The mark of shame: Metronet

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WHAT WE SAID THEN: “In a world where failures always receive greater focus than successes, Metronet’s impact will be enduring while the success of Tube Lines will be a footnote.”

The Metronet concession to operate nine London Underground lines has done more than any other deal to damage the reputation of PFI. Over a decade after its collapse, the UK market is still branded with a mark of shame for what critics characterise as the prime example of why PFI doesn’t work.

These criticisms are overstated, though Metronet was certainly a mess. The incoming Labour government’s plans in the late 90’s to take the management of the tube out of the hands of state-owned London Underground seemed sensible. The underground was delivering an increasingly poor service and many of its stations were in desperate need of renovation.

And London Underground had struggled to deliver upgrades on time or budget. The Jubilee Line extension had an estimated cost of £1.5 billion and was due to open in April 1998. When it was finally delivered at the end of 1999, the bill had risen to £4 billion.

The government wanted to inject some private sector efficiency into the tube upgrades, but from inception the scheme was politically controversial. It did not help that incoming Mayor of London Ken Livingstone was against the project. Ownership of the underground at that time was passed to the newly established Transport for London (TfL), run by the Mayor’s office.

The project was split into two concessions, Metronet and Tube Lines. Metronet was the larger of the two, covering the maintenance and renewal of the Bakerloo, Central, Victoria, District, Circle, Metropolitan, Hammersmith and City, and East London lines. Tube Lines would manage just the Jubilee, Piccadilly and Northern Lines.

The Metronet consortium won a 30-year concession (the government had initially aimed for 7.5 years but had eventually agreed to go longer) and reached financial close, via two holding companies, on a £2.65 billion bank and bond financing in 2003. The sponsors were exposed to 50% of the revenue risk, with the rest of the revenues from Department of Transport grants, although the contract also benefited from a 95% letter of comfort from government.

By October 2005 Metronet had informed TfL that there would be significant cost overruns not anticipated at the time of bidding, and in February 2006 stated that these additional costs totalled £1.2 billion for the first 7.5 years of the concession.

Metronet fell into administration in July 2007, and though put back out to tender, TfL was the sole bidder for its contracts in November of that year.

Some blame the complexity of the contracts which were split into 135 separate documents amounting to 28,000 pages. An often highlighted detail is how the contracts had to try to determine consistency between how far away drivers were from the nearest toilets once they clocked off – a kind of 'bog standard'.

You can also argue that the 95% letter of credit meant risk was not properly shared with the private sector, making cost overruns more likely.

Others complain that the upgrade should simply have been paid for through government issued bonds, not least as the management of the underground eventually fell back into public hands anyway. This argument seems to ignore that Tube Lines did not collapse in the same way and in fact delivered the first 7.5 years of its concession almost to budget.

Although it was eventually transferred into TfL ownership in 2010, Tube Lines remains a distinct subsidiary business unit.

The main differences between Tube Lines and Metronet were scale and planning. While Tube Lines started capital works early, Metronet delayed, meaning true costs were identified much later. Tube Lines also sensibly signed no long-life sub-contracts unlike Metronet, and instead relied on continual tender procedures.

Rather than being typical of PFI contracts, Metronet stands apart for its dizzying complexity and excessive ambition.

Metronet BCV and SSL

Financial close: April 2003

Concession period: 30 years

Concession awarder: London Underground

Sponsors: Metronet consortium (WS Atkins; Thames Water; Balfour Beatty; EDF Energy; and Bombardier)

Total debt: £2.65 billion

Bank debt: £1 billion

Lead arrangers: Deutsche Bank; CIBC World Markets; Royal Bank of Scotland; Abbey National

Arrangers: Banca Opi; Bayerische Landesbank; CDC Ixis; Bank of Ireland; Credit Agricole; Dexia; Depfa; HypoVereinsbank; ING; KBC; WestLB; KfW; NIB Capital

Co-arrangers: Helaba; NordLB

Bond debt: £1.05 billion

Lead managers: Deutsche Bank; Royal Bank of Scotland; UBS Warburg

Monoline bond wraps: FSA; Ambac

EIB debt: £600 million