Funding Transport Projects in London

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

£M	2005/06 P6 Forecast	2009/10
Operating Income	2,751	3,497
Interest income	55	38
Income	**2,807**	**3,535**
Precept	20	25
Transport Grant	2,161	2,651
Total Income	**4,988**	**6,211**
Operating Expenses	3,487	4,021
LU PPP/PFI costs	1,420	1,840
Operating Expenditure	**4,908**	**5,862**
Debt Service	24	239
Total Operating Expenditure	**4,932**	**6,101**
Surplus/Deficit **(+ve good/-ve bad)**	**56**	**111**

TfL Business Plan 2006/7 – 2009/10. Capital Plan

£M	2005/06 P6 Forecast	2009/10
Capital Expenditure	849	1,027
Contingency	0	28
Less 3rd Party Funding	(195)	(123)
Total Capital	**654**	**932**
Funded by		
Operating Surplus	56	111
Borrowings	550	600
Reserves	130	189
Non-recurring Grant	0	58
Working capital movement	(82)	(25)
Total Funding	**654**	**932**

TfL Business Plan

TfL can make ends meet until 2009/10

But note:

- A substantial increase in fares
- Increased government grant consumed by
  £420 m pa *increase* in LUL PPP/PFI charges
- £600m pa new borrowing, £3 bn in total
- By 2009/10 £239 pa debt service charges

Additional capital needs are located across *the whole* of London

Crossrail (£?? Billion)

Capacity improvements in surface rail (£7 billion?)

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

Tram schemes

Local road safety schemes

Infrastructure to serve the growing population

Etc…

Criteria for successful capital funding schemes

Must provide “sufficient” cash, and long term

Must provide for schemes across whole of the area

it is not enough to provide for one high profile scheme

Public must be willing to accept the relationship between:

location funds are collected

and

location funds are deployed

Costs of collection must be reasonable:

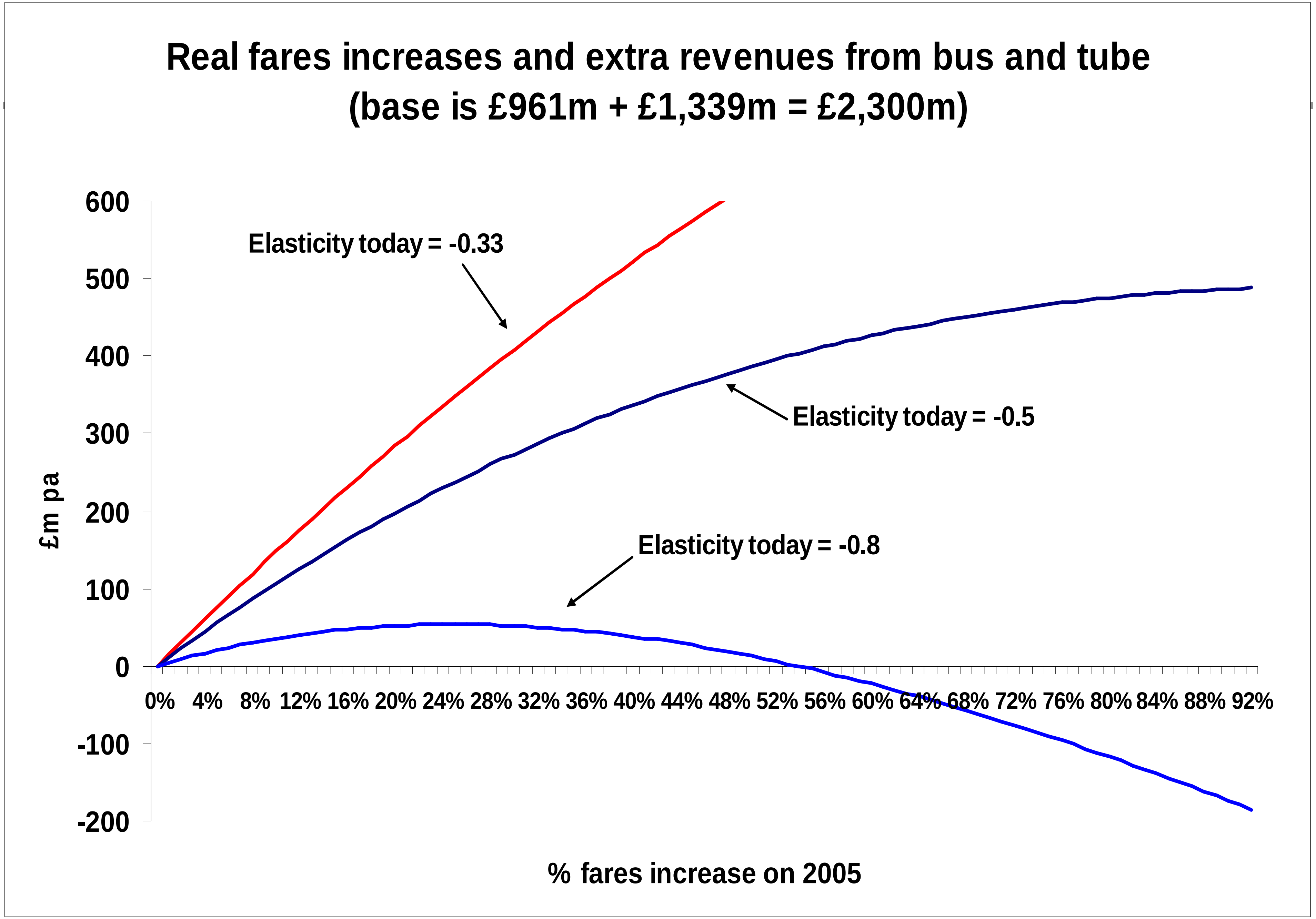
- administration for public sector
- administration for private sector
- compliance costs and economic distortions

Making capital out of revenue

Approximately, over 30 years

At a cost of capital of

5% pa,	£1m pa will service	£15m capital
10% pa,		£10m


Real fares increases and extra revenues from bus and tube
(base is £961m + £1,339m = £2,300m)
600
500
400
300
200
100
0
-100
-200
£m pa
Elasticity today = -0.33
Elasticity today = -0.5
Elasticity today = -0.8
0% 4% 8% 12% 16% 20% 24% 28% 32% 36% 40% 44% 48% 52% 56% 60% 64% 68% 72% 76% 80% 84% 88% 92%
% fares increase on 2005

Fares increases

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

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

In long term between -0.5 and -0.8?

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

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

BUT TfL plan already assumes substantial fares increases.

Could London fund its infrastructure on its own tax base?

Easily

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

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

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

But some new mechanism is necessary to achieve this.

NEW, local taxation

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

New York has over 20 local taxes:

MTA borrowing has been against a mixture of sources including
- tolls from Triborough Bridge and Tunnel Authority
- city and suburban sales taxes
- certain petroleum-based taxes
- ‘long-lines’ tax on telecomms
- mortgage recording taxes

Vancouver has local road fuel taxes (US cities also)

French cities have local employment tax

In London we only have the Congestion Charge

Domestic property taxes for transport are bizarrely low

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

Yet for Olympics and Paralympics Mayor is proposing

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

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

Forms of land value capture

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

So recapture this to service the capital required:

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

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

- Section 106
- Development Value Tax

The Uniform Business Rate

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

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

London is economically relatively more active

Land values go up faster – so contribution to *national* UBR goes up

AND transport infrastructure needs increase!

Local business has no influence on tax take or expenditure

Possible reforms to the UBR

Allow the total take to increase in line with… (?) land values

BUT ONLY if the increment is ring fenced

for a national infrastructure investment fund

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

Could fund £2 bn - £3 bn capital in neighbourhood of Crossrail

An additional levy on the standard UBR,

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

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

An additional 10% levy could service £4 bn - £6 bn capital
20% £8 bn - £12 bn …etc

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

A business vote could be created

Problems with proposed reforms of UBR

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

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

Any proposal must relate to all of London’s needs

not just one particular scheme

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

Workplace parking levy

Used in Sydney and Perth

- Inadequate yield
  - ROCOL: £3,000/space in central London gives £100m pa
- hard to administer
  - why not just use the business rate system?

Congestion Charging

Glaister and Graham: congestion & environmental charges:

Gross revenues in year 2010 conditions

London £5 bn pa
UK £19 bn pa

gross of all capital and operating costs

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

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

But beware the bogey of tax revenue neutrality in a national scheme!

Governance and accountability

A move to serious, discretionary local tax raising powers would

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

Would the current structure of London government bear the strain?