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NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S ROOM
ON WEDNESDAY, 26 FEBRUARY

Present:
Chief Secretary
Mr Colman
Mr Stredder
Mr Stock

Secretary of State for Transport
Mr Goldman
Mr Yass
Parliamentary Under Secretary of State, Department of Environment
(Sir George Young)
Mr McQuail

DOCKLANDS LIGHT RAILWAY AND CANARY WHARF

The Secretary of State for Transport said that his letter of 25 February explained the new situation which had arisen. Mr Travelstead had originally been prepared to operate the railway but he was not now prepared to do so although he was prepared to make a contribution towards the capital costs of constructing it. In his view, even though this meant the railway would now be in the public sector, it was better to go ahead with a scheme on this basis since it would in practice have been difficult to oblige Mr Travelstead to operate the railway indefinitely; and because a private railway would have created numerous political problems with lobby groups seeking concessionary fares and with the existing rail unions. London Regional Transport's (LRT) current projections suggested that the railway would make a small profit (although these were based on optimistic assumptions and a small loss was just as likely); and there would be the capital cost of £90 million of constructing the railway subject to the usual risks of cost overrun. Against this, Mr Travelstead was now offering a down payment of £45 million to be remunerated if the railway showed a profit; and a further £45 million to be raised from leaseholders in Canary Wharf or other sources in future years. He was clear that these proposals were unacceptable. He believed that the proposed down payment of £45 million should be unremunerated and that aim in negotiations

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ould be to secure the greatest possible further financial input from Mr Travelstead.

2 The Parliamentary Under Secretary said that he agreed that Mr Travelstead's offer was unreasonable. In his view, the consortium's existing financial commitment to Canary Wharf made it unlikely that they would lightly drop the project and that it ought therefore be possible to push them somewhat further in negotiation. But it would be important to conclude these negotiations relatively quickly.

3 The Chief Secretary said that subject to a final collective decision being taken in the context of a full assessment of the project, he agreed that the only way to proceed for the time being was on the basis that the railway would be a public sector project. It was essential to ensure that the contribution offered by the consortium was unremunerated and the aim in negotiation should be to seek a contribution as far above £45 million as possible.

4 Mr Yass reported that preliminary discussions with the Consortium suggested that they would be ready to drop their condition that the payment of £45 million be remunerated if their remaining financial contribution took the form of a sinking fund to cover any gap (which on LRT's forecast was likely to be small) between the financing costs and the revenue of the railway. In principle, there was no objection to commuting payments sufficient to cover this gap into a lump sum. Such a lump sum would of course also have to be unremunerated. Mr Goldman suggested it would also be important in negotiations to determine the basis for the payment sought by the Government. One possibility was a payment of £88 million, representing the likely cost on slightly less optimistic assumptions than those used by LRT. When the maximum unremunerated down payment had been negotiated there would be a further possibility of negotiating other financial support for the project from the Consortium. The Secretary of State favoured a loan arrangement under which the Government loaned money to LRT for on-lending to Consortium which would repay the loan over time - the arrangements it made to repay the loan would be its own business.

5 In discussion of the legislative timetable, the Secretary of State said that he was concerned that if the private Bill lost its

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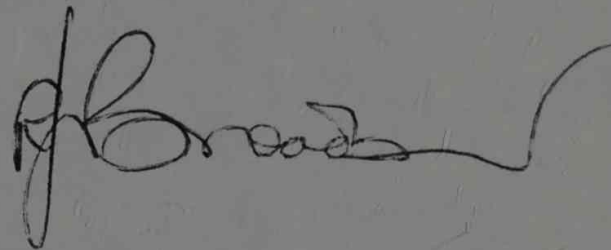
second reading next week there could be no certainty that it would gain a slot in sufficient time for Committee stage to begin in May. He recognised that to proceed with the Bill might weaken the Government's negotiating position to some extent because the Consortium were likely to interpret the move as demonstrating the Government's unwillingness to see the project collapse altogether. Nevertheless, he believed he could make it clear personally to Mr Travelstead that the Government was proceeding with the Bill at this stage purely for Parliamentary reasons and that it was not committed to building the railway unless the terms were right. On this basis, he was inclined to favour proceeding with the Bill the following week rather than risking delay.

6 Summing up the discussion, the Chief Secretary said that it was agreed that:

- (a) final decisions on whether or not to proceed with the railway would need to be taken by Ministers collectively in the context of a full assessment of the project and final details of the financing arrangements;
- (b) subject to that, it was right to negotiate the best possible terms with the Consortium on the basis that the railway, if it went ahead, would be a public sector project;
- (c) the key objective in those negotiations should be to secure agreement that the initial down payment should not be remunerated; and that it should be increased to the highest possible figure above £45 million;
- (d) beyond that, the possibility of further financial support through a loan arrangement should be pursued;
- (e) the Secretary of State for Transport was inclined to proceed with the private Bill next week and he should take a final decision on the basis of his consultation with the Whips;

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- (f) the public expenditure consequences of proceeding with a public sector railway could not be determined at this stage and would need to be looked at further, including the possibility of offsetting savings, when final decisions were taken.



R J BROADBENT
Private Secretary

Circulation:

Those present
Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Monck
Mr Jameson
Mr D J L Moore
Mr Scholar
Mr Turnbull
Mrs R Butler
Mr Hyman
Mr Instone
Mr H Davies