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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP  
Secretary to the Treasury  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

22 November 1985

NBPM

Dear Chief Secretary,

CANARY WHARF: DOCKLANDS LIGHT RAILWAY

In my letter to you of 14 November I reported the proposal of the Consortium led by Mr Travelstead to extend the Docklands Light Railway to the Bank. You agreed that I should seek to negotiate with the Consortium commitments acceptable to LRT to deposit the necessary Private Bill.

I have engaged Hill Samuel to advise me and LRT. LRT are being advised by Freshfields. After a week of intensive discussions between the parties involved a proposal has emerged which I believe will meet our requirements. It involves a draft Memorandum of Understanding between LRT and the Consortium. I attach a copy of the draft of this document, which has been put to Mr Travelstead. LRT will of course require my approval to sign the Document.

The Memorandum commits the Consortium, unless another buyer can be found, to take over the ownership and operation of the initial railway; to finance the construction of the Bank extension; and subsequently own and operate the combined railway. These commitments would be subject to:

- a. agreement between LRT and the Consortium as to a feasible design for the Bank extension;
- b. the passage of the Bill, which could not be expected to receive Royal Assent until November 1986 at the earliest;
- c. the completion of a Master Building Agreement between LDDC and the Consortium with respect to the Canary Wharf Development, following Royal Assent to the Railway Bill.

As regards a. above, the design of the Bank extension has been worked up in sufficient detail for the deposit of a Bill. However

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it remains to be decided whether all the features of the extension included in the Bill are essential. In particular, it may turn out that building an interchange at Tower Hill is not needed for Mr Travelstead's purposes, but LRT may consider it essential at some stage because of capacity constraints at their Bank station.

The draft Memorandum safeguards the Government's position in that:

- a. it ensures that the Initial Railway is completed and that its ownership will revert to LRT if for any reason the westward extension fails to be built.
- b. it will provide for the Government to be remunerated if ever the completed railway were to make sufficient profits.
- c. it leaves LRT responsible for the existing contract in respect of the initial railway, and for negotiating any necessary changes to it in respect of the Bank extension, while protecting us and LRT from the financial consequences of such changes.
- d. it secures that the private owner cannot convert the railway company to other purposes.

There is still a long way to go for Mr Travelstead. He has to agree the scheme with LRT. Waiting for Royal Assent to this Bill, which has to go through lengthy private Bill procedures, imposes a longer delay to his plans for Canary Wharf than he had bargained for. But I regard the agreement reached as a very satisfactory outcome at this stage.

I would be glad to know that you agree that on these terms I can allow LRT to deposit the Bill on Wednesday next. They must make this date, or lose the Bill for this session.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young, Kenneth Baker, and John Wakeham, and to Sir Robert Armstrong.

Yours,

Richard Allen.

(Private Secretary)

for  
(approved by the Secretary of State & signed in his absence.)

NICHOLAS RIDLEY

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[London Regional Transport letterhead]

[Date]

To: Credit Suisse First Boston Limited  
Morgan Stanley International  
First Boston International Limited

Dear Sirs

Docklands Light Railway

Prior to the proposed deposit of the enabling bill (the "Bill") in respect of the City extension of the Docklands Light Railway (the "City Extension") on 27 November, the agreement of your companies is required to certain commitments which are set out in this letter.

The commitments are sought on the basis of procedure set out in the attached paper (with such changes or amendments as may be agreed between the parties with the approval of the Secretary of State). Your undertaking to perform these commitments is subject to:

- (a) the Consortium (as defined in the attached paper) and London Regional Transport agreeing to a feasible and costed design for the City Extension not later than 14 February 1986; and
- (b) the enactment of the Bill and the execution by the Consortium with London Docklands Development Corporation of the master building agreement for the Canary Wharf Development within 15 days of the enactment of the Bill or such later date as may be agreed.

The enactment of the Bill is subject to the due processes of Parliament and therefore cannot be reliably predicted at this time. You should therefore seek your own advice on the timetable for the Bill.

Subject to the above conditions, you will or will procure that the Consortium will:

- (1) pay up in full, no later than the date on which the Railway Inspectorate certifies the City Extension, the £30,000,000 of deferred share capital of Company B;
- (2) tender for Company B at a minimum price of £1 and acquire Company B if the tender is acceptable to the Secretary of State;
- (3) following any such acquisition, capitalise Company B by way of equity and loans, as appropriate, to enable the construction costs of the City Extension to be funded;
- (4) following any such acquisition, procure that Company B will perform its obligations envisaged in the attached paper and in particular that Company B will complete the City Extension.

Please sign and return the enclosed copy of this letter to confirm your agreement to this letter.

Yours faithfully,

.....



[on copy]

.....  
Credit Suisse First Boston Limited

.....  
Morgan Stanley International

.....  
First Boston International Limited

Procedure for constructing the City extension of  
and privatising the Docklands Light Railway

A 5 stage procedure is proposed for the construction of the City extension of the Docklands Light Railway ("City Extension") and the associated privatisation of the section of the Docklands Light Railway presently under construction ("Initial Railway").

Stage 1

London Regional Transport ("LRT") would form a wholly owned subsidiary ("Company A") to own and operate the Initial Railway. Company A would have nominal ordinary share capital, deferred share capital and a Redeemable Special Rights Preference Share. The deferred share capital would be non-voting, would have a nominal value of £77,000,000, would be held by LRT and would be redeemable in the circumstances described below. The Redeemable Special Rights Preference Share would be held by the Secretary of State for Transport and included amongst the rights attached to the Redeemable Special Rights Preference Share would be rights which would enable the Department to prevent certain changes to Company A's memorandum and articles of association and to implement the restrictions referred to in Stage 3 below.

Company A would contract with LRT for LRT to build the Initial Railway at a fixed price of £77,000,000. LRT would invoice Company A, but those invoices would be settled out of capital payments made for the deferred shares.

Company A would own and operate the Initial Railway.

Stage 2

On enactment of the London Docklands Railway (City Extension) Bill (the "Bill"), a second subsidiary of LRT would be formed ("Company B").



### Stage 3

Subsequent to the acquisition by Company B of Company A, LRT would retain an option to reacquire Company A for £1 from Company B if either the City Extension was not certified by the Railway Inspectorate by 31 December 1988 (or such later date as may be agreed) or Company A was in breach of any of the provisions of its memorandum and articles of association prior to such date. The Secretary of State for Transport would be entitled at the request of LRT to enforce the operation of LRT's option by exercise of his rights under the Redeemable Special Rights Preference Share. In addition, until the expiry of LRT's option, certain of the powers of Company A and its directors would be restricted under the memorandum and articles (for example prohibitions on the power to borrow) so as to protect LRT's rights if its option became exercisable.

### Stage 4

LRT would prior to enactment of the Bill invite tenders for the ordinary share capital of Company B and would enter into an agreement with the purchaser within 15 days of enactment. The Consortium would be under an obligation to tender at a minimum price of £1 and would have the opportunity to match any other offer acceptable, with the consent of the Secretary of State, to LRT. Following a sale, Company B would then proceed to construct the City Extension.

### Stage 5

It is intended that the deferred share capital would be redeemed and the holders would be entitled to participate further in Company B's profitability as may be agreed, with the approval of the Secretary of State, between LRT and the owners of Company B.

Company B would also have nominal ordinary share capital, deferred non-voting share capital and a Redeemable Special Rights Preference Share. The deferred share capital would have a nominal value of £30,000,000, which would be redeemable in the circumstances described in Stage 5 below. The Redeemable Special Rights Preference Share would be held by the Secretary of State for Transport and would have similar rights as the comparable share in Company A to secure the fulfilment of any statutory duties imposed by the Bill which will be incorporated in the memorandum and articles of association.

Company B would have, on incorporation, the following rights:-

- (i) to build and operate the City Extension, and contract for any related upgrading of the Initial Railway in consultation with LRT;
- (ii) to connect the City Extension with the Initial Railway;
- (iii) to receive, on appropriate certification of the City Extension by the Railway Inspectorate, the sum of £30,000,000 from the investors in the Canary Wharf, Isle of Dogs development (the "Consortium"), which would be applied in paying up in full the deferred share capital of Company B;
- (iv) to acquire the ordinary share capital of Company A for £1 no later than completion of the construction of the Initial Railway or, if later, the enactment of the Bill. LRT would hold a corresponding put option.

Company B would have the obligation to fund by way of subvention any negative cash flow incurred by Company A on its operations both prior to its acquisition by Company B and thereafter; it would have the benefit of any positive cash flow. The mode of operation of the Initial Railway would be a matter for consultation between Company A and the proprietors of Company B.



Regional Policy : Inner Cities Pt 7



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
London  
SW1P 3EB

NBRM.

19<sup>th</sup> November 1985

Dear Nick,

CANARY WHARF:  
DOCKLANDS LIGHT RAILWAY (DLR)

Thank you for your letter of 14 November to Nigel Lawson.

I am sure that it is right to see if suitable terms can be negotiated with Mr Travelstead's consortium for the privatisation of the DLR. It would be a pity to lose the opportunity of pursuing private sector operation of a railway simply through failure to meet the deadline for depositing the private Bill.

I am equally sure, however, that that tight deadline must not be allowed to bounce us into a hasty commitment which we will subsequently regret. It is therefore essential, in my view, to restrict our immediate discussions with Mr Travelstead to the bare minimum needed for parliamentary purposes. It must also be made quite clear to him that agreement to allow LRT to promote the Bill is no commitment of any kind to proceed with the deal when the Bill is enacted. You are obviously aware of the need for the Government's and LRT's position to be protected at all stages. Certainly Mr Travelstead's bona fides also need to be established, and his consortium's ability to perform his side of the bargain.

You rightly say that the consideration to be paid for the transfer into private ownership of the original DLR which is under construction will have to be negotiated. I recognise that this is not likely to be at all close to £77 million. But that figure was never expected to equate to the commercial value of the DLR. The cost of the DLR was believed to be commensurate with the wider social and development benefits expected to flow from the provision of a railway. Under Mr Travelstead's proposals, those social benefits would depend wholly on the continued

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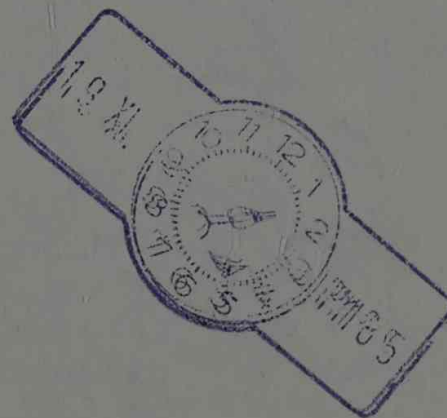
operation of a railway outside Government control. You rightly say that privatisation implies giving up such control, but we will need to be able to explain publicly why it is reasonable now to put at risk social benefits which we recently felt were worth paying £77 million to gain.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Norman Tebbit, David Young, Kenneth Baker and John Wakeham.

Yours ever,



JOHN MacGREGOR



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2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

NBPM

18 November 1985

Dear Secretary A State

DOCKLANDS LIGHT RAILWAY

as attached

with DEN?

Thank you for your letter of 13 November about the privatisation of the Docklands Light Railway and for sending me a copy of your letter to the Chancellor of 14 November about the implications that the Canary Wharf development will have for the railway.

I agree with your analysis of the difficulties that a franchising arrangement would present but, as I have pointed out before, I believe that outright sale presents equally serious disadvantages. The indications are that we could not sell the existing railway for anything other than a token sum. We would, in effect, be disposing of a public asset worth £77m without any guarantee that we would receive the service to the people and businesses of Docklands that we originally thought it worth spending such a substantial sum to achieve. In addition to the political difficulties of such a move there would also be serious Accounting Officer implications.

If, however, an attempt is made to guarantee service levels in some way under outright sale this option becomes at least as complex as franchising and the railway is probably made totally unsaleable. My own view is therefore that the most realistic option at present open is the package offered by the Canary Wharf developers.

This debate about the merits of different methods of privatisation has been overtaken by the Canary Wharf proposal. If this major project goes ahead with its accompanying western extension to the railway the whole balance of the arguments for the competing forms of privatisation will have been altered and, as you have already noted, a new and persuasive option emerges. I therefore believe that further consideration of privatisation should be suspended until we are clearer about the implications of the Canary Wharf proposals. We can however discuss this, among other points, when we meet on Tuesday.



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I welcome the proposal in your letter to the Chancellor of 14 November to give consent to the laying of the LRT Bill for the western extension and to informing Mr Travelstead that we will call on our supporters to back the Bill. I am happy for you to proceed as you suggest.

I am copying this to those who received yours.

*Yours sincerely*

*fr* *Att Dani*  
KENNETH BAKER

*Approved by the SAC and  
signed in his absence*

The Rt Hon Nicholas Ridley MP





cc BG



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

*Pamie Winter*  
*To be aware of this*  
*emergency proposal. JHN*

14 November, 1985 15/11

*Dear Chancellor,*

*ms*

CANARY WHARF: DOCKLANDS LIGHT RAILWAY

The project of the consortium represented by Mr Travelstead for a huge office development at Canary Wharf in the London docklands enterprise zone depends, in his view, on securing a direct rail link to the Bank station. The docklands light railway at present under construction to a terminus at the Minories, adjacent to Tower Hill, would need to be extended to the Bank in tunnel. On estimates that Mr Travelstead has obtained this would cost some £85m; this is a figure that London Regional Transport (LRT) is not in a position to endorse. Mr Travelstead has asked LRT to seek the necessary Parliamentary powers, at his expense, and LRT will need to deposit the Bill by 27 November. Mr Travelstead started to discuss this with LRT early in September, and only very recently has he been to see me.

LRT and the London Docklands Development Corporation are already committed to spend £77m on the railway now under construction. I expect that the railway will make a continuing loss. I would very much like to see it privatised. Clearly we have to be very careful that we do not become committed to financing the extension to the Bank, and are suitably protected at every step.

I have made it clear to Mr Travelstead that I cannot contemplate a situation in which a railway built to the Bank, for the benefit of his project, would require continuing public subsidy or guarantee. When he came to see me on 13 November, he made a proposal. In addition to the costs of the Bill, he was ready to make a capital gift of £30m. He had estimated that with this free capital, and taking over at nil cost the railway that



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is now under construction at public expense, a company could be formed which would be able to raise the balance of the £55m which he estimates is needed, and so complete the extension to the Bank and run the entire railway thereafter. He would prefer not to take on this company himself, but if nobody else would, he was "prepared to underwrite it, as the last resort". I said I would need to consider his proposal and let him have a view urgently.

The course that I envisage is that LRT will carry through the necessary Bill, at the consortium's expense, making it clear that this is for the benefit and at the cost of the Canary Wharf developers and that the completion of the present railway and construction of the new one will be put by LRT into the hands of a new company which they will transfer to the private sector. The public sector will provide the balance of the £77m, but will not be committed to put money into the Bank extension. It would follow that by the completion of the Bill's passage the company will need to be formed, and if there were no other contenders, taken over by Mr Travelstead and his associates. The company would modify the existing railway building contracts and let new ones.

The privately-owned company may decide to employ LRT to manage the railway, but that is for them to decide. But all public commitment would have to cease. The public asset financed by the original £77m would be transferred to private ownership for such consideration in money, subordinated shares; or deferred payment as can be negotiated, and all public control over fares, concessionary fares or closures would cease. Extensive work already done has found no satisfactory way to guarantee continued operation or reversion to public ownership in the event of failure of the company. These are consequences of privatisation that we must accept.

Our opponents will attack these aspects. In addition we must expect that all the opposition to the Canary Wharf development will concentrate on the Private Bill for the railway. The City and the GLC may both petition against it. We shall have to make clear that we welcome the prospect of this major development, and will do what we can to facilitate it, without further commitment of public funds to the railway. I shall need to tell Mr Travelstead that we will call on our supporters to back the Bill, but that the Government cannot guarantee its passage through the Private Bill committees.

I ought to tell Mr Travelstead quickly that we will in principle go forward with his proposal for the railway. I shall then need to have from him and his associates sufficiently clear

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commitments acceptable to you, to me and to LRT by the end of the week, before I can give to LRT my consent, which they require, to deposit the necessary Private Bill. In due course my consent will also be required by LRT to the formation of a subsidiary company and its disposal.

I will give Mr Travelstead our agreement in principle unless you or colleagues let me know by noon on Monday 18 November that you disagree.

The alternative is that we will end up with a railway which does not connect to the centre of the City; large and continuing losses at public expense and the risk of losing the Canary Wharf development.

Copies of this go to the Prime Minister, the Lord President, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, the Secretary of State for the Environment, and the Chief Whip.

Yours Sincerely

J. Cunliffe

P.P. NICHOLAS RIDLEY

(Approved by the Secretary of State  
and signed in his absence.)

