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London’s transport mess

Holes underground

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Expensive Tube upgrades could mean sacrifices elsewhere

Illustration by David Simonds


FITTINGLY for a city that earns its living from the brain-melting complexities of international finance, London is home to one of the most baroque public-infrastructure deals in the world. And like the financial products offered by the City—blamed for contributing to the current global financial crisis—the Public-Private Partnership (PPP) contracts to upgrade the capital’s creaking Underground network now look like complicated, costly mistakes.

Chris Bolt, the PPP Arbiter and philosopher-king, has the unenviable task of refereeing the contracts, judging the engineering firms' performance and plans against those of a platonically ideal one and deciding who should pay for what. On September 9th he published his assessment of the cost of the work to be carried out on three Underground lines between 2010 and 2017. Transport for London (TfL), the official body that oversees the Tube, had hoped that the work could be done for £4.1 billion ($7.2 billion). Tube Lines, the consortium of firms carrying out the upgrades, thought it would cost £7.2 billion. Mr Bolt suggested a figure of £5.1 billion-£5.5 billion.

Mr Bolt's pronouncement was only preliminary, but like all good compromises it left both sides with problems. Tube Lines must figure out a way to shave £2 billion from its projected costs. That is uncannily similar to the size of the cost overrun that bankrupted Metronet, the consortium responsible for the rest of the Tube, last year. But Terry Morgan, the boss of Tube Lines, seemed sanguine, leading many observers to conclude that the firm had deliberately pitched its bid high.

More worrying for Londoners is the £1 billion-£1.4 billion hole that Mr Bolt has torn in TfL's spending plans. When Metronet went bankrupt in 2007, a government guarantee forced TfL to repay £1.7 billion to the consortium's banks. That money was reimbursed by the Treasury, and TfL hopes for something similar this time. It said crossly in a press release that it expected central government to cough up since it had "imposed" the PPP on London over the objections of officials (and two court challenges) in the first place.

Privately, TfL officials concede that they are unlikely to receive a billion-pound cheque from a Treasury already short of cash. One alternative could be to scale back the work TfL wants Tube Lines to carry out, an idea flatly rejected by Tim O'Toole, London Underground's boss. He points out that passenger numbers are rising steadily, and argues that any reduction in the contracts' scope would leave the network unable to cope. Stephen

Glaister, a transport expert at Imperial College London and a former member of TfL's board, agrees, saying that engineering considerations leave little room for cuts without crippling the entire system.

If the contracts cannot be changed, more money will have to be found. Fare hikes seem unlikely: a 6% rise announced earlier this month was unpopular, and the Tube takes in only around £1.5 billion a year from fares in any case. Mr O'Toole talks of raising money from the markets, but it would have to be repaid sooner or later.

The final option is to divert cash from other projects. One possible sacrifice is Crossrail, a £16 billion scheme to link the east and west of the city with a new rail line that was given the go-ahead last year. Boris Johnson, London's newly installed mayor, is opposed to the idea, saying in July that Crossrail and the Tube upgrade are "co-equal" priorities. But financially the prospect is tempting: Tony Travers, an economist at the London School of Economics, points out that a business tax designed to pay for Crossrail is not ring-fenced and could be diverted for a few years to plug the funding gap in the Tube upgrade. But delaying Crossrail yet again would be embarrassing too: it was first proposed in 1989 and its frequent postponements have become a running joke.

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