

On the right track

Most of its passengers would agree that the UK's public transport infrastructure is underfunded and unfit for its purpose. **John Howell** explains how LVT could get it back on the rails again

TO ANYBODY who has spent time in a crammed commuter train, there can be no doubt that our transport infrastructure is very much in demand.

This is hardly a surprise considering that, for an economy to develop fully, its various functions need to be linked by transport. Healthy transport underpins a healthy economy.

Yet, paradoxically, in spite of its indispensable role, most transport infrastructure is said to be unprofitable and only kept alive by grudging subsidies from public funds, rarely sufficient to enable it to meet demands. Can this be right?

In 1900 the tube network under central London was gradually being built. But despite the obvious relief it would bring to the overcrowded streets above, most schemes were in financial straits. The partly constructed Bakerloo line had gone bust, the District Line was in difficulties and a proposed line to Hampstead had no investors.

The problem then, as now, was that the revenue from fares was mostly absorbed by running costs, and left little to cover the immense initial capital outlay on tunnels, rolling stock and stations. Fortunately a rather shady financier from Chicago—one Charles Yerkes—managed to persuade American investors there was money to be made out of London's commuters and by 1907 the lines were completed.

American transport promoters like Yerkes had become adept at making their schemes pay by building well out beyond city boundaries, so as to make a killing on increased land prices when housing sprang up around the passenger stops. Yerkes, spotting the potential for this in the undeveloped fields north of Hampstead, extended his North London Line out to them, and doubtless it was the ensuing land deals that enabled him to succeed where previous English tube entrepreneurs had not.

The idea of raising the otherwise daunting initial capital cost of urban railways by tapping into the increased land values they created was clearly recognised by Frank Pick, vice-chairman of London Passenger Transport Board—the public monopoly that had taken over running of London's tubes, trams and buses in the 1930s. In evidence to the Barlow Commission (1939) he stated:

"The moment an underground extension is projected, the value of the land is at least

doubled. When the railway is built and the stations opened, the land adjacent is at least quadrupled in value. In view of the difficulty of maintaining a public utility like the London Passenger Transport Board in a satisfactory condition from (only) the receipts of fares, there is every reason, in the interests of the public, why the Board should receive its appropriate share of the land values it helps to create. The earnings of a tube railway (from fares alone), even under favourable circumstances, are not sufficient to provide the interest and the sinking fund upon the capital invested."

The only other early instance of increased land values being systematically recaptured to finance capital costs was the Metropolitan line in NW London. Before 1900, because it used steam trains, it had been forced to buy far more land than it needed for the tracks, and sometimes made useful profits by selling this land later.

By the 1920s it was financing new line-building by deliberately buying agricultural land to the north of London, and capitalising on its increased value when the lines were finished. Consequently, the Metropolitan Line was regarded by many as the best in London. Sadly, Pick's hope that this model would be applied to the rest of the network was not to be fulfilled. His evidence to the Barlow commission continued:

"This potentially valuable source of railway finance was again not taken up. Profits from property development would only go to property developers. The benefit to railways would be confined to the extra journeys of those who travelled from the properties."

In 1989, the Jubilee Line needed extending to the East London where developers hoped to build Canary Wharf—a new financial centre to rival the City of London.



Meanwhile, the idea of tapping enhanced land values to pay for new transport links had resurfaced, and Paul Channon, transport minister to Mrs Thatcher, declared:

"If there is to be new transport investment in London, the passengers who benefit from it should meet its cost through the fares they pay, rather than be subsidised by taxpayers in the rest of the country.....and contributions should also be forthcoming from property owners and developers who stand to gain from the transport improvements."

Consultants advising the government agreed "...any new line should be paid for by those who benefit including passengers, property developers, and landowners.... In the case of the Jubilee Line Extension, we understand that the Department of transport

has been advised the benefits which the line would bring to the property developers are likely to exceed by a considerable margin the cost of the line, and that a Government contribution to funding would appear not to be needed."



Canary Wharf's developers knew that the accessibility provided by a proper tube line would earn them an extra £320million a year in rents. They therefore willingly contributed £100 million to the line's building costs, and as part of the deal insisted that other developers whose sites benefited from the line were also charged one-off 'planning gain' payments of about £20 per square foot when their developments went ahead.

Nevertheless, the bulk of the JLE's £3-4 billion cost fell, as usual, on taxpayers throughout the United Kingdom who felt no benefit. To the Treasury and London Transport it appeared that the JLE was adding to an existing large network, and that benefits to landowners were not concentrated in such a way as to form 'an easily identifiable tax base.'

Of course LVT would have done just that.

Just supposing the mechanism of LVT had been available to fund the JLE, would its revenue have been sufficient? In *Taken for a Ride* (2001), Don Riley, a Southwark property owner, used his extensive local knowledge to document the scale of property rent and capital value increases that occurred once the JLE was up and running by 1999.

He conservatively estimated that, within a 1000-yard radius of each new station on the line, values rose by £1.3 billion, so for the ten stations along the line the overall gain was of the order of £13 billion—nearly four times the total construction cost. Riley suggested that if that gain were annualised into a 10% return, and taxed at 25%, it would yield £325 million a year to the exchequer and pay off the line cost in 10 years.

In March 2004, a report commissioned by Transport for London estimated the 'JLE uplift' of land values was £2 billion around Canary Wharf station, and £800 million around Southwark station—figures of similar magnitude to Riley's, who commented:

"I was impressed by the magnitude of the increase in land values. It seemed obvious that the Jubilee Line (Extension) could have been constructed without the aid of subsidies from taxpayers who live in the deprived

regions of Humberside and Merseyside. I was particularly annoyed that rich financial institutions in the City—20% of which were foreign owned—would benefit from similar investment. The City was calling upon taxpayers, to an important extent, to improve the transport infrastructure for their benefit."

However, even in the Hampstead, Metropolitan and JLE examples, the LVT principle was only partially followed. Effectively in these cases site value increases were tapped on a 'once-only' basis which contributed only to the initial construction costs. There was no provision for the major recapitalisations that would sooner or later be needed to adapt to new technologies or changed patterns of demand. Unless contributions from site values are on-going,

a lack of capital funding will haunt future generations.

Also flawed is the developer's 'planning gain' payments system, instituted when the JLE was built, because it misses the vital fact that new lines enhance values of all sites with development potential, even if they are not developed. Site owners who choose not to develop still benefit from a transport upgrade without having to contribute to it.

Perhaps this explains why, even after the boost from the JLE, Southwark and Bermondsey still have many underdeveloped sites. By applying to sites, rather than the improvements on them, LVT stimulates development and discourages inactivity.

Finally, it cannot be repeated too often that LVT is meant to replace other taxes, not supplement them. LVT stops the land value created by local transport improvements leaking away to those who have not paid for them. With revenue from this new source, taxes on labour and expertise could be phased out, allowing more jobs to be created, and the general level of earnings to rise. This would also reduce capital and running costs of transport networks and many more schemes would appear to offer 'value for money' than at present. Ventures such as London's Crossrail, the East Coast high speed link, and efficient freight services to take pressure off roads and cut pollution, would all become viable.

Railway or tube systems link commercial and industrial hubs with their labour, raw materials and markets. When improvements reduce journey times or increase the volume of traffic, the productivity of labour and capital grows and this is immediately reflected in site values. The capital costs of building railways are so high that they can never be covered by receipts from passenger fares, which are usually only enough to cover running costs such as staff wages, fuel, cleaning, running repairs etc.

The resulting 'funding gap' is most naturally bridged by somehow recapturing the enhancement of site values. This upholds the principle that transport improvements should be paid for by those who benefit, and makes the improvements self-funding. In those few parts of the London underground where site values were tapped, the demand for new lines was responded to fairly quickly. Everywhere else, new schemes (eg Crossrail) have hung fire for decades through apparent lack of finance. **L&L**

The above article is an edited extract from The Case for a New People's Budget, edited by Margaret Godden, published by LibDems ALTER, 2010, available for £5 from cehodgkinson@aol.com. A second edition is due soon.