

# CENTRAL RAILWAY

DRAFT RECOMMENDATIONS

JULY 2005

This note selects quotes from information made available to the Company by the Department for Transport following a request made under the Freedom of Information Act 2000. It is not exhaustive and intended simply to show the development of Government sentiment towards the project and in particular the way in which technical and financial objections to the project have been addressed by the company.

1. Memo to the Secretary of State from the Rail Directorate dated 6 January 2003:

*"We understand the French Government has indeed written to John Spellar [Minister for Transport] and we can provide advice on a reply as appropriate."*  
*"The article in today's Times newspaper noted that the French Government has written to John Spellar in support of the Central Railway proposal."*

*"Bearing in mind [Richard Bowker's] strong recommendation against a bill, the scale of the issues that Central Railway have yet to address and the considerable time and resources the SRA [Strategic Rail Authority] has already directed towards the project, we suspect that it is unlikely that further dialogue with Central Railway will provide enough comfort for Richard Bowker [of the SRA] to alter his view."*

2. Letter from Richard Bowker to John Spellar MP dated 13 February 2003:

*"In some areas it would be right to conclude that solutions have been proposed that would overcome some of the technical issues identified in the SRA's detailed review. However, on balance, we believe that the technical and operational risks remain very significant and the likely level of disruption to existing rail services likewise. Moreover, even if these technical issues could be resolved, it would not alter the other fundamental concerns we have about the Central Railway project."*

*"Our conclusions from the recent meeting served to confirm our earlier views that the proposal is in all likelihood*

*unfinanceable without a substantial contribution from the public sector. This, together with our increasing concerns about the lack of understanding within the Central Railway team of the scale of activity required to deliver a project like this, confirms our earlier advice that you should not support Central Railway's request for a Hybrid Bill."*

3. Memo to the Secretary of State from the Director of Railways dated 14 March 2003:

*"We suggest you stipulate that the terms of the Bill should preclude public funding, and that, before any Bill is introduced, there must be clarity about sources of funding, including to cover contingencies. If this is done, the markets will gauge the viability of the project, and it is not necessary for DfT or the SRA to do so."*

*"The gap between CR and SRA on operational and engineering issues has greatly narrowed. I think it would be difficult to justify rejecting the CR proposal outright on the basis of the residual concerns. But it is important to stress that one major reason for the narrowing of the gap is the CR's apparent willingness to incur extra cost in order to meet SRA concerns. This is very welcome, but it reinforces the worries about the financial viability of the scheme and the need for a robust line on the non-availability of Government finance."*

4. Memo to Kim Howells and the Secretary of State from the Director of Railways dated 14 March 2003:

*"Subsequent discussions [between the SRA and the Company] led to [the Company]*

*making significant revisions to their proposals, and the conclusion reached was that there were no “show-stoppers” as far as the present network is concerned”*

*“Beyond the specific issues which the SRA’s review looked at last year, we have not evaluated in detail the impacts of the CR project on the road and rail networks. But in general terms it appears that it would significantly increase rail freight capacity and provide more effective competition with road haulage for international traffic. It would appear to fit in well with the sustainable development strategy, in terms of providing new freight hubs offering greater opportunity for road/rail interchange. It would free up capacity on existing rail routes, particularly the WCML, although it would add pressure at some locations in the Midlands and North-West. It would also free up capacity on some of the most densely trafficked parts of the motorway and trunk road network, again with some local exceptions. There is little prospect of substantial public funds bring available to meet these objectives. The project could also generate valuable extra revenue for Eurotunnel, and help to address its impending financial problems. In principle, therefore, the project has considerable attraction in terms of transport policy and 10 Year Plan objectives. We know that No 10 are broadly supportive, for that reason.”*

*“...Against these arguments, however, there are the risks...But then there is nothing else like CR on the agenda.”*

*“...our view is that CR’s business plan is challenging, and one which would test the present limits of the financial markets, but that without evidence, either of equity sponsors on the one hand, or of investors rejecting the business case on the other, that it is difficult to be definitive either way as to whether it*

*could be delivered in practice. A substantial number of banks and financial institutions have looked at CR’s proposals, and a good proportion have been willing to write letters of support; this is in itself quite a step forward.”*

*“There is still a great deal to do to develop this project to the point where a Bill could be introduced. However, other than on financing, CR have a reasonable story to tell, and further work they have done has not identified any fundamental flaws.*

*On financeability, CR have made useful progress since the spring in demonstrating that they have a business plan which could be made to work. However, even if all their assumptions prove to be robust, which is far from certain, the financing would still be an ambitious one which would test the capacity of the markets.”*

*“CR have put forward a structure which would as far as reasonably practicable isolate the project from Government financially. And if we were to promote a hybrid Bill it would be on as arm’s length basis as possible, with CR taking responsibility for their project. Nonetheless there would still be a significant political risk in being seen to support, and take up a substantial amount of Parliamentary time with, proposals which on environmental grounds are likely to be very unpopular in many parts of southern and central England, although they have support in the north and north-west. Those concerns would be still greater if the project was seen as having little realistic chance of being financed. And, whatever we might now say, if CR went bust part-way through construction, the Government of the day might find it very difficult to avoid being sucked into some sort of rescue package, with the costs and risks which that might entail.”*