Down the Tube: London Underground and the Public-Private Partnership

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Agenda

Introduction to the PPP

The London Tube Case

Pros and Cons

Current Issues

Discussion
Tube History

• First line opened 1863
• 1863–1933: Privately run lines
• 1933–1948: London Passenger Transport Board
• 1948: Nationalization
Decline under nationalization

- Lack of investment
- Competition for funding
- Shifting attitudes toward rail
- Restructuring…
  London Transport Board
  1963–1970
- Restructuring…
  Greater London Council
  1970–1984
- Restructuring…!
  London Regional Transport
  1984–2000
King’s Cross Fire
Public-private partnerships

- Partnership between public and private bodies to deliver public services
- Derived from Public Finance Initiative (PFI)
Government hopes & expectations

- Key objective: value for money
  - Stable funding
  - Little or no grants
  - Better value than publicly run investment program
Government hopes & expectations

• Key objective: private sector investment and expertise

  – Transfer risk to private investors

  – Private sector expertise

  – Price competition within the PPP
Government hopes & expectations

• Key objective: safeguarding public interest

  - A unified structure for passenger safety, ticketing and marketing
Source: C&AG’s Report, London Underground PPP: Were they good deals? (Figure 1) (HC 645, Session 2003–04)
The Deal’s High Costs
£455 million

- London Underground’s costs
  - £180 million

- London Underground’s reimbursed costs
  - £275 million
    - Unsuccessful bidders - £25 million
    - Tube Lines - £134 million
    - Metronet - £116 million
London Underground & Transport for London

- Responsible for operations
  - Safety, ticketing & marketing

- Pays monthly Infrastructure Service Charges to the Infracos (Tube Lines and Metronet)
Infracos

- Tube Lines
  - Responsible for renewal and maintenance of Jubilee, Northern and Piccadilly lines

- Metronet
  - Responsible for 4 BCV (tube) lines and 5 SSL (sub-surface) lines
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Pros

- **Government**
  - Private firms are an important financial source
  - Transfer risks to the private firms
  - Fully use the management and technical expertise of the private firms

- **Private firms**
  - Huge potential profit return
  - In the London Tube Case, average margins were estimated to be **5%**
    (Average industry norm: 3-4%)
Cons

• Labor union concerns for public servants  
  (The representative: Unison)
  - Concerns about their job loss because of privatization

• Uncertainties from the public
  - Can a for-profit organization provide the same safe and efficient level of public transportation service?
  - Problems in the coordination of different sectors, firms
  - The government’s public accountability is lost
The crux of the PPP debate

Do they work?
Outcomes of the LU

Lots of Derailments

- Two derailments in 48 hours in October 2003
- One derailment at the White City in May 2004
- Three carriages derailed on its Westbound Central line in July 2007

Project Overruns

- 278 engineering overruns reported up January 2005
Outcomes of the LU

High cost of the PPP

- Transaction cost: £455 million

The collapse of Metronet

- Metronet is struggling to offset a projected £750m cost overspend
- Collapse may cost £1 billion
- Who will finally bear the cost? — taxpayers
Current issues

• A main criticism of Metronet: it divided work among shareholders rather than tender contracts competitively

• TFL loaned Metronet £897 million in an emergency payment to sustain it

• Londoners: have we dumped money into a project that will have to be restarted?
Current issues

• Three options for Metronet contracts:
  - The government takes it over
  - Form a new PPP
  - Transfer the work to Tube Lines

• Whether to revamp the agreement or scrap it entirely?
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Questions for discussion

• In light of the example presented by the London Underground, why would a government choose PPP?

• What should happen to the LU PPP now? Should it be revised? Scrapped?

• Is the PPP a necessary evil? Is it a government’s only option in the face of financial deficiencies?

• What problems are presented by separating daily operations from track management and maintenance?

• In a PPP, what kind of corporations should be selected as partners to ensure an efficient process?
Thank you. 😊