

# **Down the Tubes: London Underground and the Public-Private Partnership**

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## Introduction

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In this paper, we will examine the application of public-private partnership (PPP) to the rehabilitation of the London Underground. We begin with a look into the background of the Underground (or the Tube, as these terms will be interchangeably used) and the historical factors leading to the selection of PPP over other means of financing improvements. Next, we explain the facets of public-private partnerships in general, by defining terms and identifying characteristics. In the following section, we discuss the colorful formation of the London Underground PPP, looking specifically at the contracts that form the basis of the project. This is followed by an examination of the positive and negative aspects of the Partnership. We conclude with the public reaction and criticism that has surrounded the PPP, with a brief look at the current state of the Partnership and prospects for its future.

## Background

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Long before the term “public-private partnership” ever entered the transport lexicon, the London Underground’s lengthy legacy of problems began. Since its infancy, the tube has been part of a terminally disorganized, chaotic, and systematically mismanaged system, all of which contributed to its current state, and in part, to the formation of the PPP. In the following section, we will touch briefly on important events in the Underground’s history. Although a complete history is the work of volumes, one must understand a portion of this in order to fully grasp the concepts behind the PPP.

As the world’s first underground heavy-rail system, the London Underground began in the mid-19<sup>th</sup> century as a series of privately funded ventures, each line a separate product of distinct corporate interests (Wolmar 2002). This early private influence sets the Underground apart from its nearest peer systems, the New York subway and the Paris Metro, both of which were centrally planned and financed by their respective city governments (Croome and Jackson 1994). The resulting system can be best described as chaotic, as it lacked any kind of coordination or logic from a central command post.

The first segment of the system to open was one of a group of lines now known collectively as the sub-surface lines (SSL). In January of 1863, after just three years’ construction time, the Metropolitan line opened between Farringdon and Paddington (Wolmar 2002). This segment was financed by a joint venture between two corporations, one of which was a rail company responsible for providing the rolling stock and operators, and was supplemented by public subsidization of capital costs (Wolmar 2002). This first partnership dissolved quickly, as the rail company, the Great Western, backed out from its alliance with its partner, the Metropolitan. From the start, the Underground bore resemblances to today’s helter-skelter system.

The system continued to grow in private hands throughout the latter half of the 19<sup>th</sup> century and into the 20<sup>th</sup>. During this time, trains sometimes ran on differently gauged tracks, an indicator of the prolonged infancy of the system. Private financiers of

different lines competitively promoted their respective lines, leading to a confusing and competing system in which someone unfamiliar with the layout of the lines could easily be duped into an inefficient journey (Wolmar 2002). Journeys were uncoordinated at best; to transfer between lines often involved a long foot journey and a change in fare. The lines were marketed as exactly that – lines. Without a central authority, the lines could not become a cooperative system, and, operating independently of one another and the government, the private corporations struggled to avoid sinking into debt (Wolmar 2002).

It was not until the period directly following World War I that attitudes began to shift. The war and its aftermath, including economic depression and widespread unemployment that settled in following an initial post-war boom, induced a change in the political climate of the day, making companies much more receptive to the idea of government assistance, and for the first time, a Ministry of Transport was established (Wolmar 2002). Legislation was passed to simplify the process of government finance of infrastructure. Eventually, an integrated and unified transport system became a reality, when in 1933 the London Passenger Transport Board (LPTB) was created to absorb and oversee the city's transport system, including its heavy-rail, bus, and tram systems (Wolmar 2002).

Under a unified government body for the first time in its seventy yearlong history, the Underground experienced a period of growth in what is recognized as the golden age of the Tube. The system underwent expansions in infrastructure and became branded with the recognizable blue-and-red circle logo, which remains today (Wolmar 2002). This promising increase in growth and investment, however, was interrupted as World War II brought domestic projects in the UK quickly to a halt. In the aftermath of the war, nationalization of infrastructure was seen as the rational and sound way to rebuild (Wolmar 2002). This resulted in the loss of independence for the organization now known as London Transport, as the agency was swept up in a number of other nationalizations taking place at the time, and became one division of the British Transport Commission (BTC).

The 1948 nationalization of London Transport marks the beginning of a dark era in the history of the Tube, stretching until the mid-1970s, in which a number of factors contributed to the disinvestment and decline of the Underground system. First, transport officials now found themselves competing for a finite pool of national funding with other services, including healthcare and education (Wolmar 2002). In addition, the prevailing attitude of the time was one assuming the inevitable decline of transport in favor of the automobile, a view reflected in the government's prioritization of funding. These two factors combined led to a third: London Transport's choice to pursue investment in buses in lieu of expanded or improved Tube service. Buses were cheaper to start up and therefore did not involve the level of government approval required for costly rail infrastructure projects, and they were increasingly seen as the public transport of the future (Wolmar 2002).

As a result of this disinvestment, Underground stations, tracks, and rolling stock went into severe decline. Oddly enough, new sources of funding were almost unilaterally poured into “sexy” new projects whose development put a good face on the BTC, rather

than into restoring or improving existing services (Wolmar 2002). The result was a mixture of decrepit old lines and the sexy new ones, although eventually this spending pattern led to systematically low levels of maintenance for all lines.

Following its initial nationalization, the Underground would be reorganized and restructured into different governmental organizations no fewer than four times before the introduction of the PPP. Each successive reorganization ultimately would fail to recreate the successes of the pre-war period of investment (Wolmar 2002). 1963 saw the dissolution of the BTC and the transference of London Transport into the direct control of the Ministry of Transport, and in 1970, the Greater London Council was given responsibility for the system, ushering in a 15-year period of quasi-localized control (Wolmar 2002).

One of the major causes for the support the PPP would enjoy during its inception was the widespread lack of confidence in government to provide a safe and efficient service. A dominant cause for this lack of confidence was the King's Cross fire of 1987, in which 31 people died. An errant smoker's match tossed onto a wooden escalator caused the fire, but the station's state of disrepair caused the fire to spread out of control. Dirty rags and oilcans littered the escalator service room where the fire grew (Wolmar 2002). Lack of effective station management also was responsible for the deaths; the fire was first noticed by a low-level employee, who notified his superior, who in turn notified *his* supervisor, but by the time help arrived, the fire had erupted into a massive fireball, which engulfed the station, causing deaths and widespread damage (Wolmar 2002). This catastrophe caused a massive rethinking of the way in which London Underground operated, as well as a full-scale examination of its shortcomings.

Two common threads bind together the periods of London Transport history since nationalization. First, a lack of investment on the part of government existed throughout the time. Clearly, the massive system could not properly function and maintain itself without a reliable and consistent source of funding. Secondly, methods of mismanagement (or rather, a lack of management altogether) persisted throughout the half-century between initial nationalization and the transition to PPP. Wasteful and unsafe practices were ingrained in the system over time, and none of the different management actors had the ability to strip the system of these ills (Wolmar 2002).

The London Underground PPP is a product of both the history of the Underground itself as well as the enigmatic concept of public-private partnership. The history of the Tube was covered in the preceding paragraphs; public-private partnerships will be the focus of the following section.

### **Public-private partnership defined**

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The concept of public-private partnership is multi-faceted and occasionally confusing. Essentially, a public-private partnership, or PPP, is a collaborative effort involving a contractual agreement between one or more public bodies and private corporations. This typically includes some kind of partnership in the division of who finances and operates the project. PPPs can function in virtually any sector of government services, including

but not limited to health care, correctional facilities, utility services, schools, and of course, transportation. In the UK, a majority of the above-mentioned services have been provided under the Labour government via PPPs (Times 2007).

The concept of PPP was originally derived from its predecessor of the 1990s, the Private Finance Initiative (PFI), a product of the Conservative government. Under PFI, private contractors foot the bill for construction costs in infrastructure projects, and then “rent” out the resulting product to the public sector for a given period of time until the debt is paid back. This allows the government to complete projects for which funding is not immediately available (BBC News 2003).

Driving the application of PPP is the belief that the private sector is more efficient and better run than public-sector units, and therefore is better suited to complete projects in a cost-effective manner. The application of PPP to public projects is not by any means unique to the UK or to Europe; PPPs can be seen all around the world, including in the United States. Central Park in New York City, for one, was built using a PPP (FHWA Undated). Domestically, PPPs are most common in the highway industry, a recent example being the contracting of the Indiana Toll Road, in which a private contractor essentially purchased the rights to the road, accepting maintenance responsibilities in return for all revenue generated, for the next thirty years in a lump-sum payment.

### **Formation and expectations of the London Underground PPP**

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The previous section explained the concepts behind PPPs. In this section, we will address the process by which the London Underground PPP was born. Initially, the government expected improvements in customer service to result from privatization. Customer service includes the on-time performance of service, frequency of service, ability to obtain useful information, and overall convenience and cleanliness. The maintenance and renewal of the Tube, including the tracks, trains, stations, and other infrastructure, were to be the outcomes of the PPP.

The government viewed PPP as the best attainable way of guaranteeing that the Tube would receive stable funding. The renewal and maintenance of the Tube through public sector management of operations and private sector management of the infrastructure was seen as an arrangement that ensured that the Tube would provide successful service more efficiently.

Three contracts created business partnerships between the London Underground and three infrastructure companies, known as infracos. London Underground continued to be responsible for safety and operations (including ticketing and marketing) while the infracos are responsible to maintain and renew the infrastructure over a period of 30 years. Monthly Infrastructure Service Charges (ISC) are paid to the infracos from London Underground. The ISC are increased or abated, depending on the infraco’s ability to perform. Every 7½ years, the contract is reviewed and re-priced. London Underground transferred these responsibilities from the central government to Transport for London (TfL).

The reasoning behind splitting the system between operations and infrastructure was that the better financed businesspeople and engineers of the private sector would maintain all the infrastructure while the government would control the operations, “a people business” (Wolmar 2002). Learning from the horrors of the late 1990s division of infrastructure maintenance in rail, the PPP was to ensure that maintenance was taken on from a holistic approach; the infracos would maintain both the train and the tracks, preventing engineering problems and related disasters.

Tube Lines won two contracts, therefore acting as two infracos. Tube Lines is responsible for the Jubilee, Northern and Piccadilly lines, some of the deepest and busiest sections of the system. The 30-year contracts outline Tube Lines’ investment to maintain and renew 320 kilometers (200 miles) of track, 255 trains, 100 stations, and over 2,600 bridges and structures (Tube Lines Corporate Review 2006).

The Metronet infrafo is a group of companies responsible for the maintenance and renewal of the BCV (tube) lines and SSL (sub-surface) lines. Metronet will be investing £17 billion in the 30-year contract. They agreed to upgrade 150 stations by 2012, and pay for 347 trains, 780 kilometers (470 miles) of track, 155 stations 77 miles of deep tubes, and over 2000 bridges and crossings (Metronet 2007). Metronet has five stakeholders: Atkins, Balfour Beatty, Bombardier, EDF Energy and Thames Water. In many cases, these stakeholders and investors are Metronet’s suppliers.

Four business structures were considered. In the public sector unified business structure, the government funds and is responsible for all Tube activities. The private sector unified business structure would have given a private company all control and funding responsibility. Another option was a separate private sector business model in which the Tube and its business activities would have been split vertically by a group of lines. In this model, multiple companies would be involved, each the owner and operator of a number of Tube lines. The final model to be considered was a horizontal split of the Tube with operations and infrastructure maintenance, renewal and upgrading the responsibilities of separate business (Committee of Public Accounts 2005).

The final business structure was eventually selected. The public sector, or the London Underground and Transport for London, would be one of the operators, creating the partnership between the public and private sectors. The history of delays and cost overruns on extension projects and the London Undergrounds inability to fully meet improvements in journey times in past projects strongly influenced the decisions that lead to the public private partnership.

In determining the cost-benefit ratio of a PPP, the London Underground compared the cost of the contracts (including the associated expenses of coming to agreements) with the estimated costs of operating the Tube themselves. A Public Sector Comparator (PSC) exercise was carried out during analysis of the “value for money” in the initial stages. This exercise defined the assessed cost of the same services through conventional public sector funding and risk management/exposure. The PSC was the London Underground’s estimate of the public sector cost of independently managing and financing the maintenance, upgrade and renewal the Tube trains, stations, tracks and signaling that was

outlined in the PPP contracts. Because such estimates had been historically too low compared to actual costs, the PSC was adjusted, taking into consideration the public's sectors inability to deliver on time and on budget. Despite these adjustments, such an exercise of estimations is subject to inaccuracies (Comptroller and Auditor General 2000). The PSC demonstrated the expectations of the high costs of a publicly run Tube.

While the costs of private sector finance were greater, the government took the view that private sector management of the infrastructure would be more effective than public sector management. The extra cost was thought to be outweighed by the benefits. Better risk control was also a major factor offsetting the extra cost. Public financing (PSC) was less expensive because a bond option would lower borrowing costs and the savings of remunerating shareholders (Comptroller and Auditor General 2000).

While the cost factor was an important element of formulating the PPP, other factors were key. The ability of the public sector to deliver a successful and efficient system was squarely in question.

### **Objectives of the PPP contracts**

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The push for a PPP was the outcome of a number of objectives. These following overall objectives and their related parts were the justification and major influences of forming the PPP contracts. The first overall objective was a greater value for money. The need and desire to end the history of unpredictable, annual financing led to the desired outcome of stable funding. A reduction of government subsidies was desired. Over time, little or no grants would be paid. The government wanted to acquire a better service and value for costs (seemingly) cheaper than the than the Public Sector Comparator price (Committee of Public Accounts 2001).

The second overall objective was the private sector investment and expertise. The transfer of risk, including underperformance, cost and time overruns, to the private sector investors would give protection to the public sector. Because the PPP would involve multiple infracos, price competition within the PPP would lead to better efficiency. The private sector's business experience and expertise was hoped to bring innovation and better services.

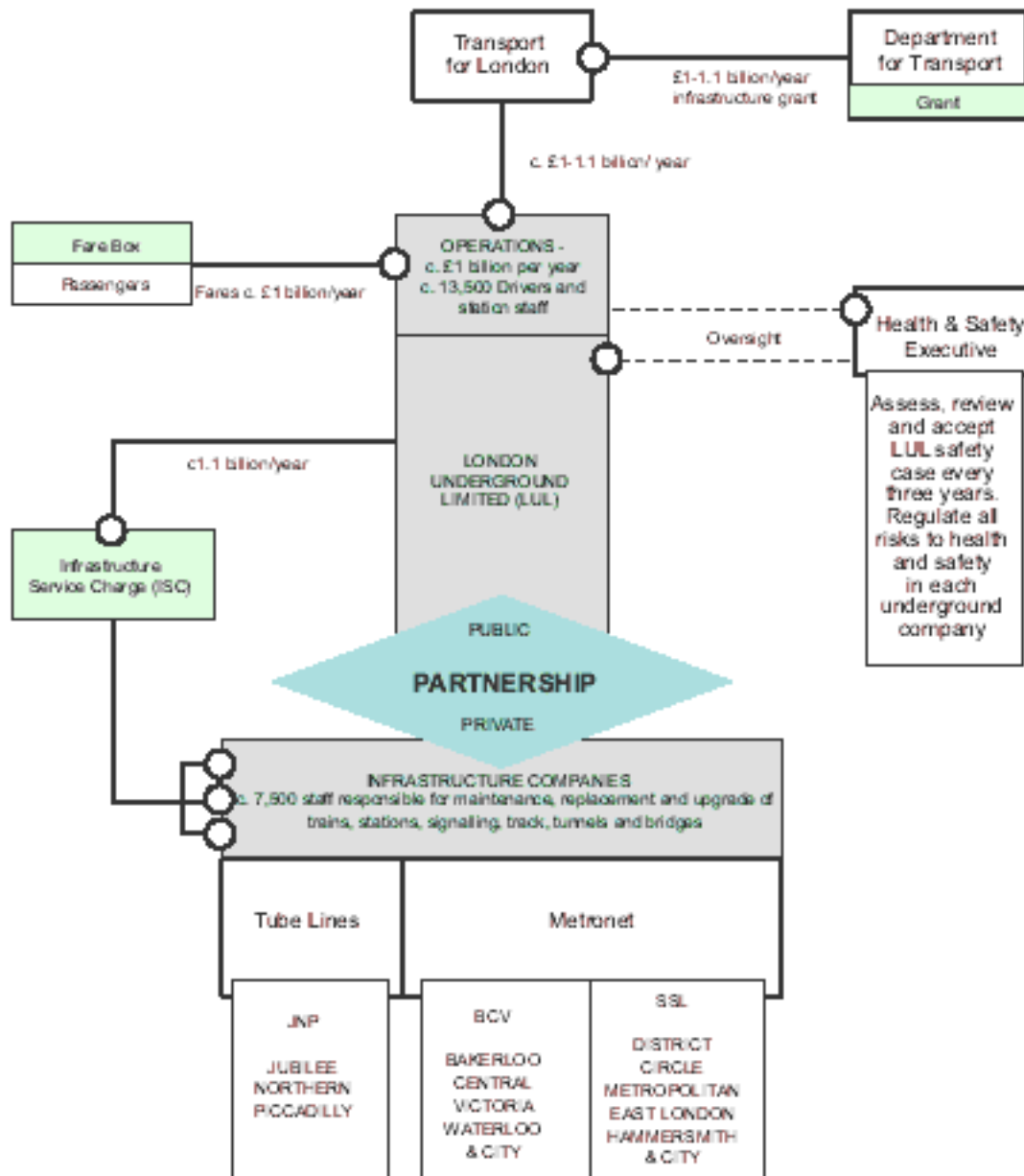
Safeguarding the public interest was the final of the three main objectives. This included encouraging that passenger safety, ticketing, and marketing would remain in a single, unified structure. A chart showing the structure of the PPP can be seen in Figure 1.

### **The contracts**

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In May of 2001 Tube Lines and Metronet were selected as the preferred bidders. It was not until December 2002 and March of 2003 that the contracts were finalized and closed for Tube Lines and Metronet, respectively. In the time between selection and agreement, the bidders had a better negotiating position over the government as the government had no back up plan if the PPP negotiations fell through (Committee of Public Accounts 2001).

**Figure 1: Responsibilities and funding flows under the PPP**



Source: C&AG's Report, London Underground PPP: Were they good deals? (Figure 1) (HC 645, Session 2003-04)

The costs of the contracts were remarkably high. A number of factors pushed the costs up. This included the weak negotiating position of the government, the need to back up 95% of debt in the event of contract termination, and the exceptionally high bidding costs. The associated risk of the PPP contracts was a major point of negotiation in the contract process. The history of the Tubes and its high exposure to risk lead the government to agree to guarantee a higher proportion of investors debt in a termination should occur. Without the increase from the conventional 90% repayment to 95%

repayment, the needed financing would not have been acquired (Committee of Public Accounts 2000). Every 7½ years the contracts are reviewed and re-priced (Hutton 2000).

The knowledge of the system's assets and conditions was relatively unknown during the time of negotiations. The amount of maintenance and repair had not been fully assessed, making it difficult to measure the amount and cost of future work. The condition of the tunnel walls, for example, were unknown leading to significant exposure to the risk of high repair costs and time delays. Because of this unknown risk, the infracos were protected from certain cost overruns due to unknown conditions at the time of the contract. The cost overruns related to assets with known conditions were capped to £50 million for Metronet and £200 million for Tube Lines. In other words, the infracos would not pay more than these amounts in the case of overruns and their ability to show that they are being economical and efficient. The contracts did not define economic and efficient behavior; if need be, an arbiter would make decision (Hutton 2000).

Other risks lead to lenders charging about £450 million more in interest on the £3.8 million of government loans. The higher interest rates were due to lower risk ratings. This rating was given because of the re-pricing of the contracts every 7½ years and potential conflicts about the funding between levels of government (Comptroller and Auditor General 2000).

The amount of return to investors, if the infracos meet the goals, was high. The risk free rate of return would have been 4.5%, but the investors stood to earn 18-20% returns. However, if the infracos perform poorly, investors may receive lower returns (Committee of Public Accounts 2000).

The costs of the forming the contracts and coming to agreements were higher than anticipated. The costs were 2.8% of the net value of the deal, or £455 million. Much of the unanticipated costs were a result of the high bidding expenses (Committee of Public Accounts 2000).

The cost of bidding is included in a company's bid thus raiding the expenses of doing business and what London Underground must pay. The long negotiating period between the selection of bidders and agreement only added to the cost of bidding. "Success fees" or the costs of staff time and resources during the bid process that could have been profitable in other activities are part of the bid cost. The London Underground had not established limits on bidding cost related to this and reimbursed Tube Lines and Metronet over £80 million in success fees alone (Committee of Public Accounts 2000).

The total cost of bidding for unsuccessful bidders was £25 million, for Tube Lines £134 million and for Metronet £116 million. These bidding costs include the costs of layers, advisors, bank costs, office expenses, modeling, third party advisors, success fees and other costs (Committee of Public Accounts 2000). A breakdown of these costs can be seen in Figure 2.

**Figure 2: Bidders' costs**

	Unsuccessful bidders (£m)	Tube Lines (£m)	Metronet (£m)
Lawyers for bidders	-	13.6	14.0
Advisers	-	13.1	16.4
Lawyers for banks and funding bodies	-	7.8	6.2
Banks technical advisor, modelling, etc	-	4.4	2.5
Other 3rd party advisers' costs to end 2002 - tax, audit, VAT	-	4.2	3.4
Balance of 3rd party costs forecast for remaining period to close	-	5.4	3.0
Bid team resources	-	16.6	14.3
Transition team resources	-	21.5	2.4
Project office expenses	-	1.4	3.2
Unsuccessful SSL bid	-	7.0	-
Success fees	-	39.0	50.6
Unsuccessful bidders	25.0	-	-
<b>TOTAL (£m)</b>	<b>25.0</b>	<b>134</b>	<b>116</b>

*Source: House of Commons, Committee of Public Accounts. London Underground Public Private Partnerships. Seventeenth Report of Session 2005-2005. HC 446. March 2001*

## Positive and negative aspects of the PPP

The PPP, since its inception, has been a topic of controversy. And the crisis of the PPP on London Underground—due to the collapse of the Metronet Consortium—provoked more heated debate concerning whether the PPP is a right thing to do. Although we have discussed the intended successes and shortfalls of the PP throughout the paper, in this section, we specifically discuss the pros and cons of the PPP arrangement, as seen by the actors surrounding the process.

### **Pros**

The strongest advocates are, of course, governments at all levels who are increasingly facing the financial challenges to improve their level of services. As stated in the White Paper of USA PPP, “citizens simply want high-quality services provided without significant increases of taxes and service fees they pay (NCPPP, 2003).” Private funding, therefore, becomes an important source for governments to seek. In the London tube case, for example, the government considered the PPP as “the best of ensuring stability of funding for maintenance and renewal of the Tube” (Maltby 2003). Another reason in favor of the PPP, as far as the government is concerned, is the opportunity of transferring risks to its private contractors. These risks include overspending, time overruns, and

underperformance. In addition, the British government also expected that private companies would bring in latest management and technical expertise, which cannot otherwise be obtained within governmental systems. The tube PPP was, in fact, considered as one of the cornerstones of Gordon Brown's tenure as chancellor.

As can be expected, contract winners also support this policy because of the huge profit returns. For instance, Metronet, won a contract of 30 years with the total value of 30 billion pounds. As the largest contractor responsible for maintaining and upgrading the London Underground, Metronet subcontracted this huge project to its five shareholders for most of its work. Average margins on those contracts were estimated to be around 5%, higher than the 3 to 4 percent average industry norm (Osborne, 2007).

In addition, the Londoners who looked forward to improvement of London's transportation system also had a great expectation of this policy at the time when the contract was just signed.

### **Cons**

However, not all people are optimistic about it. Ken Livingstone, mayor of London, condemned imposition of PPP on London by stating, "the government's PPP will create an inefficient and potentially unsafe Underground system" (GLA News Release 2007). Trade unions of people working in public services also object to the trend of PPP because of their concern about job loss after public sectors are gradually privatized. For example, Unison, the biggest public sector union, has threatened the withdrawal of donations to the Labour Party as part of its campaign against such a policy (HCCPA 2005).

The crux is: does the PPP live up to our expectations in terms of level of public service? In the London Tube case, the answer is probably no. After the PPP was conducted, two derailments happened on London Underground in 48 hours in October 2003; one train at White City derailed on May 4, 2004; three carriages derailed on its westbound Central line on July 5, 2007, with hundreds of passengers tuck inside the train for about 2 hours. In addition, overnight engineering work often ran late, with disruption to morning commuter service. Also, there have been a number of engineering overruns since the beginning of the PPP. As reported by the Seventeenth Report of London Underground Public Private Partnership "278 engineering overruns reported up January have between then cost Tube Lines and Metronet in excess of £1.2 million worth of penalty payments" (Unison Report 2005).

All these painful experiences led people to question whether it is the fault of the PPP, and many of them acknowledge that it is. People who were originally unhappy about this policy began to make use of this opportunity to find fault in the Public-Private Partnership. The following are some of their arguments. First of all, private sectors, whose goal is to maximize their profits, are inherently not suitable for offering public related services because private companies may well sacrifice quality for the sake of profit. Although a governmental organization (TfL) was involved in the project coordination and supervision, its role had been very limited in urging contractors to react timely and effectively to problems. Another possible fault lies in the difficulty of project

coordination and communication. Questions proposed are: is the derailment a systematic problem? If yes, would it be an incurable problem for different contractors to coordinate with each other? Thirdly, some people argue that public accountability is lost once a governmental body turns over operational control of a public service to a private company.

The collapse of Metronet pushed the British government into an even worse situation. Metronet, who won a contract worth 17 billion pounds to modernize two thirds of the London Underground (LU), ran out of money after overspending by about 2 billion under the Public Private Partnership (HCCPA, 2005). This sad fact reveals the reality behind the government's claim that the PPP would transfer financial risks from the public sector to private companies. Then comes the question of who should pay for the bill. The public, inescapably, will finally bear the cost. Under the great public pressure and critics, the British government admitted the failure of the Tube deal, and the National Audit Office has begun to further investigate into this issue.

## **Reactions and criticism**

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Public opinion about the London Underground/Tube PPP has been mixed from the beginning. Many questioned the ability of a private sector company to provide the level of safety required for a major metropolitan area's mass transit system. They pointed to the escalations in crashes and derailments of British Rail trains that became privatized a decade before. The majority of Londoners opposed the PPP the only time they were given an opportunity to vote on the issue. Even the Mayor of London at the time, Ken Livingstone, opposed the idea, saying that the PPP would prevent him from running a safe network (Guardian 2001).

Other privatizations of England's infrastructure are fresh in Londoners' minds and do not make public-private partnerships look appealing to begin with. Much of London's waterworks has been privatized and the results leave much to be desired. Leaks in water mains are very high and some neighborhoods in London have experienced periods during which their water has been shut off for up to a week at a time. Other households have been flooded due to bursts of main lines. Europe's largest power supplier, National Grid Transco, was also privatized with the results being widespread outages and poor infrastructure improvement (Short 2003).

However, when the project was started in 2003 many people's issues with the PPP were quieted. Metronet and Tube Lines seemed to be making good on their promises of preliminary work. News releases from the private companies helped keep the public abreast of the changes and work being done. Preliminary reports found that work was being done on time and within budgets (Metronet 2003).

This quiet, however, hit a snag when two underground trains derailed within 48 hours of each other in October 2003. The first derailment occurred on the line at Camden Town, which had undergone maintenance for faulty signal points by Tube Lines the previous night. The second derailment, which was caused by a broken rail on the Hammersmith

line, had also undergone inspection by Metronet engineers the night before. A full interim report was conducted on each incident (Short 2003).

Both of these conditions are now the responsibilities of Metronet and Tube Lines, but at the time maintenance of the trains was still the responsibility of London Underground Ltd. The report found that the cracked rail would be undetectable under current inspection methods, but gave new recommendations for future rail inspections. It also found that the derailment at Camden Town was caused by a faulty gear box on the train and was not the fault of Tube Lines. Although neither Metronet nor Tube Lines was found not to be responsible for the derailments, it took away the public confidence once again (Short 2003).

Public opinion of the PPP project never did recover from the double derailment incident. Metronet couldn't help itself either, as progress reports from the Tube Project began to worsen. Project capital running short and missing timetables plagued the project. The seemingly constant strikes by the employees of the London Underground haven't seemed to help out the public's opinion either (Clark 2003).

Tube Lines, on the other hand, kept its share of the project on time and within budget. Improvements on Tube Lines tracks have happened with little impact on line usage and while no additional requests for capital have been made. They have done so well with managing their side of the project that they are now in the process of possibly taking control of one of Metronet's contracts (Milmo 2007)

In July 2007, Metronet went into administration. Administration is comparable to filing for Chapter 11 in the U.S. Metronet's share of the project began to fail after the contractor ran up additional costs totaling £992 million on the Bakerloo, Central, Victoria and Waterloo, and City lines, blaming the bill on additional work requested by London Underground. Similar overruns on the other five lines would make the total cost close to £2 billion. London Underground blamed the extra cost on Metronet and the matter was referred to a state-appointed arbiter, Chris Bolt. On July 16<sup>th</sup>, he awarded Metronet £121 million, less than a quarter of the £551 million sought to carry on operations. Bolt added that it was the contractor's own inefficiencies that had contributed to the spiraling expenses (Hamilton and Lysaght 2007).

## **Current issues**

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Now it seems as though the public's fears have come true. Public money has been sunken into a private company to repair and partially control London's rail transit system, and that company has proven to be a failure. Now, instead of your typical government project that has gone over budget but will still finish, Londoners fear they've dumped money into a project that will have to be restarted, not just finished.

Currently, there are three options for the Metronet contracts. They may be taken over by the government, a new public-private partnership could be formed, or the work could be transferred to the second Tube contractor, Tube Lines Ltd. Transferring at least one of Metronet's contracts to Tube Lines is the expected outcome, but this will take time and

more money towards legal fees as it is still tied up in arbitration and the bidding process (Milmo 2007).

More recently, Transport for London loaned Metronet £897 million in an emergency payment to sustain the shell company. As of September, Tube Lines is still considering bidding for Metronet's contracts but wishes to withhold action until it knows exactly for what it is bidding. The administrator Ernst & Young has suggested that it may divide the work between sub-surface rail lines and the deeper tunnels. A main criticism of Metronet was that it divided its work among its shareholders rather than tender contracts competitively. This practice, known as a tied supply chain, drove up prices for contracts and proved to be Metronet's fatal flaw (Milmo 2007). Tube Lines does not follow this practice.

Critical observers are quick to see the failure of Metronet as testament to the overall ineffectiveness of public-private partnerships. Advocates, however, see this partial failure of the system as an opportunity for the government to step in and prove that the state is capable of replacing the failed contractors efficiently (Times 2007). The Metronet deficiency may, in fact, emerge as a chance for Transport for London to prove that the Public-Private Partnership is still viable. In this ongoing process of remedying Metronet's failures, one fact is clear: whether it is to revamp the agreement or scrap it entirely, the actions taken by government will define the future of not only the London Underground, but also the ever-expanding realm of public-private partnerships.

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