



# Back on track — or off the rails?

A report by Stephen Glaister, Professor of Transport and Infrastructure, Imperial College London for Development Securities PLC into the failings and future of urban transport in the UK

The study was carried out for Development Securities PLC by a team of transport experts led by Stephen Glaister, Professor of Transport and Infrastructure, Imperial College London and a member of the Transport for London Board. He was supported by Tony Travers, Director of the Greater London Group at the London School of Economics and current affairs journalist John Wakefield. It includes a comprehensive review of UK urban transport and maps out a way forward, including case studies on London, three of the UK's biggest cities – Manchester, Birmingham, Newcastle – and New York and Paris. The report is based on original research and interviews with senior overseas public transport officials, relevant UK government departments, key national policymakers and regional and local transport executives.

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## Foreword

The poor state of the UK's transport system and urban infrastructure is a topic of interest to all. Years of underinvestment and muddled government policy have taken their toll on our cities, whose transport networks are plagued by congestion, overcrowding and inefficiency – and falling into disrepair.

Yet while the issues faced by public transport are widely and hotly debated, the underlying causes of its decline are less frequently addressed. What's more, a solution to the transport problem, and more specifically the resources required to fund investment, remain elusive.

01 At Development Securities PLC, we recognise that sound infrastructure, including a first-class transport system, is essential for cities to maintain their high productivity, which makes such a significant contribution to the UK economy.

As a major developer in Central London, with projects spanning the capital from east to west, we were keen to get involved in the discussion on urban infrastructure.

To this end, we commissioned our third research report in four years – this time on transport from a team of experts led by Stephen Glaister, Professor of Transport and Infrastructure at Imperial College London.

'Back on track – or off the rails?' undertakes a rigorous critical examination of the policies and government structures that have shaped the UK transport nightmare of the 21st century. More importantly, it suggests that radical government reform is required to place decisions on transport planning and funding back in the hands of the relevant local authorities.

A great deal of detailed, in-depth research has gone into creating this report – and we are confident that its findings will make an important contribution to the controversial and ever topical debate on transport in the UK.



Michael Marx

Joint Managing Director of Development Securities PLC

## Executive summary

A radical rethink of how transport in British cities is run and funded is needed to bring UK urban transport into the 21st century.

From an analysis of the transport success of major international capitals, it is clear the key issue is that British cities need to be set free. They need the liberty enjoyed by their foreign counterparts to set their own transport and funding agendas and be able to submit them for local electorate approval. All this, backed by clear strategic direction from central government, is required to allow the UK's urban centres to deliver the high-quality transport the public deserve and the country requires to underpin strong economic growth.

Decades of political and policy failure have resulted in the current transport problems. Transport's weak opinion poll showing has allowed politicians to afford it second-class status, meaning that transport has always lost out to health and education in public spending rounds. As recently as 1992–2002, a time of economic boom, public expenditure on transport fell from 2% to 1% of GDP. Successive UK governments have put greater emphasis on spending for consumption rather than investment, with the result that the country's infrastructure, including the transport system, has been allowed to decay.

On infrastructure investment UK cities compare unfavourably with most other major international capitals and cities. London, in particular, has suffered from the discredited muddled policies of the past and lack of funding. International capitals such as New York and Paris by contrast, have done much better. Crucial to their success are strong national bodies, which provide strategic direction but allow far greater autonomy than is the case for UK cities. They set their own transport priorities and organise their own funding through discretionary local taxes.

Under the current highly centralised system local authorities are negotiating for central government transport capital grant and do not have to find the capital from their own resources. They have limited incentives to ensure that the schemes they propose would be good value for public money.

A fresh start for UK urban transport requires the Government fully to recognise the need for fundamental reform. In the current climate it is fanciful to expect that sufficient additional funds will be forthcoming from central government to meet the needs and aspirations of local communities.

03 There has been genuine innovative thinking on transport, putting forward an array of land value capture mechanisms, such as Business Improvement Districts (BIDs) and Tax Incremental Financing (TIF). All have merit, but they are simply incapable of raising the amounts of money needed to make a sufficient difference. Further, the antiquated planning system would provide as much of a barrier even if there were no funding problems.

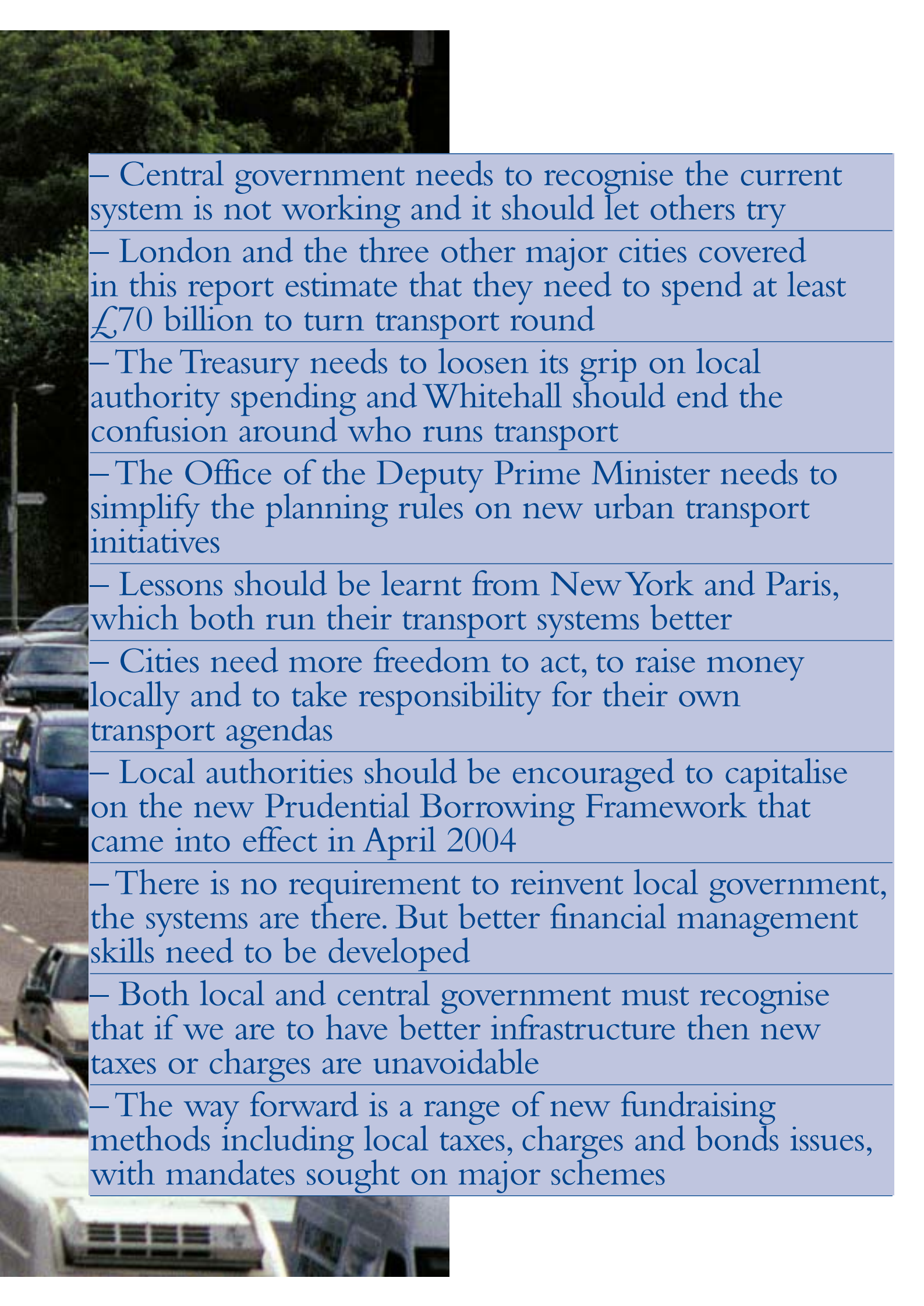
A solution remains impossible without the restoration of stronger and more accountable local government. The Prudential Borrowing regime, which became effective in April 2004, is a promising start. It presents an opportunity that must be grasped and made to work. Local government must be left to take responsibility for its borrowings and more of its funding.

The bottom line is that UK cities and their local authorities must be unshackled from the chains of centralised government. Thus empowered, they will have greater capacity to raise local resources for infrastructure investment. Then they will be in a position to deliver their own transport manifestos and funding plans and to be made properly accountable for them. Only when all these elements are in place will transport in British cities once again set the standards for the rest of the world to follow.

# Report routemap

Ten steps to take us back on track



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- Central government needs to recognise the current system is not working and it should let others try
  - London and the three other major cities covered in this report estimate that they need to spend at least £70 billion to turn transport round
  - The Treasury needs to loosen its grip on local authority spending and Whitehall should end the confusion around who runs transport
  - The Office of the Deputy Prime Minister needs to simplify the planning rules on new urban transport initiatives
  - Lessons should be learnt from New York and Paris, which both run their transport systems better
  - Cities need more freedom to act, to raise money locally and to take responsibility for their own transport agendas
  - Local authorities should be encouraged to capitalise on the new Prudential Borrowing Framework that came into effect in April 2004
  - There is no requirement to reinvent local government, the systems are there. But better financial management skills need to be developed
  - Both local and central government must recognise that if we are to have better infrastructure then new taxes or charges are unavoidable
  - The way forward is a range of new fundraising methods including local taxes, charges and bonds issues, with mandates sought on major schemes

# Key findings





## An antiquated transport system

Decades of underinvestment have resulted in grossly inadequate UK urban transport. Fundamental reform and significantly increased expenditure, largely raised locally, are essential to put things right.

## 17 Transport Secretaries in 24 years – all rebuffed by the Treasury

Transport has always been treated with disdain. Its share of funding has nearly halved over the last decade and as a percentage of GDP, we also have been spending around half as much as other European countries on transport.

## Transport is the poor relation of health and education

Policy giants health and education command up to six times the spending power of transport. Transport has consistently been lowly rated by politicians.

## Too much vision, not enough substance

Successive UK governments have come up with ambitious plans for transport, but all have been unworkable. Whitehall needs to focus less on vision and more on delivery.

## The infrastructure is crumbling – but we pay more than ever for transport

Transport now consumes 15% of household budgets. But an increase in the use of private transport is taking its toll on UK cities, their transport systems and people's quality of life.

## Londoners are prime victims

A huge investment backlog is holding back our capital. The Government is determined that London should fund its own infrastructure development, but denies it the power to do so.

## Europe and America show the way

The UK's troubled transport network is falling behind the developed world. The experiences of New York and Paris, in particular, should teach us a lot.

## Planning – to do nothing

Money is not the only problem because the current over-complex planning procedures frustrate and delay new transport projects. Radical reform is vital.

## End Whitehall's dominance

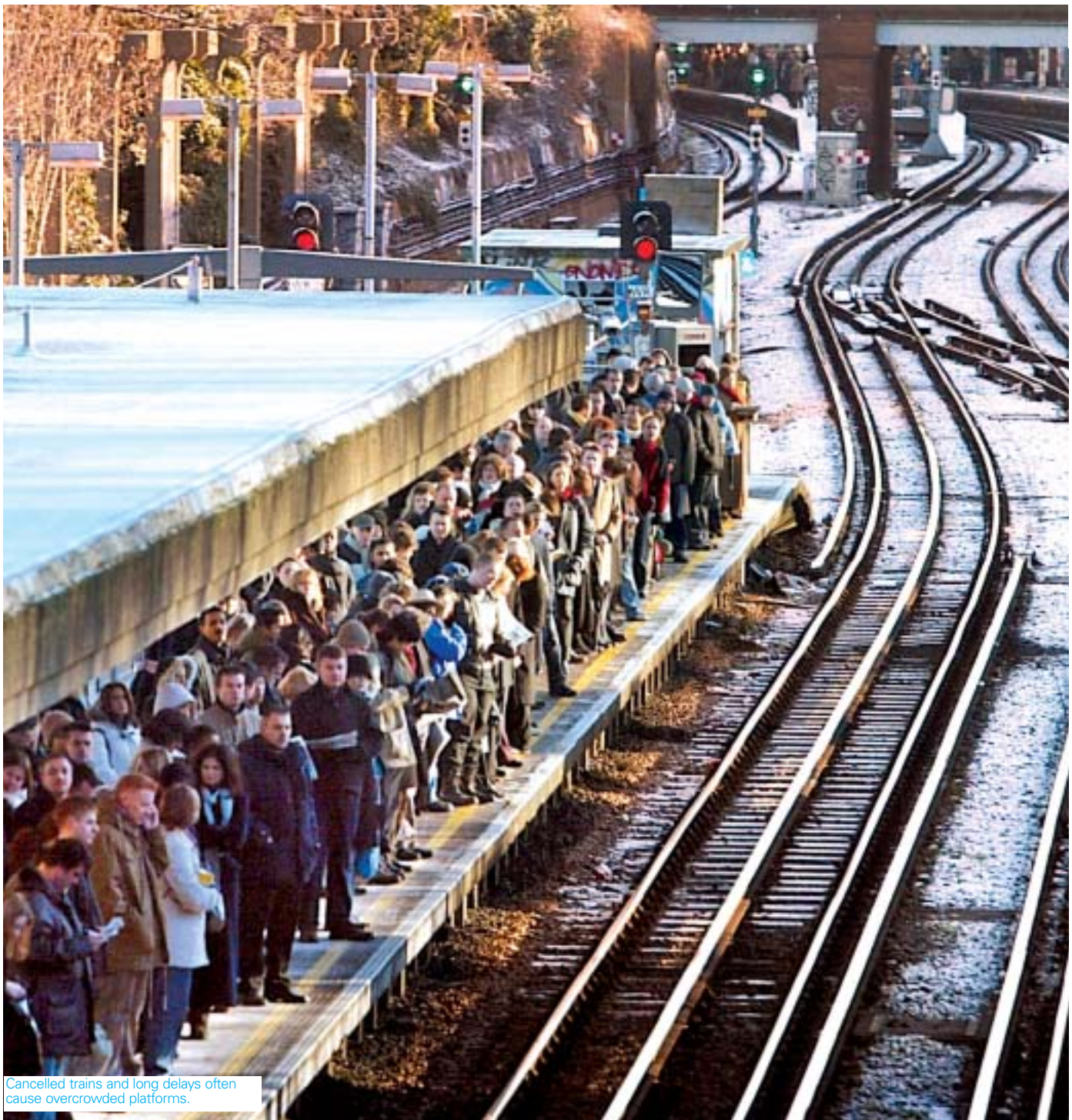
Reliance on central government funds and a lack of control have left local authorities impotent. This dependency culture must end.

## Let the cities take control

Four of our biggest cities say they need £70 billion to start putting things right – and they are not alone. But only if we allow British cities to take control and let them fund and implement their own policy agendas will urban transport regain the standards that were once the envy of the world.

## An antiquated transport system

Decades of underinvestment have put the UK's urban infrastructure into decline. And the chief casualty has been a transport system that is quite clearly failing its public.



Cancelled trains and long delays often cause overcrowded platforms.

This report recommends a radical overhaul in the way that the UK runs and funds its urban transport network. The alternative is bleak: without fundamental changes our cities are unlikely to flourish.

Our large cities, and the regions they serve, will suffer both socially and economically if their transport infrastructure is denied growth – or allowed to deteriorate further.

And whether by road or by rail, journeys into and out of our major cities are commonly fraught with obstacles. These delays, diversions and cancellations are all symptomatic of an ageing infrastructure that is struggling to meet public demand.

In its December 2002 progress report, *Delivering Better Transport* The Department for Transport (DfT), has admitted that, at the start of the 21st century, UK roads and streets were in their worst condition since records began. Years of underinvestment mean it will take around £3.75 billion to bring our existing road network back up to standard.

Increased car ownership and use has applied its own pressures, with peak-time congestion a common feature of life on the urban road. According to the DfT's progress report rush-hour road traffic notches up an average of just 19 miles per hour into and out of major urban areas across the UK.

Safety is another growing issue for road users. In December 2003, the AA Motoring Trust reported that one mile in every five of British A-roads fails initial skid resistance safety checks.

Meanwhile, a third of English bridges need significant work to carry today's level of traffic – lagging ten years behind their European counterparts in terms of strength. To remedy this situation by 2010 will cost around £300 million per year.

What's more, Britain's railway network offers a poor alternative to private transport. The Strategic Rail Authority in its *National Rail Trends* reports that in 2003, nearly 20% of all trains arrived late at their destination, including 28% of long distance trains and 20% of trains serving London and the South East.

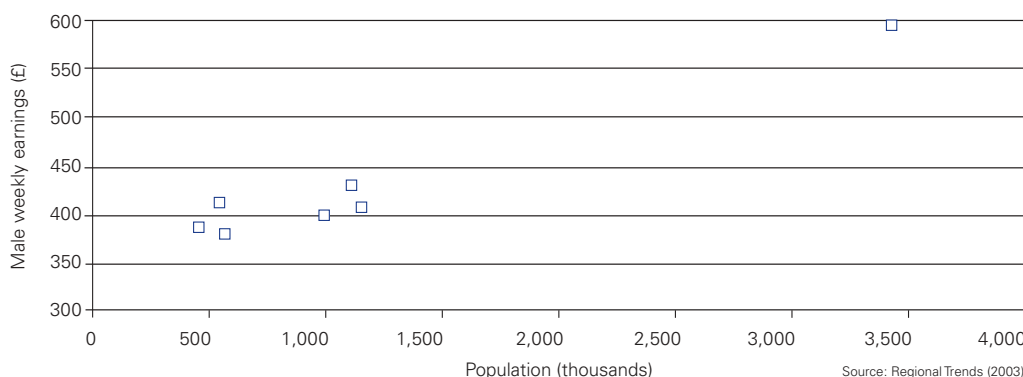
Indeed a report by the Parliamentary Transport Committee, published in April 2004, heavily criticised the way the rail network is currently run, in particular its fragmented nature and even goes so far as to call for the abolition of Network Rail and the Strategic Rail Authority (SRA) and their replacement with a single 'unified public sector Railway Agency.

Why is good transport so important? It is essential for healthy cities and healthy cities are, in turn, crucial for a flourishing economy.

Employers are able to pay higher rates for labour in cities, in return for the higher value of their product. It is the extra productivity of cities that justifies their existence. Indeed, the chart below illustrates that the larger the urban area, the more productive its labour force.

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## UK metropolitan counties: relationship between population and male weekly earnings



So large cities exist for sound economic reasons – particularly regional and national economic capitals. Typically, these metropolitan areas accommodate large agglomerations of specialist industries, and thereby serve the rest of the regions. They rely on public service provision; this, of course, includes transport.

And while not all transport investments offer value for money, high urban productivity – and land value – could help expensive infrastructure investment to pay for itself.

However, from the mid-1970s, a catalogue of cuts in public expenditure has made it increasingly difficult for the UK's major cities to develop their public infrastructure in the way they would wish.

The Prime Minister, Tony Blair, appeared to acknowledge the scale of the problem in a recent speech. On 22nd March 2004, he mentioned that the UK needed to 'learn from Europe the necessity of reducing the chronic legacy of neglect of transport infrastructure, a critical element in producing

a more flexible and productive economy'. Yet the situation in the immediate future is only likely to become worse. The Chancellor of the Exchequer, Gordon Brown has to cope with problems of rising public debt – implying that investment spending could be restricted even further.

This study argues that our shaky transport infrastructure could fail to meet the growing needs of our major cities without a major increase in funding. So what is the solution?

Our answer lies in a complete reappraisal of the mechanisms that govern the UK's urban transport networks. In other words, a fresh start requires central government to recognise the need for fundamental reform of both sources of local income from taxes and charges and local governance.

Put simply, the current system that controls and funds public infrastructure is in a mess. And our analysis of recent political history reveals exactly why UK transport has run so far off the rails.



...our shaky transport infrastructure could fail to meet the growing needs of our major cities without a major increase in funding.

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New rolling stock (left) improve journeys for overground rail travellers but London Underground (bottom) commuters still suffer.



## 17 Transport Secretaries in 24 years – all rebuffed by the Treasury

In 1997, Tony Blair is reported to have told his incoming Cabinet that transport was ‘not a priority’. In fact, politics’ relationship with transport has been steadily dwindling since the end of the Second World War.

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Successive budgets and public spending rounds have not favoured transport.

Although there has been a Ministry of Transport since 1919, its status in government has always been precarious. Most remarkable of all has been the turnover in transport ministers. Between May 1979 and December 2003, the average length of time for a transport minister to stay in office was just under 22 months. Since 1979 there have been three Prime Ministers, six Chancellors of the Exchequer but 17 principal transport ministers.

A more concrete reflection of transport's second-class status is the share of public spending it has been able to command. In short, if there is a public spending crisis, then transport is traditionally the first target for cuts.

And over the decade to 1999, public sector investment has reached an all-time low – taking transport down with it. As a proportion of GDP, transport spending was almost halved between 1992 and 1999, with expenditure declining from £15.8 billion to £9 billion. Increases in the last couple of years have not brought it back to 1992 levels.

What's more, according to the Commission for Integrated Transport, the UK invested, as a percentage of GDP, around half as much as the French, Germans and Italians on transport in the 1990s.

Transport's shaky political status and reduced spending power have had a damaging effect on our urban infrastructure. But why do UK politicians have such little time for transport?

## Transport Expenditure, United Kingdom (£billion, 2001-02 prices)

1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
15.8	14.4	14.6	13.5	11.5	10.2	9.3	9.0	9.3	11.4	12.7

Transport is the poor relation of health and education  
Transport faces tough opposition in the political arena  
from the policy giants of health and education.

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Service failures are all part of the experience on UK railways.

The chart below shows that the public expenditure on health and education has increased much faster than transport, commanding up to six times the expenditure of their poor policy relation.

And the comparative constraints on transport spending have left practically no scope for urban infrastructure development. Well known recent enhancements to city transport, such as tramways in Croydon and Manchester were all agreed at least nine years ago – and are misleading indications of current Government policy.

There are a number of reasons why transport has had such a lean time. One is that much of transport spending is capital spending: major investment in new assets such as roads or rail networks. Capital spending is politically easier to cut than current spending, whose absence has a more immediate effect on voters.

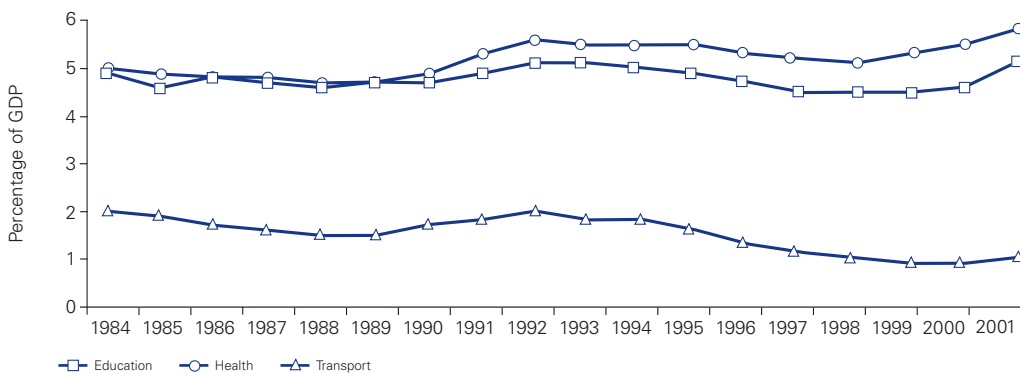
Furthermore, major transport projects take years to develop – and are therefore at odds with the short-term electoral goals of politicians. Health and education initiatives are quicker to implement, making them a more immediate way to win votes.

There's another reason why politicians constantly prioritise health and education over transport: it reflects the relative priorities given by the public to these issues. According to MORI, when asked about important issues facing the nation, the average UK citizen generally rates transport no higher than ninth or tenth on the list.

So while concern about transport is rising, it is nowhere near the main priority of the British people, perhaps because they do not perceive it as having major macroeconomic benefits to them.

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## Total managed expenditure, United Kingdom, percentage of GDP



## Too much vision, not enough substance

Over the last half century, consecutive governments have failed to develop a realistic long-term transport vision for the UK.



A small number of cities can currently claim reasonably well-developed urban transport systems, among them London, Glasgow and Newcastle. But significant investment would be required to give our urban centres the kind of public transport systems enjoyed in continental Europe and North America. Even the smallest metro network can cost billions of pounds.

Our political leaders are clearly aware of the system's failings. Soon after Labour came to power in 1997, a consultation document produced by the Department of the Environment, Transport and the Regions (DETR) set out the country's transport problems in terms that many people recognised and accepted.

But the Transport White Paper that followed in July 1998 contained few firm proposals – and offered little more than a promise to consult further.

17 And expensive consultation means that vast amounts of money have been spent achieving very little. The tale of CrossRail, an ambitious scheme to improve transport links in London, provides a case in point. Some £300 million of public money has been spent on developing two versions of the CrossRail scheme – yet it is still uncertain when CrossRail will go ahead.

It is exactly this kind of indecision that is bringing Britain to a standstill. Plans are laid, then withdrawn, with depressing regularity – and many hang in the balance for years.

The DETR's 2000 Ten Year Plan offered an optimistic antidote. Here was a long-term expenditure plan with a firm commitment from the Treasury: something that has rarely been achieved before or since. It also represented a worthwhile increase in the public funds to be made available for transport.

Yet this Treasury commitment is likely to be tested. National railways and the London Underground are already incurring far greater costs than anticipated – and the Treasury is able to appeal to the Plan as a defence against calls for further transport spending.

So, ironically, a guaranteed minimum of public spending may prove an obstacle to investment. In other words, it is likely to be enforced as a maximum.

Certainly, there is no evidence of a major and sustained change in spending policy towards transport in the UK's regional cities. The chart below considers spending by Passenger Transport Executives (PTEs) in the years from 1996-97 to 2002-03.

## Transport Expenditure, Passenger Transport Executives (£ million, cash)

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Greater Manchester	26.6	98.6	96.2	92.3	89.6	91.7	108.0
Merseyside	85.4	85.9	80.8	79.2	77.5	76.7	94.8
South Yorkshire	33.3	26.9	32.9	30.9	34.5	34.2	44.2
Tyne and Wear	22.4	23.0	23.1	23.7	22.9	23.9	25.1
West Midlands	66.1	64.7	67.2	59.5	61.4	59.2	63.7
West Yorkshire	70.7	61.1	64.2	60.3	62.9	63.5	61.1

Note: Greater Manchester figure for 1997-98 onwards includes Tramlink

(Source: Finance & General Statistics, various years, Chartered Institute of Public Finance and Accountancy, London)

PTEs are effectively responsible for transport provision in the major cities outside London and derive their income from council tax, fares and – for capital expenditure – some borrowing. The figures show constrained spending, apart from a temporary increase in Greater Manchester in 1997-98 to accommodate the costs of the new tram system.

Restricted expenditure has resulted in what the residents see as inadequate urban infrastructure. Major UK cities that had not already developed significant urban rail or tram systems have only haltingly been able to do so. There is no sense of a planned and continually implemented programme of investment in city transport systems.

This situation is hardly the fault of the local authorities concerned. In fact, it is largely beyond their control. To explain this dilemma further, we need to examine the Treasury's current policies on public expenditure.

The Treasury insists that it wants to see more public spending on transport infrastructure. But this is qualified by two rigid requirements: schemes must have a good value for money case by the Treasury's criteria and there is a general perception that they must not increase national borrowing.

Gordon Brown, the Chancellor of the Exchequer, has placed tight controls on public borrowing. His 'golden rule' says the government can, over the economic cycle, borrow only to fund its investment. Meanwhile, his 'sustainable investment rule' states that public debt should be kept below 40% of gross domestic product.

The creation of public interest companies like Network Rail, the national railway infrastructure provider, has helped to keep borrowing off the public balance sheet. Yet Network Rail's debts, likely to rise in excess of £20 billion over the next few years, are ultimately backed by the government – and surely ought to form part of the public debt eventually.

And growing debt is bad news for the resources available to local authorities, whose borrowing powers have been determined by central government.

Britain has evolved one of the most centralised systems of government in the developed world. One reason for this was the wish, in times of economic crisis, to restrict public sector expenditure.

Having attempted to contain its own expenditure in the late 1970s, the Thatcher administration took the view that local authority spending was still out of control. And as revenue expenditures were squeezed, so local authorities turned to borrowing to preserve their programmes. Hence rigid limits on borrowing were also introduced.

These restrictions existed until April 2004. And the upshot is that central government has been involved to an extraordinary degree in local authority transport decisions.

Financially, our cities are at the mercy of central government: 75% of their expenditure is funded directly from grants from central government. And Whitehall has a strong influence – for example through the threat of capping – on much of the remainder. Most projects that offer good value for public money will not generate sufficient income from charges to fund them. Local authorities are therefore reliant on either pay-as-you-go funding or borrowing – and, ultimately, it is taxation that foots the bill for both.

Access to national tax funding is, of course, restricted by the Treasury. The only alternative is a local tax of some form. Yet here we come to one of the key inconsistencies of our government system. Central government is encouraging investment in transport infrastructure – and is suggesting that local taxes should fund it. But it has not put in place an adequate mechanism through which local authorities can propose, levy and be held to account for local taxes.

This irony lies at the heart of the UK's troubled transport network. Indeed, the whole system is defined by contradictions.



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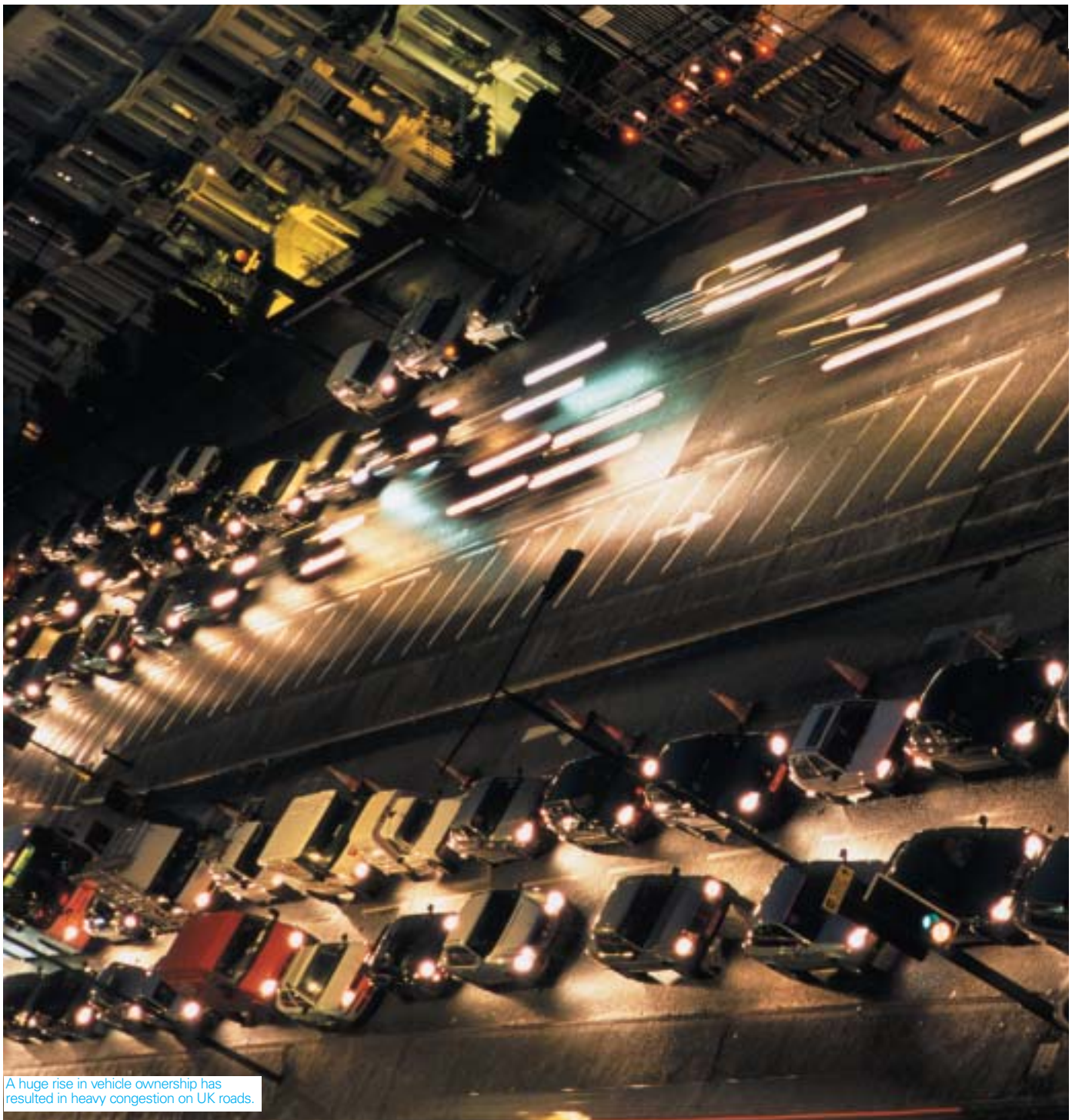


We need to speed up the replacement of old trains (left) with new rolling stock (right) to ease the long waits at main line stations, such as Victoria (below).



The infrastructure is crumbling – but we pay more than ever for transport

The biggest contradiction of all is that, while our infrastructure is neglected, UK citizens spend more than ever on transport.



A huge rise in vehicle ownership has resulted in heavy congestion on UK roads.

Since the 1960s, there has been huge growth in personal spending on transport in the UK. The annual Family Expenditure Survey reveals that, in 1962, our households allocated around 9% of their expenditure to transport. Food, alcohol and tobacco, meanwhile, accounted for 33% of our budgets.

Four decades on, and transport consumes 15% of household money – second only to expenditure on housing and utilities at 18%. Food, alcohol and tobacco constitute a mere 13% in total.

Private transport is now the main recipient of our earnings. Since the 1960s, there has been a huge rise in vehicle ownership – and it follows that running of private vehicles has increased at the expense of public transport usage.

The UK is clearly feeling the effects of private transport domination: congestion and unreliability.

Yet the alternatives to private vehicles are poor, and the rising popularity of private transport is compounded by the notorious unreliability of our trains, tubes and buses.

Indeed, outside the London commuter belt, only a minority use public transport. Just 6% of UK passenger kilometres are by rail – and the Strategic Rail Authority notes that more than half the population uses the train less than once a year. Of total passenger kilometres, rail accounts for 5%, buses for 6% and cars for 85%.

Improvements to infrastructure are the only way to get our transport system back as it should be.

# Londoners are prime victims

Nowhere is the pain felt more sharply than in London.



Long suffering Londoners put up with another delay at London Underground.

The business organisation London First has estimated that up to £62 billion will be necessary to get the capital's troubled transport system up to scratch. On top of the need to renew and repair its existing networks, the city has a whole shopping list of transport requirements: new bridges, railways, roads and tramways.

Now, with the capital's population set to increase from 7.5 million to 8.2 million by 2016, the need for investment in London and the Thames Gateway is more urgent than ever.

Decades of underinvestment have had serious consequences for the quality of service offered to Underground and rail users. The following chart gives some indication of the poor reliability of the capital's two main forms of rail transport.

Add in the actual delays experienced and the problems of overcrowding on both the Tube and suburban rail services, and the transport picture for London does not look as it should for a major world city.

Road congestion is another major problem. Between 1977 and the present, average morning peak traffic speeds in London fell from 17.2mph to 15.0mph, partly due to increasing road traffic outstripping the minimal increase in physical road space. Congestion Charging has been successful but the present scheme can only have a significant effect in the centre of London.

The word from Whitehall is that London's taxpayers should in the future bear a greater proportion of the cost of the city's infrastructure developments. Unfortunately, as is the case for local governments around the country, no means has yet been found to give London's regional or local government the necessary freedom to pay for such infrastructure.

Baffled and discouraged by the complexity of government funding and planning procedures, the private sector can offer no comprehensive solution. In truth, the public and private sectors are completely at odds in terms of motivation and expectation.

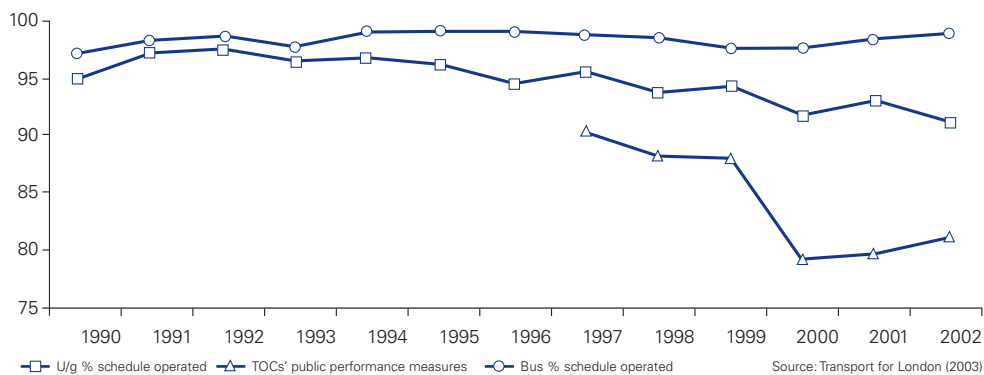
Time is a risk factor for private companies: they require some certainty within a defined time-scale. Yet because the public sector does not have to turn a profit in the same way, there is a risk projects drag on for years without any hope of delivery.

In other words, the Treasury's slowness and inconsistency in delivering funding, risks damaging London's development.

Even after the creation of the Greater London Authority, only central government has the political clout, financial resources and access to Parliamentary powers necessary to drive key projects forward. But four main issues prevent it from doing so.

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## Tube, Bus and Train Operating Companies service reliability



First, efforts to limit public expenditure, while providing extra billions for health and education, have meant that other services have been subject to continuing constraint.

Secondly, to keep current taxation and public borrowing low, the Government has commonly favoured the use of part-privatisation deals. The Private Finance Initiative (PFI) and Public Private Partnerships (PPP) may delay the cost to the public sector, but are very difficult and costly to put together. And they have to be paid for over a period of many years into the future.

Thirdly, London is only part of the UK and the Government clearly finds it difficult to concentrate capital investment in the capital, however strong the case.

Finally, implementation difficulties and runaway costs associated with projects such as the Millennium Dome, the Jubilee Line extension and the West Coast Main Line projects have made ministers and civil servants overcautious.

However, it is untrue to say that London is completely incapable of developing major or medium-scale projects. Transport initiatives of the past 20 years include the Docklands Light Railway and its recent extensions, the Jubilee Line extension and the Croydon Tramlink. Other projects are underway, among them the Channel Tunnel Rail Link and Heathrow Terminal 5.



On the other hand, the list of completed and current projects demonstrates that the Government is only willing to fund specific types of transport initiatives.

Projects that do not involve a single new transport link, or which were not within a government-led regeneration zone, have proved more problematic than large, free-standing developments. More complex, multi-phase initiatives – of whatever size – involving several government agencies or sites with multiple owners have all taken many years to move towards even the start of construction.

Thus the Mayor, Whitehall and other key players must engage in a search for funding mechanisms that can be used within this unhelpful, unforgiving environment.

London's record in planning and delivering infrastructure projects is poor and, at best, unpredictable. What's more, our capital's transport system lags way behind those of other major world cities.

So why do they do it so much better than we can?

# London's record in planning and delivering infrastructure projects is poor and, at best, unpredictable.

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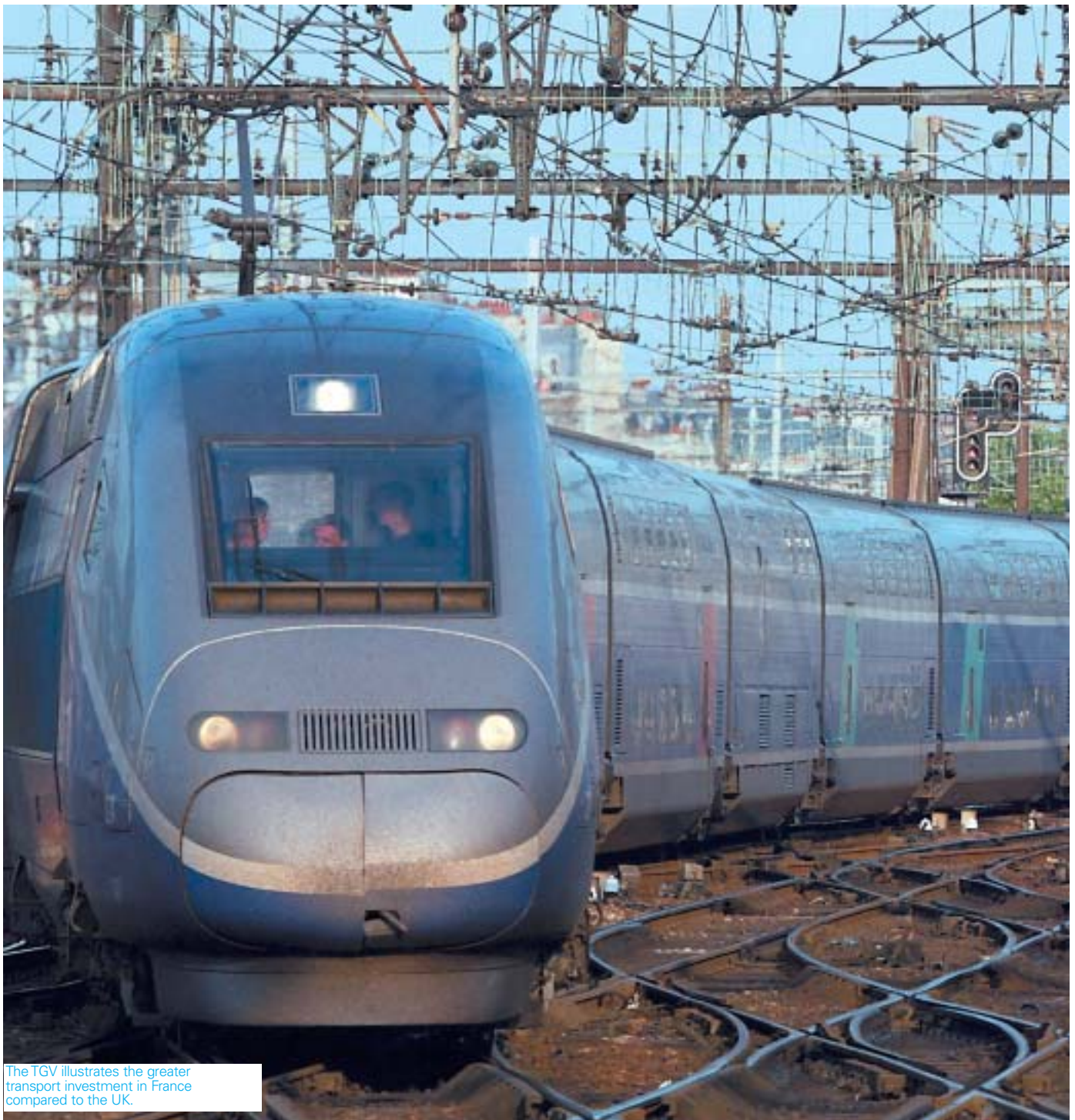


Bob Kiley, London's Transport Commissioner (left) tasked with turning round the tube (right). The Congestion Charge has started to ease the gridlock on the capital's roads (below).



## Europe and America show the way

Across Europe and the Atlantic, the UK's urban transport system is sometimes regarded as poor and unreliable – even though safety is good by world standards.



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The TGV illustrates the greater transport investment in France compared to the UK.

And just a brief glance at the transport networks of our continental cousins and US or Asian counterparts reveals how much better they do things.

Direct comparisons between cities must, of course, be treated with caution. But large urban centres do share essential characteristics – notably, the need to move large populations around as quickly and affordably as possible.

The following chart shows the average time taken to get to work in a number of world cities. Note that, although London is closely matched to New York in terms of population, average travel times in London are far greater. While commuters may certainly travel further to work in London, it is also likely that their journeys are slower than in the rest of the working world.

One striking indication of progress in urban transport is the development of metro or light rail systems. While metros are not necessarily a value for money solution to local transport problems in the UK, the high capital expense of installing them implies a commitment to spending on urban transport systems.

And, unsurprisingly, the UK appears far less committed than the outside world.

Britain has three recognised metro systems: in London, Newcastle and Glasgow. It also has three light rail systems with a few metro characteristics: Manchester, Birmingham and Liverpool. Apart from three tram systems in Sheffield, Croydon and Nottingham, the UK has no further metros in the pipeline.

By contrast, France has six metro systems; Italy has five plus two light rail systems with underground elements; Spain has four metros with three planned or under construction; Germany has four underground systems and 14 light rail systems with underground or metro features.

Outside Europe, similar comparisons can be made. In Canada six systems are listed; the United States boasts 29; South America can claim 17 city metro networks.

For Asia, the list includes 42 existing systems – and a remarkable roster of 30 further systems planned or under construction.

These figures provide just a snapshot of urban infrastructure development around the world – and imply that other developed nations are years ahead of the UK in terms of transport investment and planning.

For a more detailed account of where we are going wrong, let's take a look at cities: New York and Paris.

### Transport in the 'Big Apple'

New York City is a city of eight million residents. Its modern metropolitan infrastructure was, to a significant extent, put in place at precisely the same time as London's.

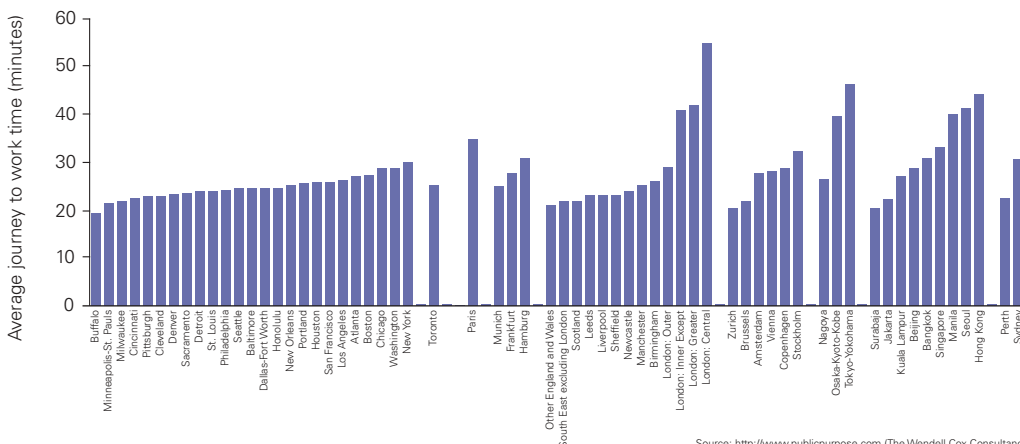
And New York, like London, had elderly and life-expired infrastructure. During the 1970s and early 1980s, New York's subway was internationally infamous for its breakdowns and its graffiti. The system came to represent the worst in urban public service failure – threatening, potentially dangerous and of low quality.

But in marked contrast to the London experience, this problem was addressed during the late 1980s and 1990s.

New York City's municipal government is headed by a powerful, elected mayor. However its transport responsibilities are limited to a number of roads and bridges.

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## Average journey to work times



Source: <http://www.publicpurpose.com> (The Wendell Cox Consultancy)

Most public transport is instead in the hands of the Governor of New York State. And although the city's Metropolitan Transportation Authority runs the Subway, buses and most commuter rail services, New York's roads, bridges, tunnels and airports are governed by a number of State-run agencies.

This coordinated sharing of responsibility has led to marked improvements in New York's transport system. Financing for the modernisation of the Metropolitan Authority's infrastructure was delivered by bond issues – and, most notably, subject to local referenda. Substantial sums were therefore raised and ploughed into the renewal of the Subway and commuter rail lines throughout the 1990s.

Where New York differs so strongly from London is in its ability to make key transport decisions at a local or, at least, regional level. In the main, it is the State that runs the City's transport system. Unlike our own central government, the US Federal government allows its cities the freedom and power to invest in their own urban infrastructure.

### ***The Parisian approach***

France, meanwhile, shares the UK's more centralised form of government. But, when it comes to infrastructure investment, the French state has the advantage of an impeccably structured system of government that prides itself on competent and swift delivery of funds and decisions.

Most notable is the way that Paris has historically provided transport for its growing population. In particular, the building of five suburban towns around Paris prompted the creation, in the 1970s, of the Réseau Express Regional (RER).

The RER, which modernised existing railway lines with new sections, tunnels and interchanges, provides a fast service, not only from the suburbs to the centre, but also across the centre. As yet, London's dilapidated Thameslink – awaiting its upgrade to Thameslink 2000 since the early 1990s – serves as the only cross-London rail service.

The 1970s too saw an expansion of the Metro. 21 separate extensions since then, along with an entire new line, mean that the system is now 25% larger than in 1970.

Little surprise, then, that Paris's urban transport system now seems far more modern and appealing than London's equivalent. 81% of Parisians travel to work by public transport – and customer satisfaction on the Metro has risen from 85.9% in 1998 to 88.6% in 2002.

So how does the French city run its transport system so effectively – and fund its obvious commitment to infrastructure renewal?

Public transport in Paris and the surrounding Ile de France is organised by the Syndicat des Transports d'Ile de France or STIF. STIF, in turn, is largely controlled by the French state. In simple terms, STIF is responsible for three state-owned transport operators that between them govern the Metro, inner-city buses and the RER. It also supervises the 91 private bus companies that operate in suburban Paris.

Crucially, local government in the Paris region has far greater freedom over levels of local taxation than those in London and the South East. Local authorities in the Paris region have potential access to around ten different local tax sources.

Most importantly, perhaps, the city of Paris is able to retain the yield from its local taxes without losing central government grant as a consequence.

STIF's own income comes from two sources: government (at the three levels of state, region and department), and a dedicated transport tax, the Versement Transport (VT). The VT is a supplementary payroll tax imposed on all employers with nine or more employees. The rate varies between 1% and 2.5%, and averages at 2.2% of the payroll bill.

Tellingly, the VT accounts for as much as 64% of STIF's funding resources, with just 18% coming from the state. These resources are used largely to subsidise the operating losses of the transport operators and on modernising existing assets.

In summary, Paris's transport system owes its relative success and efficiency to the state's ability to deliver regional or local projects. London and other British cities have seen much the same degree of central control as their French counterparts, but without the equivalent capacity to raise local resources to achieve local objectives.



Crucially, local government in the Paris region has far greater freedom over levels of local taxation than those in London and the South East.

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Both New York (left) and Paris (right) have traffic problems but have better underground systems than London. The Paris metro (bottom) is a good example to follow.



## Planning – to do nothing

Central government wields more than simple financial control. In fact, even if all the funding, financing and governance issues facing transport were miraculously resolved, the UK's sluggish, antiquated planning system could still add further years of bottleneck delays.



Roadworks; almost as common as cars on UK roads.

For funding apart, local authority planning decisions are subject to an appeal to central government. And larger projects are likely to involve a lengthy, full-scale inquiry.

In the case of the most important infrastructure developments, a parliamentary process, involving either a Private Bill or Hybrid Bill, has proved necessary.

The Channel Tunnel Rail Link was pushed through the Hybrid Bill procedure which, crucially, meant the Government provided parliamentary time for its passage. But the proposed Terminal 5 at Heathrow airport was stuck in a public inquiry for years – and an attempt to promote CrossRail using the Private Bill procedure was abandoned when the committee considering the proposal voted against it.

31 Planning procedures in the UK consume not just time, but also vast amounts of money. The Strategic Rail Authority has estimated that professional fees, associated with project management, planning, design and legal issues, account for a quarter of total scheme costs. And in the case of the Channel Tunnel, they constituted even more than this.

By way of comparison, total planning and management costs for Spain's new high-speed Madrid-Lérida line represented just 2-3% of the total budget – which itself was much lower than the costs estimated for similar projects in Britain.

This marked disparity is likely to arise from the UK's slow and complex system of gaining approval for projects.

A rewrite of complex planning procedures is therefore urgent: a view that is notably shared by the government.

In 2001, the Department of Transport, Local Government and the Regions stated that planning in the UK is 'complex, remote, hard to understand and difficult to access.' It also noted that 'the planning process is too often perceived to be a set of rules aimed at preventing development rather than making sure good development goes ahead. Communities frequently feel detached from the process, and suffer from planning blight.'

The truth is that our current national planning process is indeed often used to frustrate and delay projects. In the case of larger developments, this delay is likely to have the eventual effect of discouraging private investment. The combined problem of putting together a project plan, funding and planning permission is often sufficient to cause years of delay. CrossRail, once more, is a case in point.

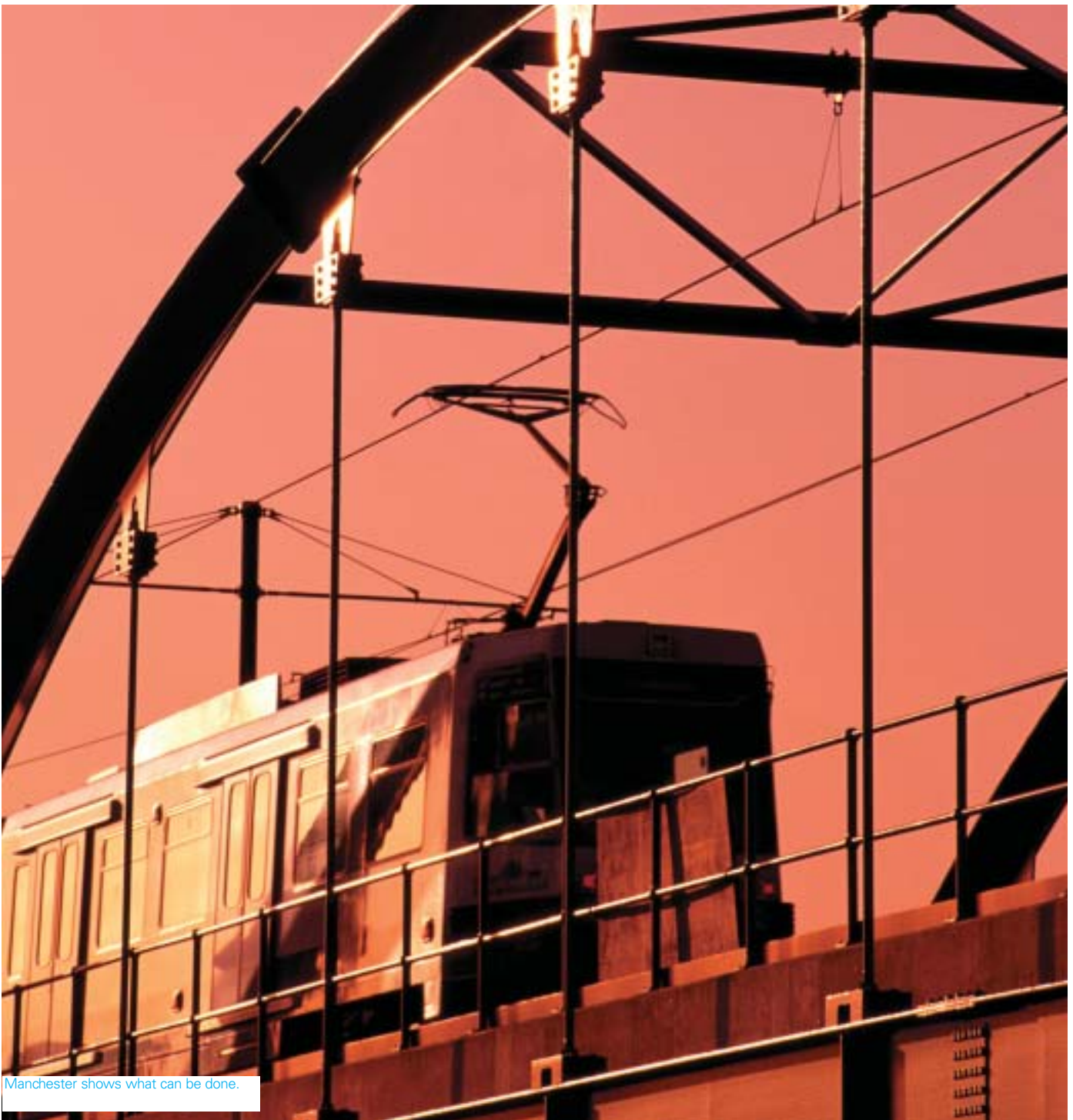
The Government's proposals to change this system have included reducing the number of tiers involved in planning, and giving Parliamentary outline approval for major projects prior to any inquiry process. District councils will be expected to speed up the process of local decision making.

Taken together, the Government hopes that its proposed changes to the planning system will speed up the granting of planning permissions – while retaining a reasonable degree of community engagement.

But progress is slow – and the irony is that planning reform has itself become drawn out to the point of paralysis.

## End Whitehall's dominance

UK central government has proved time and again that it has difficulty running all of the country's transport system. Yet fragmentation of control means that local government lacks the power to put things right in its own locality.



Manchester shows what can be done.

This is due in part to the fact that significant transport operators are beyond the control of democratically elected local authorities. For example, heavy rail services, on which many commuters in some cities depend, come under the remit of the national rail system. Whilst local authorities do have influence, in many cases they protest that it is too weak.

Buses outside London were deregulated in 1986, and are run by private companies. Again many local authorities would like to have more direct powers of influence.

Despite this dispersal of control, local authorities do have responsibilities towards transport policy. But there is an element of fragmentation here too, in that different transport functions attach to different levels of local government.

The larger UK cities themselves are each part of a larger unit of local government: a metropolitan council. And while district city councils retain some control over their own transport – most notably local highways – the principal power over transport policy lies at the metropolitan level. Here, it is in the hands of the Passenger Transport Authorities (PTAs).

In turn, the PTA appoints a Passenger Transport Executive (PTE). PTEs are not only responsible for the day-to-day running of the transport system, but also the managing of the relationship with the independent operators within its area.

Since 2000, PTAs in all metropolitan areas have been required to develop, agree with government, and adopt a five-year Local Transport Plan (LTP). This is, in fact, the case for every other local authority in the country with responsibility for local transport.

The LTP has two functions. One is to set out a long-term transport strategy for the area and to link it to the wider purpose of urban regeneration. The other is as a submission to central government for funding. In setting up the LTP system in 2000, the Government allocated to it £8.43 billion over five years, of which £4.4 billion would be available to authorities for public transport, integrated transport measures and smaller schemes.

Part of the LTP system involves the PTAs putting together an Annual Progress Report (APR), which they submit to the DfT. Thus funding of the LTP is under annual review, with the DfT taking a close look at all local projects, which it is funding.

As time has passed this adjudication of major scheme bids has focused less on the original LTP plan, and more on the outcomes achieved in the intervening years. The result is that the APRs are regularly assessed, with financial rewards going to those doing well, and penalties imposed on those falling behind.

Since the authorities are negotiating for central government grant and do not have to find the capital from their own resources they have limited incentives to ensure that the schemes they propose do, in fact, fulfil a real need at a reasonable cost – in short, that they represent good value for public money. Project appraisal tends to turn into a 'shopping list' of things it would be nice to have in the hope that some of them would eventually be funded by the national taxpayer.

All this means even closer central government scrutiny. Effectively authorities become accountable to central government rather than to their local electorates.

The above arrangements cover capital spending. For revenue spending, the situation is different. For those areas of spending under the control of district councils, funding comes from the three sources that fund all local authority spending: council tax revenue, central government grant and business rate income.

Revenue spending authorised by the PTA is financed by a levy on the district councils. It thus comes indirectly from the same three sources. The PTA has itself no independent means of raising resources.

Furthermore, the district councils have only council tax as a variable source of revenue under their independent control. And here too their hands are tied. Central government closely watches the levels at which councils set council tax. It has capped rises in the past – and, if necessary, would do so again.

It is therefore clear that in terms of both capital and revenue spending on transport, our cities are heavily dependent on, and accountable to, central government. And while central government takes an all too active interest in local transport, it refuses local authorities the power to achieve large-scale objectives. By way of illustration, the way transport is run in three of the UK's biggest cities – Manchester, Birmingham and Newcastle – is instructive.

### **Manchester – wanting faster delivery**

Manchester is the capital of the North West. The wider metropolitan area of Greater Manchester has a population of 2.5 million – with 430,000 inhabiting its inner city area. The funding agreed for Greater Manchester's five-year LTP, to 2005-06 is about £410 million. One of the aims of Manchester's LTP is to contain the steady increase in car journeys across the city – and thus reverse the decline of public transport usage.

To this end, major capital investment projects in Manchester currently comprise creation of three new Metrolink lines and the development of Quality Bus Corridors. The latter are bus-based systems in areas where patronage is insufficient to justify light rail services.

The transport authority has a clear view of how it could improve things if it could obtain the resources. As the first LTP comes towards its end, consideration is being given to the contents of the second LTP (2006-11) – and how it will contribute to delivery of a 20-year vision for transport in Greater Manchester and the North West as a whole.

Further development of the current network is the main objective: additional Metrolink (tram) routes; additional Metrolink and heavy rail vehicles (to increase passenger carrying capacity); improvements to bus services; improved advanced information and journey planning systems and real time passenger information; improved facilities for passengers at bus and tram stops and bus and railway stations; better road signing to public transport park and ride sites; improved perceptions of personal security; better infrastructure maintenance regimes; integration with other agencies that have passenger transport responsibilities.

The cost of delivering these schemes continues to be assessed, but preliminary estimates put the cost of improving Metrolink in the hundreds of millions of pounds, while the cost of the busway work is estimated to be in the tens of millions of pounds.

Local officials believe that what is needed is for the delivery of infrastructure projects to be quicker and more certain. Like many local transport authorities, Manchester finds that the length of time, and uncertainty, of the planning permission and funding processes is off-putting to private sector partners and undermines public confidence in the planners and politicians. There are also difficulties arising from the fact that the heavy rail network is the responsibility of the Strategic Rail Authority (SRA) – not the local councils. The progressive conversion of local heavy rail lines to Metrolink operation, however, reduces the role of the SRA in local transport issues.

### **Birmingham – much to be done**

The city of Birmingham alone has a population of nearly one million, occupying an area of 270 square kilometres, and is the capital of the West Midlands. Public transport policy for Birmingham's wider metropolitan area is the responsibility of the West Midlands Passenger Transport Authority (WMPTA) and its Executive (Centro).

Birmingham's single most important transport scheme of the last five years has been the development of Midland Metro Line 1 (opened 1999), which carries five million passengers per year between Birmingham and Wolverhampton. But in the absence of a Metro network, buses still make up 92% of all public transport journeys in the Centro area.

The most up-to-date schemes being pursued by the LTP partners in Birmingham include the following:

- Remodelling of Masshouse Circus in the City Centre (almost complete)
- Midland Metro Line 1 extensions (Birmingham City Centre Tramway and Wednesbury-Brierley Hill route)
- Outer Circle Bus Showcase major LTP scheme
- Hagley Road Bus Showcase major LTP scheme
- Relief roads at Northfield and Selly Oak
- Programme of 'bus showcase' improvements
- Change of 'Hearts and Minds' programme



In addition to these current schemes, the West Midlands Local Transport Plan partners are proposing a number of other schemes, many of which were suggested by the Government-sponsored West Midlands Area Multi-Modal Study which reported in 2001. These include the following:

- New Street Station redevelopment
- Chester Road Access and Regeneration
- Strategic Park & Ride at Longbridge on the Cross City Rail Line
- Urban Traffic Control
- Walking major LTP scheme
- Cycling major LTP scheme
- Red Route Network

But there are bigger budget plans too. For instance, in the area of heavy rail infrastructure, the Strategic Rail Authority's West Coast Route Modernisation programme is very important for the region and its linkages with London. This scheme is already under way with a £10 billion budget. In addition, the West Midlands Area Multi-Modal Study proposed an additional £4.2 billion of heavy rail capital investment for the period to 2031, with £650 million of this recommended for implementation in the first phase of investment to 2011. This is needed due to severe rail congestion in Birmingham City Centre where local, regional and national lines converge.

There are also plans to improve public transport access to Birmingham International Airport and the National Exhibition Centre, and to make improvements to the M42. The airport public transport access improvements have been costed at a capital sum of around £10 million in the LTP. A Midland Metro route to the airport is also being considered along the A45 from the city centre with a £310 million gross capital cost.

The M42 improvements, involving the widening between the M40 and M6 with improvements at Junctions 6 and 7 of M42, are estimated to have a capital cost of £234 million according to the Multi-Modal study. An active traffic management system is also being considered on the entire West Midlands motorway box at an estimated capital cost of £180 million.

A further ambitious scheme is to construct an additional three Metro routes to take the network to five lines (including the airport route and the existing Line 1. This would involve an additional gross capital cost of approximately £750 million.

Bus improvements include a Quality Bus Network in neighbouring Coventry (LTP net capital cost £33 million). This approach could be emulated in parts of Birmingham and the Black Country, with a further two of these 'area network schemes' before 2011 (each with net capital costs in the order of £39 million). New Bus Rapid Transit/Super Showcase routes are also planned where light rail (Midland Metro) investment is not currently feasible. There could be three of these routes in the West Midlands by 2011, with net capital costs in the order of £26 million per route.

### **Newcastle upon Tyne – bucking the trend**

The city of Newcastle upon Tyne, the region's capital, has a population of just over a quarter of a million. The city is one of five components of the Tyne and Wear Metropolitan Authority, which has a wider population of 1.1 million.

Between 1980 and 1985, Tyne and Wear bucked the national trend of declining use of public transport. This was a result of the opening of its Metro light railway as the backbone of its integrated public transport system.

The PTE for Tyne and Wear is Nexus, whose net revenue budget for 2003-04 was £60 million. Nexus' role is to plan, provide, procure and promote public transport including the Tyne and Wear Metro, with its 39 million passenger journeys per annum. Nexus is also committed to the three policy aims of the PTA which are social inclusion, modal shift and economic regeneration.

In recent years the PTE has encouraged all of these aspects through schemes like CentreLink in Gateshead, Stephenson's Jobs Corridor in North Tyneside, the Sunderland Metro extension and DRT in Western Gateshead and Eastern/Western Newcastle.

Looking to the future, further projects that local transport executives believe would help to improve things are fully integrated street trams on Metro tracks, to eventually replace the current Metro trains and a significant upgrade to the Metro system's track, signalling, information and park and ride system etc. The capital costs of this would be around £1.5 billion-£2 billion.

Looking at the wider region as with Birmingham investment in the national heavy rail system is seen as important. The two priorities are considered to be an upgrade to the east coast line and a high-speed link between Teesside and Tyneside. The east coast line upgrade would cost several billion pounds while the high-speed line would probably have a price tag of a few hundred million pounds.



## Let the cities take control

The severity of our country's transport and infrastructure problems means that there is little doubt that local authorities feel that they could usefully spend huge sums of money.



The population of London and the three other major cities we cover in this report, Manchester, Birmingham and Newcastle, amounts to about 11 million – accounting for over 60% of the people living in eight of the UK's nine biggest metropolitan areas. The cost of the local and regional schemes that officials and representatives of business in these cities say they need to produce a significantly improved infrastructure amounts to about £70 billion.

This report recommends a number of ways that finance and funding could be raised – and from a wider variety of sources than are currently available. These would alleviate the potential burden on general income tax.

Despite the Government's current restrictions on local authority borrowing, considerable hope is offered by the Prudential Borrowing Framework, which became established in April 2004, for capital finance. Under this system, a local authority will be able to borrow for any relevant purpose up to the borrowing limit it judges to be affordable – or any lower limit set by the Secretary of State.

The Prudential Borrowing Framework treats local authorities in much the same way as banks make judgements about individuals' capacity to borrow and make repayments. It could allow urban transport authorities the freedom of a kind not possible for many years to plan longer term investments in a sensible way.

With these new freedoms to borrow go new accountabilities. It is vital that central government resists the temptation to interfere, thereby forcing local government to take back responsibility. Conversely, it is vital that local authorities do use the new system prudently and that they show accountability to their electorates, giving central government the confidence to let go. This could mark the beginning of a renaissance of local government finance, though the Prudential Borrowing Framework will of course not speed up planning or address the issues of central government control.

Having power to borrow enables infrastructure financing. But an income stream is still imperative to repay borrowings and interest and therefore to fund the projects in the long term. Here, we reach the crux of the matter: how to raise the additional resources needed to underpin urban development?

Most of the following ideas are re-workings of existing taxes or mechanisms. Many are already in use around the world. Others might require a change in the law – or, if used to excess, would doubtless invite government restrictions. But many proposals could help the Government get around rules and regulations it has itself created to control taxation and limit public borrowing.

### **Land value capture**

New roads and railways increase property and land values because they make particular locations quicker and easier to reach. But currently there is no systematic tax regime to appropriate some of the benefits that accidentally accrue to those who own property close to infrastructure developments.

Various options would, to different degrees, ensure that owners whose property benefited from transport improvements also contributed towards their costs.

### **Common ownership**

Hong Kong's metro, the MTR, provides a good example of how this can happen. The MTR has, uniquely amongst urban railways, been almost financially self-sufficient because it owns the rights to the property income generated above and around its stations. This ownership pattern therefore internalises the land value gains generated by the metro. Such a mechanism would, however, be problematic in London, where green field development opportunities are rare – and gains ultimately accrue to a large number of existing private owners.

### **Joint ventures**

It is possible for local authorities to create joint ventures with developers and other private sector partners. Again, participants – including local authorities – would benefit from the rising values of land. In this way, value can be captured to facilitate new infrastructure within or near a development.

### **Tax Increment Finance (TIF)**

Popular in the US, TIF works by capturing part of the gain generated by rising land values in the immediate vicinity of a major infrastructure development. A zone is designated around the relevant asset, and the value of properties within the zone are monitored and compared with changes in surrounding areas. If values rise more quickly in the zone, the difference is attributed to the economic benefits of the new infrastructure.

In the UK, this margin of difference could then be subject to a tax rate-in-the-pound – and part of the yield within the zone would be imputed to the project that increased its value, then collected in a separate account. There is a clear case for the use of a TIF mechanism in UK cities. CrossRail is the most widely discussed potential beneficiary of TIF financing.

The aforementioned schemes offer only a partial solution to the current lack of capital. Indeed, even if every possible form of land value capture was to be implemented, the value of the receipts would fall a long way short of the transport needs as assessed by local communities.

So there is a danger that the quest for innovative alternative funding methods will divert attention from the inescapable truth: there is an urgent need for fundamental reform in the way that the Government runs and funds urban infrastructure.

### ***Increases in domestic and non-domestic rate yields***

There are two very simple and traditional mechanisms for raising fresh funds. One would be to increase the tax taken from domestic households under the council tax system: the long-term yield could partly underpin development projects.

However, even large percentage increases would yield relatively little new funding – and existing pressures on council tax coupled with its extreme political sensitivity make it an unlikely source of new transport funding.

The other, more promising possibility is to increase the national non-domestic rate (NNDR) multiplier to raise resources for a completely new transport infrastructure fund. This would repair one of the failings of the current system: unlike the other major taxes in the UK, because of the way it was set up the NNDR presently restricts the Government to collecting a decreasing share of economic activity. Since we are having trouble finding the money to improve infrastructure to facilitate economic growth this does not seem very sensible.

### ***The Local Authority Business Growth Incentive Scheme***

This scheme is set to become operational on 1st April 2005. It gives local authorities a financial incentive to increase their NNDR base, allowing them to keep part of any change in their rateable value from one year to the next that is above the recent trend for year-on-year changes.

### ***Business Improvement Districts***

Business Improvement Districts (BIDs) are yet another way of raising resources from the non-domestic tax rate. BIDs were originally developed in the US to allow small areas of cities to create micro-government institutions that could raise resources from the property tax paid by businesses.

Although such mechanisms could assist in the management of some parts of London, they are not designed to fund infrastructure itself. Instead, they are intended to make areas cleaner and safer through services funded from revenue rather than capital expenditure.

### ***Section 106***

Powers were given to local authorities in 1990 to allow them to negotiate capital expenditure contributions when granting planning permission for larger developments.

But even in London, where land values are higher than in the rest of the UK, Section 106 is unlikely to be able to generate the large sums of money needed for major infrastructure renewal.

### ***Local sales or employment taxes***

Other countries use a wide variety of supplementary local taxes to fund transport – and their experiences could be educational for the UK. In France, we have already seen how a supplementary payroll tax on employers, the VT, is used to fund a large share of Paris's transport costs.

The potential yield in the UK is considerable.

### ***Extended congestion charging***

Congestion charging in Central London is expected to produce a net yield of at least £70 million per year. Extending this to a wider region could greatly increase the net revenues. A national scheme could deliver well over £5 billion per year more than today's fuel duties.

There would be many claims on this revenue stream, but some of it would be likely to be made available for improvements in public transport.

### ***Workplace parking***

£3,000 per space for workplace parking spaces, provided by employers, could yield £100 million per annum in an extended central London area. Imposing the levy would also reduce overall traffic-related congestion, but ways of implementing and enforcing this charge are still under investigation.



So there is a danger that the quest for innovative alternative funding methods will divert attention from the inescapable truth: there is an urgent need for fundamental reform in the way that the Government runs and funds urban infrastructure.

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New ways need to be found to fund the UK's railways (left, right) and roads (bottom).



### ***The way forward***

The danger is that the quest for alternative funding methods will divert attention from the inescapable truth: there is an urgent need for fundamental reform in the way that the Government runs and funds urban infrastructure.

The aforementioned schemes offer only a partial solution to the current lack of capital. Indeed, even if every possible form of land value capture was to be implemented, the value of the receipts would fall a long way short of the UK transport's needs.

But while broader sources of taxation are imperative, there is currently a distinct lack of workable options.

More general taxation could, of course, involve national income or sales tax. But in view of public expenditure pressures, the most logical answer is a tax on the economy local to the specific infrastructure development.

Clearly, if local expenditures were more closely related to local sources of income, then both domestic residents and businesses would have a renewed interest in ensuring local government spending matches their transport and infrastructure needs.

Yet the rigidity and centralised nature of current government systems make it impossible for local authorities to tap into local sources of tax income. Our study therefore suggests that local governments must be granted the freedom to implement their own agendas and funding mechanisms.

If UK cities are not set free in this way, then their transport systems will remain prisoners of under-investment.

Central government could also learn a great deal from the examples of other world cities.

New York, and other US cities, have solved transport difficulties with publicly approved revenue bond financing, funded by a mixture of federal and state grants and local tolls and sales taxes. Paris, on the other hand, has seen its *Versement Transport* maintain the city's transport system in enviable condition.

And with the power to derive income from local taxation, our own local authorities could make comparable investments in UK urban infrastructure. Cities in general, and London in particular, exist because they enable a high density of high value transactions. So far as London is concerned, it should be possible to fund a considerable quantity of new transport infrastructure with relatively little pain.

In 2001 the Gross Value Added in Inner London was £99 billion and in Outer London a further £63 Billion. Thus if just 1% of the £162 billion total was captured in the form of a dedicated transport tax, the revenue would service a capital debt of at least £16 billion.

This illustrates how many of London's infrastructure needs could be funded by capturing a tiny fraction of the value of the day to day activity.

Central government should certainly make every attempt to test and implement land value capture mechanisms. But since these are unlikely to yield enough income to make a genuine difference, this study proposes that careful consideration must be given to broader sources of local tax income and revenue raising as outlined above.

Yet a coordinated combination of these solutions remains impossible without the restoration of stronger and more accountable local government. And clearly, this will require an innovative reworking of current government systems – plus a clear strategic direction on transport absent for many decades.

The bottom line is that UK cities and their local authorities must be unshackled from the chains of centralised government.

Thus empowered, they will have greater capacity to raise local resources for infrastructure investment – and get our urban transport systems back on track.







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