Funding Transport Projects in London

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## TfL Business Plan 2006/7 – 2009/10: Operating Plan

<table>
<thead>
<tr>
<th></th>
<th>2005/06 (P6 Forecast)</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£M</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income</td>
<td>2,751</td>
<td>3,497</td>
</tr>
<tr>
<td>Interest income</td>
<td>55</td>
<td>38</td>
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<tr>
<td><strong>Income</strong></td>
<td><strong>2,807</strong></td>
<td><strong>3,535</strong></td>
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<tr>
<td>Precept</td>
<td>20</td>
<td>25</td>
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<tr>
<td>Transport Grant</td>
<td>2,161</td>
<td>2,651</td>
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<tr>
<td><strong>Total Income</strong></td>
<td><strong>4,988</strong></td>
<td><strong>6,211</strong></td>
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<tr>
<td>Operating Expenses</td>
<td>3,487</td>
<td>4,021</td>
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<tr>
<td>LU PPP/PFI costs</td>
<td>1,420</td>
<td>1,840</td>
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<tr>
<td><strong>Operating Expenditure</strong></td>
<td><strong>4,908</strong></td>
<td><strong>5,862</strong></td>
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<tr>
<td>Debt Service</td>
<td>24</td>
<td>239</td>
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<tr>
<td><strong>Total Operating Expenditure</strong></td>
<td><strong>4,932</strong></td>
<td><strong>6,101</strong></td>
</tr>
<tr>
<td><strong>Surplus/Deficit (+ve good/-ve bad)</strong></td>
<td><strong>56</strong></td>
<td><strong>111</strong></td>
</tr>
</tbody>
</table>
### TfL Business Plan 2006/7 – 2009/10. Capital Plan

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<tr>
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<tbody>
<tr>
<td><strong>£M</strong></td>
<td></td>
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<tr>
<td><strong>Capital Expenditure</strong></td>
<td>849</td>
<td>1,027</td>
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<tr>
<td><strong>Contingency</strong></td>
<td>0</td>
<td>28</td>
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<tr>
<td><strong>Less 3rd Party Funding</strong></td>
<td>(195)</td>
<td>(123)</td>
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<tr>
<td><strong>Total Capital</strong></td>
<td>654</td>
<td>932</td>
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</table>

**Funded by**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Operating Surplus</strong></td>
<td>56</td>
<td>111</td>
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<tr>
<td><strong>Borrowings</strong></td>
<td>550</td>
<td>600</td>
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<tr>
<td><strong>Reserves</strong></td>
<td>130</td>
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<tr>
<td><strong>Non-recurring Grant</strong></td>
<td>0</td>
<td>58</td>
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<tr>
<td><strong>Working capital movement</strong></td>
<td>(82)</td>
<td>(25)</td>
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<tr>
<td><strong>Total Funding</strong></td>
<td>654</td>
<td>932</td>
</tr>
</tbody>
</table>
TfL Business Plan

TfL can make ends meet until 2009/10

But note:

• A substantial increase in fares

• Increased government grant consumed by £420 m pa increase in LUL PPP/PFI charges

• £600m pa new borrowing, £3 bn in total

• By 2009/10 £239 pa debt service charges
Additional capital needs are located across the whole of London

Crossrail (£?? Billion)

Capacity improvements in surface rail (£7 billion?)

Roads maintenance and enhancement
  (eg replacement of bridges and traffic control equipment)

Tram schemes

Local road safety schemes

Infrastructure to serve the growing population

Etc…
Criteria for successful capital funding schemes

Must provide “sufficient” cash, and long term

Must provide for schemes across whole of the area
    it is not enough to provide for one high profile scheme

Public must be willing to accept the relationship between:
    location funds are collected
    and
    location funds are deployed

Costs of collection must be reasonable:
    administration for public sector
    administration for private sector
    compliance costs and economic distortions
Making capital out of revenue

Approximately, over 30 years

At a cost of capital of

5% pa, £1m pa will service £15m capital

10% pa, £10m
Real fares increases and extra revenues from bus and tube
(base is £961m + £1,339m = £2,300m)

Elasticity today = -0.33
Elasticity today = -0.5
Elasticity today = -0.8

% fares increase on 2005
Fares increases

The current fares base is large: £2,300m pa

The yield from fares increases depends on (average) elasticities
   (i.e. degree of monopoly dominance)

In long term between -0.5 and -0.8?

Fares increase might fund
   £1bn to £6bn of capital (depending on elasticity and cost of capital)

Nb. Growing population and increasing real income will give
   additional fares income
   but also additional cost

BUT TfL plan already assumes substantial fares increases.
Could London fund its infrastructure on its own tax base?

Easily

E. g. London Gross Value Added is over £160 bn pa

1% of this could service £16 bn to £24 bn of capital over 30 years

(equivalent to raising London VAT from 17.5% to 20%)

But some new mechanism is necessary to achieve this.
NEW, local taxation

In most other major cities in the world a crucial element of success is local taxation.

New York has over 20 local taxes:

- MTA borrowing has been against a mixture of sources including tolls from Triborough Bridge and Tunnel Authority.
- City and suburban sales taxes.
- Certain petroleum-based taxes.
- ‘Long-lines’ tax on telecomms.
- Mortgage recording taxes.

Vancouver has local road fuel taxes (US cities also).

French cities have local employment tax.

In London we only have the Congestion Charge.
Domestic property taxes for transport are bizarrely low

The TfL plans show a continuation of a £20m - £25m pa precept.

Yet for Olympics and Paralympics Mayor is proposing

an additional precept £57m pa each year for 10 years:
  to fund £625m capital

If this is politically saleable in aid of 2 x 2 weeks of sports events in 2012
why cannot we have a larger routine contribution to transport?
Forms of land value capture

Value of transport improvements will be capitalised into increased land values…

So recapture this to service the capital required:

- Common ownership (eg Hong Kong)
- Joint ventures between transport promoter and land-owner
- Business Improvement Districts
- Canary Wharf Group proposed a freehold levy

Some proposals only attack new developments
(inadequate yield and disincentive effects)

- Section 106
- Development Value Tax
The Uniform Business Rate

Revenue is paid into a single national pool and redistributed to local authorities in proportion to population.

Rateable values are adjusted every 5 years but poundage is adjusted to keep national take constant in real terms.

London is economically relatively more active.

- Land values go up faster – so contribution to *national* UBR goes up.
- AND transport infrastructure needs increase!

Local business has no influence on tax take or expenditure.
Possible reforms to the UBR

Allow the total take to increase in line with… (?) land values
BUT ONLY if the increment is ring fenced
for a national infrastructure investment fund

Tax Increment Financing (TIF). Increased yields in neighbourhood of new transport investment are notionally ring fenced to service capital debt.

Could fund £2 bn - £3 bn capital in neighbourhood of Crossrail
An additional levy on the standard UBR,

at the discretion of the Local Authority, ring fenced to service capital for new infrastructure

On 2002-03 valuations London yield was £3.7 bn pa.

An additional 10% levy could service £4 bn - £6 bn capital

20%  £8 bn - £12 bn …etc

Cheap to administer; hard to evade; not too distortionary (?)

A business vote could be created
Problems with proposed reforms of UBR

Vagueness of notion of “consulting with business” about how much they would like to pay

Tax Increment Financing will not produce enough yield and is tied to one scheme

Any proposal must relate to all of London’s needs not just one particular scheme

Even though a small proportion of all occupation costs a politically saleable levy on the UBR (if any!) may not produce enough yield
Workplace parking levy

Used in Sydney and Perth

Inadequate yield
  ROCOL: £3,000/space in central London gives £100m pa

hard to administer
  why not just use the business rate system?
Congestion Charging

Glaister and Graham: congestion & environmental charges:

Gross revenues in year 2010 conditions

London £5 bn pa
UK £19 bn pa

gross of all capital and operating costs

½ x 5 = £2.5 bn pa to service £25 bn to £40 bn

This must be pursued actively:
Suburban transport policy is almost impossible without it
Correctly packaged it might be a saleable solution?

But beware the bogey of tax revenue neutrality in a national scheme!
A move to serious, discretionary local tax raising powers would

- Require new legislation
- Create a much more powerful, devolved London government

Would the current structure of London government bear the strain?