The London Underground Public Private Partnership 1997-2010

Rail and Tube privatisation have been the fiascos of modern British government. For a quarter century Glaister has studied them with dispassionate care, and learned their costly lessons. Every politician - and every rail traveller - should read him.
—Simon Jenkins, journalist, author and columnist

"It would be easy to forget the London Underground PPP and many would no doubt like to. But that would be a terrible mistake. This was not just a gargantuan failed transportation policy. It is an indictment of a government that put itself and its objectives above sound reason, cloaked its actions from public view, and (mis)used the powers in its arsenal to squash opponents. One cannot overstate the damage that was done. Stephen Glaister has been one of the most articulate and insightful commentators on this saga and this comprehensive history should be required reading for all ministers and civil servants".
—Jay Walder, Managing Director Finance, Transport for London; Chair and CEO New York Metropolitan Transportation Authority; CEO, Mass Transit Railway, Hong Kong

Professor Glaister forensically explores the labyrinth of the Underground Public Private partnership and reveals a dogma driven waste of energy, expenditure and political capital.
—Sam Mullins, Director Emeritus, London Transport Museum

The London Underground Public Private Partnership 1997-2010:

No Way to Run a Railway

By

Stephen Glaister

Cambridge Scholars Publishing

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PREFACE

The London Underground Public Private Partnership was one of the most expensive failures in UK government history. Three contracts between Transport for London (an executive body for the Greater London Authority) and private sector infrastructure companies were signed at the insistence of prime minister Tony Blair's 1997 New Labour government. It had been the government's intention that the agreements would be completed before the newly created, elected mayor of London took their powers in 2000 and would run for 30 years. But it took until 2003 to negotiate the contracts and they collapsed within seven years.

Crewe and King in their seminal study, *The Blunders of Our Governments* wrote[1] "Although the figures are open to dispute … the PPP blunder certainly cost UK taxpayers not less than £2.5 billion and probably far, far more, possibly in the region of £20-£30 billion." A review of that book by a career civil servant[2] remarked that "at the risk of succumbing to cliché, I am not sure whether to laugh or cry … or scream in rage and frustration … or … simply hang my head in shame for the failings of my caste. .... I was left wishing that Ministers had been given a similar volume as a handbook of what might, so easily, go astray with even the best-intended policies."

Eighteen months after the 1997 Labour government had been elected Rowan Moore wrote in the London *Evening Standard,* "Any minister contemplating the Tube must feel some kinship with a First World War General. There is a dismal mess of holes in the ground and an endless, futile war of attrition. This spring John Prescott came up with the big push. … Only [three] overeducated churls from the London School of Economics dared suggest that this cunning plan might owe more to Private Baldrick than Field Marshal Montgomery. Yet now there are some hints that the churls might have had a point."

The author of this book is one of those three "overeducated churls". Our alternative suggestion of allowing a public body (such as a public trust, as London Transport had been at its inception in 1933) to borrow and be accountable for the finance necessary for revitalisation of the Underground

[1] King, Anthony and Crewe, Ivor. 2014. *The* Blunders of our Governments, Revised and updated. London: Oneworld Publications, p221.
[2] https://www.librarything.com/work/14273543/reviews/156597773

was first made in 1995 in Glaister and Travers's *Liberate the Tube* (1995)[3]. We developed the idea further in *Transport and the London Mayor (1997)[4],* and, with Rosemary Scanlon, in *A Fourth Way for the Underground?* (1998)[5], *The Way Out: An alternative approach to the future of the Underground* (1999)[6] and *Getting Partnerships Going: public private partnerships in transport* (2000).[7] The ideas were picked up by the mayor and Transport for London (TfL) in their proposed alternative to the government's London Underground Public Private Partnership (LU PPP)[8]: see Chapter 22.

The LU PPP was closed down in 2010. Now we know the outcome we have a perspective against which to judge the arguments and learn the lessons. They are worth learning because they are as pertinent to economic and efficient provision of public services now, as they were then.

The material is mainly sourced from contemporary public documents such as parliamentary debates and committee reports, reports from official agencies such as the National Audit Office, independent publications and the press. Internal documents whose privacy had been protected until recently under the "20 year rule" are also used.

The text is organised by topic and is not a blow-by-blow historical account: those can be found in Louise Butcher[9], Christian Wolmar[10],

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[3] Glaister, Stephen and Travers, Tony. 1995. Liberate the Tube!. London: Centre for Policy Studies. p54. https://cps.org.uk/wp-content/uploads/2021/07/111027153220-LiberatetheTube1995.pdf

[4] Glaister, Stephen and Travers,Tony. December 1997. Transport and the London Mayor. London: Greater London Group.

[5] Glaister, Stephen, Scanlon, Rosemary and Travers, Tony. June 1998. A Fourth Way for the Underground? London: Greater London Group.

[6] Glaister, Stephen, Scanlon, Rosemary and Travers, Tony. March 1999. The Way Out: An alternative approach to the future of the Underground. London: LSE London discussion paper no 1.

[7] Glaister, Stephen, Scanlon, Rosemary and Travers, Tony. April 2000. Getting Partnerships Going: public private partnerships in transport. London: Institute for Public Policy Research.

[8] Transport for London. 13 December 2000. Outline of a Programme for the Rehabilitation and Management of the London Underground. London: TfL

[9] Butcher, Louise. January 2012. London Underground after the PPP, 2007-. London: House of Commons, SM01746.

[10] Wolmar, Christian. 2002. Down the Tube. London: Aurum Press.

Stephen Glaister[11], Mark Gannon[12], National Audit Office[13], Jay Walder and Tom Amenta[14]. Short summaries of the formal LU PPP arrangements are in the Department for Transport written evidence to the House of Commons[15] and in Chris Bolt (the PPP Arbiter).[16]

The penultimate chapter shows simplified organisational charts. The final chapter gives a timeline of the very complicated sequence of events.

The author was directly involved as a member of the London Regional Transport Board, 1984–93, member of the Transport for London Board, 2000–08, Partnership Director, Tube Lines plc, 2007–10. The three “overeducated churls” were colleagues at the London School of Economics and Political Science. The author is one and other two are Rosemary Scanlon, Visiting Research Fellow (previously New York Deputy Comptroller and later Divisional Dean at the Schack Institute of Real Estate at the New York University) and Professor Tony Travers. We worked as equal partners and I gratefully acknowledge my debt to them. I am grateful for comments from David Bayliss, Chris Castles, Alexander Jan and others. I am also grateful to the Transport for London Corporate Archives, particularly for the assistance of Melissa McGreechan.

The responsibility for the content of this document is mine.

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[11] Glaister, Stephen. 2007. Transport. In Blair’s Britain 1997-2007. 2007. edited by Anthony Seldon. Cambridge: Cambridge University Press.
[12] Gannon, Mark. 2016. London Underground’s Public-Private Partnership: lessons learned by the public sector. In New Forms of Procurement, edited by Marcus Jefferies and Steve Rowlinson. London: Routledge.
[13] UK National Audit Office. 2004. London Underground PPP: were they good deals? HC645. London: The Stationery Office.
www.nao.org.uk/reports/london-underground-ppp-were-they-good-deals/
[14] Walder, Jay and Amenta, Tom. 2003. Financing New Infrastructures: Public/Private Partnerships and Private Finance Initiatives. In Moving people, goods, and information in the 21st century: the cutting-edge infrastructures of networked cities, edited by Richard Hanley. London: Routledge.
[15] House of Commons Transport Select Committee. 25 January 2008. The London Underground and the Public-Private Partnership Agreements, HC 45. London: The Stationary Office.
https://publications.parliament.uk/pa/cm200708/cmselect/cmtran/45/45.pdf
[16] Bolt, Chris. 28 March 2007. Regulating by contract and licence: the relationship between regulatory form and its effectiveness, CRI Occasional Lecture. Bath: CRI.
https://webarchive.nationalarchives.gov.uk/ukgwa/20110218141206mp_/http://www.ppparbiter.org.uk/files/uploads/f_articlesLectures/200741792822_CRI%20Occasional%20lecture.pdf

1 INTRODUCTION

In the 1990s the UK government developed a new method for procuring public services and the associated infrastructure: the Private Finance Initiative (PFI). Suppose the National Health Service needed a new hospital. The traditional solution would have been for the public authority—in this case the National Health Service—to design the building and let contracts to private construction companies to build it. Then the public authority would operate and maintain the building and equipment and employ the medical staff. The capital costs would have been paid and accounted for in the year that they fell and would add to the national debt. The new alternative, PFI, was a commercial contract valid for some 30 years whereby the public authority would pay an annual fee to a private enterprise which would design, build, finance and then operate (DBFO) the hospital facilities. The medical health service staff would remain employees of the National Health Service. So the public authority would pay for *the services* of a hospital building on an annual basis as distinct from buying a hospital building "up-front".

The conditions of the contract would include a performance regime which defined how bonuses and abatements would be applied to the annual fee, depending on the quality of service delivered. The contract would not normally specify the detail of the methods to be used to provide the service, though there would be a specification of the state of the assets at full term. Typically, the only restrictions on the terms and conditions of employment of the private enterprise workforce designing, building and operating the facility (as distinct from the medical staff providing services to the public) would be those applicable to any employer under standard employment legislation.

The initial capital cost had to be recovered with interest over the duration of the contract together with a premium to remunerate the risks taken by the private sector investors. In effect, PFI was a mechanism for borrowing capital without it appearing on the public sector debt. Additional advantages claimed were technical innovation and integration of initial building design with whole-life operation and maintenance, and securing private sector levels of cost efficiency, including labour costs.

After the change of government in 1997 from Conservative to Labour the concept was broadened somewhat to Public Private Partnership (PPP), but the essentials were unchanged. The new government promoted the policy aggressively to the point that both national and local public officials regarded it as "the only game in town"—the only mechanism central government would allow for procurement of public services, local or national. The idea was successfully marketed to governments all round the world by UK management consulting firms.

Many schemes worked well enough, but the UK public became disillusioned when it became apparent that the infrastructure was not costless to them, as they had been led to believe, because the taxpayer would have to pay eventually. A considerable liability to pay annual service charges built up over the years with a first claim on public funds. Also, the contracts were found to be restrictive and irksome if they did not work as had been intended or if, over a period as long as 30 years, requirements changed in ways that had not been anticipated. Come the National Infrastructure Strategy of November 2020, HM Treasury confirmed that so far from being the only game in town, no more PFI/PPP deals were going to be allowed.[17]

The 1997 New Labour government insisted on The London Underground Public Private Partnership (LU PPP) agreements, signed in 2003. They were three, 30-year contracts between the Transport for London (TfL) and private sector consortia to renew, maintain and enhance the fixed infrastructure and the trains. One PPP contract related to the Jubilee, Northern and Piccadilly lines and was with Tube Lines Ltd. One related to the Bakerloo, Central and Victoria lines and was with Metronet Rail Ltd. The third related to the remaining, "sub-surface" lines and was also with Metronet. Daily operations—driving the trains, staffing the stations and operating signalling—remained with London Underground. That is a subsidiary of Transport for London which is an executive agency of the Greater London Authority (GLA), a public body. TfL is chaired by the directly elected mayor, and owned and controlled by the GLA.

On first conception the idea of the LU PPP could reasonably have been seen as a solution to a tricky economic, political and constitutional problem but, on detailed analysis it was generally understood to be a bad idea. But the government had quickly made a firm public commitment to the scheme, and it was unwilling to change course. The idea would surely have been dropped had the delay and a realistic cost been anticipated from the

[17] UK HM Treasury. 2020. National Infrastructure Strategy. CP 329. London: OGL. https://assets.publishing.service.gov.uk/media/5fbe11b18fa8f559da0f16b4/NIS_final_print.pdf

beginning. England's high-speed railway (HS2), currently under construction between London, Birmingham is another example of this phenomenon.[18]

About three years after the government had introduced the policy the controversy continued and the government and their operating agency, London Regional Transport (LRT) developed a strong bunker mentality. There was unwillingness engage with arguments that did not support their case. They showed absolute belief that they were right and acted as if anybody who disagreed was a heretic, mad or mendacious. The five-and-a-half-year gestation descended into an unseemly battle between personalities in which innuendo overwhelmed rational, factual analysis. Government deliberately hid most of the substance from scrutiny by parliament or the public. The protagonists did not seem to believe that they would be held to account for their actions. Indeed, they have not been.

An important feature of the dispute was the liberal use by all the parties of large commercial consultancies in management, law and engineering to develop policies and to help defend them in public. Most of the big London names were involved at some stage. Their reports were often kept in confidence—sometimes on the grounds of commercial confidentiality in the context of a large competitive procurement—and not exposed to independent scrutiny. On occasion, only direction by the courts achieved public access (with redactions).

A crucial element in the debate was the Public Sector Comparator (PSC), a calculation carried out by consultants and used to test whether the proposed LU PPP would offer better value for public money than more conventional public sector alternatives. This calculation was controversial at the time and later, once the details became available for scrutiny it was apparent that the underlying evidence was sketchy and the analysis open to question.

A series of highly sceptical reports from parliamentary select committees, the National Audit Office and several independent bodies were ignored. By the time the much-amended contracts approached the point of signature almost everybody seemed to doubt that they were a good idea, except for chancellor, Gordon Brown and the incumbent secretary of state for transport, Stephen Byers.

It was a complicated, four-sided battle. The main protagonists were

[18] Glaister Stephen, July 2001. HS2: Levelling up or the pursuit of an icon?. London: Institute for Government.
https://www.instituteforgovernment.org.uk/sites/default/files/hs2-levelling-up-stephen-glaister.pdf

1. chancellor of the exchequer, Gordon Brown and his officials in support at HM Treasury, including civil servant, Sir Steve Robson and special advisor (SPAD, unelected), Shriti Vadera
2. deputy prime minister, John Prescott and, from time to time, prime mister, Tony Blair supported by the Department for Environment, Transport and the Regions (DETR) and the Cabinet Office
3. after 2000, the newly and directly elected mayor of London, Ken Livingstone with his transport commissioner Bob Kiley, supported by the Transport for London (TfL) Board and
4. Sir Malcolm Bates, chairman of the incumbent, nationalised operator, London Regional Transport (LRT) with his board in support.

2 BEFORE MAY 1997

The London Underground comprises several distinct lines. The District, Circle and Hammersmith and City lines were built by cut-and-cover in the 1860s. The Bakerloo, Central, Northern, Piccadilly and Victoria lines were deep-bored tubes in clay mostly built in the early twentieth century. The Victoria and Jubilee Lines opened after 1960.

Before 1933 the individual lines were built and operated as for-profit, shareholder ventures, but they struggled commercially. The 1933 Act created the London Passenger Transport Board, a public trust[19] to own and operate both the Underground and the profitable London bus business as a unified whole.

London Transport was nationalised as part of the British Transport Commission in 1947. It accumulated debts, despite the fares increases accepted by the National Board for Prices and Incomes as justified to reduce investment backlogs. In 1970 these debts were written off and the Underground and bus businesses were transferred to the Greater London Council; in 1984 the Greater London Council was abolished and they were renationalised as London Regional Transport (LRT). LRT was divided into subsidiary companies, London Buses Ltd. (LBL) and London Underground Ltd. (LUL). The bus business was transferred to Transport for London under the Greater London Authority in 2000 but the Underground remained with the nationalised London Regional Transport until signature of the LU PPP contracts in 2003, at which point the Underground was transferred to TfL and LRT was wound up.

This chequered history was a consequence of the dispute, still to be resolved, about whether the national capital's transport system should be funded and controlled by national government—located in London—or by London local government. Crucially, since 1947 funding and approvals for the Underground's capital investment programmes has remained in the gift of HM Treasury—that is, a call on the national taxpayer and an element of the national debt. So it is to be expected that central government has always shown a strong interest in the affairs of London Underground and continual frustration that—in their view—it is not run as efficiently as it should be.

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[19] Barker, Theo and Robbins, Michael. 1974. A history of London transport: volume II-the twentieth century to 1970. London: George Allen & Unwin.

Monopolies and Mergers Commission report 1991

In October 1990, following a long tradition of ministers believing that London Underground could be run at lower cost, the Secretary of State for Trade and Industry referred to the independent Monopolies and Mergers Commission (MMC) "certain questions concerning the efficiency and costs of and the service provided by London Underground Limited (LUL) …"[20]

The Commission concluded that[21]

> 1.3. The public's perception of an erratic, overcrowded and poorly maintained service in many areas is broadly correct…
>
> 1.6. … we have in our discussions with LRT and LUL discerned a conflict between LUL's commercial objective of generating enough cash to cover both operating costs and the funding of renewals and replacements …
>
> 1.12. … we have concluded that LUL could improve its efficiency and reduce its costs …
>
> 1.16. … Government policy … needs to be clear and to recognise, as far as it is feasible to do so, the long planning horizon, ten years or more, necessary for the management of a modern railway. …
>
> 1.34. LUL has told us that customs and practices which constrain productivity are prevalent in certain areas and in some instances are condoned by local managers.
>
> 1.35. … We have recommended that LUL should pursue a policy of increasing competition in all areas where external contractors are competent to tender for work and can operate within LUL defined and controlled safety standards.

This diagnosis of London Underground's problems by the MMC in 1991 was essentially the same as the problems recognised by the 1997 New Labour administration: poor service; cost inefficiency partly due to difficult relations with the trades unions; inadequate average rate of investment to make good historic underinvestment and sustain a decent system in equilibrium; wild year-to-year variation in financial support from central government. After 1991 whole host of different procurement methods were tried including contracting out (for example, cleaning), "extended arm" contracting where contractors were given outputs rather than inputs to deliver, and Private Finance Initiative deals for Northern Line trains, the Oyster ticketing system, electrical power supply and the radio communications system.

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[20] Monopolies and Mergers Commission. 1991. London Underground Limited. A report on passenger and other services supplied by the company, Cm 1555. London: HMSO.

[21] Ibid, 1.1

The accusations have remained little changed in the ongoing dispute about the resolution of TfL's funding deficit after the impact of the Covid pandemic.[22]

Response to the 1991 MMC Report

In response to the MMC, London Transport issued a *Statement of Strategy*. This noted that: [23]

> 2.4 In the Autumn of 1991, the Chancellor announced a financial settlement for London Transport which indicated that accepted [LUL's estimate of £700-£750m per year as the figure required to improve asset and service standards to those of a 'Decently Modern Metro'] … This takes full account of the conclusions of the report by the Monopolies and Mergers Commission …

but

> 2.6 From the dramatic reduction in funding announced in the autumn of 1992, it must be concluded that the Government is not persuaded of the case either for the level of funding, or for the consistency of funding so clearly advocated by London Transport and supported by the MMC. ..."

The *Statement of Strategy* pointed out that the continuing inconsistency of government funding for the Underground was not wise. It argued that on a "central" view of future demand a consistent investment level £800m pa would allow the Underground to achieve financial self-sufficiency by 2000.[24] In the event this level of consistent funding was not forthcoming over the remainder of the Conservative administration. However, the notion that with an adequate remedial injection of investment the Underground could be transformed into a financially self-sustaining enterprise became important once the 1997 Labour administration started to formulate its policy for the underground.

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[22] Chew, T. C., Glaister, Stephen, Rosewell, Bridget and Taylor, Jonathan. 2020. TfL Independent Review. London: Transport for London https://content.tfl.gov.uk/tfl-independent-panel-review-december-2020.pdf
[23] London Transport. 1993. Statement of Strategy. London: LT.
[24] Ibid, para 8.6

The final years of the Conservative administration

The philosophy that the answer to inefficiency in the public sector lay in competition with the private sector was embraced by the 1979 Conservative administration under prime minister, Margaret Thatcher. This developed into the view that private ownership with independent regulation was also helpful. Hence the programme of privatisation of the utilities: telecommunications, gas, electricity, water and, latterly, the railways.[25] The argument was that if they rely on grant determined by central or local government, then funding will tend to be unstable with damage to economy and efficiency: the lowest possible cost would not be achieved.

It was also argued that enterprises in politically sensitive sectors, including transport tend to fall victim to day-to-day interference from political bodies, which makes it even harder to manage efficiently.

Furthering these ideas, the legislation to renationalise London Transport (the London Regional Transport Act 1984) which created London Buses Ltd. and London Underground Ltd. as subsidiary companies, imposed a duty on London Regional Transport (LRT), where appropriate, to use competitive tendering. Over the next several years LRT put all London's bus routes out to for 3-year contracts on a route-by-route basis: a highly successful policy which significantly reduced unit costs at the same time as improving service quality (see Glaister and Travers[26] and Kennedy[27]). The bus service providers all became private companies.

In 1995 Glaister and Travers[28] argued for a similar policy to be adopted for London Underground on a line-by-line basis. Before and after the May 1997 general election, London First (a lobby group whose members were larger businesses located in Central London) was making proposals to the government about how to finance the Underground.[29] In June 1997, London First Infrastructure Funding Group drafted a paper with a proposal based on line-by-line franchising and a public trust operate and fund it.[30] This proposal was intended to replicate the success of the bus competitive tendering experience, whilst achieving a degree of independence, stable

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[25] Glaister, Stephen, Burnham, June, Stevens Handley and Travers Tony. 2006. Transport Policy in Britain, 2nd edition. London: Macmillan Education.
[26] Glaister, Stephen and Travers, Tony. 1995. Op. cit.
[27] Kennedy, David. 1995. "London bus tendering: a welfare balance," Transport Policy. Volume 2, Issue 4, October 1995, Pages 243-249.
https://www.sciencedirect.com/science/article/abs/pii/0967070X9500015I
[28] Op. cit.
[29] Yass, Irving. 30 April 1997. Manuscript. London: London First.
[30] London First Infrastructure Funding Group. June 1997. Discussion Proposal for London Underground Structure, London: London First.

funding and an ability to borrow prudently but unconstrained by central government-imposed rules.

Christian Wolmar recounts that: [31]

> In the dying days of the Tory government in the winter of 1996-7, when ministers well knew that they were on the way out, the transport secretary Sir George Young had suggested, without much conviction, that the Tube might be privatised. It was not an idea which gained much support, even within the Tory party, but the notion found itself in the Tories' 1997 manifesto without ever having been properly worked out. Since rail privatisation had been done on the hoof by the Tories following the 1992 election, this was no obstacle to the implementation of the policy had the party won in 1997.

Summary

Sources of funds and efficient management of the London Underground have always been a controversial matter as in every large city, worldwide. They remain so. The 1991 report from the independent Monopolies and Mergers Commission confirmed that the Underground was under-invested and inefficient. Over the years various governments seemed to accept this but failed to provide an adequate or consistent level of funding. They were not satisfied with the efficiency of the management. Prior to the 1997 general election which was won by "new" Labour, the Conservative administration proposed privatisation in some form. Others were suggesting alternative solutions, involving a new public trust with capacity to borrow by issuing their own bonds—suggestions that became important in later disputes.

[31] Wolmar, Christian. 2002. Op. cit. P94.

3 EARLY DAYS OF NEW LABOUR

The 1997 Labour government immediately ran into difficulty with the London Underground. A bitter struggle developed which was not to be resolved until April 2003, a duration longer than the First World War. As we will see, that resolution—the London Underground Public Private Partnership (LU PPP)—partially failed in 2007 and was finally abandoned in 2010.

Labour Party general election *Manifesto*

The Labour Party *Manifesto* for the 1997 general election had included:

> The Conservative plan for the wholesale privatisation of London Underground is not the answer. It would be a poor deal for the taxpayer and passenger alike. Yet again, public assets would be sold off at an under-valued rate. Much-needed investment would be delayed. The core public responsibilities of the Underground would be threatened.
>
> Labour plans a new public/private partnership to improve the Underground, safeguard its commitment to the public interest and guarantee value for money to taxpayers and passengers.

The New Labour administration

The new prime minister, Tony Blair created a large and unwieldy new department of state, The Department of the Environment, Transport and the Regions (DETR, later Department for Transport, Local Government and the Regions, DTLR and then Department for Transport, DfT). John Prescott was secretary of state and he was also appointed deputy prime minister, making him one of the most senior people in the cabinet.

Prescott was regarded as being on the left wing of the party having been a full-time official of the National Union of Seamen before becoming a member of parliament in 1970. He was active in the parliamentary Labour Party throughout the Conservative administrations of Margaret Thatcher and John Major. So he had been a member of the opposition throughout the radical utilities reform programme. He took a special interest in transport matters including the privatisation of the national railway under the

Railways Act 1993, which the Conservatives hurriedly completed in 1996 in anticipation of the 1997 general election. Labour had opposed this and had pledged to reverse it.[32]

Labour in opposition had also had to respond to the Conservative administration's proposals for reform of the London Underground, as recounted by senior Conservative, Sir Norman Fowler in a debate in June 1997, the second month of the Labour administration:[33]

> No one doubts that there is a need for new investment—there is no question about that—and neither does anyone doubt that the present system of public funding will not produce the goods. That is the lesson of the past 20, 30 or 40 years.
>
> … [Sir George Young] set out in February three options for the privatisation of the underground. Those options included the sale of London Underground as a single business, or the establishment of a structure similar to the national railways model, with a track authority owning the network and operators running trains on individual lines.
>
> … Above all, he gave a commitment to investment and to ploughing the proceeds of privatisation back into the underground system. That was a clear statement, and it is there for all to see.
>
> Labour rejected that plan….

Therefore, one of the most senior members of the new cabinet, with direct responsibility for policy on the Underground, had a history of strong, ideological opposition to extending the role of the private sector in general and in transport in particular.

Disagreement within the new government

If John Prescott's ideological position on the Underground was clear, that of the government as whole was not: he had to contend with the chancellor of the exchequer, Gordon Brown and, somewhat separately, with officials at HM Treasury (HMT) and the treasury minister with day-to-day responsibility, paymaster general and businessman, Geoffrey Robinson.[34]

Another important influence was the management consultancy, PricewaterhouseCoopers (PwC) with partner Tony Poulter (a former civil

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[32] Short, Claire. 1996. In Railtrack Share Offer Prospectus. London: SBC Warburg.

[33] House of Commons. 25 June 1997. Opposition Day debate. London: Hansard. https://hansard.parliament.uk/commons/1997-06-25/debates/4120858c-b352-47dd-bd96-f6985116cddb/OppositionDay

[34] https://en.wikipedia.org/wiki/Geoffrey_Robinson_(politician)

servant) frequently in the lead.[35] Price Waterhouse was appointed by the government in July 1997 as financial advisors on the London Underground policy. The company merged with Coopers & Lybrand in July 1998 to become PwC. This consultancy took a role in promoting the policy in public. Tony Poulter and other PwC principals appeared in front of Commons Select Committees[36] alongside government officials. On occasion PwC were put up to explain and justify it at briefings for the press. For instance, the *Financial Times* of 27 November 1999 reported:

> The Treasury's argument is two-fold. First . . . it does not trust London Underground's public sector management to deliver. But second, it maintains the PFI offers the advantage of transferring to the private sector the risk of maintaining the track, signalling and tunnels. 'Under PPP,' says Tony Poulter of PricewaterhouseCoopers, who is advising the government on the Underground deal, '… the British public sector does not have experience of being able to write contracts that successfully deliver what is wanted. Through a PPP, with its long-term transfer of operating and financial risk, it does.'

This illustrates how the government was using private consultants to expound and defend government policy, but also that in 1999 it was accepted on all sides that this was in fact a treasury policy.

The Jubilee Line Extension

The government—and particularly the treasury—was considerably influenced by the difficulties that were emerging with the extension of the Jubilee Line which had to be completed by 31 December 1999 to serve the millennium celebrations at the Millennium Dome at Greenwich. Crewe and King report that: [37]

> [London Underground] managers were, according to one London MP, "a bunch of muppets". The fact that the tube as a whole was in such a mess was partly their fault. More than that, ministers and backbenchers held the management of London Underground responsible for the protracted delays and enormous cost overruns that had marked the building of the Jubilee Line extension. Originally due to open in April 1998, the line did not open until

[35] For example Q88ff of examination of witnesses, Select Committee on TLGR, 27 February 2002 https://publications.parliament.uk/pa/cm200102/cmselect/cmtlgr/656/2022707.htm
[36] https://publications.parliament.uk/pa/cm200102/cmselect/cmtlgr/656/2022708.htm
[37] King, Anthony and Crewe Ivor. 2014. Op. cit. p. 203.

the very end of 1999. Originally estimated to cost £1.5 billion, it eventually cost some £4 billion.

This experience strengthened the treasury's determination that governance of the Underground must be reformed.

The Private Finance Initiative

The chancellor had an absolute determination to control public borrowing and therefore insisted that any borrowing for investment in public services should be kept off the public balance sheet. At that time the independent Office for National Statistics that policed these matters, ruled that borrowing for projects financed under the Private Finance Initiative (PFI) would be classified as private borrowing if they met certain criteria.[38]

The Private Finance Initiative been developed by HM Treasury during prime minister John Major's administration. New Labour felt the need to develop and "rebrand" this Tory invention as Public Private Partnership (PPP), but that had much in common with the PFI. The Labour government embraced PPP and pushed it harder than the PFI had been pushed before, to the extent that almost no public project would receive the required approval from HM Treasury unless it was a PFI or PPP. A Memorandum by HM Treasury to the House of Commons Treasury Committee in 2000 summarised the history. It states that PFI/PPPs totalling a value of £12.8bn had been signed by 1st April 1999 and that between 1st May 1997 and 1st April 1999 154 deals had been signed to a value of £4.7bn.[39]

With the help of UK law firms and management consultancies the idea was actively embraced round the world. Some of the PFI/PPP schemes may have worked well, but some did not. Perhaps the programme best known to the UK public related to the provision of hospitals, but the LU PPP was by far the biggest scheme and the most expensive failure. In autumn 2020 HM Treasury[40] pronounced the policy dead: "… the government will not reintroduce PFI, PF2 or similar models of private finance".

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[38] Her Majesty's Treasury. 24 March 1997. HM Treasury Classification of Expenditure. Class (1997)2. London: HM Treasury.

[39] UK HM Her Majesty's Treasury. 20 January 2000. Memorandum. In Select Committee on Treasury, Fourth Report 1999-2000. London: House of Commons. https://publications.parliament.uk/pa/cm199900/cmselect/cmtreasy/147/0012608.htm

[40] UK HM Treasury. 2020. Op. cit. p74.

The civil service carry on

The personnel in government changed at the May 1997 general election but as is the convention, the civil servants did not. Since the MMC report on the LU of 1991—and no doubt before that—HM Treasury officials had the view that LU was inefficient: meaning that it would be technically possible to undertake the same activities for less (public) money. An important but often unspoken proposition was that enterprises with direct access to public funds find it harder to resist the demands of organised labour with the consequence that labour is used less effectively, and average hourly rates of pay are higher. The treasury argued that the forces of competition in the private sector mean that private sector enterprises must be efficient to survive, so they are less inclined to tolerate unnecessarily high labour costs.

A leading advocate of these views was Sir Steve Robson who remained at the treasury as Director, Financial Regulation and Industry. He told the Commons Select Committee on the Treasury in 2000: [41]

> … The reality is that consistently, public sector comparators (which I am sure are not biased and pessimistic) show that they cannot do as well as PFI. I think, fundamentally, this is a statement more about culture, incentives, attitude and expertise than it is about formal structures and contracts. I think it is in that area, whether it is PFI or whether it is contracting out, or whether it is other forms of Public Private Partnership, one finds that bringing the private sector into certain areas of Government delivery—and, by no means all of it—you can secure added effectiveness. …

The BBC *Panorama* papers

One of John Prescott's first actions on being appointed deputy prime minister and secretary of state at the DETR was to seek from the treasury an immediate direct grant of the £1bn to £2bn capital was generally agreed to be needed by the Underground. Prescott was said to be fiercely protective of his department, DETR and determined that HM Treasury should not make transport policy. But the treasury was reluctant to give away an opportunity to make LU more efficient by continuing with the privatisation policies they saw as having been successful for other industries under the previous, Conservative administration.

After recording an interview for BBC *Panorama* due for transmission on 16th June 1997 John Prescott left confidential papers in the studio setting

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[41] House of Commons Treasury Committee. 2000. Fourth Report 1999-2000, paragraphs 311, 317, 318. London: House of Commons.
https://publications.parliament.uk/pa/cm199900/cmselect/cmtreasy/147/0012615.htm

out the alternatives then under consideration. *Panorama* broadcast the content. John Ware reported:[42]

> Quite how far Mr Prescott is prepared to go to find new ways of financing London Underground we only discovered after our interview. Before the election the Tories suggested privatising it, Labour MPs condemned the idea, one of them now a Minister said it was half baked, and Tony Blair accused the Tories of being prepared to sell off the Tube cheaply. But it now appears that selling it off is one option Mr Prescott has in mind.
>
> According to these internal briefing documents two weeks ago Mr Prescott met the new paymaster general Geoffrey Robinson, to discuss the future of London Underground. One of the four main options Mr Prescott is now actively considering involves splitting London Underground into two companies. An infrastructure company similar in scope to Railtrack, the company created by the Tories that bought British Rail's track and stations, and an operating company to run the trains. …
>
> The option suggested by Mr Prescott are identical in structure to those proposed by the Conservative's last Transport Secretary Sir George Young, just before the election. Tony Blair said then that New Labour was against wholesale privatisation and today John Prescott has been repeating that point, by which presumably they mean they won't sell off all London Underground's assets, Mr Prescott's proposals are different. He's not suggesting selling all the assets, just the majority of them.
>
> … Mr Prescott … in a statement this weekend, he says there's nothing in his draft document that's inconsistent with his intention to explore all forms of public/private partnerships which he said he'd first advocated long ago.

A row in the House of Commons

This caused a major row within the Labour Party which did not wish to be seen to be implementing a Conservative administration’s privatisation proposal. The extent of the disarray was evident in a debate a few days later in the House of Commons:[43]

> *Sir Norman Fowler* [Conservative shadow Secretary of State for Transport]
>
> … Throughout the election campaign, Labour maintained that hostility to my right hon. Friend's plans. Imagine, then, Mr. Deputy Speaker, the

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[42] BBC *Panorama,* “Down the Tube”. 16 June 1997. http://news.bbc.co.uk/hi/english/static/audio_video/programmes/panorama/transcripts/transcript_16_06_97.txt

[43] House of Commons. 25 June 1997. Op. cit. https://hansard.parliament.uk/commons/1997-06-25/debates/56ceae0a-1971-42b4-abc3-aa326302ce58/LondonUnderground

surprise of Labour supporters everywhere when they opened their newspapers on 16 June to find that what appeared to be another U-turn was being conducted. …

… The draft letter in which all those options were set out—and which has evidently been seen not only by The Guardian, but by a range of newspapers—described the timing of the decision process as "urgent." It added, in terms which are becoming sadly typical of the Government, that the Department of the Environment, Transport and the Regions would "brief selected journalists who are likely to report this story in a positive light." …

The Minister of Transport (Dr. Gavin Strang)

… We set out our policy for London Underground clearly in our manifesto …

We stand by that. Nothing that we have done or said since is inconsistent with that manifesto commitment. It will continue to be the framework within which our policy develops. …

However, we cannot simply tax and spend to sort out London Underground's problems. My right hon. Friend the Deputy Prime Minister has therefore asked officials to examine a wide range of options to see which can deliver the world-class underground system that we all want. We have ruled out the Conservatives' plan for the wholesale privatisation of the network, but all other options will be considered.

… We shall appoint financial advisers to help us assess the options. …. The review will also draw on the views and the expertise of London Transport.

… We expect the financial advisers' options to be on Ministers' desks within three or four months. …

… we are paying them a good deal less than the Conservative Government paid their advisers, because we shall be using them for only a few months.

Mr. Richard Ottaway

… Old Labour will not allow privatisation, and new Labour will not allow higher spending. We are only six weeks into this Parliament, and already the Government find themselves in a fix. As my hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson) said, they have a choice: to fudge it or to admit that we were right.

… Privatisation would highlight the hypocrisy of a party that says one thing in opposition and then does another when in power. …

The Economist described Labour's proposals as half-baked: "The notion that large amounts of private capital can be attracted to publicly owned, inherently loss-making urban transport systems is either naive or dishonest."

That is the nub of the argument advanced so ably by my hon. Friend the Member for Brentwood and Ongar (Mr. Pickles). For the Underground to be able to invest, the private sector would have to have a controlling interest; otherwise, any investment or borrowings would count against public expenditure totals, and the financial disciplines of the private sector would be lost. …