

CROWDFUNDING TRANSPORT

USING NEW
TECHNOLOGY
TO FUND PUBLIC
TRANSPORT UPGRADES



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INTRODUCTION

Transport for London (TfL) is seeing its budget reduced even as London's population rises. Given this, there is an ever greater need to find new ways to raise revenue. This report focuses on one possibility: the idea that crowdfunding might allow Londoners to help contribute directly and make much needed projects happen.

BACKGROUND

What will London's public transport system look like in 2030? Crossrail will have been operating for more than a decade, the Tube Upgrade Programme should be complete and Crossrail 2 may be close to opening. TfL should, if all goes to plan, control London's entire mainline rail network, bringing a turn-up-and-go service to train stations across the Capital. The Cycle Hire Scheme should have stretched beyond Central London and be expanding ever further into suburbia.

Here is a slightly different question: what would London's public transport system look like if TfL stopped investing and just focussed on trying to keep the current system going?

It is estimated that there will be 9 million Londoners by 2018 and 10 million by 2030.¹ This is a symbol of London's success, but it is clear that Londoners' current commuting patterns and infrastructure would not cope with 10 million people. It is also clear that there is no silver bullet to keep London from grinding to a halt. Instead, over the next fourteen years there will be a need to:

- 1. Make better use of existing infrastructure.** The most obvious example of this is on the London Underground, where improving the signalling system and introducing new driverless trains will enable more trains per hour on London's Tube Lines as well as reducing the time and money required to maintain the network.
- 2. Encourage more home working.** As shown in Roger Evans' reports Home Works and Commuter Payback, the case for encouraging home working is compelling. Every person who works from home is not occupying a space on London's overcrowded public transport. Some people might benefit from working from home full time, others from working from home for a day or two per week. However all commuters will benefit if space is freed up on their Tube, train or bus.
- 3. Encourage flexible working.** During the 2012 Olympics, records were broken for use of the Tube. However this did not mean unmanageable levels of overcrowding because so many people were travelling outside rush hour. London would benefit if, as the population rises, more people are able to travel to work before or after the current peak.
- 4. Encourage cycling.** Whilst the numbers of Londoners cycling has increased significantly over the last 8 years, cycling's modal share has remained relatively static. Increasing the modal share will be crucial for London since every new cyclist is either freeing up space on public transport or using less road space than they would have done in a car.

1. <https://tfl.gov.uk/info-for/media/press-releases/2015/december/london-underground-breaks-the-record-again-for-busiest-day-ever-on-the-tube>

5. **Build more infrastructure.** Even though there is undoubtedly a great need to pursue the top four points, there will still be a need to build new infrastructure in order to ensure that those who live, work or visit London can travel where they need to go. Without such investment, London's public transport will see increased overcrowding and the existing infrastructure would soon become unfit for the purpose of transporting Londoners to and from their place of work in a reliable and timely manner. Scaling back infrastructure investment would cause huge logistical problems and damage London's reputation as a place to do business or visit.

DIFFICULTIES

Having established that it will be vital for London to keep building new infrastructure the focus should then be on how this can be afforded given the following factors:

1. The abolition of the Government grant, which means a £2.8 billion shortfall over the next 4 years.²
2. Although from a benefit to cost perspective money spent in London tends to go further, it is becoming harder and harder to persuade other parts of the UK that London deserves the level of investment it receives.
3. The new Mayor has pledged to freeze all TfL fares for four years. Whilst he has reneged on his original pledge that fare-paying Londoners "won't pay a penny more in 2020 than [they] do now," this adapted pledge still comes at a cost of £640 million over 4 years.³

Again, there is no single answer. TfL will need to significantly expand their commercial operations (as they already plan to do) and seek sponsorship as a matter of course. There is evidence that TfL is improving at doing so and, certainly, the amount that it hopes to raise from commercial activity keeps being pushed upwards, but it seems unlikely that this will be enough to cover the shortfall.

This funding crunch that TfL will experience over the next decade means that building that infrastructure will require innovative thinking. It will not be possible to fund all of the transport infrastructure London will need by simply asking the Government for money.

Clearly it will be sensible for the Mayor to continue to make the case for devolving revenue-raising powers to the Government as the Mayor and TfL will be better placed to make their own decisions on infrastructure spending without always having to wait for Government approval. However whether or not such devolution occurs is entirely at the whim of the Government.

2. <http://www.cityam.com/229564/autumn-statement-2015-transport-for-london-loses-millions-in-spending-review-as-subsidies-cut-from-department-of-transport>

3. <https://www.london.gov.uk/press-releases/mayoral/first-savings-found-to-fund-mayors-fares-freeze>

PRIORITIES

The current Mayor and, indeed, future Mayors of London will have some very difficult decisions to make about which infrastructure projects should be prioritised. A major factor will be the cost benefit analysis of various alternative projects. Those which produce the greatest benefit are likely to be at the top of the pile. It is important that, when money is necessarily limited, the Mayor ensures that it will go as far as possible.

However a simple cost benefit analysis is not sufficient. When TfL funds are raised from across the whole of London it is important that transport projects benefit all Londoners. For example the fact that Sutton is the only borough in the whole of Greater London that contains none of Crossrail, the proposed Crossrail 2, the London Underground, the London Overground or the Tramlink suggests that it has not had its fair share of improvements. Given this, the case for a Sutton Tram Extension may well be stronger than a simple cost benefit analysis would suggest.

Furthermore, it is worth noting that in Sadiq Khan's Transport Manifesto he promised to:

“Plan the next major infrastructure projects for the long term – such as a potential Crossrail 3, new orbital links for outer London, DLR and tram extensions, and new river crossings for East London - while exploring additional sources of funding for major projects.”⁴

Therefore given that the Mayor has stated that he is in favour of more than one new tram extension and he wishes to explore new funding sources to make this happen it is clear that these should be considered among his priorities.

Equally the paucity of bridges and river crossings to the east of Tower Bridge underline the importance of connecting up both sides of river. One way that TfL might finance some infrastructure is through tolling. The model used to build the QE2 Bridge, via which the bridge was built with private money and the right to toll users until the debts had been paid off,⁵ could be useful in building further bridges, tunnels or other crossings across the Thames. However the unfortunate fact that, even after the bridge had been entirely financed, the toll was simply replaced with a charge⁶ may well make it harder to persuade the public that tolling can be a very trustworthy way of financing infrastructure that would otherwise not be built. Indeed there is a case for considering whether scrapping that charge might help to persuade the public of the validity of this model for future projects.

Indeed there are any number of models that would be worth exploring. This is particularly true when projects do not naturally meet the required benefit cost ratio. In short, it is typical that a project would require a 1 to 1.4 ratio in order to be seen as good enough value for money to utilise taxpayer funding. A project like Crossrail 2 has a very strong business case and a strong benefit cost ratio, albeit one that is still being refined as the planned route is being finalised. The current Benefit to Cost Ratio is between 1.7 and 2.7. However how can the Mayor help move forwards projects who benefit to cost ratio would otherwise see them falter?

4. http://www.sadiq.london/a_modern_and_affordable_transport_network

5. https://books.google.co.uk/books?id=1SwDAQAAQBAJ&pg=PA42&redir_esc=y&hl=en#v=onepage&q&f=false

6. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276504/9780108560040.pdf

CROWDFUNDING

One answer worth exploring is crowdfunding. Crowdfunding is a form of alternative finance that uses the internet to collect large numbers of small donations to enable various projects to happen. Crowdfunding offers an opportunity to bring in new funding streams, without waiting for Government approval. Projects like the Peckham Coal Line Urban Park⁷, which is intended to be “*an elevated urban park built on disused railway coal sidings to form a natural, physical and social link between two high streets*”⁸, have raised tens of thousands of pounds from hundreds of people who want to see it built.

This highlights a further advantage of crowdfunding, specifically that it could help to assess the demand for a project. Clearly it is far easier to sign a petition or answer a survey claiming support for a project than it is to donate some of your own money to help make it happen. That is not to argue that all transport projects should wait until some individuals have dipped their hands in their pockets. Rather it should be used as a push to help make projects that are desirable, but which would otherwise not be built, happen.

The first step would be for Transport for London to have an open and honest role in assessing any and all potential transport projects. If individual Londoners wish to know the viability of bringing step-free access to a Tube station or installing a cycle path or building a new tram extension then that information should be publicly available. This transparency would be a good thing in and of itself, but it would have other advantages. It may be that this would make the public more sympathetic to the difficulties of building certain projects or it might be that if there was a greater understanding of what needed to be done to make a project happen that would help to unleash the public’s ingenuity in finding a way to get it done.

The second step would be for TfL and the Mayor to determine what benefit cost ratio (BCR) would be required in order for each project to go forward. So, for example, a £100M project might need a 1:1.4 ratio for approval, but only have a 1:1.3 ratio. This would mean that the expectation is that building that project would deliver £130 million of value. The question would then become: how can we improve the ratio from 1:1.3 to 1:1.4? The answer is to look at the how much the project would have to cost in order for the desired ratio to be met.

If we divide £130 million by 1.4, we get the answer £92.86 million. In other words, if the £7.14 million difference between £92.86 million and £100 million could be raised without recourse to the taxpayer then the project should be viable. So the question then becomes: how might we raise £7.14 million?

Once again, there is no single right way that this might be done. Some projects might be able to fill the gap through public subscription. As we are currently seeing with the Thames Garden Bridge, people can be extremely generous if a project captures their imagination. Although the Government is funding around a third of the £175 million cost, the majority of the cost will be met by contributions from individuals and charitable trusts.

If a project is expected to make a profit once built, then people might be willing to invest. An article on the CapX website⁹ explains how “*infrastructure project bonds*” could be used

7. <https://www.spacehive.com/peckhamcoalline>

8. Ibid

9. <http://capx.co/an-idea-whose-time-has-come-project-bonds/>

to fund projects. It argues for the creation of “*new infrastructure companies, perhaps owned jointly by a combination of devolved administrations, local authorities, private sector investors, which can keep revenues and charges and in turn issue their own debt, partly underwritten by the taxpayer.*”

A third option that would be worth considering is pre-selling tickets at today’s prices. This would work as follows:

1. An “investor” would buy 50 tickets for a transport project that is yet to be built. At a cost of £1.50 per ticket – the current bus fare – this would cost £75.
2. Once the project was built those tickets would become valid. The likelihood is that the cost of a ticket would have increased over the time in which the project was built, but the “investor” would have paid at the original price.

Essentially this is an extreme form of pre-booking but it creates the opportunity for TfL to draw forward funds that the project would go on to make.

HOW WOULD THIS WORK?

Let us say that TfL wished to fund a tram extension. Their research indicates that the capital cost estimate is £330 million. The BCR is estimated at 1.3 to 1. In order to meet that ratio, there is an approximately £23.6 million shortfall. In other words, if the project could be built for £306.4 million it would have a BCR of 1.4 to 1. That is no small figure, but equally it need not be an insurmountable one. It could be possible to look at corporate sponsorship and naming rights – perhaps of tram stops and of the trams themselves. Such an approach was looked at by Gareth Bacon AM in his report *Untapped Resource*¹⁰. It could also be possible to raise money by the selling of future tickets. 100,000 blocks of 100 tickets would raise £15 million. Londoners would not have to produce the funding upfront. Rather they would pledge funds that would only be taken in the event of the relevant project gaining approval. By giving people a defined path to invest in their local area, TfL could give people the opportunity to realise projects that are currently stuck in limbo.

RECOMMENDATION

TfL should set up a website that:

1. Lists the cost and cost benefit analysis of all the projects that it would support being built.
2. Where appropriate includes the chance for Londoners to pledge money to pre-buy tickets for a project when it is complete.
3. When a project reaches its pre-determined target, it would gain approval and the money pledged would be allocated to the project.

10. <http://glaconservatives.co.uk/tfl-sponsorship/>

CONCLUSION

Currently transport projects exist in one of three piles: Yes, No or 'Hopefully one day'. Given the position of public finances that does not seem destined to change in the near future. Whilst crowdfunding should not be seen as a replacement for the Government-backed capital funding that the vast majority of projects will require, it should be an available option that could act as a 'top-up' and make projects (that might otherwise not happen) happen.



FEEDBACK

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