

The privatisation of the London Underground

Mayor Livingstone offers Labour government a lifeline

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The Labour government's Public-Private Partnership (PPP) for the London Underground or "Tube" is becoming a major political liability. A decade of discontent over the privatised British Rail (BR) network has fuelled widespread opposition to opening up the last major publicly owned transport provider to the private sector. Many correctly regard the recent spate of rail crashes and derailments as the result of safety being compromised for the sake of profit.

The Blair government's plans for the London Underground (LU) mean the network will be broken up into three segments and awarded to bidders from the private sector, who will be in charge of the infrastructure under contracts lasting up to thirty years. LU will pay an Infrastructure Service Charge to these consortia, while the operation of trains and station staff will remain within the public sector.

Nothing the government has been able to do has convinced public opinion that this will not reproduce the worst aspects of the BR privatisation. It still entails divorcing the running of the trains from the maintenance of the track.

The majority of Londoners have rejected PPP the only time they were given an opportunity to vote on the issue. This was in last year's elections for new post of London Mayor and the establishment of the Greater London Authority (GLA). Under the limited powers devolved to this new tier of local government, the Mayor acquires responsibility for LU later this year. In a highly publicised spat, Ken Livingstone was first deselected as Labour's official candidate for Mayor and then expelled from the party—at least partly due to his opposition to the particular form of PPP envisaged by the government. Livingstone won the election standing as an independent in a protest vote that saw the official Labour candidate trail in third behind the Tories.

Livingstone's alternative proposals, however, are aimed at providing a new means of privatising public infrastructure that is attractive to the financial institutions—his key constituency in London. As a result, all the main commentators, including the National Audit Office, the government's own public finance watchdog, are against PPP and are backing Livingstone.

The future of London Underground and how it is to be run is an issue of fundamental social importance. Reliable and affordable public transport determines accessibility to both employment and housing. It is also central to reducing the detrimental effect of high car usage in the capital, which has led to unprecedented numbers of children suffering from asthma.

Funding for the Tube

Today, London Underground, unlike other urban transport systems in Europe and the US, is far less dependent on central government subsidies and local taxation—very much a legacy of Thatcherism. Until the abolition of the Greater London Council (GLC) in 1986, a significant part of the LU grant was funded out of the local rates (taxes) paid by all London households. The Tory government removed this funding mechanism as part of its drive to rein in public spending.

Ever since then the Underground has had only two sources of

revenue—central government grants and passenger fares. Successive governments, including the present Labour administration, have reduced central contributions. Over an extended period, not only must the day-to-day operating costs of the service be met from passenger revenues, but also an increasing outlay for infrastructure expenditure. Official statistics reveal that the central government grant for infrastructure renewals declined from £398m in 1994/5 to £160m in 1998/9.

This has resulted in fare increases double the rate of inflation over the last decade. The £1.50 fare for a single journey within London's central zone compares unfavourably with a £1 charge in New York, or the 50 pence paid in Paris for journeys of any length. It is the most expensive system to ride in the whole of Europe.

A major burden has also fallen on the backs of the workforce. Employment has been cut by a quarter—from 21,598 in 1985 to 16,000 by 1999.

Neither Labour's plan for LU, nor Livingstone's alternative proposal tackles the issue of expanding and improving the existing network. This is vital if overcrowding is to be reduced. In summer the temperature on board some trains exceeds the limit for the transportation of live animals to the market. Livingstone has even stated that fares cannot be reduced because LU could not deal with increased passenger usage, which such a measure might precipitate.

The government claims that PPP will ensure overall public accountability whilst harnessing the benefits of the private sector to deliver technological improvements. This is a lie. Following the electoral setback it suffered in May's Mayoral election, Labour has sought to avoid any form of accountability to Londoners for the future of the Tube. The bidding process for running the infrastructure is due to be completed before the Mayor assumes control of LU, which will then be locked-in to thirty-year contracts with the three consortia.

For an initial eight-year period the cost of the contract will be set at a fixed rate, thereafter it can be renegotiated. To ensure the consortia make a profit, the government has set performance targets five percent below the current criteria. Over the life span of the PPP scheme, serious questions arise over how London Underground's costs will be met without further fare increases or government subsidy to the private sector operators.

Government forecasts are based upon predictions for the future operation of the Tube that are groundless. The government projects that PPP will make possible £7.5bn to £15bn of new investment, but there is no indication of where this investment will come from, outside of a prediction that fare revenues will rise due to increased passenger usage over the next 15 years by 40 percent. But how can such an increased number of passengers be accommodated without an immediate investment programme? Overcrowding is already causing major delays due to inadequate rolling stock. It has also significantly contributed to the rise in reported accidents, as standing passengers are particularly vulnerable when trains break or accelerate quickly, leading to a doubling of injuries

in the last six years.

The government's main financial advisers estimate that private operators can deliver major savings, despite lacking experience in running an underground rail network. This raises concerns over the vulnerability of the terms and conditions of 6,000 workers who will be transferred from the public to private sector under PPP.

Safety Issues

The break-up of a hitherto integrated transport network raises serious safety concerns. With a system spanning 400 kilometres of track, 275 stations and 12 different lines, there is also the complex issue of who will be responsible for shared lines or interchange stations. The system envisaged under PPP is so unwieldy that the legal documents dealing with this are said to fill 14 filling cabinets, giving an indication as to how problematic it would be to decide who was responsible for poor maintenance or in cases of criminal negligence. Last August the *Guardian* newspaper received a leaked memorandum addressed to LU from the principal Rail Safety Inspector, Steve Hart. Regarding safety standards Hart commented, "There is evidence that these criteria are not being met consistently."

Even the bidding process for PPP is compromised. One of the members of the panel determining to whom the contracts will be awarded has links with two of the bidders: Malcolm Bates was formerly a non-executive member of BICC, a holding company for consortium member Balfour Beatty. Bates was also a deputy managing director at GEC, the former parent company of Alstom, another contender. During an earlier period of outsourcing on LU, the company was responsible for the provision of rolling stock on the Northern Line and later for the Jubilee Line Extension. The former involved the delivery of 100 trains valued at £3 million each that were found to be prone to breakdown, while the latter had technical faults with their onboard computers.

With the government's Tube privatisation plans in shambles, even its most loyal supporters in the media have urged it to drop them. Writing in the *Guardian*, columnist Polly Toynbee argued, "When London voted against PPP, rightly or wrongly Labour lost the argument. After Hatfield and the Railtrack meltdown, it was in ruins as a recent Mori poll shows. Even if PPP is the best technical solution, politically it is a dead duck. Carrying on as if nothing has changed is unthinkable madness."

Livingstone has made it crystal clear that he has no intention of opposing Labour's core agenda. His proposal to introduce a bond scheme for financing the London Underground is merely a variant of the government's PPP initiative. His main preoccupation has been to win the endorsement of the big business.

In order to drum up support from this quarter he appointed Robert Kiley as his Commissioner for Transport. Kiley, a former CIA operative, oversaw the implementation of a bond scheme on the New York subway between 1983 and 1990. For accepting the post under Livingstone, he receives a £500,000 per annum salary over a period of four years—making him the highest paid public servant in the UK. He has also been offered luxurious accommodation in a £2 million Georgian house in Belgravia, courtesy of the Greater London Authority.

Kiley has been universally acclaimed in the media as one of the world's leading transport experts, a "tough-guy" who almost single-handedly rescued New York's run down subway system. A brief résumé of his time at the Metropolitan Transport Authority (MTA) gives some idea of why he has won admirers amongst the financial establishment. In the mid-eighties he introduced a contract for new employees that only paid 70 percent of union rates (instead of 75 percent previously) during their probation period, which was also extended from 30 to 36 months. Other "accomplishments" included reducing workers' payments for unsocial hours, a more punitive disciplinary procedure, with the right to appeal curtailed, and the removal of restraints on productivity increases. Under his management accidents rose and so did fatalities.

After preliminary discussions with his financial advisers, the new Commissioner for Transport has unveiled his proposals to finance the London Underground. While it would remain as a unified structure, large amounts of work—an estimated 90-95 percent of the capital programme—would be outsourced to the private sector.

Kiley's plan aims to raise finance through a system known as "securitisation".

This involves issuing bonds secured against the future revenues of LU. Whilst this is relatively unknown in the UK, it is widely practised in the US. It means that financiers have first claim on future income, without actual ownership of the assets of the company. Should income fall below the level needed to service the bond (e.g. passenger numbers decline hitting fares, or government withdraws or reduces its grant), then the GLA's executive arm, Transport for London will have to make good the shortfall and money would have to be diverted from other parts of the GLA budget which could be to the detriment of social services. Thus the bondholders, without having the burden of managing the business, will reap all the benefits and will be in a position to dictate public policy.

Future revenues generated by passenger usage, even on the basis of the most optimistic forecast, are not enough to offer the necessary returns. Therefore Kiley has promised to use the continued government subsidy, estimated to be £250 million per annum, and any revenue raised through the future implementation of a "congestion tax" on motorists to meet these requirements.

With disingenuous candour, Livingstone summed up these proposals as "son of PPP." Since this is a new form of finance that is not widely used in the UK, Livingstone is setting a precedent for a form of private ownership of public assets and paving the way for it to be used elsewhere—in housing, social security, health and education. The proposals are particularly aimed at the City of London and its institutions, where one in ten Londoners work and who constitute a major constituency for Livingstone. His plan would not only shore up London's financial institutions, but also help develop expertise regarding securitisation that can later be used across Europe.

The proposals have therefore met with widespread approval from the representatives of big business. Stephen O'Brien, chief executive of the business lobby group London First, stated, "We welcome his emphasis on contracting out much of the work to the private sector." Andrew Hawkins, campaigns director of the London Chamber of Commerce, said "It would be extraordinary if the government did not take his point of view seriously in the light of this report. The ball has been hit quite adeptly into the government's court." The *Financial Times* commented, "Mr Kiley's plans offer the Prime Minister a reasonably graceful exit. He should take it."

A shift in the government's stance has taken place in recent weeks. Deputy Prime Minister John Prescott, who is also in charge of the Transport Ministry, had refused to make the documents relating to the PPP bidding process available to Livingstone and his new transport chief. The Mayor countered by threatening court action. In December 2000, Prescott met with Kiley for the first time and the threat of legal action was quietly dropped. Labour could yet backtrack and adopt Livingstone and Kiley's proposals, though there is not much time as the contracts for PPP are due to be finalised by April. Whatever happens, Livingstone's proposals clearly offer no progressive alternative to the Blair government's pro-market policies.



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