth Report  
Cable theft on the Railway  
HC 1609 (HC 1933)

Thirteenth Report  
Draft Civil Aviation Bill: Pre-Legislative Scrutiny  
HC 1694

Twelfth Report  
Cost of motor insurance: follow up  
HC 1451 (HC 1934)

Eleventh Report  
Thameslink rolling stock procurement  
HC 1453 (HC 1935)

Tenth Report  
High Speed Rail  
HC 1185–I (HC 1754)

Ninth Report  
Out of the jam: reducing congestion on our roads  
HC 872 (HC 1661)

Eighth Report  
Bus Services after the Spending Review  
HC 750 (HC 1550)

Seventh Report  
Taxis and private hire vehicles: the road to reform  
HC 720 (HC 1507)

Sixth Report  
The Coastguard, Emergency Towing Vessels and the Maritime Incident Response Group  
HC 948, incorporating HC 752–I (HC 1482)

Fifth Report  
Keeping the UK moving: The impact on transport of the winter weather in December 2010  
HC 794 (HC 1467)

Fourth Report  
The cost of motor insurance  
HC 591 (HC 1466)
<table>
<thead>
<tr>
<th>Type of Report</th>
<th>Title</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Report</td>
<td>Transport and the economy</td>
<td>HC 473 (HC 962)</td>
</tr>
<tr>
<td>Second Report</td>
<td>Financial Scrutiny of the Department for Transport</td>
<td>HC 683</td>
</tr>
<tr>
<td>First Report</td>
<td>Drink and drug driving law</td>
<td>HC 460 (Cm 8050)</td>
</tr>
<tr>
<td>Tenth Special Report</td>
<td>The proposal for a National Policy Statement on Ports:</td>
<td>HC 1598</td>
</tr>
<tr>
<td></td>
<td>Government Response to the Committee Fifth Report of Session 2009–10</td>
<td></td>
</tr>
<tr>
<td>Third Special Report</td>
<td>The performance of the Department for Transport:</td>
<td>HC 549</td>
</tr>
<tr>
<td></td>
<td>Government response to the Committee’s Fourth Report of Session 2009–10</td>
<td></td>
</tr>
<tr>
<td>Second Special Report</td>
<td>Update on the London Underground and the public-private</td>
<td>HC 467</td>
</tr>
<tr>
<td></td>
<td>(PPP) partnership agreements: Government response to the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Committee’s Seventh Report of Session 2009–10</td>
<td></td>
</tr>
<tr>
<td>First Special Report</td>
<td>The major road network: Government response to the</td>
<td>HC 421</td>
</tr>
<tr>
<td></td>
<td>Committee’s Eighth Report of Session 2009–10</td>
<td></td>
</tr>
</tbody>
</table>