



Department for Transport

From the Permanent Secretary

Rt Hon Patrick McLoughlin MP
Secretary of State
Department for Transport

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Dear Secretary of State,
Commercially Sensitive – The Garden Bridge

This note explains why I have reservations about the proposal to increase further the Department's pre-construction financial exposure to the Garden Bridge project.

The reservations relate to my responsibilities as accounting officer. These are set out in *Managing Public Money*. This states that it is the personal responsibility of the accounting officer to ensure that an organisation's use of resources achieves good value for money. It also emphasises that accounting officers should seek good outcomes for the Exchequer as a whole. It specifically advises that accounting officers should seek a direction for a particular course of action if an alternative proposal, or doing nothing, would deliver better value for money.

I will set out some background on the Department's involvement with the project before explaining why I am seeking a written direction from you.

As you will know, the Chancellor announced as part of the 2013 Autumn Statement on 5 December 2013 that the Government would commit £30m of funding to support the development and construction of the Garden Bridge. The funding was to be made available by this Department subject to there being a satisfactory business case for the project. After examining the business case for the project in summer 2014, my judgment was that the transport benefits of the project were limited and came with a relatively high level of risk to value for money. However, on the balance of probabilities I considered that this risk was acceptable, and therefore that the department's funding contribution to the project could be made (subject to appropriate controls) without needing to seek a direction from you.

One important control on the DfT's contribution is a cap on the amount that can be spent prior to construction. This was originally set at £8.2m, but it has since twice been agreed to increase the cap following requests from the Garden Bridge Trust, and it now stands at a little under £13.5m. The Trust has now asked for a further increase in its permitted pre-construction spending of up to £15m (across DfT and TfL combined). This is to underwrite the potential cancellation liabilities that it now will face if the project does not proceed. The

Trustees have been advised that under charity law they could become personally liable for the Trust's unmet financial obligations if they have failed to manage risk prudently.

Following recent discussions with the Mayor of London, DfT has been asked to increase its pre-construction exposure by up to £15m to underwrite the potential cancellation liabilities. The probability of these liabilities materialising is not negligible, as there remain a number of significant risks to the delivery of this project. These include long-standing difficulties in obtaining all the required land on the south bank of the Thames. At the time of writing these have not been resolved (and this letter is marked as Commercially Sensitive as its contents could weaken the Trust's position in the ongoing negotiations). The Trust also needs to raise more than £40m in new donations over and above those already paid or pledged in order to fund the bridge in full, and we cannot be certain that it will be able to do so.

If we increase our pre-construction commitment as requested and the bridge does not proceed, there would be cancellation costs to the public sector of up to £15m. This is in addition to sunk costs of around £13.5m committed by DfT and £22m by TfL. In this scenario, around 90% of the cost of the cancelled bridge would have been provided by the public sector funders, and DfT specifically would have provided up to a half of the total amount spent. In my judgment, this represents a disproportionate level of exposure for the Exchequer to the risk of failure on a charity-led project that was intended to be funded largely by private donations.

For this reason, I am seeking a formal direction from you in order to approve a further increase in the Department's pre-construction commitment to the Garden Bridge. Although the pre-construction 'cap' has been increased in the past, I consider that it is right to seek a direction in this instance, as both the size of the increase (£15m) and the reason for it (underwriting potential cancellation liabilities, rather than funding ongoing development work) are materially different to what has gone before.

Should you issue a direction, I am required to copy promptly all relevant papers to the Comptroller and Auditor General, and to the Treasury Officer of Accounts. I understand that the former would normally draw the matter to the attention of the Public Accounts Committee.

Yours sincerely,
Philip Rutnam

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