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London's Mayor is borrowing from the City to pay for key rail projects. Paul Coleman reports on the Government's new deal for London

'I'm not being condescending,' says the north Londoner to the south Londoner. 'I'm just talking about things you'd never understand.' Jagged-edged jibes will always flow across the Thames, but north and south Londoners will be brought closer together after 2010 by a new metro-rail link.

Croydon folk will visit their relatives in Shoreditch in record time; Arsenal fans trying to reach Crystal Palace for a midweek evening kick-off won't have to risk the wrath of commuters jostling for space-to-exhale at Victoria. The second phase of the East London Line aims to link directly commuters heading out of London with the national rail system at Clapham Junction and at Highbury and Islington.

The other Phase 2 extension, west from Surrey Quays across south London's heartlands, gives London's rail map an orbital shape, the intention being to facilitate rail journeys around outer London and reduce congestion at London Bridge, Waterloo, Charing Cross and Victoria.

The two-phase East London Line extension – with the first phase costing £892m – is part of the £10bn, five-year capital investment programme announced last October by the Mayor of London, Ken Livingstone. The Government-backed programme includes converting the North London Line between Canning Town and Stratford to a DLR service. The DLR itself will be extended to run under the Thames to Woolwich as part of a PFI scheme. This project list means that the workload at TfL London Rail, TfL's rail directorate, has increased sharply.

The Mayor was forced to field heckling about the conspicuous absence of Crossrail and Thameslink in his programme. Crossrail, first mooted in 1946, is a more complex and contentious project with a timescale beyond the TfL programme's five-year remit.

London Rail was keen to develop Thameslink, currently an SRA project, but, that, too was beyond the five-year scope. Thameslink remains the baby elephant in the living room, an expanding fiasco with its new but unfitted station box at King's Cross/St Pancras leaving passengers coping with the cramped misery of its Pentonville Road station.

Even so, the Mayor was chipper when he

revealed the nature and extent of the capital programme at City Hall. 'This is a once-in-a-lifetime opportunity to reverse decades of under-investment,' he said. 'It marks an end to stop-start funding for London's transport. The programme will deliver the real improvements needed to keep London on the move.'

The Mayor rummaged in the cereal box and pulled out a toy, namely the power to raise £3bn of the £10bn total by borrowing from the City. Some £1.5bn is earmarked for rail projects. 'Here's your collecting tin, Ken', Gordon Brown was effectively saying. 'Stand outside the Guildhall and rattle it.'

While wishing it was that simple, TfL remains confident that City financial institutions regard the transport plan as a sound investment. TfL is debt-free, independently credit-rated 'AA' and enjoys income streams from fares and funding from general taxation. Private financing in the form of TfL bonds, the Mayor said, will deliver these specific projects faster and cheaper for Londoners. 'This is the first issue of bonds in the UK under the prudential borrowing programme and I am delighted that we can be the market leader,' the Mayor added.

Understandably, London's travelling public reacted angrily to fare increases on the buses, tubes and trains. A standard off-peak, one-day Travelcard rose overnight from £5.40 to £6. The Mayor justified the increases by pointing out the transport benefits promised by the capital programme, but his message fell on deaf ears, judging by the host of highly critical callers to London's gaggle of radio phone-ins.

Ian Brown, managing director of TfL London Rail, told *Rail Professional*: 'There's no way round fare rises. But TfL now has a capital programme rather than just income from revenue.' Brown, the former DLR chief executive, agrees going cap-in-hand to the Minister would have been simpler, but more of a long shot. However, he stresses that TfL's new capital programme focuses minds on these specific projects and sharpens transparency and accountability.

'Borrowing the £3bn in straight fivers from the City means it's relatively cheap money,' Brown says. 'And it's clear money, much less vulnerable than some complex PFI arrangement. It allows



our project teams to focus on engineers and operations people rather than on financiers and financial packages.'

TfL has already raised £200m, partly because it needed the cash to get started but also as a way of testing the market. Brown confidently predicts that the initial enthusiastic reception in the City for TfL bonds will persist. He acknowledges that some investors might take a sharp intake of breath before investing in anything bearing the dreaded 'r' word. Rail, that is.

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Any misgivings will be swept aside if London bags the 2012 Olympics. The East London Line and the DLR projects will be critical to the success of the Games. But if Paris gets the nod, the projects will proceed regardless.

Political risks are viewed as minimal, especially on major projects where signatures adorn contracts. 'Ken and the City' these days is a pragmatic relationship. Ken and the Labour Party have taken the politics out of politics. Many institutional investors see a strong partnership

developing between the Government and the Mayor, particularly since Livingstone eased his way back inside New Labour's fold.

'I think the Government sees this programme as a serious experiment,' says Ian Brown. 'We were pleasantly surprised by the £3bn. The Government wants results and investors just want to see us physically getting on with the projects.'

The Government wants transport gains above all else but acknowledges that the Mayor, TfL and the London Development Agency, the Mayor's

regeneration agency, are seeking major economic and social benefits too. The East London Line runs through some of the most economically deprived and socially troubled shards of east London. Early estimates suggest that the revamped East London Line will net up to £10bn of economic regeneration, a good return on an outlay of £892m.

Brown has visited each of the seven London boroughs whose patch the East London Line runs through and is encouraged by their response as stakeholders. Hackney councillors claim their borough is the most neglected manor in London. Local people in Haggerston complain they are the forgotten corner of Hackney. Phase 1 of the

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East London Line puts Haggerston firmly on the map as one of four new stations connecting Hackney to the City and Whitechapel.

As well as providing obvious transport benefits, Haggerston residents are asking what impact the new station will have on an area which includes a large proportion of council housing and the gentrification pull of the Regent's Canal.

As the proud new owner of a capital programme with borrowing powers, TfL London Rail is rapidly turning TfL into a project management operation. Brown says his rail directorate now has the tools to deliver transport gains 'with a vengeance'. Power has come to TfL London Rail's arms, without (so far) going to its head.

New project managers' posts are already being filled. The Strategic Rail Authority transferred the East London Line project to TfL last November. Already, the SRA's 35-strong project management team has been transferred to TfL at a cost of £24m. Furthermore, TfL takes over as the franchising authority for the North London Line in 2006. In tandem with the Department for Transport, Crossrail is already under TfL London Rail's protective wing.

Is this capital programme a historic juncture in the management of London's tube and rail? TfL has plans to tackle the organised rush-hour chaos at Victoria where brusquely herded rail commuters mutate into tube sardines. 'TfL London Rail could just moan,' says Brown. 'But we've chosen to make some major forays into the national rail network.' One thing is certain; Londoners, on both sides of the river, are watching the Mayor and TfL very closely.