

Department for Transport

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20 JULY 2004

Dear Jay,

FUNDING LONDON'S TRANSPORT NEEDS

1. I am writing to set out the Secretary of State's intentions in relation to the funding of Transport for London, London's bid for the 2012 Olympic Games, and Crossrail. This is subject to your confirmation that Transport for London and the Mayor agree in full the terms of this letter, as set out in paragraph 15.
2. The Secretary of State recognises that Transport for London would benefit from a greater degree of certainty over its long-term funding, which would enable better financial and management planning for investing in London's infrastructure, and facilitate the provision of a first-class transport strategy for the 2012 Olympic Games if London's bid is successful.
3. This letter does not cover LUL funding, for which the Secretary of State's intentions remain as set out in David Rowlands' letter to you of 4 February 2003, as amended below, expressed in cash prices:

Year	2005/06	2006/07	2007/08	2008/09	2009/10
SR2004 baseline – LU including uplift to 10-year plan	1104	1131	1188	1218	1308
LU Pension fund	0	124	124	62	62
East London line operation	19	26	28	0	0
Canary Wharf / Wembley Park Shortfall	38	0	0	0	0
Total	1161	1281	1340	1280	1370

4. Any additional tube enhancements outside of the PPPs over and above the levels in the 4 February 2003 letter will need to be managed within the grant and prudential borrowing amounts detailed here. The Secretary of State recognises that any measures taken by the Mayor on fares policy to raise resources from London Underground over and above the levels assumed in the 4 February 2003 letter shall not be used to offset the Secretary of State's commitments under the agreement.

5. The Secretary of State intends to pay the following grant levels in respect of TfL non-tube transport grant over the period to 2009/10, expressed in cash prices:

Year	2005/06	2006/07	2007/08	2008/09	2009/10
SR2004 baseline –non LU including uplift to 10-year plan	989	1091	1109	1107	1140
ex-RSG allocation	11	11	11	11	11
Additional grant	0	0	84	130	130
Total	1000	1102	1204	1248	1281

6. The purpose of this funding line is to provide both TfL and DfT with a greater degree of long-term financial certainty over the size of this funding stream. The Secretary of State will take all possible steps to avoid any deviation from this funding plan. In the event that there was a significant increase in DfT's SR06 settlement compared to the figures set out in Annex A of the "Future of Transport", the Secretary of State would review the TfL grant set out in paragraph 5 with a view to increasing this. In between spending reviews, it is the Secretary of State's intention that the GLA transport grant should be reviewed in the event of exceptional unforeseen expenditure pressures falling to TfL.
7. The Mayor intends to raise resources through prudential borrowing as set out to the TfL Board on 29 April 2004 and as amended below to meet the needs of London and Olympics transport infrastructure. The Secretary of State confirms that Government supports these plans, subject to London's borrowing remaining consistent with the wider Prudential Regime.

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Intended prudential borrowing	550	550	550	700	550

Olympics

8. The Secretary of State intends to fund Channel Tunnel Rail Link Domestic services (CTRL Domestic) as part of the Integrated Kent Franchise irrespective of whether the Olympic bid is successful. DfT will produce a timeline and specification for this in consultation with the ODPM and the Mayor.
9. In light of the scale of investment needed for ELLX, if the Mayor wishes this to be included in the Olympic bid he will need to prioritise it against his other investment plans for London in order for London's borrowing to remain within prudential borrowing levels that would be consistent with the wider Prudential Borrowing regime, as set out in paragraph 7.
10. If the Mayor decides to proceed with ELLX with a view to integrating it with services on the national rail network, he will need to arrive at an agreement with the Office of Rail Regulation, Network Rail and HMRI on the design and integration of the line with the rest of the rail network. In this event, Government supports the principle that the impact on Network Rail's financial position should be neutral, taking account of any

development proceeds made possible by construction of ELLX for example at the Bishopsgate goods yard. The Mayor will also need to come to an agreement with these stakeholders and the Train Operating Companies on the running of services on the line.

11. The Secretary of State confirms that he would support the conversion of the North London Line between Stratford and Canning Town to a Docklands Light Railways line, if the Mayor wishes to proceed with this, can afford it within the funding numbers contained in this letter, and can secure the necessary statutory powers. Transport for London will need to reach an agreement with Network Rail and, if necessary, the Office of Rail Regulation for the required transfer of assets.
12. The Secretary of State notes that neither he nor TfL expect to be in a position to contribute to the costs of remodelling Stratford station. Although Government will give the IOC guarantee for this, the costs will have to be met from developer contributions and the Olympic budget, which is subject to a separate agreement in the event of cost-overruns.

Crossrail

13. The Secretary of State reaffirms Government's commitment to Crossrail and will introduce a hybrid bill as soon as possible. HMT, TfL and the Department will co-operate in seeking funding solutions for Crossrail.
14. To facilitate the passage of a Crossrail Bill, CLRL will be reformed as a joint-venture company with participation from DfT and Transport for London in order better to steer the legislation through parliament. The Secretary of State will appoint, with the agreement of the Mayor, an independent chairman of CLRL who will have a casting vote on the Board of the company. TfL will be involved in all aspects of the progress of the Bill and Crossrail could subsequently be transferred for TfL implementation. The Secretary of State will safeguard the agreed route for the scheme, including access for the Thames Gateway.
15. This letter does not create a legally binding commitment, and the Secretary of State's intentions as set out in this letter will only apply on receipt of confirmation from you that the Mayor and TfL:
 - (a) agree in full the terms of this letter; and
 - (b) will, like the Secretary of State, take all possible steps to avoid any deviation from the funding plan set out above; and
 - (c) will agree with Government, London's contribution to national transport targets/priorities, your priorities for major projects, and will ensure adequate information flows to allow the Department to assess progress; and
 - (d) agree to sign the guarantees required by the International Olympic Committee for TfL/Borough transport projects needed in the event of a successful Olympics bid, and to meet the costs of these from within the long-term funding set out above, any pre-agreed contribution from the transport element of the Olympics budget, and appropriate developer contributions. Such projects will include:
 - All London Underground schemes and services;

- DLR 3-car upgrade;
- The Woolwich Arsenal DLR extension
- Greenwich and East London transit bus schemes; and
- East London Line Extension and conversion of the North London Line south of Stratford to DLR, if the Mayor chooses to include these projects as part of the bid.

Yours sincerely

Robert Devereux

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