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PREM 19/2461

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PART 9

Confidential filing

Inner Cities Policy and Problems
Regeneration of Liverpool and London Docklands
Urban Development Corporation

REGIONAL POLICY

PT1: July 1979

PT9: December 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 9 ends:-

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PART 10 begins:-

SS/DOE TO SS/TKP 1.5.V7

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

28 April 1987

Dear David,

INNER CITIES INITIATIVE

Thank you for sending me a copy of your letter of 8 April to John MacGregor.

I note that the pilot Inner Cities Initiative, already in progress in 8 locations in England, is being extended to a further 8 areas, and that additional funding is being found for the 5 City Action Teams.

In view of our agreement last March, after the setting up of the original 8 Inner City Task Forces, I hope you will bear in mind that once the results of your formal evaluation of the pilot initiative are known, we would wish to consider the implications for Scotland. As you know, I remain concerned that the funds being diverted to these initiatives from GB programmes should not adversely affect the application of existing measures in Scotland and I would appreciate it if our officials could keep in close touch on developments.

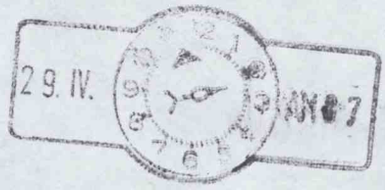
I am sending a copy of this letter to the Prime Minister, members of E(A) and H Committees, and to Sir Robert Armstrong.

Yours ever,

MALCOLM RIFKIND

HMP11809

REGIONAL POL: Urban Cities PTG



MK/C19

Department of Employment
Caxton House Tothill Street London SW1H 9NF
5949
Telephone Direct Line 01-213.....
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David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

28 April 1987

ABM.

Dear David,

ACTION FOR CITIES BOOKLET

I am writing jointly with Brian Leonard in Nicholas Ridley's office to you and to the Private Secretaries of members of the ... Cabinet to draw to your attention the enclosed Action for Cities Booklet, published today by DoE and DE. Either of our departments would be happy to supply further copies of the booklet on request.

I am copying this letter, and enclosure, to Trevor Woolley in Sir Robert Armstrong's office.

Yours,

Jeanie Cruickshank

JEANIE CRUICKSHANK
Private Secretary

and for Brian Leonard

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

'Action for Cities: Building on Initiative' by Departments of Employment and the Environment
HMSO, 28 April 1987

Signed C Wayland Date 19 May 2016

PREM Records Team

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STATEMENT ON THE INNER CITIES INITIATIVE

Inner cities 9

With permission, Mr Speaker, I would like to make a statement on the Inner Cities Initiative and the City Action Teams.

In February last year I announced the setting up of the new Inner Cities Initiative in England. Its aim was to improve the targetting, and increase the benefit to local people, of the money channelled through existing central Government programmes in 8 small inner city areas. We gave it a modest top-up budget to test out new approaches to local problems, and in particular those designed to improve training and increase the opportunities for employment and self-employment for local people. Task Forces were set up in shop-front offices in each of the eight areas to coordinate Government action and to make better use of the large amounts of public money already being spent there. They were also given the job of working with the private sector, local authorities, voluntary groups and the residents themselves in developing local solutions to local problems.

The Inner Cities Initiative was set up as an experimental programme. In a short time it has already shown what can be achieved by a common partnership of effort between the public and private sector with the active involvement of local people. Five different Government Departments have been involved in this work and I am also very grateful for the way in which the Manpower Services Commission has supported the Initiative by giving the inner cities higher priority in

the targetting of its programmes. The Initiative has demonstrated how the Government, by operating at a local level, can give a lead by pulling together the efforts of all those who are involved in our inner cities.

The Initiative has now been running for over a year. There have been significant and positive results. Our eight Task Forces have put themselves firmly on the local map. The Task Forces have shown that new ideas and a fresh approach are just as important as money in releasing the enormous fund of energy and ideas that local people have available to tackle their own problems. We said from the outset that any lessons learned from our eight small areas would be applied more widely to other inner city districts.

The results so far are so encouraging that I have now decided to expand the coverage of the Initiative to other towns and cities, while retaining its experimental and informal nature. I have therefore decided to set up a further eight Task Forces on the same basis as the original eight. They will be located in parts of Coventry, Doncaster, Hartlepool, Nottingham, Rochdale, Preston, Wolverhampton and the London Borough of Tower Hamlets.

The extra funds available to all the Task Forces to top up other programmes and to support new ideas will be increased to

£14m for 1987-88. Experience shows that the availability of this top-up money will enable all the Task Forces to develop programmes of action to help achieve the goals of the Initiative, particularly in employment and enterprise. The approach works best where there is a partnership of effort. We will be looking to work with local people, local authorities and local industry and commerce to achieve that partnership.

I also propose to carry forward the work of the five City Action Teams which we set up two years ago. These Teams consist of the Regional Directors of the Department of the Environment, Department of Trade and Industry and the MSC in each of the cities. They dispose of large budgets which they seek to co-ordinate more closely and we did not originally expect them to need CAT budgets as a Team. However last May we gave £1m to the Newcastle/Gateshead Team as part of a package of measures to relieve the effects in the North East of the shipbuilding redundancies. The City Action Team used this sum very effectively to plug gaps in their ability to support services for local business and training in new technology. Their achievements demonstrate that the City Action Teams have an important part to play in accelerating progress in areas crucial to the regeneration of our inner cities and in attracting private sector support for worthwhile projects. Accordingly I will be making £1m available to each of the five City Action Teams in 1987/88 to be spent on the

basis of a clear strategy that each Team will be asked to prepare for local action.

The additional resources required for the expanded Inner Cities Initiative and for the City Action Teams - an extra £10m in 1987/88 - will be found from within my Department's existing provision, and because we are committed to full value for money for Government spending we will continue to monitor and evaluate the contribution which these measures are making to urban regeneration.

One of the aims of our Inner Cities Initiative has been to pool the efforts and resources of all Government Departments with a responsibility for our cities. As part of that concerted approach, my Hon friend the Minister for Housing, Urban Affairs and Construction and I will be making a joint Action for Cities presentation tomorrow morning in London's Docklands. This will be the first of a series of presentations across the country aimed at the business community, the voluntary sector and other opinion formers in our inner cities, to increase their involvement with Government efforts to make our cities better, safer and more attractive places in which to live and do business.

The drive to help our inner cities is a key priority for this Government. It reflects our determination that all our people, wherever they live, North, Midlands or South, should

have the opportunity to share in this country's growing economic success. It reflects our belief in the younger generation, including those young people growing up in our multi-racial inner cities, and our determination to improve their prospects. We have always made substantial resources available. What we are now doing is targeting those resources better to ensure that it is the people who live in our inner cities who benefit from our efforts. It is those inner city residents who this initiative is designed to help. To help them acquire new skills so that they can compete on equal terms for the opportunities which are increasingly becoming available. To help them overcome the problems they face in setting up in business on their own account. And to help make our inner cities the kind of place where people want to live and where businesses want to invest. Today's announcement is just the latest in a long line of measures to promote Action for Cities, and I commend it to the House.

(7)

INNER CITIES INITIATIVE

An experiment in direct co-ordination of Government activity in small areas, plugging gaps in programmes and encouraging new ideas. Five Departments involved (DE/MSC, DOE, DTI, HO, DES).

Eight inner city task forces have run for one year. Emphasis on

- encouraging enterprise
- improving employability
- stimulating employers to recruit and train inner city residents
- reduce crime and the fear of crime

Task Forces are small groups (typically five or six) of civil servants and secondees from private firms or local authorities.

Results encouraging

- excellent response from private sector
- heartening reaction from local residents to the challenge of improving their own chances of a job or a decent training

Most local authorities have worked in pragmatic fashion with this Government initiative (especially good politically: Birmingham, Bristol, Middlesbrough. Especially bad: Leicester (City), Southwark).

Announcement yesterday expands task force coverage to eight more locations, while retaining experimental and informal nature.

(11)

QUESTIONS AND ANSWERS

1 Details of Outputs

An estimate of outputs anticipated from the first 95 projects of the original Initiative, roughly to the end of 1986/7 indicates:

- 'c ash leverage of private sector funds on a 1:1 basis
- leverage of public sector funds on a 1.5:1 (of Initiative money) basis
- over 600 new jobs created, excluding those in business start-ups helped by the Initiative
- more than 150 busine sses directly supported
- over 900 Community Programme places facilitated
- around 1,200 training places facilitated.

2 Objectives Addressed

All the Initiative's objectives have been tackled. Of the committed expenditure of almost £5 million to the end of 1986/7, 15 per cent of the money provided more jobs, 25 per cent encouraged enterprise, 55 per cent improved employability and 5 per cent related to community development. Of course, some projects met more than one of these aims.

3 Lessons Learned

It is clear that most progress has been made where the local authority, the local community and the private sector are committed and involved. Task Forces are a successful medium for targetting main programmes on small areas of particular need. They provide a useful context for piloting new forms of provision (for example, private sector management of Community Programme Schemes) and fostering co-operation between Government Departments. And not least that access to special funds in these areas enables directly useful work to be done and can help unlock much greater resources in the local community.

4 Still a Pilot?

We made it clear when the original Initiative was announced that it was a pilot programme. It still is. Eight or 16 areas, neither number can in itself address the major problems our cities face. There are other big programmes, such as DOE's Urban Programme, or the MSC's various employment and training programmes, which have the major role to play. We are still at an experimental stage, trying out a successful formula in other areas of need.

5 After the Pilots, What?

This expanded Initiative will run for another two years. We are learning all the time and the results are already influencing main programmes (eg targetting of MSC programmes). So real work has already started. But we do not contemplate a permanent life for any of the Task Forces.

6 Why These Areas?

We made it clear the original 8 were chosen as broadly typical of the severe problems inner cities face. The same can be said of the new areas, and indeed in terms of environmental problems and unemployment all 16 areas are very similar. We wanted to extend the Initiative but there is nothing sacrosanct

about 16 - that number may rise or fall in the period ahead.

7 Attitude of Local Authorities

Mixed in the original 8 areas, though overall they have worked well with the Initiative and contributed significantly to it. One of the lessons we learned was that progress is best where the local authority is involved. We are confident that we will have that involvement in the new areas. We certainly need to work in partnership with local authorities, as well as the other local actors.

8 CATs and Task Forces - The Same Thing?

In terms of what they are doing, and how they do it, very similar. In terms of where they do it, clearly not. CATs cover wider urban areas and will need to take a strategic view of the employment, enterprise and environmental needs of those areas. Task Forces will need to respond to the more immediate needs of the very small districts they cover.

(iii)

NOTE ON TASK FORCE OUTPUTS

The Task Forces operate in some of England's most difficult inner city areas. It is very early in the experiment to be definte about numerical outputs.

The figures in the Q & A are minimum estimates relating of course to eight small areas and effectively to 9 months work.

In that context, they are good news. The 600 new jobs are in areas where jobs are a struggle to sustain. The 150 businesses operate in a sometimes hostile environment. The 2100 training and CP places are in locations where the quality of opportunity is often low, ICI projects raise quality.

The leverage ratios are tentative but, again, err heavily on the side of caution.

It is important to stress that getting things done in inner cities is a major challenge to commitment and ingenuity. "Numbers" must be placed in context.

CATs BUDGETS - LINE TO TAKE BRIEF

1 Why Budgets

Because we have been impressed with the progress made by the Newcastle/Gateshead CAT in spending the £1 million we allocated to it in 1986/7 to spend on additional measures tackling the effects of the shipbuilding redundancies in the North East. That money was spent in relation to a coherent local strategy of building up an infrastructure of design and marketing support for local businesses. We will be asking the other CATs to produce similar plans of action, and we will be looking in particular for the money to be used in concert with private sector resources.

2 Why now

We have been able to draw conclusions from how Newcastle/Gateshead spent its budget in 1986/7. It seemed sensible to continue that effort for another year, and to extend a similar capability to the other CATs.

3 What Will the New Money be Spent On?

The Newcastle/Gateshead CATs has spent its special budget for 1986/7 on projects which helped develop an infrastructure of support for businesses in the area. The projects also showed a clear appreciation of the need for the money to be spent in co-ordination with other sources of Government help, and as part of a leverage of private sector resources. I gave details of the projects supported in my reply to a Parliamentary Question on 23 February 1987.

4 Who Will Account for This Money?

The CAT leaders will be immediately responsible, with the Permanent Secretary of my Department (Employment) having formal accountability. However, I shall be approving the expenditure on a project by project basis.

5 Targetting of CAT Money

The CAT budgets will be mainly spent within the area of the Team - that is the Inner City Partnership area. However, there is scope for flexibility at the boundaries. The aim will be to spend the money primarily on projects benefiting the economic infrastructure of the City, and the prospects of employment of the people living there.

CITY ACTION TEAMS - CATs

1. CATs were launched in April 1985. Five Teams were set up in each Inner City Partnership area, with one team covering the three London Partnerships of Hackney, Islington and Lambe th - others are Birmingham, Liverpool, Manchester and Newcastle. The Teams consist of the Regional Directors of the three main Government Departments with a local presence - DE, DTI and DOE. Leadership of the Teams is shared between the three Departments.

2. The aim of the Teams is to co-ordinate and raise the profile of Government help to, and action in, the Partnership areas in accordance with the three initial objectives of Urban Policy. These are:

i) to reduce the number of people in acute housing stress.

ii) to reduce the number of derelict sites and vacant buildings.

iii) to increase job opportunities in certain areas, and the employability of certain groups.

3. The main Departmental programmes coming within the CATs are:

i) DOE - Urban Programme, Urban Development Grant, Derelict Land Grant, and Urban Regeneration Grant.

ii) DE/MSC - Restart, Community Programme, Adult Training and YTS, JTS, Enterprise Allowance Scheme and programmes of assistance to small firms.

iii) DTI - investment incentives.

4. Total expenditure in Partnership areas related to the three objectives of Urban Policy (para 2) is estimated in 1986/7 to be around £735m. Of this around £530m is accounted for by DOE programmes, £180m by DE/MSC programmes and £25m by DTI programmes.

5. The Home Office, DES and DHSS also maintain close links with the CATs.

6. The Teams report regularly to Ministers, with a focus on encouragement of enterprise, public-private sector co-operation, joint working between Departments, ethnic minority initiatives and use of vacant and derelict land. It is clear they have made significant progress in particular;

- in taking initiatives to help rebuild the industrial/ commercial base of their cities.

- publicising enterprise and successful local developments, and promoting tourism.

- fostering public: private sector collaboration.

- developing good links with all Departments at local level and with the Inner City Task Forces.

- supporting projects involving, and in support of, the ethnic minority community.

- promoting the use of vacant/derelict land through disposal of sites on the land register.

7. The Newcastle CAT was given a budget of £1m in May 1986 to help alleviate the local affects of the shipbuilding redundancies. The money has been used most successfully to develop an infra structure of support for small and developing business enterprise, including marketing and other technical support. In the light of the good progress made, Ministers have now agreed to give each of the five CATs a budget of £1m to be spent in relation to a clearly-defined programme of local action to stimulate employment and enterprise. An announcement of this enhancement of the CAT role was made by the Paymaster General in the House of Commons on 27 April 1987.

ICI/Central Unit April 1987

BRIEF - GOVERNMENT SPENDING IN INNER CITIES

1 The Government already provides significant help to inner cities. Since it came into office in 1979, Government programmes have increased in real terms as follows:

- The Urban Programme has almost doubled - to £324m in 1986/7 - in real terms since 1978/9 (when 93m was spent). £127m was spent in the Inner City Partnership areas in 1986/7.
- but NB. for 1986/7 the UP was cut back from £338m in 1985/6. Handsworth for example has received over £20m in aid over the last 4 years. The Urban Development Grant of £121 has attracted over £600m of private investment in respect of 239 approved payments.
- Derelict Land Grant - has doubled in real terms since 1979 to over £80m. Every 2 years, an area the size of Grimsby is reclaimed.
- Housing Improvement Grants have trebled to £500m (peaking at £900m in 1983/4).
- Government support to Housing associations through the Housing Corporation is now £706m - a 9% real terms increase since 1979.
- Support for Local Authority posts dealing with the special needs of Commonwealth immigrants has doubled to over £95m.
- Employment Measures. The MSC aimed to spend around £175m in the 7 Inner City Partnership Areas in 1986/7 (an increase of 25% over the 1985/6 figure). Overall spending on employment and training measures has more than doubled since 1978/9 to around £3 billion in 1986/7.

2. Around £735m was spent in 1986/7 tackling inner city problems on housing, dereliction, and employment in the inner city partnerships.

3. Spending on Government programmes in the 8 Inner Cities Initiative Task Forces which can be identified as clearly being spent in those areas, was some £75m in 1985/6. Over £23m was through MSC programmes. It is reckoned that around £82 m. of Government spending in 1986/7 was accounted for by the 8 new areas.

In addition, the Government has increased its support for the voluntary sector to £775m in 1985/6 - well over treble the 1978/9 figure.

5. At the same time, Local Authority spending has increased significantly. In the Urban Programme authorities, their spending increased from £1 billion in 1978/9 to just over £2 billion in 1986/7.

6. Over and above this, the Government has, and is continuing to:

- encourage local authorities to concentrate on repairing their existing stock of homes (76% of council dwellings built post-1945).
- take steps to encourage better management and maintenance of Council housing. Encouraging much greater involvement of tenants in the running of their estates.
- strongly encourage home ownership particularly through the Right to Buy which is now being further extended to help tenants of Council flats and through inner city low cost home ownership.
- promoting enterprise and increasing training, including in hi-tech and computer technology.
- help local authorities tackle the problems of the worst housing cities through Estate Action (the budget increased from £50m in 1986/7 to £75m in 1987/8).

8. All this underlines the Government's recognition of the problems of our inner cities and its attack on them across a broad, yet co-ordinated front. That attack is now being carried forward through the expansion of the Inner Cities Initiative, the granting of budgets of £1m for each City Action Team, and the New Urban Regeneration Grant announced by DOE in April 1987.

ICI/Central Unit April 1987

EIGHT NEW INNER CITY TASK FORCE AREAS

£M 86/87

AREA	TOTAL SPEND (1)	MSC	UP	S.11 (2)	UDG	HOUSING CORP (Money committed)	OVERALL U/E % (3)	UNDER 25 U/E % (3)	ETHNIC MIN %	BASIC DEPRIVATION (Z) (4) SCORE	POPUL[illegible] NEAREST 1000
HARTLEPOOL	6.4	5.5	0.9	---	0.03	0.8	28.6	42.1	0.8	5.34	20,000
PRESTON	6.2	4.4	0.4	0.6	---	0.8	26.8	36.9	25.1	7.66	24,000
ROCHDALE	8.2	5.0	1.1	0.9	---	1.2	22.5	31.9	20.2	5.94	33,000
DONCASTER	9.9	9.1	0.8	0.02	---	0.4	22.9	36.4	5.3	3.28	36,000
NOTTINGHAM	7.3	4.5	1.1	0.1	0.2	1.4	39.1	54.9	25.4	7.65	25,000
COVENTRY	15.7	10.6	2.7	2.3	0.1	4.3	30.7	47.0	37.6	5.59	34,000
WOLVERHAMPTON	20.7	17.2	1.7	1.8	0.02	1.4	27.4	44.1	38.3	7.69	49,000
TOWER HAMLETS	7.9	1.5	2.5	0.3	---	3.6	29.0	31.2	42.0	7.27	21,000

NOTES

1. This is identifiable expenditure in the areas. It is a broad estimate.
2. Excludes provision for education posts.
3. Approximation based on July 1986 unemployment count and the 1981 population census (of the economically active).
4. The basic deprivation (Z) score is a DoE index measuing multiple deprivation on a scale, with '0' as the national average.

28 APR '87 12:47 D E PRIVATE OFF

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019

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Andrew Wells Esq
Cabinet Office
70 Whitehall
LONDON
SW1

for E(A) meeting
folder tomorrow.

27 April 1987

Dear Andrew.

E(A): 28 APRIL
LOW-BUDGET URBAN DEVELOPMENT CORPORATIONS

You asked if Mr Ridley could circulate a draft statement for an announcement of his proposals on low budget UDCs, which he has set out in E(A)(87)21.

Mr Ridley does not wish to finalise the form and timing of an announcement before tomorrow's discussion. He has however approved the attached first draft which indicates how an early announcement might be phrased.

I am copying this to the Private Secretaries to the Prime Ministers and the members of E(A) and Sir Robert Armstrong.

Yours

Brian Leonard.

B H LEONARD
Private Secretary

This is 100% recycled paper

DRAFT ANNOUNCEMENT ON LOW BUDGET URBAN DEVELOPMENT CORPORATIONS

Nicholas Ridley, Secretary of State for the Environment, today announced a further major Government initiative to help the inner cities. More UDCs will be set up to bring new life to run-down areas.

Mr Ridley said:

> "We have all seen what UDCs can achieve. The success of the London Docklands Development Corporation is particularly striking and I am pleased that the 4 new UDCs I announced 6 months ago have generally received a positive welcome.
>
> "The dynamic single-minded approach that UDCs bring to tackling the problems of urban decay needs to be extended. I therefore propose to apply the UDC model to several of our larger towns and cities where the need for development, for investment, and for job opportunities are obvious but where progress is being held back.
>
> "Typically, these new UDCs will cover smaller areas than those already designated or announced and I expect their expenditure to be commensurably smaller. A number of small sites might be selected totalling in each area up to 500 acres. Expenditure of each UDC will probably be in the range of £10m to £15m in total, over a number of years.
>
> "I shall not decide the selection of areas until further studies have been carried out. The aim of the new UDCs will be to assemble and prepare sites for development as quickly as possible. They will have development control powers. They should recoup eventually from sales of land much, if not all, of their initial expenditure."

The list of areas to be studied will be published very shortly. When those studies are complete the Government will decide for which areas a UDC will formally be proposed for designation. I expect that about 4 of these smaller UDCs will be designated initially.

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for E(A) meeting 15 Oct.

Ref. A087/1155

PRIME MINISTER

Low Budget Urban Development Corporations

E(A)(87)21

Decisions

The Committee is asked to endorse a new programme of 'low budget' Urban Development Corporation (UDCs). Although the paper does not say so, the main point at issue is whether there should be an early statement of the Government's intentions.

Background

2. UDCs are bodies appointed by the Secretary of State to promote the redevelopment of inner city areas. Land already in public ownership can be vested in them, and they can also buy private sector land, with a view to development and sale. Within their own areas they can give planning consent and have rights of compulsory purchase.

3. The power to establish UDCs was taken in the Local Government Planning and Land Act of 1980. The purpose at the time was to establish two corporations, for London docklands (the London Docklands Development Corporation - LDDC) and part of Merseyside (the Merseyside Development Corporation - MDC). The LDDC has been relatively successful, although at substantial public sector cost. The MDC has been less successful.

4. Last September E(A) agreed Mr Ridley's proposal to announce a programme of up to four new UDCs on the LDDC and MDC model. That agreement was subject to the proviso that Mr Ridley could find the necessary resources within the provision for the Other Environmental Services (OES) programme. The programme was announced at the Conservative Party Conference. Mr Ridley has since reached agreement with the Chief Secretary on the designation of all four of the proposed UDCs . The Trafford Park UDC has already been

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designated, and Orders for Tyne and Wear, the Black Country and Teesside will all have been laid by Monday.

Mr Ridley's Proposal

5. Mr Ridley now proposes a new programme of 'low budget' UDCs, intended to promote the redevelopment of relatively small areas in the centre of provincial cities like Bristol, Leeds and Nottingham. These are relatively more prosperous cities, and what Mr Ridley has in mind is therefore a potentially major extension of the UDC Scheme. He says his new UDCs will be 'low budget' because in such cities public expenditure on pump priming should be less important. Their function will be more to use their planning and other powers to promote development where local authorities are reluctant to do so.

6. Nevertheless, Mr Ridley has left the effect on public expenditure uncertain. He gives a non-committal estimate of a cost of £10-15 million over the first 2 or 3 years for each of the new UDCs, but does not commit himself as to how many there might be. He refers to the possibility of four this year, with the prospect of more to come. He makes it clear that he will need to bid for more money in PES.

Chief Secretary's reaction

7. Mr Ridley wants to make an early announcement before aany of this has been worked out, and that has led to the disagreement with the Treasury. The Chief Secretary's reaction is set out in paragraph 15 of the paper. He seeks agreement before any announcement is made on:

i. clear limits to the programme;

ii. detailed figures for the public expenditure implications year-by-year;

iii. an undertaking that the Environment Secretary will find the costs from within his own PES programmes.

8. These conditions are unlikely to be acceptable to Mr Ridley. The Committee will want to decide whether he should be allowed to make an announcement now and leave the public expenditure implications to be sorted out later (which might at least in part preempt PES decisions) or whether an announcement should be delayed until the details are agreed.

Criteria for designation and value for money

9. The Chief Secretary also seeks firm output criteria for the new UDCs. There is little doubt that, given their powers and sufficient public money, the new UDCs could attract development to their areas. The crucial question is whether the ratio of private investment to public expenditure will be sufficiently attractive to justify the new programme. This will turn in part on the criteria which are used to select the areas to be designated. Mr Ridley's paper has little to say on this issue, and you may want to explore his thinking at the meeting.

Legislation

10. You may like to ask the business managers to comment on Mr Ridley's proposals for new legislation on UDCs. They would involve a substantial extension of what would otherwise be a very short Bill to raise financial limits which apply to UDCs. They might be controversial, since they would significantly reduce the limits on the Environment Secretary's powers to designate UDCs. The local authorities in particular might oppose this. The Chief Secretary may also oppose the suggestion that the financial limits on UDCs should simply be abolished.

Presentation

11. If the Sub-Committee decides on an early announcement, you will want to consider presentation. There is a range of

possibilities. The announcement could be in general terms, saying only that the Government is considering an extension of UDCs to more prosperous areas. This is no doubt what the Treasury would prefer. Mr Ridley will however want to be more specific, at least listing the areas to be considered for the new UDCs. There will be many intermediate possibilities.

12. We have suggested to Mr Ridley's Office that he might circulate a draft before E(A) meets. This would allow the Committee to consider the terms of the Statement, and would be the best course. Otherwise, you could invite Mr Ridley to prepare a draft taking account of the points made in the discussion and circulate it for clearance preferably in correspondence.

13. The Committee will also want to consider the timing and form of any announcement. We understand that Mr Ridley has a written PQ in mind.

HANDLING

14. You will want to ask the Environment Secretary to introduce his paper. The Chief Secretary, Treasury will wish to speak about the financial implications. The Secretaries of State for Employment, Trade and Industry, Scotland and Wales and other Ministers may also wish to contribute. (One of the current UDCs is proposed for Cardiff. There are no UDCs in Scotland) The business managers may wish to comment on the proposals for legislation.

RCA

ROBERT ARMSTRONG
April 1987

PRIME MINISTER

27 April 1987

LOW OR "~~NO~~ NIL" BUDGET URBAN DEVELOPMENT CORPORATIONS

DoE have not done their homework for Nicholas Ridley. Although the idea for low budget UDC has been about for some time, costings for the proposed low budget UDC's are far from complete and not surprisingly are opposed by Treasury. Moreover, one policy option which might well have Treasury approval namely 'No budget' (or administrative costs only) UDC is not proposed.

For the no budget option

You will recall the following are the strong points of UDCs:

1 They have power to bypass local authority muddle or political resistance to change.

2 They provide excellent vehicles for "site assembly".

3 They can, but not always, bring in high ratios of private to public money. (Public funding has included both designated UDC money as well as Urban Programme money and Derelict Land Grant).

4 (1), (2) and (3) focus attention on derelict or largely redundant urban 'industrial' areas (not so far residential areas).

We argue that points (1) and (2) could in some circumstances justify point (4) and could be highly successful. Moreover, a no budget option would still allow derelict land grant and other programme money to be spent. Finally, the power to create no budget UDCs could concentrate the minds of inefficient or bad councils.

Against the No budget option.

We would be criticised more heavily than before of Central Government dictat in these UDC areas. It would be UDCs with less sweetening money!

Technically, DoE will argue that some money is needed for site assembly. This may be so in some circumstances but there are two important instances that could cover most cases where no public funds are needed and whereby the "No budget" UDC can remain free of Government funds. Firstly, this can occur if the site assembly is done with immediate disposal for development. The second case is where site assembly is conducted with wholly private funding. Finally, Nicholas Ridley may object that simplified planning zones (SPZ's) are effectively No budget UDCs. This is not so - SPZs cannot perform site assembly.

Conclusion

We recommend great caution on low budget UDC and in any event that proposals for No budget UDCs be considered further because of their site assembly and council busting powers, but equally because they would provide a powerful "mind concentrator" in areas where obstructive councils resist progress. Finally, a full survey of precisely which areas would benefit from these options should be speedily carried out.

HARTLEY BOOTH

CONFIDENTIAL

002/2985

cc BG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

C A Capella Esq
Private Secretary to the Paymaster General
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

27 April 1987

Dear Chris,

EXPANSION OF THE INNER CITIES INITIATIVE

I am replying to the Paymaster General's letter of 23 April to the Chief Secretary.

Although the Paymaster General's letter does not say so explicitly, the Chief Secretary assumes the Paymaster General accepts the conditions under which the Chief Secretary agreed to the expansion of the Task Forces, set out in the second and third paragraphs of this letter of 23 April.

On that basis the Chief Secretary is content with the Paymaster General's proposed announcement, subject to one point.

At the end of the paragraph at the top of page 3 of the proposed announcement, the Chief Secretary would like added a sentence on the following lines:-

> "The Government will continue to monitor the work of the Task Forces closely, so as to evaluate their success in urban regeneration."

The Chief Secretary notes the Paymaster General's position on funding. The Chief Secretary's position on running costs, as on funding, remains as set out in his letter of 23 April.

REGIONAL POLICY
INNER CITIES
PT 7

CONFIDENTIAL

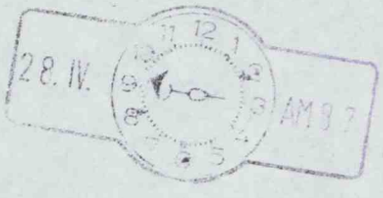
The Secretary of State for Wales' letter of 24 April expresses concern at the handling of this proposal and his officials may wish to follow up with your department the issue of consultation on MSC programmes, but as neither the Task Forces nor YTS are comparable programmes the Chief Secretary sees no justification for a consequential increase in Welsh Office provision.

I am copying this letter to the Private Secretaries to the Prime Minister, the Chief Whip, to members of E(A) and H Committees and to Sir Robert Armstrong.

Yours,

Jill Rutter

JILL RUTTER
Private Secretary



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STATEMENT ON THE INNER CITIES INITIATIVE

NEA.

With permission, Mr Speaker, I would like to make a statement on the Inner Cities Initiative and the City Action Teams.

In February last year I announced the setting up of the new Inner Cities Initiative in England. Its aim was to improve the targetting, and increase the benefit to local people, of the money channelled through existing central Government programmes in 8 small inner city areas. We gave it a modest top-up budget to test out new approaches to local problems, and in particular those designed to improve training and increase the opportunities for employment and self-employment for local people. Task Forces were set up in shop-front offices in each of the eight areas to coordinate Government action and to make better use of the large amounts of public money already being spent there. They were also given the job of working with the private sector, local authorities, voluntary groups and the residents themselves in developing local solutions to local problems.

The Inner Cities Initiative was set up as an experimental programme. In a short time it has already shown what can be achieved by a common partnership of effort between the public and private sector with the active involvement of local people. Five different Government Departments have been involved in this work and I am also very grateful for the way in which the Manpower Services Commission has supported the Initiative by giving the inner cities higher priority in

the targetting of its programmes. The Initiative has demonstrated how the Government, by operating at a local level, can give a lead by pulling together the efforts of all those who are involved in our inner cities.

The Initiative has now been running for over a year. There have been significant and positive results. Our eight Task Forces have put themselves firmly on the local map. The Task Forces have shown that new ideas and a fresh approach are just as important as money in releasing the enormous fund of energy and ideas that local people have available to tackle their own problems. We said from the outset that any lessons learned from our eight small areas would be applied more widely to other inner city districts.

The results so far are so encouraging that I have now decided to expand the coverage of the Initiative to other towns and cities, while retaining its experimental and informal nature. I have therefore decided to set up a further eight Task Forces on the same basis as the original eight. They will be located in parts of Coventry, Doncaster, Hartlepool, Nottingham, Rochdale, Preston, Wolverhampton and the London Borough of Tower Hamlets.

The extra funds available to all the Task Forces to top up other programmes and to support new ideas will be increased to

£14m for 1987-88. Experience shows that the availability of this top-up money will enable all the Task Forces to develop programmes of action to help achieve the goals of the Initiative, particularly in employment and enterprise. The approach works best where there is a partnership of effort. We will be looking to work with local people, local authorities and local industry and commerce to achieve that partnership.

I also propose to carry forward the work of the five City Action Teams which we set up two years ago. These Teams consist of the Regional Directors of the Department of the Environment, Department of Trade and Industry and the MSC in each of the cities. They dispose of large budgets which they seek to co-ordinate more closely and we did not originally expect them to need CAT budgets as a Team. However last May we gave £1m to the Newcastle/Gateshead Team as part of a package of measures to relieve the effects in the North East of the shipbuilding redundancies. The City Action Team used this sum very effectively to plug gaps in their ability to support services for local business and training in new technology. Their achievements demonstrate that the City Action Teams have an important part to play in accelerating progress in areas crucial to the regeneration of our inner cities and in attracting private sector support for worthwhile projects. Accordingly I will be making £1m available to each of the five City Action Teams in 1987/88 to be spent on the

basis of a clear strategy that each Team will be asked to prepare for local action.

The additional resources required for the expanded Inner Cities Initiative and for the City Action Teams - an extra £10m in 1987/88 - will be found from within my Department's existing provision, and because we are committed to full value for money for Government spending we will continue to monitor and evaluate the contribution which these measures are making to urban regeneration.

One of the aims of our Inner Cities Initiative has been to pool the efforts and resources of all Government Departments with a responsibility for our cities. As part of that concerted approach, my Hon friend the Minister for Housing, Urban Affairs and Construction and I will be making a joint Action for Cities presentation tomorrow morning in London's Docklands. This will be the first of a series of presentations across the country aimed at the business community, the voluntary sector and other opinion formers in our inner cities, to increase their involvement with Government efforts to make our cities better, safer and more attractive places in which to live and do business.

The drive to help our inner cities is a key priority for this Government. It reflects our determination that all our people, wherever they live, North, Midlands or South, should

have the opportunity to share in this country's growing economic success. It reflects our belief in the younger generation, including those young people growing up in our multi-racial inner cities, and our determination to improve their prospects. We have always made substantial resources available. What we are now doing is targeting those resources better to ensure that it is the people who live in our inner cities who benefit from our efforts. It is those inner city residents who this initiative is designed to help. To help them acquire new skills so that they can compete on equal terms for the opportunities which are increasingly becoming available. To help them overcome the problems they face in setting up in business on their own account. And to help make our inner cities the kind of place where people want to live and where businesses want to invest. Today's announcement is just the latest in a long line of measures to promote Action for Cities, and I commend it to the House.

LCCBG

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

CONFIDENTIAL

27 April 1987

Dear Kenneth

VIBRM

INNER CITIES INITIATIVE

I have seen your letter of 23 April to John MacGregor seeking his agreement and that of colleagues to a Statement on Monday 27 April about the proposed expansion of the above Initiative.

As you know I am not altogether happy with the switch of resources you are proposing. It would thus be helpful to me if this afternoon's statement mentioned briefly the way we are tackling this problem in Wales. This can be done by adding the words 'in England' to the first sentence and introducing the following new third sentence to the final paragraph:-

> 'In Wales similar tasks are undertaken by the Government's agencies, through the Valley's Initiative and the newly established Cardiff Bay Development Corporation, as a result of measures previously announced by my Rt Hon Friend the Secretary of State for Wales'.

I am copying this letter to the Prime Minister, the Lord Privy Seal, the Chief Whip, Members of E(A) and H Committees and Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon Kenneth Clarke
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON
SW1 9NF

CONFIDENTIAL

CCBG

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

24 April 1987

NBPP

Dear John

I have seen David Young's letter of 8 April to you about the establishment of a further eight task force areas in England and the enhancement of resources to cover this expansion and the proposed allocations to the City Action Teams.

While I fully support the objectives of the Initiative, I do wonder having looked at some of the proposed additional areas - Doncaster perhaps especially - whether David is not broadening the scope of the Initiative beyond its original concept of concentrating on areas of major priority. In the ordinary way I would not want to question the judgement of colleagues about the needs of English cities or about the specific application to some of the policies which we all accept to be necessary. I cannot but remark however that the resources which it is proposed shoul be switched into this initiative are presently earmarked for Great Britain programmes. David's letter was, in fact, the very first that I knew of this part of his proposals. Though sharing Ministerial responsibility for the work of the MSC, I had not been consulted previously. I have to say therefore that I am not altogether happy with the switch of resources which David has in mind. There will certainly be those in Wales who will say that if there are spare resources within the YTS programme they should be used to improve the transitional funding arrangements.

I quite accept that the scale of envisaged savings would be insufficient to make possible any significant general alleviations of the problems facing some of our local authority YTS managing agents. But I should be in some difficulty in explaining to hard pressed authorities like Mid Glamorgan - whose economic and social problems are also very severe - why YTS funds are being switched to urban

/initiatives with

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Great George Street
LONDON SW1

initiatives with no benefit to Welsh authorities like themselves. I believe that, for 1988/89 in particular, my Department should receive an appropriate share of any reductions made to programmes which operate on a GB basis. My intention would be to use the relatively small sum involved to boost my Valleys Initiative which is aimed at achieving a substantial improvement in the environment of selected town centres in South Wales in order to enhance employment opportunities and to help overcome the adverse social conditions that exist.

I am copying this letter to the Prime Minister, Members of E(A) and H Committees, and to Sir Robert Armstrong.

PS I have noted the comment in Douglas Hurd's letter of 22 April to David Young that we might expect criticism on the community relations side for not extending this initiative to Cardiff. The Cardiff Bay Development Corporation came into being on 3 April with a remit to revitalise the area around the City's waterfront. In setting about its task the Corporation will, I know, have the interests of existing residents very much in mind and will be very sensitive to community relations issues in its pursuit of economic and new employment opportunities.

REGIONAL POLICY

ZONAL CITIES

PT 9

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CC&G

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

NBPM.

23 April 1987

Dear David,

THE INNER CITIES INITIATIVE

FIGS WITH DN

Thank you for your letter of 8 April proposing an expansion of the Inner Cities Initiative (ICI) and the introduction of funding for each of the City Action Teams (CATs). I have since read Kenneth Baker's, Paul Channon's, Douglas Hurd's, Nicholas Ridley's and Norman Tebbit's responses to your letter.

I accept your proposals in principle, although I have to say that you are putting these forward before there has been a proper evaluation of the effect of the existing initiatives. It is all the more necessary therefore that you should be setting targets for both the existing and the new Task Forces, and that you provide a central evaluation of any spending by the CATs, I am glad to see that you will be doing this. However, I agree with Nicholas Ridley that the relationship between the new task forces and existing programmes on the ground should be made as clear as possible before they are deployed. I also agree with Paul Channon that you are right to emphasise the experimental nature of the ICI and to place limits on the life of the task forces. The presumption should be that no individual Task Force should be retained for more than three years, with shut down far short of that where a lack of success is becoming apparent.

My agreement to what you propose in practice must be conditional on these two other points. First, there should be no further creation of task forces without a full and quantified assessment of their performance; in particular this would need to consider the outputs achieved against those for comparable policy instruments such as the Urban Programme and your own more general employment measures. Second, we should ask the CATs to bring their spending

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plans to MISC 116 for approval. We should also make clear that there can be no assumption of continued funding for the CATs beyond 1987-88.

On funding, I recognise that you have agreed to find extra resources from within your total budget both for 1987-88 and 1988-89. As I understand it, for 1987-88 you take the view that, on latest estimates, there should be spare funds within the existing provision for JRS and YTS; to put it another way, you are proposing to make use of emerging underspends (as early as the second week of the financial year) to fund policy additions elsewhere. We have corresponded in the past about my attitude to adjustments of this sort and I have made clear my objections of principle. Given the importance you attach to this particular initiative I am, however, on this occasion - without prejudice to the future - prepared to accept your funding proposals. This is on condition that in any other areas of your budget where monitoring suggests the likelihood of overspends which cannot be accommodated, you will take immediate policy action to ensure you are able to live within your resources. I understand, for example, that the present number of community programme participants is substantially above the average figure on which your Estimates provision is based.

Proposals for switches in provision for 1988-89 (and later Survey years) should properly await the 1987 Survey, for which we have now agreed the arrangements. In this instance I am, however, prepared to agree to the proposed announcement on the basis that switches within existing provision will be identified when you put forward your Survey proposals.

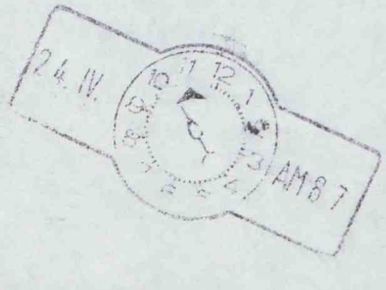
You also proposed that the 1 April 1988 control figure should be increased by 50 posts and the 1987-88 gross running cost limits should be raised by £0.7 million. I cannot accept either of these proposals. I must insist that the manpower and gross running costs implications are absorbed within the existing control figures, which were greatly increased at the time of your 28 January announcement. I will also expect your proposals for switches in 1988-89 and the later years to be prepared on the basis that there is no net transfer from programme spending to running costs.

I am copying this letter to the Prime Minister, members of E(A) and H Committees and Sir Robert Armstrong.

Yours ever,

JOHN

JOHN MacGREGOR



CONFIDENTIAL

NF/44

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

23 April 1987

Dear John.

EXPANSION OF THE INNER CITIES INITIATIVE

Thank you for your letter of 23 April replying to David Young's 8 April letter. David has flown off to the United States, but before he left we discussed the points you make.

I was grateful for the support of colleagues for the expansion, and for the addtional resources for CATS. Douglas Hurd suggests that the announcement of the new Task Force should be separated from the presentation which John Patten and I are making on Tuesday 28th. In fact, at the suggestion of John Biffen's office, we have been working towards a statement announcing the expansion, to be delivered in the House on the afternoon of Monday 27th. I attach a draft of the statement which I propose to make and would be grateful for any comments from you and from copy recipients by close of play on Friday. I hope Douglas feels that this arrangement meets his concerns.

We are happy to accept the points you make about the operation of City Action Teams. On funding generally, I can confirm that we will continue to take all necessary action to ensure that our total spend this year remains within our Estimates provisions and that proposals for switches in provision in the PES years will be identified when we put our 1987 Survey proposals forwards.

CONFIDENTIAL

PAYMASTER GENERAL

On gross running costs and manpower I am very much with you on the general desirability of keeping within existing overall limits and acknowledge that the £0.7 million and 50 posts could be regarded as de minimis in relation to the Department's total provisions. There are, however, as you appreciate, wider considerations of the appropriateness of some of our expenditure which is classified to running costs rather than programme where the staff <u>are</u> the programme, as with Restart. There are some areas therefore where we might want to argue for policy reasons for switches from programme to running expenditure in the PES years and with net manpower increases. For the current year, I note that you are not prepared to increase the running cost limits and we will do our best to live with that. So far as expenditure in future years and the manpower control figure for 1 April 1988 are concerned I think we can only say now that we must return to this in the context of the 1987 Survey.

I am copying this letter to the Prime Minister, the Lord Privy Seal, the Chief Whip, Members of E(A) and H and Sir Robert Armstrong.

KENNETH CLARKE

DRAFT STATEMENT ON THE EXPANSION OF THE INNER CITIES INITIAIVE AND BUDGETS FOR CITY ACTION TEAMS

In February last year I announced the setting up of the new Inner Cities Initiative. Its aim was to improve the targeting, and enhance the benefit to local people, of the money channelled through existing central Government programmes in 8 small inner city areas. We gave it a modest top-up budget to test out new approaches to local problems, and in particular those designed to improve training and increase the opportunities for employment and self-employment for local people. Task Forces were set up in shop-front offices in each of the eight areas to coordinate Government action and to make better use of the large amounts of public money already being spent there. They were also given the job of working with the private sector, local authorities, voluntary groups and the residents themselves in developing local solutions to local problems.

The inner cities initiative was set up as an experimental programme. In a short time it has already shown what can be achieved by a common partnership of effort between the public and private sector with the active involvement of local people. Five different Government Departments have been involved in this work and I am also very grateful for the way in which the Manpower Services Commission has supported the Initiative by according the inner cities higher priority in

the targeting of its programmes. The Initiative has demonstrated how the Government, by operating at a local level, can give a lead by pulling together the efforts of all those who are involved in our inner cities.

The Initiative has now been running for over a year. There have been significant and positive results. Our eight Task Forces have put themselves firmly on the local map. The Task Forces have shown that new ideas and a fresh approach are just as important as money in releasing the enormous fund of energy and ideas that local people have available to tackle their own problems. We said from the outset that any lessons learned from our eight small areas would be applied more widely to other inner city districts.

The results so far are so encouraging that I have now decided to expand the coverage of the Initiative to other towns and cities, while retaining its experimental and informal nature. I have therefore decided to set up a further eight Task Forces on the same basis as the original eight. They will be located in parts of Coventry, Doncaster, Hartlepool, Nottingham, Rochdale, Preston, Wolverhampton and the London Borough of Tower Hamlets.

The extra funds available to all the Task Forces to top up other programmes and to support new ideas will be increased to

£14m for 1987-88. Experience shows that the availability of this top-up money will enable all the Task Forces to develop programmes of action to help achieve the employment and enterprise goals of the Initiative. The approach works best where there is a partnership of effort. We will be looking to with local people, local authorities and local industry and commerce to achieve that partnership.

I also propose to carry forward the work of the five City Action Teams which we set up two years ago. These Teams consist of the Regional Directors of the Department of the Environment, Department of Trade and Industry and the MSC in each of the cities. They dispose of large budgets which they seek to co-ordinate more closely and we did not originally expect them to need CAT budgets as a Team. However last May we gave £1m to the Newcastle/Gateshead Team as part of a package of measures to relieve the effects in the North East of the shipbuilding redundancies. The City Action Team used this sum very effectively to plug gaps in their ability to support services for local business and training in new technology. Their achievements demonstrate that the City Action Teams have an important part to play in accelerating progress in areas crucial to local economic development and in attracting private sector support for worthwhile projects. Accordingly I will be making £1m available to each of the five City Action Teams in 1987/88 to be spent on the basis of a

clear strategy that each Team will be asked to prepare for local action.

The additional resources required for the expanded Inner Cities Initiative and for the City Action Teams - an extra £10m in 1987/88 - will be found from within my Department's existing provision.

One of the aims of our Inner Cities Initiative has been to pool the efforts and resources of all Government Departments with a responsibility for our cities. As part of that concerted approach, my Hon friend the Minister for Housing and I will be making a joint Action for Cities presentation tomorrow morning in London's Docklands. This will be the first of a series of presentations across the country aimed at the business community, the voluntary sector and other opinion formers in our inner cities, to increase their involvement with Government efforts to make our cities more attractive places in which to live and do business.

The drive to help our inner cities is a key priority for this Government. It reflects our determination that all our people, wherever they live, North, Midlands or South, should have the opportunity to share in this country's growing economic success. We have always made substantial resources available. What we are now doing is targeting those resources

better to ensure that it is the people who live in our inner cities who benefit from our efforts. It is those inner city residents who this initiative is designed to help. To help them acquire new skills so that they can compete on equal terms for the opportunities which are increasingly becoming available. To help them overcome the problems they face in setting up in business on their own account. And to help make our inner cities the kind of place where people want to live and where businesses want to invest. Today's announcement is just the latest in a long line of measures to promote Action for Cities, and I commend it to the House.

REGIONAL POL Inner Cities PT9

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CC 85

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

23 APR 1981

NBPM.

Dear Nicholas.

DOCKLANDS LIGHT RAILWAY - BANK EXTENSION

You may find it helpful to know the latest position on the proposed agreement between London Regional Transport (LRT) and the Canary Wharf Consortium.

A draft agreement is nearly ready for signature, and could be made ready within this month. My officials have asked to be told urgently whether there are any specific points which are not yet accepted on the draft. The Consortium have not yet accepted the latest offers that have been made to them in relation to the liabilities on them for "revenue guarantees", but the offers made are fair and I have no present reason to think that we ought to offer any further concession on them. Indeed, I do not see that these matters should be crucial to the Consortium.

Mr Travelstead has not recently raised again the question of protection for the Consortium against the possible consequences of privatisation of the railway, and I shall not offer any assurances on that point unless it is pressed strongly as part of a final negotiation.

The validity of the present tenders obtained by LRT expires at the end of this month. We must do all we can to put on to the Consortium the costs on the railway contracts of further delay. My Department and LRT have put the Consortium on warning that they expect the costs to fall on them.

I am sending copies of this letter to the Prime Minister, other members of E(A), and to Sir Robert Armstrong.

JOHN MOORE

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

CC BG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Moore MP
Department of Transport
2 Marsham Street
LONDON
SW1

23 April 1987

NBM.

Dear Secretary of State,

CANARY WHARF

We last considered these negotiations at E(A) on 25 March, and I have subsequently kept colleagues informed of progress, most recently in my letter to you of 6 April, copied to others. I have received responses of 8 April from David Mitchell and 10 April from John MacGregor.

In the further discussions about the Canary Wharf proposals which my officials, and yours, have been having, with Mr Travelstead and with senior representatives of First Boston, we have maintained the target, set in my last letter to you, and emphasised in the letters from David Mitchell and John MacGregor, of concluding the deal by 30 April.

However, it has become clear in the last few days, particularly since my Permanent Secretary invited the Managing Director of First Boston, Mr Bill Mayer, to come over to discuss progress, that important issues remain to be settled on the Consortium's side, and that these issues go to the heart of our concerns for the scheme - that the provision of infrastructure must be guaranteed, and that there is reasonable assurance of a large volume of development.

Detailed discussions are still in progress between First Boston and the two banks, Morgan Stanley and CSFB, about the terms on which the latter would occupy the first two buildings at Canary Wharf. This is of key importance both for First Boston and for us: they, and we, need to be satisfied that the two banks will be irrevocably locked into the deal.

In addition, the terms of participation in the project of the British contractors are still unsettled. First Boston clearly still wish to have them as co-guarantors for a proportion of the infrastructure, but the indications I have are that they are keen to participate, but not as guarantors. As a result we do not have before us a clear proposal to consider about the guarantors on offer.

This is 100% recycled paper

It is obvious that with such fundamental issues remaining unsettled, it would be impossible to conclude a deal, even though we are, in other respects, in a position to sign the railway and Master Building Agreements by 30 April. Your officials, and mine, have made it clear to First Boston, as well as to Mr Travelstead, that in these circumstances the responsibility for any delay, and costs associated with it, lies with the Consortium.

First Boston's representative explained this week to our officials that key decisions should be made today about their negotiations with Credit Suisse First Boston and Morgan Stanley; and that it should be possible to estimate, in the light of that, how long it would take for contractual commitments to be arrived at. Provisional arrangements are being made for a further meeting with First Boston in the early part of next week. Following that, I propose to report again to colleagues, in the meantime extending the option agreement for a further week to 30 April. On the information now available to us, and despite our best endeavours, I am doubtful whether these negotiations can be brought to a successful conclusion before well into next month.

I have to say now that I believe the best we can expect, at the time for decision, will be a contractual commitment to First Boston by the two banks to put up buildings totalling 1.5m sq ft gross. We may get some further comfort about a third building, but it will not amount to firm commitment. We will have to balance that, in the light of the assessment of prospects for which I have asked Christopher Benson as Chairman of LDDC (and Chief Executive of perhaps the leading UK development company), against alternative possibilities for development at Canary Wharf. The judgement we will then have to take, if we can be satisfied, in the light of the final documentation, that Credit Suisse First Boston and Morgan Stanley will indeed be irrevocably committed to the first two buildings, is whether this will be sufficient "critical mass" to make it probable that the 4.6m sq ft which the economic appraisal shows to be required will be reached.

I believe also that it is a key requirement that the infrastructure is fully guaranteed by First Boston. Even if Mowlems and McAlpines are willing to take a part in the guarantee, such an arrangement would be complicated. Given that, until recently we appeared to be offered joint and several guarantees by 3 international banks, and that the essence of the safeguard provided by a guarantee is its certainty, I do not consider - and neither do Rothschilds nor Mr Benson - that participation by the contractors would help. I have to say that the signs are that First Boston will resist this requirement; but I propose to press hard for it.

As I have said, I see virtually no prospect of our being able to settle matters by 30 April. Even on the basis of the developers accepting the cost of any further delay on decisions on the

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railway, it will be important for us to take a view early in May about how long negotiations are to be permitted to go on. I will set out the choices in my report next week; together with the view of our advisers, including Rothschilds, as John MacGregor asked in his letter of 10 April.

I am copying this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

Yours sincerely

P H Conard Private Secretary

pp.

NICHOLAS RIDLEY

(Approved in draft by the Secretary of State and signed in his absence)

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CONFIDENTIAL

QUEEN ANNE'S GATE LONDON SWIH 9AT

22 April 1987

Dear David.

INNER CITIES INITIATIVE

I welcome your letter of 8 April to John MacGregor proposing the extension of the Inner Cities Initiative to a further eight areas and additional funding for the City of Action Teams. I wholeheartedly support the proposals.

We recognised when we embarked on this initiative that we were asking the Task Forces to undertake novel and difficult work. My officials have sought to co-operate closely with the ICI Central Unit and the Task Forces. David Waddington has kept me informed of this work. The progress in the year since the Initiative was launched is creditable and encouraging. The review of the first year's work will help us to assess its impact in more detail and will no doubt offer many lessons. But I am sure that it is right to press ahead with setting up the Task Forces in new areas on the strength of the work undertaken so far.

I note that the selection of new areas is confined to England. I know that the Scottish and Welsh Offices have been consulted. I would only comment that we can expect criticism, on the community relations side at least, over the failure to recognise the claims of Cardiff.

In setting up the Initiative we had in mind the need to make special efforts to enable people in deprived areas to share in our economic revival. This is obviously right in itself. It is also prudent if we are to lessen the risk of renewed inner city disorder. The success of the Task Forces in enabling people in the selected areas to develop a greater sense of being able to contribute is fundamental and well brought out in the papers. One aspect of particular importance from my point of view is the need to ensure that people of all the ethnic groups in the areas benefit.

This brings me to the one point that does concern me, namely the context in which you propose to announce the extension. The physical and economic regeneration of the cities is the necessary context within which the Initiative must be placed. It is, however, essential to avoid emphasising that aspect of our policies to the exclusion of the people within the areas. I have seen the booklet "Action for the Cities" and it is an admirable presentation of the programmes for physical and economic regeneration. Since it is confined to the programmes of the Employment Group and Environment its reference to the social programmes for the people of the deprived areas is partial and subordinate. The danger is that if the extension of the Inner City Initiative is announced at the presentations of the work set out in the booklet the focus of the Initiative on the people of the areas will be overshadowed or even lost. I should have preferred an occasion which was

The Rt Hon The Lord Young of Graffham /devoted

CONFIDENTIAL

devoted to the Initiative itself. If this is not possible it is important to ensure that full weight is given to this focus of the Initiative at the presentation by featuring some Task Force projects of a social nature and by underlining their place in the Initiative. David Waddington would be glad to join in the presentation.

I am sending copies of this letter to the recipients of yours.

Yours

Doug Ic.

REGIONAL POL: Inner Cities PT9

ES

CONFIDENTIAL

LCCBE

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon John MacGregor OBE MP
Chief Secretary of the Treasury
Parliament Street
LONDON
SW1P 3AG

21 April 1987

NBPQ.

THE INNER CITIES INITIATIVE

flap.

David Young wrote to you on 8 April about his proposals to allocate resources to City Action Teams and to increase the number of Task Force Areas.

The situation in many of our inner cities is such that I am sure that these further initiatives are justified and I agree with both proposals.

I am sending a copy of this letter to the Prime Minister, to members of E(A) and of H and to Sir Robert Armstrong.

CONFIDENTIAL

cc BG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5422
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

21 April 1987

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Caxton House
Tothill Street
London SW1H 9NF

NRSM

Dear David.

at tap

Thank you for sending me a copy of your letter of 8 April to John MacGregor, with its proposals for continuing and expanding the Inner Cities Initiative and for funding the City Action Teams.

I note your judgment that these initiatives have been successful in meeting some of their principal objectives, such as improving the employability of inner city residents by encouraging greater workskills and enterprise amongst them. I would not wish, therefore to stand in the way of the expansion that you now propose, particularly since you intend to finance this from resources within your own Department's expenditure programmes. Nevertheless, I am sure you are right to emphasise that the Initiative is still at an experimental stage and to acknowledge that the task forces should not have a permanent life.

I welcome your intention to provide some funds for each of the existing City Action Teams, in the light of the successful experiment in Newcastle last year. The effective use of these funds will depend, in my view, to a large extent on the freedom given to the Teams to gear spending to the particular needs of their areas. I know that in Newcastle, the CAT was able to apply some of its funds to inner city locations outside the immediate CAT

JG4AVN

area, but within the same region. I hope that the new funds will be provided with the same degree of flexibility. Some CATs may choose to confine expenditure to their own areas, but others may find it helpful to exercise the discretion that was allowed in Newcastle.

Copies of this letter go to the Prime Minister, John MacGregor, Norman Tebbit and other members of E(A) and H Committees and to Sir Robert Armstrong.

PAUL CHANNON

JG4AVN

REGIONAL POL: Inner Cities PT9

DN
M have a word
NW
15.4

MR. WICKS

Personal

I pass comments made by Alistair McAlpine about Canary Wharf which he feels the Prime Minister might like to be aware of (if she isn't already) at the appropriate time.

Ware Travelsted (Canary Wharf) is apparently being asked to guarantee both infrastructure of around £400 million and tenants as well. I understand he will sign an agreement with First Boston who would guarantee the £400 million or so, but that he feels it really is not feasible to be asked at so early a stage to guarantee tenants. Alistair's worry is that Rothschilds are involved and that they keep adding new proposed terms to the agreement.

STEPHEN SHERBOURNE
15.4.87

CONFIDENTIAL

cc BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

12pm

The Rt Hon Lord Young of Graffham
Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

13 April 1987

Dear David

THE INNER CITIES INITIATIVE

Thank you for a copy of your letter of 8 April to the Chief Secretary and your Memorandum proposing to extend the Inner Cities Initiative by deployment of a further 8 Task Forces, and to allocate £1m to each of the City Action Teams in 1987/88.

Your officials helpfully consulted mine on the selection of areas for new Task Forces, and on the clarification of their objectives. As you intend to find all resources from your Department's existing provision I am content to support your proposals.

Improving the employability, motivation, skills and enterprise of inner city residents is an essential part of our objectives for urban renewal. I hope there will be good links between the Task Forces improving local labour supply, and my proposed low budget Urban Development Corporations which will provide development and job opportunities.

The Action for Cities presentation at the end of April should help to build up a public understanding of our urban policy as a co-ordinated proliferation of different instruments to help the cities. I think we agree that our aim must be to achieve a well-tuned set of expert and specialised initiatives which buttress each other, rather than many generalist bodies independently attempting very similar tasks. We need to ensure as the new Task Forces are deployed that the relationship between them and other programmes is clear.

No doubt you will be using MISC 116 to ensure that the City Action Teams use their resources in a similarly precise and organised way.

Copies of this letter are being sent to the Prime Minister, Members of E(A) and H Committees and Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

REGIONAL POLICY
INNER CITIES
PT 9

CONFIDENTIAL

CBG

Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 270 0020
270 0296

13th April 1987

~~6pm~~

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear John

THE INNER CITIES INITIATIVE

I have read with interest David Young's letter to you of 8 April, and his memorandum on the work of the Inner Cities Initiative and the City Action Teams.

I have no doubt as to the need to keep up the momentum of this Initiative. We do not need, nor could expect, at this stage to have conclusive evidence of the longer-term impact of the Inner Cities Initiative and the CATs in order to accept that these policies must be presented, as David says, positively and with commitment.

I therefore hope that you and other colleagues will be able to give early agreement to David's proposals.

I am sending a copy of this letter to the Prime Minister, members of E(A) and H Committees, and to Sir Robert Armstrong.

Yours Norman

NORMAN TEBBIT

020/3292

COMMERCIAL IN CONFIDENCE

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

10th April 1987

Dear Nicholas,

CANARY WHARF

I have seen a copy of your letter of 6 April to John Moore and agree with your proposed approach to what must now be the final stage of your negotiations with the Travelstead consortium. I have also seen David Mitchell's letter to you of 8 April.

As I expect you are already aware the tenders for the DLR extension run out at the end of April and it will be essential for any deal to be signed before then if further increases in construction costs are to be avoided. Needless to say should any increases arise they will have to be absorbed within existing provisions.

With the departure of Morgan Stanley and Credit Suisse First Boston from the Consortium and as possible guarantors, the prospects of striking a satisfactory deal must have receded even further. However, if in the event, you really do feel able to recommend that contracts are signed with Mr Travelstead it will be essential, as my officials have already made clear to yours, that all aspects of the deal are independently assessed in advance by your professional advisors, Rothschilds.

I am copying this letter to the Prime Minister, John Moore and other members of E(A) and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

CONFIDENTIAL

010

1CCBE

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The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Great George Street
LONDON SW1

Prime Minister 2

I have flagged the page which has the list of the 8 new areas.

DRS
9/4.

8 April 1987

Dear John,

THE INNER CITIES INITIATIVE

I have been greatly encouraged at the progress made by our eight inner city task forces since we announced the Inner Cities Initiative in February last year. Working in some of our most difficult areas, and calling on the resources of a number of Government programmes, the task forces have made inroads into the problems of employability, motivation, skills and enterprise which slow down the ability of inner city residents to share in Britain's economic revival.

The degree of progress persuades the Paymaster General and me that we would gain from extending the Initiative into a further eight areas. A memorandum attached to this letter sets out the arguments. In addition, I think it is time that we acknowledged the work done by the inter-departmental City Action Teams since we set them up in April 1985. Recognising my own responsibility as Chairman of MISC 116, to which CATs report, I propose to allocate each of the Teams resources in 1987/88 from within my Department's public expenditure provision.

The extra resources required for 1987/88 are £10m inclusive of £0.7m for running costs. We propose funding this by switching £5m from the full time JRS provision, which should be possible in the light of the latest forecasting group estimate and £5m from YTS. It is important, because of pressures elsewhere, that the DE Group 1.4.88 manpower control figure be increased by 50 to enable us adequately to staff up the new 8 task forces and the gross running costs limits raised by £0.7m. For 1988/89, when the expanded Initiative is running at its full extent, I will accommodate the £21m expenditure on the Initiative and the CATs (compared with the present baseline provision of £9m) by switching from programme expenditure elsewhere within my existing provision.

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Expansion of the Inner Cities Initiative and the heightened role for City Action Teams represents a further step forward in our collective urban policies, and it is important that the Government presents its achievements positively and with commitment. To this end, Kenneth Clarke and John Patten have been working together for some time now to prepare a booklet and a presentation (modelled on the successful Action For Jobs series) which illustrates the joint approach of the Department of Employment and Department of Environment to Action for the Cities. It is proposed that they will give the inaugural presentation, in what is intended to be a series at a venue in London on 28 April. This will also be the occasion to announce publicly the further eight inner city Task Forces and the enhanced resources for City Action Teams. I am therefore looking to early clearance of my current proposals so that we can bring everything together in time for this occasion.

Copies of this letter are being sent to the Prime Minister, Members of E(A) and H Committees and Sir Robert Armstrong.

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EXPANDING THE INNER CITIES INITIATIVE AND BUILDING ON THE SUCCESS OF CITY ACTION TEAMS

MEMORANDUM BY THE SECRETARY OF STATE FOR EMPLOYMENT

In February last year, the Paymaster General and I announced the Inner Cities Initiative, designed to target existing sources of Government help more firmly on certain inner city areas, and to promote more specific activity to stimulate local enterprise, training and the employability of residents. We set up eight inner city Task Forces reporting to the Paymaster General and a group of Ministers from key Departments.

The Initiative has now been running for over a year. There have been significant results in terms of targetting Government spending programmes on the eight areas in question. In particular the employment, training and enterprise programmes of my Department and the Manpower Services Commission have served as the basis of experimental work. We have promoted new local activities with the accent firmly on jobs, using the Initiative's own budget. Our Task Forces now have a well established presence in their inner city areas and have contributed materially to the public perception of what we are doing to tackle the problems of these difficult localities. They have also played a full part in promoting the various programmes operated by Departments, alongside the particular local projects with which they have become identified.

The Paymaster General has discussed the performance and progress of the Initiative with his colleagues on the Ministerial Group. He and I feel it would now be right to expand our present efforts into a further eight areas. I did indeed consider whether the Initiative should at this point become a formal programme but decided against it. We are still at an experimental stage in which we need to apply the formula to further areas of need. I also value the strong inter-departmental flavour which we have and which greatly improves the presentation of our inner city policies.

Before I pass on to my particular proposals, it may be helpful if I address some of the key ways in which the Initiative has so far addressed its aim of encouraging jobs, stimulating enterprise, improving the employability of inner city residents, and meeting various community objectives including a reduction in the level, and fear of, crime.

First, I am of the strong opinion that the Initiative has demonstrated the value of targetting Government programmes more accurately on particular geographical areas and specific population groups: and of direct Government action where necessary, rather than being bound to the intermediation of local government.

So far as my own Department is concerned, we have agreed with the Manpower Services Commission that inner cities should be priority areas for targetting the Commission's resources. This is reflected in the MSC Corporate Plan which will be appearing shortly. The Commission has made more places available in the inner city, particularly under the Community Programme, and has also worked to improve the delivery of its programmes through, for example, the appointment of inner city outreach officers. Particular efforts are being made to address the needs of ethnic minorities. The Commission has signed a major contract with Project Fullemploy to develop its programmes towards those needs and I know that the Home Office is also providing major support. With the support of resources from the Initiative, particular MSC programmes are being developed and piloted - for example, the private sector management of Community Programme schemes which, I believe, will lead to a much better quality of provision and improved chances of subsequent employment; and the CP Enterprise Projects in which people on the Community Programme are helped to transfer the knowledge and skills they have gained on the programme into self-employment. So the Initiative has had a direct influence on the pattern of provision by my Department as well as helping to stimulate some useful pilot developments.

Other Departments, particularly DOE and the Home Office of course, are active in the inner city and have also targetted their programmes in that direction. The Initiative has provided a framework for their action and has helped them, and us, to highlight cross-cutting inter-departmental objectives in our various programmes. One example is the way in which Government money spent on a primarily environmental focus can be used to improve employment and training provision. I have in mind the scheme in Handsworth where DOE is paying for refurbishment work on a street of houses and my Department is supporting linked employment and training programmes. Then there is our joint support with the Home Office of the various black enterprise agencies which are of key importance in encouraging local enterprise and the current development of an outreach capacity towards ethnic businesses amongst conventional local

enterprise agencies. Our work on crime prevention in association with NACRO and using the Community Programme enables us to do socially and environmentally useful work whilst also providing more local jobs.

We have also, of course, made it our firm aim to engage the support, and particularly the financial commitment, of the private sector. Intensive work by the Central Unit of the Initiative over the past year has resulted in private sector secondees to the Task Forces and to the Central Unit itself being brought forward. Task Forces are working with Business in the Community and Chambers of Commerce as well as national firms and firms in their areas to promote particular programmes and projects, and I account it a major success that we have managed to win the support of some of our major banks to back Task Force Development Funds. Barclays and the Midland have undertaken to capitalise loan funds making credit available at low cost to small firms in three Task Force areas. The National Westminster is making commercial loans linked to Task Force advice and grants and is considering whether to capitalise a low interest fund in two further areas. The Yorkshire Bank has undertaken to provide low cost loans without limit in the Leeds Task Force area.

We are also working to develop pre-recruitment training programmes where a local source of new employment is in prospect - for example the new Copthorne Hotel in Birmingham. This kind of work ensures that Government help is targetted precisely to the needs of local employers, and reflects the real chances of local people in getting jobs. We have also won the support of the insurance industry to help us tackle the problems which some inner city businesses face in obtaining cover at affordable rates.

Then there are the many individual projects themselves. To date the Initiative centrally or locally, has committed £4.9m to 100 projects, details of which have been readily available to officials of all Departments. These projects have addressed different aims of the Initiative. Not all are capable of quantifiable outputs. Those that are form the subject of an Annex to this memorandum. It looks at what we have done in terms of private and public sector leverage, businesses supported and jobs and new training places created. I will be asking the new Task Forces to achieve, in terms of quantifiable outputs in their first year, no less a performance than has been attained by the first eight. In addition, I will set targets for the existing task forces which reflect the experience we have gained, and the resources which will be made available to them in 1987/88.

Each Task Force, as you know, is required to draw up an Action Plan which comes before the Paymaster General's Ministerial Group for scrutiny and approval. The Group attaches importance to quantifiable and non-quantifiable but identifiable indicators of performance.

Equally important as the numerical outputs, promising as I think they are, is the way in which the Task Force Leaders - drawn from DTI and DOE as well as DE and MSC - have been able to change some of the attitudes and behaviour which are a block to progress in some areas.

In this respect, the clear independence of the Task Forces from local authorities, and their standing as agencies of direct action by the Government, has helped to draw a distinction between the Initiative and the work of the Urban Programme channelled through district and county councils.

Some of the Task Force successes include:

(i) bringing into play groups which do not slot into the municipal paternalism of many local authorities, such as the Asian businessmen of Birmingham and Leicester and the council tenants of Peckham and Moss Side (fed up of being taken for granted politically by the Council);

(ii) putting employment, training and enterprise on the agenda of the powerful voluntary sector in many inner city areas. To their surprise, many organisations have found it not only easy but stimulating to switch to the more focussed agenda which the Task Forces have introduced;

(iii) remotivating residents to believe that they can have a stake in the economy of their city if they assist themselves to be helped into training, skill enhancement and job seeking;

(iv) persuading employers either individually or through Chambers of Commerce to drop some of their inhibitions about recruiting young people from deprived inner city backgrounds into the good employer-led Youth Training Scheme projects and encouraging them to participate in targetted employment drives.

I believe all this adds up to a good record of achievement and one that calls for further action now if the momentum we have generated is to be sustained. I do not think we could at this stage prove, one way or the other, either complete complementarity or overlap between the Initiative and other programmes, such as the Urban Programme. Nor do I believe that this should be at the forefront of our minds. What is important is that we have a setting in which direct experiment by Government is possible and we should seek to obtain full value from that advantage, and from the effort and resources we have committed so far.

I therefore propose to announce the extension of the Inner Cities Initiative to cover 16 task forces - eight more than now. Together with additional funding for the City Action Teams which I mention below, this will add up to a major restatement of the Government's commitment to stimulating enterprise and tackling the employment and training needs of people in some of our worst inner city areas. The areas I propose for the new Task Forces (information about them is given in the table) are in Coventry (Foleshill), Doncaster, Hartlepool, Nottingham (Hyson Green), Rochdale, Preston, Wolverhampton and Tower Hamlets (Spitalfields). The problems they face are no less severe as those in our present areas, but the prospects of moving ahead in them rapidly are promising. Soundings by officials indicate generally positive attitudes by the local authorities in whose areas we would be working - and that is clearly important if concerted action is to produce results sooner rather than later. It is always difficult to be selective in an exercise such as this, but since we are still involved in what is essentially a pilot, it is more important to be able to justify each small area individually than to claim that the areas in aggregate address the urban problem in general.

These areas have the broad agreement of the Ministerial Group although the discussions in the Group inevitably threw up divergences of opinion. They offer a good regional spread and tackle the most obvious inner city candidates while also securing representation for some less headline-grabbing areas. It could always be argued that the case for expansion would be strengthened if more evaluative material were available. My view, and that of the Paymaster General, is that we have sufficient evidence to show that we are moving in the right direction. There is everything to be gained by sustaining our forward momentum rather than wait up to a year for a full evaluation of the original task forces. Together the 16 areas currently proposed will cover about 0.5m people and we will be working with a large sample of the country's most

difficult urban problem areas. I would propose, when announcing the new Task Forces, to confirm the life of the Initiative for up to two further years from now. We do not contemplate a permanent life for any of the Task Forces and will expect to close at least 2 of the existing eight in the course of the next two years, as their usefulness expires.

I also have proposals to consolidate and enhance the work of the City Action Teams which we set up two years ago and which report to MISC 116. The Teams were set up to press home the Government's urban policy objectives in the Inner City Partnership areas and to provide a focus for joint working. CAT Leaders are drawn in different locations from the Regional Directors of my own Department or from DTI and DOE. I have been impressed in MISC 116 by the sensible way in which the Teams have approached their task and the positive impulse which CATs have given to the economic regeneration of their areas.

Last May, we gave £1m to the Newcastle/Gateshead CAT as part of the shipbuilding redundancies package. The City Action Team promptly devised a clear plan to develop the infrastructure of support for small and growing business enterprises, with particular reference to areas worst hit by the redundancies. The twelve projects which have been targetted by the City Action Team not only reflect their business infrastructure objective but also showed clearly an appreciation of the need for money to be spent in coordination with other sources of Government help, and as part of a leverage of private sector resources. A detailed evaluation has been commissioned by MISC 116, but it is already evident that the distinctive contribution of the CAT was to set a theme and selectively accelerate the achievement of projects which addressed that theme and needed complex multiple funding.

I believe that the experience of the Newcastle/Gateshead City Action Team has shown the value of a coherent strategy based on an agenda set collectively by the Regional Directors of Departments, rather than the local authorities who normally make the pace; of using funding to accelerate progress in areas identified as crucial to the strategy; of exploiting the flexibility which can be gained by working at the margin around the constraints of annual departmental programmes; and of the impetus to genuine collaboration and priority setting which the existence of a specifically hypothecated fund can bring. Networking between the CATs and Central Unit, and between the Teams in different cities, is helping to spread the strong lessons of the Newcastle experience.

For these reasons, I wish to emphasise my faith in and support for the work of the City Action Teams by allocating £1m to each of the five in 1987/88 from within my Department's public expenditure provision. In doing so, I would:

(i) require from each City Action Team a plan setting out their expenditure proposals within a clear strategic framework and an indication of expected outputs in 1987/88;

(ii) reserve to the Paymaster General or myself specific approval of the initial Action Plans and any further project proposals;

(iii) require reports from the CATs on how they have used the funds, including evaluation of their effectiveness, such reports to fit into the reporting framework which we already have for MISC 116. I shall provide a central evaluation of this by the summer of 1988.

You will expect me to make adequate arrangements for monitoring and evaluation of the expanded Inner Cities Initiative and of the City Action Teams' funds. An internal monitoring system for projects is already in place, covering input and output measures and performance indicators; these are modelled on the Urban Programme system used by DOE and should be pretty much comparable. In addition, we have retained consultants to carry out an external evaluation of the way in which the Initiative is being conducted. This lays less emphasis on quantification - which our own internal system can provide - than on testing out our effectiveness in reaching to the areas client groups and issues which we are intending to do.

My officials have been in touch with yours and with Nicholas Ridley's on a number of occasions to explain how we are taking all this forward. I understand that it is the view of Treasury officials that, given the size and scope for adjustment within DE Group, they see no grounds for increases in the manpower control figure and gross running costs limit for my Department. Given existing pressures elsewhere in the DE Group I cannot accept this but would want to pursue the point in the context of our normal discussions.

CONFIDENTIAL

EIGHT NEW TASK FORCES - PROPOSED LOCATIONS AND ESSENTIAL FACTS

Region	District	Wards	Pop	Ethnic %	Local Unemp %	Local Youth Unemp %
London	Tower Hamlets	Spitalfields St Mary's Weavers	20,860	42,0	29,0	31,2
West Midlands	Wolverhampton	Blakenhall Eastfield Graiseley St Peter's	48,831	38,3	27,4	44,1
	Coventry	Foleshill St Michael's	33,987	37,6	30,7	47,0
East Midlands	Nottingham	Forest Lenton Radford	25,106	25,4	39,1	54,9
Yorks & Humberside	Doncaster	Central Town Field Wheatley	35,899	5,3	22,9	36,4
North West	Rochdale	Brinrod Central & Falinge Stonebridge	33,179	20,2	22,5	31,9
	Preston	Avenham Central Park St Matthew's	23,833	25,1	26,8	36,9
North	Hartlepool	Dyke House Jackson Stranton	19,785	0,8	28,6	42,1

AT A GLANCE COMPARISON	AVERAGE "OLD"	AVERAGE "NEW"
Population	33,000	30,000
Umemployed %	30,3	28,4
Youth unemployed %	43,4	40,6
Ethnic minority %	30,4	24,3

6 New training places The work of ICI has facilitated a large number of Community Programme projects and wider training opportunities. Over 910 CP places, 65 YTS places and around 1200 other training places have been facilitated (not created) by the Initiative.

7 Breakdown of spend Of the about £4m of ICI spend on the 95 projects assessed, a rough allotment of spend by primary aim is:

		%
a.	Provide jobs	15
b.	Encourage enterprise	25
c.	Improve employability	55
d.	Community improvement	5

Many of the projects meet more than one aim.

CONFIDENTIAL

CCBG

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MINISTER OF STATE

MINISTER
FOR PUBLIC TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: JM/PSO/4120/87

Your ref:

The Rt Hon Nicholas Ridley MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

NBPM.

8 April 1987

Dear Nick,

with DRN?

Thank you for your letter of 6th April to John Moore about the Canary Wharf negotiations. I am replying in his absence.

Your analysis of the situation is very much in line with ours and we are happy to agree to the general strategy which you outline in your letter. However, your proposed final deadline of 30th April would leave decisions to the very last moment so far as letting the railway contracts is concerned. We would feel more comfortable if this deadline could be brought forward by 24 hours to 29th April to leave LRT a day to finalise the acceptance of the tenders and letting of the contract for the railway. They cannot, of course, take these steps until all the Agreements with the consortium have been signed.

I am copying this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

Yours ever
David

DAVID MITCHELL

CONFIDENTIAL

020/2769

CCB/5

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

R U Young Esq
Private Secretary to the
Secretary of State for the Environment
2 Marsham Street
London
SW1P 3EB

7 April 1987

Dear Robin,

NEW UDCS

The Chief Secretary has seen your letter to me of 6 April.

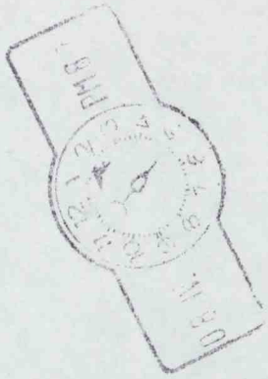
This is simply to put on record that the Chief Secretary's understanding also extends to any order your Secretary of State might sign during the recess to establish the Teesside UDC.

I am copying this to David Norgrove (No. 10), Tim Walker (DTI), John Turner (Employment), Chris Capella (Paymaster General's Office) Jon Shortridge (Welsh Office), Robert Gordon (Scottish Office), David Watkins (Northern Ireland Office) and to Trevor Woolley (Sir Robert Armstrong's Office).

Yours,

JILL RUTTER
Private Secretary

RGA. Pol. Lower Cities PT9



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CC/BG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Miss Jill Rutter
Private Secretary to
The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

6 April 1987

Dear Jill,

NBM.

NEW UDCS

This to record that our 2 Ministers discussed on Thursday my Secretary of State's letter of 1 April.

My Secretary of State agreed that he will find the resources for the 4 new UDCs proposed either by rationing their funds or from savings within DOE baselines, or both. He confirmed that he cannot at this stage say precisely what bids he will find inescapable in the forthcoming PES round and subsequently, but he made it clear that he did not intend to make any bids on account of the 2 new Orders for the Black Country and Tyne and Wear UDCs, which my Secretary of State has now signed. I understand that on that basis the Chief Secretary was content with my Secretary of State's proposals in his letter of 1 April.

I am copying this letter to David Norgrove at No 10, Tim Walker in Mr Channon's office, John Turner in Lord Young's office, Chris Capella in Mr Clarke's office, Jon Shortridge in Mr Edward's office, Robert Gordon in Mr Rifkind's office, David Watkins in Mr King's office and to Trevor Woolley in Sir Robert Armstrong's office.

Yours,

Robin.

R U YOUNG
Private Secretary

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REGIONAL POL · Inner Cities PT 9

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CCB/G

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

1 April 1987

Prime Minister 2

Dear John

DRS 2/4

NEW UDCS

We discussed today my letter to you of 26 March.

You were prepared to agree that I should sign now the Orders designating the new Urban Development Corporations for the Black Country and Tyne and Wear, and during the Recess for Teesside, subject to an assurance about their funding.

I confirm that for 1987/88 I will find the necessary public expenditure provision from within my OES resources. For 1988/89 and 1989/90, I have every hope of finding the resources for the four new UDCs either by rationing their funds or from savings within my baselines, or both. I cannot of course at this stage say precisely what bids I may find inescapable in the coming PES Round and in 1988.

I am copying this letter to the Prime Minister, Paul Channon, David Young, Kenneth Clarke, Nicholas Edwards, Malcolm Rifkind, Tom King and Sir Robert Armstrong.

Yours ever
Nicholas

NICHOLAS RIDLEY

REG. POL. Inner Cities
PL-9

CC 85

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[redacted]GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
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Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
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Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

CONFIDENTIAL

31 March 1987

Dear Nick

NBM.

NEW UDC'S

Thank you for copying to me your letter of 26 March to John MacGregor about your proposals to lay orders for three more UDCs

Whilst noting your concern about future resources for your OES programme, I see no reason why these orders should not be laid in the way you suggest.

Copies of this go to the Prime Minister, John MacGregor and the other recipients of your letter.

Yours ever

Nick

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

Regional Policy
Impact Areas
PTT

013/2985

CONFIDENTIAL

cc BG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

27 March 1987

NBPM

DA - P See Sir

Dear Secretary of State,

NEW UDCs

Thank you for your letter of 26 March in which you propose making the orders designating two more UDCs before the Easter Recess.

It is not clear to me why you attach such urgency to making these orders when in two or three weeks time we will have the final consultants' reports and be able to give proper consideration to their proposals, the outputs which are likely to be achieved and how you will find the savings you need to fund the public sector inputs. You do not explain why the designation of the Black Country and Tyne and Wear UDCs is that much more urgent than Teesside which you are leaving until after Easter. When you made your announcement last year you said that the new UDCs would be phased over the next two years so a delay of a few weeks can hardly be critical.

I am also concerned that you are not able to say now how these three new UDCs are to be funded. E(A) agreement to the creation of four new UDCs which they gave at the meeting on 24 September 1986 was on the understanding that funding was found from within whatever we agreed in the Survey for your total PES block. Your Estimate of £50-£80 million a year in each of the Survey years after 1987-88 is considerably above the amount you set aside in the Survey for new UDCs and I will need to know how you intend to make the necessary offsetting savings.

From the preliminary assessment of outputs which your officials have just sent mine it is not at all obvious that, except perhaps in the case of the Black Country, public expenditure at the levels proposed is justified given the poor private investment leverage ratios. This and the other relevant output measures need careful study once the consultants' reports are available.

I am copying this letter to the Prime Minister, Paul Channon, David Young, Kenneth Clarke, Nick Edwards, Malcolm Rifkind, Tom King, and Sir Robert Armstrong.

Yours sincerely,

John Ruth

PP JOHN MacGREGOR

(Approved by the CST and signed in his absence)

REGIONSTELLEN
BUNKERCHEF
PT 9

CONFIDENTIAL

010

CCBG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

26 March 1987

NBRR-

Dear Chief Secretary,

NEW UDCs

I propose to make the orders designating the Black Country and Tyne and Wear UDCs before the Easter recess and the Teesside UDC immediately after the recess.

Consultants are preparing reports on each of the three areas, and they will be available at the end of April. Their preliminary findings have, however, enabled me to decide the detailed boundaries and to conclude that within these boundaries each UDC could achieve a substantial measure of regeneration for a net public expenditure of about £130-150m over periods varying from 7-10 years.

My proposed timetable is to have the Black Country and Tyne and Wear UDCs established by the end of May and the Teesside UDC shortly thereafter, so that we will be able to cite the UDCs as evidence of our commitment to these areas, whenever an election may be called. The orders designating the UDCs are subject to affirmative and hybrid procedures. To meet the end May timetable, I have to sign the Black Country and Tyne and Wear orders by 2 April. Provided there are no petitions (and we have been working hard to persuade would-be objectors that petitions are a waste of time and money), my timetable can be met, and these UDCs will come into existence before the end of May. But if there is any delay in signing the orders, the Easter recess means it would be well into June before the UDCs could be established.

Our proposal to establish the new UDCs has been very widely welcomed. Chairmen designate have been appointed and are anxious to get to work. The consultants have generated a lot of interest from would-be investors. It is essential that we build on this momentum and formally establish the UDCs as soon as possible. Speedy action will bring us enormous credit.

So far as resources are concerned, I am confident I will be able to make sufficient provision in 1987/88 from within my existing OES resources to make a worthwhile start on the new UDCs. For future years, the four new UDCs are, according to the consultants' initial estimates, likely to spend approximately £50-80m in total in each year during the coming survey period above the base line for the new UDCs available in PES. You will recall that provision for the new UDCs was discussed by E(A) in September (E(A)(86)25th). It was then agreed that resources should be agreed

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between us, within whatever level of provision was settled for the OES programme. I will be working towards the objective in the coming round, though before I have prepared my PES bid for this year I am not in a position to identify the savings which I would hope to find elsewhere in that block, and I cannot rule out the possibility of an additional bid. You will appreciate from our other discussions that the extent of this could depend on the outcome of the negotiations on Canary Wharf.

My officials are writing simultaneously to yours, with preliminary information from the consultants on the likely outputs from the new UDCs.

In order to meet my timetable, I must ask for replied from you and copy recipients by 31 March.

I am copying this to the Prime Minister, Paul Channon, David Young, Kenneth Clarke, Nicholas Edwards, Malcolm Rifkind, Tom King and Sir Robert Armstrong.

Yours sincerely

B H Ward. Private Secretary

77.

NICHOLAS RIDLEY

(Approved in draft by the Secretary of State and signed in his absence)

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P 02601

PRIME MINISTER

Docklands

(E(A)(87)th Meeting)

There are three papers. Detailed briefing on each is attached. I suggest you take them in the following order.

CANARY WHARF NEGOTIATION (E(A)(87)14)

2. Last month Mr Ridley favoured a cheaper alternative to the consortium's proposals and planned a break in the negotiations with them. Now, however, he wants to continue negotiations on new proposals, even though these do not include firm commitments to take up most of the space available. There has been a change of emphasis, and you might ask why. Mr Ridley asks whether a final date should now be set or whether he can have discretion from week by week. I imagine you will wish to give him discretion, as the responsible Minister, subject to reporting back on any major new developments.

LONDON DOCKLANDS: ROYAL DOCKS (E(A)(87)13)

3. Mr Ridley and Mr Moore jointly recommend major development of the Royal Docks, plus the eastern extension of the railway, whether or not the full Canary Wharf development goes ahead. But there are risks. If Canary Wharf fails, the costs of the eastern extension might not be met by the rise in the value of LDDC's land. Nevertheless, the Ministers think that in that case the Royal Docks development would still be needed to show confidence in docklands. They ask for agreement in principle to this development, and to support for LRT's Bill for the eastern extension.

WESTERN EXTENSION OF THE RAILWAY (E(A)(87)15)

4. Mr Moore's paper says that the full extension to the Bank would have a negative NPV even if Canary Wharf goes ahead. He lists cheaper alternatives, but these would be strictly uneconomic without Canary Wharf. The case for this extension is a more general one. Mr Moore seeks agreement to more work on the options. Meanwhile if the consortium negotiations break down we should say we are exploring options for linking the docklands railway with the Underground.

J B UNWIN

Cabinet Office
24 March 1987

CONFIDENTIAL

Royal Docklands: Royal Docks
(E(A)(87) 13)

DECISONS

1. This paper from the Environment and Transport Secretaries seeks agreement:

i. to the principle of a high profile commercial and housing development for the Royal Docks;

ii. that the capital cost of an eastern extension of the Docklands Light Railway (DLR) should be financed from land sales by the London Docklands Development Corporation (LDDC);

iii. that Government support should be given to the eastern extension at Second Reading of the necessary private Bill in the first week of April.

BACKGROUND

2. The 270 hectares of land around the Royal Albert Dock and the King George V Dock are the last major area of docklands remaining to be developed. LDDC have been negotiating with three consortia for an intensive development of housing and commercial property. This would provide £2.1 billion of private investment and 7,000 housing units. But it is dependent on an eastward extension of the DLR to Beckton to provide access.

3. E(A) agreed last November that London Regional Transport (LRT) might bring before Parliament the Bill needed to authorise construction of the extension. But the Committee also said that the Government should support the Bill only if it was clear that the capital costs could be met without additional public

expenditure, and that there would be no additional costs on LRT. On 23 February the Environment and Transport Secretaries were asked to provide a paper which would enable the Committee to take a firm decision on the Royal Docks Development. It was recognised that if the separate negotiations with the consortium which proposes to develop Canary Wharf were to break down, an announcement of a decision to go ahead with a major scheme in the Royal Docks could provide an important part of the Government's response.

THE ISSUES

4. The paper suggests that there is a robust economic case for the proposed development in the Royal Docks. It shows a net present value (NPV) gain of £189 over a base case (assuming the minimum public sector investment necessary to regenerate the area), and a gain of £85m over the the next best option. But the analysis confirms that success would be dependent on the eastward extension of the DLR, and the economic appraisal assumes that this goes ahead.

5. The extension has a capital cost of £140m. The proposal is that it should be funded by LDDC from the increase in the value of its land which is expected to result directly from the existence of the railway. But the amount of money available from this source depends on whether the consortium scheme for Canary Wharf, with the associated westward extension of the DLR, goes ahead.

6. If the Canary Wharf scheme succeeds, enhanced land values in the Royals are expected to yield £260m, nearly twice the capital cost of the eastward extension. It is also estimated that the extension should provide a comfortable operating surplus. But if the Canary Wharf scheme and the western extension fail, the case becomes marginal. Enhanced land values are estimated at £150m, just enough to fund the eastern extension - and they might of course turn out to be lower still. But the extension is still estimated to make an operating surplus.

7. It therefore seems very likely that the Royal Docks proposal, including the eastern extension of the DLR, can be funded without additional public expenditure if the Canary Wharf scheme goes ahead. The case is not so clear if Canary Wharf fails, although the scheme would still be funded if the estimates in the paper are correct. But Mr Ridley and Mr Moore argue that if that happens, it will be particularly important for confidence in docklands to announce a decision to go ahead in the Royals, even if that involves some financial risk.

8. Ideally the Committee should not take these decisions until it is clear whether the Canary Wharf consortium will proceed. But the paper suggests that a decision is required before Second Reading of the LRT private Bill in early April. It would clearly be prudent to give as few hostages as possible in announcing that decision if the Canary Wharf negotiations are still continuing, and you may wish to ask Mr Ridley to clear his proposed statement with the Treasury and the other Departments concerned.

HANDLING

9. You will wish to ask the Environment and Transport Secretaries to speak to the paper. The Chief Secretary, Treasury and other Ministers will also wish to contribute.

Cabinet Office
24 March 1987

CONFIDENTIAL

CANARY WHARF NEGOTIATIONS: STRATEGY FOR DOCKLANDS

(E(A)(87) 14)

DECISONS

The Committee needs to decide:

i. whether now to set a firm deadline for the conclusion of negotiations with the consortium led by Mr G Ware Travelstead, or to let discussion continue on a week-by-week basis;

ii. whether to prepare a statement about the future strategy for docklands for use if the negotiations break down.

BACKGROUND

2. The London Docklands Development Corporation (LDDC) have been negotiating with Mr Travelstead's consortium since 1985. This consortium, (originally comprising Morgan Stanley International, Credit Suisse First Boston, and First Boston International) propose an initial development at Canary Wharf of some 5m sq ft. There is a prospect of eventual development to 10m sq ft.

3. To secure this it was agreed that LDDC might exceptionally be authorised to pass the freehold of the site to the consortuim in advance of development. But the consortium would in return have to provide legally binding guarantees that it would provide the necessary infrastructure, and that the development itself would take place. The success of the scheme also depends on a westward extension of the Docklands Light Railway (DLR) to Bank in the City. This is estimated to cost £130m, of which the consortium have agreed to provide £54m, leaving £76m to be funded by London Regional Transport (LRT). LRT would also require revenue guarantees from the consortium. Separate negotiations have been

proceeding on these aspects.

4. Mr Ridley gave the Committee a gloomy report on progress on 23 February. It then appeared that the consortium would never be brought to the point of signing the necessary agreements. The "options agreement" with the consortium (signed in May 1985) was due to expire on 6 March. The Committee agreed that a final timetable should be set for the conclusion of negotiations. But this has not yet been done: the options agreement has in fact been extended to 26 March.

THE ISSUES

5. Mr Ridley's new report is unexpectedly more positive. DOE and DTp now seem close to agreement with the consortium on both the Master Building Agreement and the western extension of the DLR. There are however some substantial changes, which affect:

i. the composition of the consortium, which now includes the British contractors who are to undertake construction (Mowlem, Laing, Taylor Woodrow, Costain, Mc Alpine) and Bechtel/Park Tower;

ii. the form of the guarantees for the infrastructure;

iii. the amount of construction for which these will be a contractual commitment. This will be only 1.5m sq ft, less than a third of the proposed first stage development.

6. Point (iii) above is clearly the crucial one. A decision to go ahead would depend on a judgement that the firm commitment by two of the banks involved to finance construction of 500,000 sq ft each for their own use, with a similar amount financed by a third bank for other occupiers, would stimulate early completion of the full first phase of 5m sq ft. The LDDC Chairman apparently believes the prospects are good. Nevertheless the commitment now proposed clearly falls well short of what has been sought by the

Government.

7. Mr Ridley does not suggest that the Committee should take a final decison now on the revised terms. He suggests they need to be explored further. The Committee will need to decide whether Mr Ridley should be authorised to extend the discussions week-by-week, or whether a firm timetable should now be imposed. The danger with the first course is that the consortium may seek to spin out the negotiations indefinitely, even if they have no immediate intention of proceeding, in the hope that prospects for the development will improve. On the other hand the consortium may seek to challenge in the courts any precipitate decision to end the negotiations; and the Department's credibility will be very strained if further "final" deadlines are set and then further extended. In any case no deadline can now be set earlier than 13 April, since the British contractors have made it clear that they will not be in a position to take a final decision before then. The Committee will therefore want to consider whether it wishes to set an effective deadline of around Easter or to give Mr Ridley discretion to proceed on a more flexible timetable.

Fallback

8. On 23 February the Committee also asked Mr Ridley and Mr Moore to bring forward proposals for a statement on the Government's strategy for docklands, in the event of the consortium's proposal foundering. Mr Ridley says that there is no immediate prospect of that. But he suggests that a persuasive statement could be made, incorporating the following elements:

i. endorsement of an intensive housing and commercial development of the Royal Docks, linked with an eastern extension of the DLR (discussed further in E(A)(87) 13);

ii. a commitment to pursue an alternative development for Canary Wharf, totalling some 3-4m sq ft;

iii. a decision to explore alternative, cheaper options for extending the DLR westwards to provide better links with the London underground (discussed further in E(A)(87) 15).

Since it is clear that negotiations with the consortium are unlikely to break down before Easter, a decision on such a package is not essential at this stage. But the Committee may think it prudent to ask for a statement to be prepared and cleared on a contingency basis in case the unexpected happens.

HANDLING

9. You will want to ask the Environment Secretary to introduce his paper. The Transport Secretary will wish to speak about the negotiations between LRT and the consortium. The Chief Secretary, Treasury and other Ministers will wish to contribute.

Cabinet Office
24 March, 1987

CONFIDENTIAL

Fallback Options for Docklands Light Railway Western Extension
(E(A)(87) 15)

DECISONS

The Committee needs to decide whether further work should be done to develop a cheaper fallback option to the proposed western extension of the Docklands Light Railway (DLR), which could be adopted if the consortium development for Canary Wharf is abandoned.

BACKGROUND

2. A major western extension of the DLR to Bank in the City is crucial to the success of the consortium proposal for Canary Wharf. This scheme is estimated to cost £130m, comprising:

i. £55m to upgrade the initial railway to cope with higher volumes of traffic;

ii. £75m for the new tunnel and interchange facilities;

The consortium is expected to contribute £54m, leaving London Regional Transport (LRT) to find the remaining £76m.

3. At the Committee's meeting on 23 February it was suggested that there was a strong case for extending the DLR into the heart of the City, even if the full Canary Wharf scheme did not proceed. The Transport and Environment Secretaries were asked to bring forward proposals for a fallback option on that assumption, dealing with the position of Mr Travelstead in view of the negotiations which had occurred.

THE ISSUES

4. The Transport Secretary's paper contains a preliminary

CRL 76-

appraisal of alternative schemes which might be adopted if the consortium proposal for Canary Wharf fails. Unfortunately, he does not yet appear to have consulted Mr Ridley or the Chief Secretary. He estimates that a minimum of £42m would need to be spent to upgrade the initial railway to cope with the additional traffic which would be generated by a less ambitious fallback plan for Canary Wharf (providing perhaps 3m sq ft of development) and an eastern extension of the DLR as part of the proposed Royal Docks development. He considers four other options, which add to this minimum scheme (option a), but at less cost than the full western extension. They are:

- option b, which includes improved pedestrian access at Tower Hill Tube Station, at a cost of £45m;

- option c, which includes an underground extension of the DLR to Tower Hill, at a cost of £75m;

- option d, which includes an extension to Monument, at a cost of £100m;

- option e, wich includes an extension to Momument and a travelator link to Bank, at a cost of £115m.

5. Option b would provide only marginally improved access to the Underground. Options c and d would be better, but the direct link would be restricted to the District and Circle lines. Option e would provide a direct interchange with the Central and Northern lines as well. There is therefore a direct trade-off between the cost of the options and the access provided. The paper suggests that in purely economic terms none of the options which have been subject to appraisal is worthwhile. Option c, d and e are roughly equivalent, with a negative Net Present Value (NPV) of - £30m if the full Canary Wharf development does not go ahead. (By comparison, the full scheme has a better (though still negative) NPV of - £15m, but only if the full Canary Wharf development goes ahead).

6. There is provision of only £46m in LRTs external financing limit (EFL) for the western extension. Any of options c, d, e or the full western extension would therefore require an increase in the EFL, unless funds were to be made available from another source - eg private developers or LDDC. Negotiations with Mr Travelstead have proceeded on the assumption that only £76m of public funds will be available for the western extension, including an increase of £30m in the EFL. If these negotiations broke down, and the Government immediately announced that it would provide more than £76m for the extension, that could strengthen Mr Travelstead's case in any court action against the Government. Mr Moore's paper therefore assumes that anything over £76m would need to be found as a private sector contribution. Option b or c could be funded without such a contribution. But option d would require a contribution of £24m,. and option e one of £39m. No steps have yet been taken to explore whether such a contribution might be forthcoming.

8. Mr Moore proposes that the options should be developed further. The Treasury would need to be involved, given the implications for LRTs EFL. The Committee may however wish to give an indication of whether it prefers one or more of the options over the others.

HANDLING

8. You will wish to ask the Transport Secretary to introduce his paper. The Environment Secretary may wish to comment on the implications for docklands generally. The Chief Secretary, Treasury and other Ministers will also want to contribute.

Cabinet Office
24 March, 1987

CC 31/40

PRIME MINISTER

24 March 1987

DOCKLANDS, CANARY WHARF AND THE LIGHT RAILWAY

Two important new factors have emerged:

1 A closer appraisal of the development potential of the Royal Docks has revealed a more promising picture than that foreseen previously; so much so that there is a robust economic case for the eastern extension of the Light Railway.

2 Although the market for new office accommodation in and around the City has gone off the boil for the time being, Travelstead has strengthened his Consortium with the addition of five substantial British construction companies, the reputable Bechtel Corporation and another major US developer. This and the readiness of the banks in the Consortium to commit to take 1.5 million square feet of office space at Canary Wharf, add considerably to the Consortium's credibility. Even if negotiations with the Consortium founder in the final stages, it looks increasingly likely that a successor project of comparable scope would be mounted - thereby justifying the western link of the Light Railway into the London Underground network.

The fear of a grandiose white elephant at Canary Wharf, linked to the City at the expense of the taxpayer, is receding - to be replaced by some nice synergy which would realise the full potential of a regenerated Docklands; the eastern extension of the Light Railway justifies the high-profile commercial development of the Royal Docks, with the railway extension being funded wholly from the development gain; this in turn reinforces the case for an ambitious City extension project at Canary Wharf; which in turn justifies the western link of the Light Railway and

further enhances the attractiveness of the Royal Docks development.

Recommendations

1 Support the proposals for the eastern extension of the Light Railway and the development of the Royal Docks.

2 Extend negotiations with Travelstead's Consortium, but introduce the spur of the deadline (say end of April) not in the form of an absolute breakpoint, but the date beyond which the Option Agreement is deemed to have expired, thus allowing the Government to invite others to put forward competing schemes for the development of Canary Wharf.

3 Continue to develop the less expensive fallback options for the western extension of the Light Railway, whilst regarding the full Bank extension as the preferred objective;

JOHN WYBREW

cc BG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Moore MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

18 March 1987

Dear John

NSM

CANARY WHARF

I am writing to provide a further update on the position on the Canary Wharf negotiations.

Since I wrote to you on 11 March, with a copy of Mr Heiser's letter to Mr Travelstead, a meeting has been arranged between Mr Heiser and Mr Travelstead and his associates to take place today, 18 March. The outcome of that meeting, which is concerned with the question of guarantees for the infrastructure, is of great importance to the decision to be made about Canary Wharf, and about the handling of any decision, if the need arises, to break off negotiations.

I can also report that we have, since I last wrote, had replies from the firms mentioned by Mr Travelstead as being prepared to take space in the project. The overall picture is substantially less encouraging as to the prospect of firm commitment than Mr Travelstead suggested.

I will be putting to colleagues, for consideration at the meeting of E(A) on 25 March a paper on the substance and the handling of these matters, with legal advice - this will be together with the paper that we will be preparing on the Royal Docks. In the meantime, however, I see no alternative to extending the option agreement by a further week, which would take us to 26 March. We can take a considered view about next steps, including the vital presentational aspects, at our meeting.

I am copying this letter to the Prime Minister and other E(A) colleagues and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

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CC(87)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

JM/PSO/2846/87

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

13 MAR 1987

Dear Nicholas,

CANARY WHARF

FILE WITH DCN

Thank you for your letter of 11 March outlining the current position in your negotiations with Mr Travelstead.

I agree that the evidence you have so far received from Mr Travelstead is very thin and I am content with the tactics you propose.

As regards the railway agreement, you will have seen a copy of my letter to John MacGregor of 9 March in which I reported that a meeting between my officials, LRT and Mr Travelstead on 6 March appeared to have cleared the way to an agreement. However, earlier this week LRT received a revised draft of the Agreement from the Consortium which appeared to take little or no account of the position we believed had been reached at the 6 March meeting. Subsequently, Mr Travelstead's representatives have been taking a more conciliatory line, alleging that their latest proposals reflect some misunderstandings of their lawyers.

All in all the most charitable interpretation of the Consortium's tactics is, I think, that they are still playing for time because they cannot yet deliver the assurances on the financing of their development that you have asked for. Nevertheless, LRT and my officials will of course continue in their efforts to secure an acceptable railway agreement until such time as we agree, in accordance with your proposed tactics, that the exercise has become futile.

I am copying this letter to the Prime Minister, to other members of E(A), and to Sir Robert Armstrong.

JOHN MOORE

CONFIDENTIAL

REGIONAL POLICY

INNER CITIES

PT 9

015/2770

CCBG

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

Brian Leonard Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

12 March 1987

Dear Brian,

CANARY WHARF

The Chief Secretary has seen a copy of your Secretary of State's letter of 11 March to the Secretary of State for Transport. The Chief Secretary discussed in the margins of Cabinet with your Secretary of State and the Secretary of State for Transport.

The Chief Secretary agrees the extension of the options agreement in the way you propose.

The Chief Secretary notes Mr Ridley's judgement that the absence of suitable guarantees and of other satisfactory evidence of commitment means that it will probably be impossible to reach an acceptable deal with Mr Travelstead. He considers that the case for ending negotiations with Mr Travelstead should be based primarily on these factors.

The Chief Secretary therefore considers that, in the absence of a significant improvement in the terms of the assurances provided by Mr Travelstead, we should not be prepared to contemplate further extensions beyond the date Mr Ridley has in mind except for the most compelling reasons.

I am copying this letter to David Norgrove at No. 10, the Private Secretaries to other members of E(A) and to Trevor Woolley in Sir Robert Armstrong's Office.

Yours,

Jill

JILL RUTTER
Private Secretary

REGIONAL POLICY: Inner Cities: Pt 9

14

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Moore MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

Prime Minister 2

Nr Ridley now looks to extend the deadline for Nr Travelstead beyond 25 March. AWS 11/3.

11 March 1987

Dear John

Following our exchange of letters, and those of colleagues last week, a clear view emerged that we should continue to try to negotiate a deal with Mr Travelstead, if satisfactory terms could be reached; but in any case that it would be preferable for a final breakdown, if that is inevitable, not to occur before we are able, probably following E(A) on 25 March, to announce decisions on the strategy for the Royal Docks and the eastern extension.

Mr Travelstead in fact produced, late on 5 March, what purported to be the evidence we had been seeking about the commitments by his guarantors, and about taking space in the development. For that reason, as I had foreshadowed in my letter of 4 March, I authorised LDDC to extend the agreement to 12 March. There are, in any case, some points outstanding on the MBA, though these should be capable of resolution this week.

I attach copies of what Mr Travelstead provided, for the information of colleagues. It is evident that what he produced fell far short of what he had been told was required "well before" the MBA could be signed. As to guarantees, he argued that it was unreasonable to expect much better indications from his banking partners than the attached letters contain, in advance of every detail of the MBA, and the accompanying agreements, being available to them. I do not accept that. Final commitment must, of course, be held back until every detail is in place.

But the underlying principles have long been known to Mr Travelstead and should have been to his partners; almost all essentials of the agreement are in place. It would have been entirely reasonable for the banks to be much more specific about their commitment. That is what has now been made plain to him in a letter from my Permanent Secretary, a copy of which I am enclosing below. I attach much more significance to his banking partners than to the contractors who have, at a very late stage, been brought forward as guarantors.

Commitment to take space is secondary, but would provide the evidence we have been seeking of the probable pace of development on which the economic appraisal of the project turns. I am, as he invited us to do, having further checks made on what he has provided - vague though it is.

In view of the importance of ensuring that negotiations do not break down before we can take a considered view of the Royal Docks and the eastern extension, I propose that he should be given an extension of the options agreement, by letter, for a further seven days; and that we should be willing to contemplate one further, and probably final, extension next week to take us beyond 25 March. That seems to me to leave us with more flexibility than the alternative of a single extension now, with a firm warning of finality. That might unnecessarily provoke a rupture before we can be fully prepared.

I should be grateful for agreement to the course of action I propose by 10 am on Thursday 12 March.

NICHOLAS RIDLEY

COMMERCIAL IN CONFIDENCE

Department of the Environment
2 Marsham Street London SW1P 3EB
01-212 8051

Permanent Secretary
Terry Heiser CB

G Ware Travelstead Esq
The Canary Wharf Development Co Ltd
9 Bishopsgate
LONDON
EC2N 4BQ

cc: Mr Goldman
Mr McQuaid
Mr Wise
Mr Freeman
Mr Bradley
PS/Secretary of State

10 March 1987

Dear Mr. Travelstead

CANARY WHARF

We have now had an opportunity to consider your letter of 5 March and the annexed document.

We are disappointed at the limited nature of the material you have now presented. As I pointed out when we met on 5 March, I made it clear as long ago as our meeting on 20 November what reassurances Ministers need to be satisfied that the immediate freehold transfer and public investment which you seek for your proposed Canary Wharf development were warranted; and that they would need them in good time.

I realise that the Bill to authorise the Docklands Light Railway extension did not receive Royal Assent until December and that you may face problems in getting a final commitment from guarantors or prospective occupiers without having a fully settled MBA or railway agreement. But what you have said in discussions with the Departent has led us to believe that the banking groups whose letters you have copied to me are full members of the Consortium and have at all times been party to the negotiations and are fully informed about the stage reached.

As to the fundamental question of guarantees, it seems to me that we are in a situation in which the terms of the MBA and the railway agreement are sufficiently settled for any proposed guarantor to give a definitive, though still conditional view on the acceptability of the documentation. I consider that

Ministers can now reasonably conclude that if this project is going to get off the ground you ought to be able to provide very soon definite evidence that acceptable guarantors are committed to signing the proposed guarantee documents; of the availability of the money needed to build the proposed infrastructure and of commitments by the banks you are in partnership with to take a substantial quantity of office accommodation. We would expect prospective guarantors to say at this stage:

(a) whether <u>in principle</u> they are prepared to give a joint and several guarantee for £340m for a specified period in connection with a project on the lines proposed;

(b) whether or not the <u>present</u> documentation (subject to the outstanding points of which we are both aware) is essentially acceptable to them;

(c) whether they would concurrently commit themselves to build office accommodation for themselves at the Wharf;

(d) if so, how much and by when.

The letters you have produced are silent on these matters.

You will understand that Ministers cannot take a final view on this important proposal without having the material I have mentioned before them, with proper time to consider it. In any event, I believe that it would be desirable for us to meet senior representatives of the three banks next week. I and my colleagues would be available at short notice.

You told me there would be no objection to our approaching the undertakings you name about their intentions as potential occupiers. We are doing so confidentially.

I also note you have not offered any material about prospective contractors or building contracts beyond the letters from certain building and civil engineering companies expressing an interest

in participating and that you have not referred at all to your proposed funding arrangement with the Chemical Bank. You said at our meeting on 23 February that you were near arranging a facility with this bank and would copy the final agreement to the Department as soon as it was ready. I should be grateful if you would let me have information on these matters quickly.

Discussions between my people and the LDDC on Friday suggested rapid progress was being made to resolve the issues referred to in your letter and settling definitively the terms of an MBA and "guarantee" documents.

I am copying this to Christopher Benson.

Yours Sincerely

T M HEISER

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 2461/1 (one piece/item number)	Date and sign
Extract details: enclosures to letter dated 11 March '87 from Ridley to Moore	X
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
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032/2984

CONFIDENTIAL AND
COMMERCIAL-IN-CONFIDENCE

CC 89

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

NRBM

6th March 1987

Dear Nicholas,

CANARY WHARF

Thank you for sending me a copy of your letter of 4 March to John Moore. ad-Hoc

I very much agree that the time has come to end the negotiations with Mr Travelstead's Consortium on the development of Canary Wharf and the western extension of the DLR. He has clearly failed to secure the necessary backers.

I am broadly content with your outline for a possible strategy statement on Docklands. Depending on timing you will need to be cautious about what you say on specific options for development of the Royals which have yet to be agreed. I also think it would be premature to say too much about the western extension of the DLR. I understand that LRT have identified several potential ways of linking the light railway to the underground system which are less costly than the Bank extension. It is not clear at this stage which alternative would be most cost-effective and the form of the rail link must of course depend on the scale and type of development eventually proposed for Canary Wharf. If necessary I suggest you limit comment on the western extension to a simple statement that options for linking the western end of the DLR to the rest of the public transport system are being looked at.

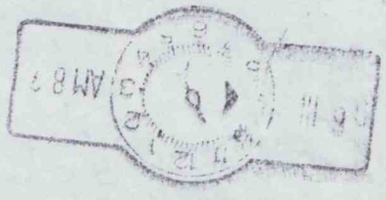
I am copying this letter to the Prime Minister, John Moore, other members of E(A) and to Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

REG. POLICY : Inner Cities



CONFIDENTIAL AND COMMERCIAL-IN-CONFIDENCE

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

David Norgrove
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Prime Minister 2
DCV
6/3.

6 March 1987

Dear David,

LONDON DOCKLANDS: CANARY WHARF

You will recall my Secretary of State's letter to the Secretary of State for Transport of 4 March, copied to the Prime Minister and other E(A) colleagues. This referred to today's expiry of the extended Option Agreement on Canary Wharf with Mr Travelstead and his Consortium.

Mr Travelstead came in to see my Permanent Secretary last evening, bringing with him various papers relating to the required guarantees and assurances on his proposed scheme. Officials here are now considering these, in consultation with colleagues in DTp and Treasury as necessary. In the light of this Mr Ridley has today authorised an extension of the option agreement until Thursday 12 March. I enclose a copy of the letter which Terry Heiser has sent to Mr Travelstead explaining this.

Mr Ridley is likely to write again to E(A) colleagues next week, in the light of the consideration of the papers that have now been submitted by Mr Travelstead.

I am copying this letter to Richard Allan and to the Private Secretaries of all members of E(A).

Yours sincerely
Brian Leonard.

B H LEONARD
Private Secretary

Regional Pol: Minn-Atlas PTP

COMMERCIAL IN CONFIDENCE

B12 GY 314

Department of the Environment
2 Marsham Street London SW1P 3EB
01-212 8051

Permanent Secretary
Terry Heiser CB

G Ware Travelstead, Esq
The Canary Wharf Development Company Ltd
9 Bishopsgate
LONDON
EC2N 4BQ

6 March 1987

Dear Mr. Travelstead

CANARY WHARF

I refer to your letter of 5 March and our meeting last night.

We obviously need to evaluate the papers which you handed me last night: and you tell me certain matters are still outstanding in connection with the settling both of the terms of an MBA which might be acceptable to all parties and of the terms of any agreement between you and LRT over the financing of the extension of the Docklands Light Railway.

The extension of the Option Agreement is for the LDDC: but the Government will not object to an extension until Thursday 12 March.

This concession should not be construed as in any way indicating that you have yet satisfied the Government on the matters on which they seek assurance.

Yours Sincerely

Terry Heiser

T M HEISER

cc Ware
McQuail
Goldman
Benson
Rutnam
Lord
PS/Secretary of State

Regional Pol; Inner Cities PTG

CC file

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

P 02558

From: J B UNWIN
6 March 1987

D Unwin

MR NORGROVE - No 10

Note at end.

DOCKLANDS

As you may have gathered, the situation reported in Mr Ridley's letter of 4 March has been overtaken by further developments.

2. Mr Travelstead delivered a bundle of new papers to DOE yesterday. While it seems most unlikely that these give the guarantees required, the legal advice is that they should not be dismissed summarily. Mr Ridley is still considering what action to take, but the likelihood is that he will reluctantly ask LDDC to extend the Option Agreement between them and the Consortium (otherwise due to expire today) for a further period (perhaps a week) while the Travelstead documents are studied.

3. If this course, which would be consistent with Mr Tebbit's approach, is followed, it will give a breathing space and avoid an immediate rupture. Mr Ridley is, however, anxious to bring matters to a head and not to let Mr Travelstead go on spinning things out. In the circumstances, I think the right tactical aim should probably be to avoid a public rupture before the E(A) discussion planned for 23 March. Ministers can then consider together how best to disengage with minimum exposure to legal redress. But it would be idle to believe that all the other issues - on the Royal Docks and on the City Extension - can be tied up on that occasion; and a break may be unavoidable before then. It may, therefore, prove necessary to arrange some further collective discussion at short notice before then (eg towards the end of next week).

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4. I understand that Mr Ridley will be writing round again before the weekend. We can consider further in the light of that.

J B UNWIN

D. Norman

Thank you.

The legal advice that no decision on the railways should be taken on the railway until negotiations have been done may cause difficulty. It will remove one of the last elements of the face-saving package of announcements.

DCV

6/3.

Cabinet Office

CONFIDENTIAL AND COMMERCIAL-IN-CONFIDENCE

PPs

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 270 0020
270 0296

5 March 1987

cc BGT
Verbum.

Brian Leonard Esq
Assistant Private Secretary to the
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

NSM

will request it
regd

Dear Brian,

The Chancellor of the Duchy was grateful for a copy of your Secretary of State's letter of 4 March to the Secretary of State for Transport.

The Chancellor would not wish the negotiations with the Consortium to be terminated until the proposals for the Royal Docks are firm, and ready to be made public. In view of the timetable for decisions on the latter, which your letter suggests would come forward to E(A) on 23 March, the proposal to give Mr Travelstead notice of the termination of negotiations would be premature, as being likely to increase the chances of a public rupture before the Royal Docks proposals are ready.

I am sending a copy of this letter to David Norgrove (No. 10), the private secretaries to other members of E(A), and to Trevor Woolley in Sir Robert Armstrong's office.

Yours Sincerely,

Andrew Lansley

ANDREW LANSLEY
Private Secretary

DS/60 CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

CC/SG

PPS.

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

5 March 1987

NSM.

Dear Secretary of State,

CANARY WHARF

I have read your letter of 4th March to John Moore. It is indeed disappointing to see that we are contemplating the failure of the project upon which the LDDC have been negotiating with Mr Travelstead's Consortium. However presented, I believe it will be seen as a serious setback to the development of our UDC policy and an embar assment to the Government.

The tone of the letter rather suggested that we are now firmly on a course to end these negotiations and turn to the discussion of longer-term more modest proposals designed by your Department. I hope that everyone is in fact proceeding in the hope that we can still produce a satisfactory agreement within our time limit if at all possible. I trust that everyone will strive to avoid difficulties and to take a constructive view of this existing proposal to the end.

I take it that the LDDC are near to agreement with the Consortium on the Master Building Agreement. You say that in the absence of guarantees on the evidence of space taken, you still could not recommend that negotiations on the present scheme should continue. If the Consortium could come up with some guarantees and some evidence, will you be sending round to colleagues your comments on their adequacy before instructing LDDC to cease negotiations?

I am copying this letter to the recipients of yours.

Yours sincerely,

Jeane Clarke

pp KENNETH CLARKE
Approved by the Paymaster General
and signed in his absence.

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

2

PRIME MINISTER

cc Professor Griffiths

CANARY WHARF

Mr. Ridley's letter below suggests that Mr. Ware Travelstead should be given a week from tomorrow to reach a specific agreement. Negotiations will then cease.

His legal advice is that this should not open the Government to a successful legal action.

I understand, however, that tonight Mr. Travelstead saw Terry Heiser and gave him a bundle of documents. The DOE view is that the proposals which they describe are not at all satisfactory. However, the DOE Solicitor believes that they must now be seriously considered and discussed with the consortium to reduce the legal risks. This is the advice going to Mr. Ridley overnight.

At this stage there seems no need for you to do anything other than note the position.

I would draw your attention to one further point. Counsel have advised that any decision to proceed with the city extension of the railway at public expense should be deferred until after the negotiations with Mr. Travelstead had broken down. This will, of course, make it more difficult to put together an attractive statement to put the best face on the breakdown of negotiations over Canary Wharf.

DAVID NORGROVE

5 March 1987

SLHAHW

CONFIDENTIAL

010

CC BG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

NBAM

5 March 1987

Dear Nicholas.

CANARY WHARF AND DOCKLANDS LIGHT RAILWAY / WITHDRAW?

Thank you for your letter of 4 March.

I agree that we should now bring matters to a head with the Canary Wharf Consortium and I am broadly content with your proposals for doing so. The evidence from LRT's negotiations with the Consortium is that they are simply playing for time by taking an unreasonable negotiating line, especially on the issue of revenue guarantees.

As regards the legal position of LRT and my Department, Counsel's advice is that the best course of action will be for me to put Mr Travelstead on notice of an intention to bring negotiations to end immediately after a similar communication to him from you. I would indicate that negotiations between LRT and the Consortium would have to cease since it is a condition that the Railway Agreement can only be signed if the Master Building Agreement is concluded.

You mention the need to be ready with an announcement about the future of Docklands when the talks collapse. I agree that it would be better if we could make a firm statement about the Eastern extension and related issues at the same time. This argues for a deadline which is slightly longer than the seven days you suggest to ensure that any breakdown occurs after we have been able to consider with colleagues at E(A) on 23 March the range of issues commissioned at the meeting on 23 February. But we cannot be sure that the breakdown will not occur earlier. In that event I agree that an announcement of the kind you outlined would be necessary. We shall need urgently to prepare statements to cover both eventualities.

CONFIDENTIAL

The scheme for a Western DLR extension to Bank was the most expensive option (£130m), required of us in negotiation with the Consortium. If we are released from this we ought to look again at cheaper options. My officials have been discussing urgently with LRT the possibilities for a more modest but worthwhile Western extension of the railway which would link it more satisfactorily than at present with the rest of the Underground. Whatever solution emerges for the Western terminus of the railway, a significant upgrading of the capacity of the Initial Railway will be required, costing some £45m to £50m. We shall also need to consider how we can attract private finance to meet any additional cost beyond the level of public contribution already planned. This points to a model of financing that LDDC are proposing for the Eastern extension of the railway, in this case based on enhanced land values at Canary Wharf as a result of the Western extension. I hope that you will be able to offer an assessment at our meeting on 23 March of the amount this approach could yield.

I will be in a position to describe the possibilities for a Western extension of the railway in more detail, together with their funding implications, at the 23 March meeting of E(A). In the meantime if we are forced into an early statement I suggest that we simply say on this subject that the Government is looking into the possibility of other ways of linking the initial section of the Docklands Light Railway to the Underground. That would not rule out going ahead with the Bank extension if we decided that that was sensible. But we will need to bear in mind that any announcement which implied that the Government were now prepared to contribute significantly more in public funds to a Western extension ought not to follow hard on a breakdown of negotiations with Mr Travelstead, as it could be used as evidence that the Government had acted unreasonably and in bad faith.

I am copying this letter to the Prime Minister, to other members of E(A), and to Sir Robert Armstrong.

JOHN MOORE

REGIONAL POL

PLANNED CITIES

PT 9

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

cc BG + Hum.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Moore MP
Department of Transport
2 Marsham Street
LONDON
SW1

4 March 1987

Dear Secretary of State,

We were invited by colleagues at E(A) last week to report to them, against the background of a prospective strategy for Docklands and in the light of legal advice, on the question of continuing negotiations with Mr Travelstead and his Consortium for developing Canary Wharf.

We have now had Counsel's advice on the extent of my exposure to successful legal action in the event of negotiations coming to an end and on the handling of bringing them to an end if need be. In brief, it is that I should not be at risk of successful legal challenge if, after the present extension of the Option Agreement between them and the Consortium ends on March 6, I withdrew authority from LDDC to continue negotiating. There is no contract between me and the Consortium which the latter could seek to enforce. A claim against me for inducing a breach of contract by LDDC would depend upon the Consortium establishing that LDDC were themselves in breach of contract. I understand that they have been advised they have no contractual commitments to the Consortium provided they have made it clear their negotiations were "subject to contract". The only other basis for challenge would be to seek judicial review of the decision to terminate negotiations on the grounds that I had behaved irrationally or acted in bad faith. Counsel could see nothing in the relevant documents to suggest there was any serious risk of such a proceeding succeeding. We have consistently given notice to the Consortium of matters they have to satisfy us on. LDDC, in granting the most recent extension of the option agreement, gave clear notice that it was to be regarded as the last. I believe that Counsel's advice on your own Department's risk was similar.

Counsel advises, however, that it would be right if the Government decided that the expiry of the option agreement on 6 March was the time to signal the end of negotiations, to give the Consortium a brief period of notice and to be prepared to consider anything they had to say. Such a period need not be more than a week. Notwithstanding this advice, however, we have to recognise that, if negotiations are brought to an end, Mr Travelstead will use

every means at his disposal, including legal action, to preserve his position or recover damages.

Counsel further advised on the position that might arise if negotiations collapsed and the Government then, or subsequently, announced that it proposed to proceed with the City extension of the railway at public expense. He considered that any such decision should be deferred until after the negotiations with Mr Travelstead had broken down. LDDC have also, independently, taken legal advice. Their advice from leading Counsel is that the prospects of successful action for breach of contract against the Corporation in the event of negotiations being broken off were remote.

The basic question, of course, is whether we should now seek to end negotiations with Mr Travelstead. I have to say that I believe we should. Immediately after we met at E(A) to discuss the proposals, my Permanent Secretary again made clear to Mr Travelstead what we required by way of guarantees, and details supporting his claim to have substantial firms ready to take space in the development. Mr Travelstead promised that material by the end of last week, but nothing has been received. It follows that the conditions on which I was able to recommend to colleagues that LDDC should be authorised to agree the sale of the freehold of their land at Canary Wharf in advance of development have not been met. I have to conclude that Mr Travelstead has not been able to secure enough firm interest in taking space in the project to satisfy the banks whom he proposed as sureties. We are still in discussion with LDDC, and they with the Consortium, on the Master Building Agreement and its link with the proposed guarantees. We have not yet got a tight enough agreement. In any event, in the absence of either the guarantees or the evidence of space taken, I could not recommend that negotiations on the present scheme should continue. Unless I hear from him to satisfactory effect by March 6, I propose therefore that the Option Agreement should not be extended by LDDC and that Mr Travelstead should be given notice immediately after March 6 of our intention to withdraw support for LDDC's continued negotiations, giving him 7 days to make representations. if, against expectations, he brought forward substantial evidence within that time of having a firm deal to offer we should have to consider that.

If I do in fact hear from him before March 6 with what, prima facie, appears to be evidence that he can meet our requirements, I will have to consider, with legal advice, whether the option agreement should be extended, and for how long.

The collapse of this deal after such protracted negotiations would, of course, be a disappointment; I should warn colleagues, however, that to develop an alternative to Mr Travelstead's proposals may not be plain sailing. LDDC have been deeply committed to the success of his scheme and are not in a position

to bring forward a fully worked-up alternative at short notice. Mr Travelstead may be in a position to make life difficult for any successor through control over some key sites, or by spoiling litigation. It will be the more important therefore to present the achievements, and the remaining prospects, for Docklands in the most positive light.

The success of LDDC particularly in the last two years, in attracting private investment has been remarkable - and I acknowledge that the Canary Wharf negotiations have contributed to this. Officials have the further work in hand that will enable us to consider later this month (probably at an E(A) meeting on 23 March) firm proposals for a decision on the major commercial development for the Royal Docks and the construction of the Eastern extension of the DLR. It may well be that negotiations with Mr Travelstead will not have publicly collapsed by the time we are in a position to make a firm announcement about this. Whether or not a public rupture comes before we can announce a firm decision on the Royals, I believe we should offer a broad statement, of our strategic approach to Docklands. It would refer to:

- the striking progress made in Docklands (£1.5bn private investment);

- proposals under active consideration for development by major consortia in the Royals - worth £1.2bn;

- the Bill laid for the Eastern extension of the railway;

- our commitment to fund, through LDDC, a major East/West highway (provision made in this year's PE settlement);

- the opening of the central section of the railway in the summer;

- STOLport to become operational in the autumn;

- a number of other developers known to be keenly interested in the opportunity of development at Canary Wharf, perhaps on a slightly less grandiose scale: LDDC to open this up to a competitive process as a matter of urgency;

- as much as you feel able to say about alternative arrangements for the railway if the Canary Wharf Scheme does not go ahead.

I believe that a statement on these lines, which could also explain how far we have sought to accommodate Mr Travelstead's requirements, will be a good basis for maintaining confidence.

If you and colleagues agree, unless there is a dramatic development before the March 6 deadline, I propose to put Mr Travelstead on notice that we propose to terminate negotiations,

as set out above. I need to know that you, and others, are content by 10.00am on Friday 6th so that arrangements can be put in hand. I should be glad to know, also, if you are content with a statement on lines proposed above, to use in the event of a public rupture.

I am copying this letter to the Prime Minister and other members of E(A).

Yours sincerely

B H Leonard Private Secretary

pp.

NICHOLAS RIDLEY

(Approved in draft by the Secretary of State and signed in his absence).

CCBG

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

D Norgrove Esq
Private Secretary
to the Prime Minister
10 Downing Street
London SW1

2nd March 1987

Dear David

TAKE UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

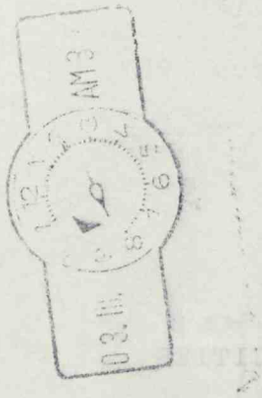
I thought you would like to know that since my Secretary of State's recent minute to the Prime Minister on the above, we have been informed by the Manpower Services Commission that Sefton has written indicating an intention to bid to participate in the Technical and Vocational Education Initiative (TVEI) in 1988.

I am copying this to Tony Kuczys (Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Robin Young (Environment), Bill Fittall (Home Office), Rob Smith (DES), Jon Shortridge (Welsh Office) and Robert Gordon (Scottish Office).

Yours sincerely

Peter Baldwinson
Private Secretary

REG. POL ; Inter Cités Pt 9



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LPO (47)

bc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 March 1987

Dear Robin,

TAKE UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

The Prime Minister has seen your Secretary of State's minute of 18 February about the take up of DOE grants and resources by inner city local authorities, and the minute (undated) from the Secretary of State for Employment which discussed take up of the community programme, TVEI and the inner cities initiative.

These minutes illustrate the way in which some inner city local authorities do not make full use of the resources available to them. The Prime Minister hopes that Mr. Ridley, Lord Young and other colleagues will draw attention to this in their speeches.

I am copying this letter to Tony Kuczys (H.M. Treasury), John Turner (Department of Employment), Stephen Boys Smith (Home Office), Rob Smith (Department of Education and Science), John Shortridge (Welsh Office) and to Robert Gordon (Scottish Office).

Yours,

David

DAVID NORGROVE

Robin Young, Esq.
Department of the Environment

BM

47

2

PRIME MINISTER

TAKE UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

The minutes below list the local authorities which do not take up their full entitlement under DOE and DE/MSC programmes.

The position is complicated and some authorities refuse to participate in some programmes and others refuse to participate in others. But there clearly is a basis for pointing to Labour local authorities which do not take up the money to which they are entitled.

I suggest you urge Mr. Ridley, Lord Young and other colleagues to make use of this material in their speeches so that it can be brought to public notice and also used by Government backbenchers in their own speeches.

David Norgrove

27 February 1987

DG2BTG

DC/C14

CC/G

SECRETARY OF STATE FOR EMPLOYMENT

PRIME MINISTER

TAKE UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

Following David Norgrove's letter of 20 January to my Private Secretary, my officials have considered the extent of cooperation of local authorities with the Community Programme (CP), the Technical and Vocational Education Initiative (TVEI), and the Inner Cities Initiative.

Liverpool and the London Boroughs of Southwark, Newham and Waltham Forest will not involve themselves as managing agents for the Community Programme. I understand that Tower Hamlets, Islington and Hackney will not act as managing agents, although they do provide premises for non-LA CP projects. Sheffield is only a very recent convert with one small project.

There were 18 local authorities who did not run a TVEI pilot, thereby forfeiting £2m each. Of those, ILEA, Haringey, Brent, Sefton and Kirklees have so far neither submitted proposals for a 1987 start nor indicated an intention to bid for 1988, although I hope ILEA may well participate.

All the Inner City Task Forces regard it as most important that they have at least working relationships with their local authorities, and generally those Task Forces that have made most progress are those where relations are reasonable or good. These are the Task Forces in Bristol (Bristol City and Avon), Birmingham and Middlesbrough.

In other areas the local authority is publicly unwelcoming but in fact there is working-level co-operation. These are Leeds, Manchester and Southwark. In Leicester, the City Council is hostile publicly and privately in its dealings with the Task Force. It has not co-operated in projects. The County Council, where there is no one party control, has been ambivalent though there are now signs of some co-operation.

Finally the one Conservative-controlled authority, Kensington and Chelsea, has been simply indifferent, a disappointing response.

I am copying this to Nigel Lawson, Norman Tebbit, Nicholas Ridley, Douglas Hurd, Kenneth Baker, Nicholas Edwards and Malcolm Rifkind.

Regional Polymer cities PT9.

009/1285

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cc BG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

NBPM.

23 February 1987

Dear John,

DOCKLANDS LIGHT RAILWAY: CITY EXTENSION

Thank you for your letter of 20 February.

In the light of our discussions at E(A) this morning, I am content for you to authorise LRT to continue negotiations with the Consortium until 28 February on the basis you propose. At this stage it would seem premature to agree that the railway should proceed on the basis of LRT's appraisal. Whether this is acceptable depends on:

(i) the outcome of LDDC's negotiations with the Consortium, and

(ii) LRT's success in getting satisfactory revenue guaranties from the Consortium.

If the negotiations continue beyond 28 February, there is also the question of the Consortium's contribution to the higher capital costs which may result. We will also need to assess the overall outcome against the other options both for developing Canary Wharf and the funding of the City extension which are identified by the working group commissioned by E(A).

Finally, I note that on current projections, if the railway goes ahead, LRT will need increased resources to cover the higher capital cost of the project. I appreciate your decision to keep any additional costs in 1987-88 within LRT's existing EFL. For future years, the public expenditure implications will need to be considered in the 1987 IFR. My position remains unchanged from that in my letter of 21 April 1986 to Nicholas Ridley, namely that while I would not wish

Regional policy
Inner cities
PTE

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to use this increase as a tool for an arbitrary squeeze on LRT's investment plans, equally I cannot agree in advance to increase LRT's EFL and future EFR's by the full amount of the additional costs of the DLR.

I am copying this letter to the Prime Minister, to other members of E(A), and to Sir Robert Armstrong.

Yours ever,

JK

JOHN MacGREGOR

OD

CORR

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

20 February 1987

Dear David

TAKE UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

As I told you on the telephone, there was an error of drafting in the minute which my Secretary of State sent to the Prime Minister on 18 February.

The first sentence of the first paragraph should read:

> "So far as UDG is concerned, in the last 2 years 7 authorities who could have bid have not done so - list at A".

I should be grateful if this amendment could be noted and I am sorry for any inconvenience this may cause.

I am copying this letter to Alex Allan, (HMT) Andew Lawley (C of Duchy), John Turner (DEmp), Stephen Boys Smith (HO), Rob Smith (PES), John Shortridge (WO), Robert Gordon (SO).

Yours ever

Isobel

pp B H LEONARD
Private Secretary

PRIME MINISTER 20 February 1987

LONDON DOCKLANDS AND UDC'S

There are two issues:

1 How much further should Nicholas Ridley go in negotiations with Travelstead to financially support his expensive rail connection for Canary Wharf and the City.

2 How much further should Department of Environment go to develop new UDC proposals

1 Docklands: Canary Wharf and Royal Docks

The regeneration of London Docklands will be seen as one of the notable achievements of the Thatcher Governments of the 1980's. So far Ministers have rightly erred on the side of politicians in planning and funding the transport infrastructure.

However, we should be wary of getting drawn deeper and deeper into underwriting Travelstead's ambitious plans for a satellite of the City located at Canary Wharf. The project was conceived in the heady days before the City's Big Bang.

Today a dispassionate view of the case for a City satellite on this scale is questionable; indeed some of the investors are getting understandably edgy about the market outlook for such a big chunk of new office capacity. Responding to market pressures the City has relaxed its tight restrictions on new office capacity. Additional office space is becoming available in the Fleet Street area now that the newspapers are on the move. Some of the teams assembled in the pre-Big Bang scramble will

be pruned and others will be disbanded. Fierce competition is forcing rationalisation and a concentration of excessive manpower.

We would support a proposal to force negotiations with Travelstead's Consortium to a firm conclusion one way or the other by the end of February. The Government has already done more than enough to facilitate the Consortium's grand design for Canary Wharf. The risk investors must now make their judgement of whether there is a market for such a development.

The fallback of a less grandiose development may well be more in keeping with the existing character of Docklands. This should not be regarded as second best.

We continue to support strongly the Eastern extension of the Docklands Light Railway and the development of the Royal Docks area.

2 UDC's Generally

Officials at DoE have independently proposed an exciting scheme that coincides with the results of our research over the last 18 months. This is likely to be mentioned by Nicholas Ridley on Monday.

We aim:

(i) to bring in Government deregulation and freedom from local constraints where Local Government has totally failed to remove dereliction without saddling Central Government for direct responsibility for local housing;

(ii) to reduce the cost of UDC's;

(iii) to enable us to tackle comparatively small pockets of dereliction, even as little as 30-40 acres, which nevertheless in the provincial context are very significant such as the Calder Valley or the site in Central Bradford that you may have seen.

Option No 1

We agree with one DoE option which achieves all three aims. This would enable a regional or sub-regional UDC to be created (similar to the Welsh Land Authority) which could apply full UDC powers to the derelict sites, some of them quite small. We could thus speedily overcome the land ownership mosaic problems by vesting all the land in one agency which has a duty to sell on at once. Because of the speedy sale envisaged this proposal would require little money, but needs to be fully costed. A variant on this proposal is:

Option No 2

Bring in regional UDC's as in No 1 but then charge the Development Agency with a variety of functions (a) cleaning up the site - clearing it and removing toxic and other waste, (b) building and developing all before sale. For financial reasons we are against this option, though on occasion we might remove toxic waste.

Option No 3

We also propose a bargain basement or "cashless" UDC. This would be little more than a super-simplified planning zone in a given area. In this the vesting powers of a UDC would be given to roving Commissioner (no big office blocks!). Instead of spending money in purchasing the property as in Options 1 and 2, the commissioner could facilitate the land

assembly of derelict sites and the onward sale to private sector developers who are currently hamstrung by regulation. The land would vest in the Commissioner for a notional five minutes in a series of transactions transferring land to a developer.

Conclusion

We are very cautious about further public money being put behind Travelstead. We recommend a committee be formed to consider new UDC options.

pp

JOHN WYBREW

pp

HARTLEY BOOTH

CC B/G
cc Blup

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PRIME MINISTER

London Docklands

[E(A)(87) 4; Letter of 19 February from the Secretary of State for the Environment to the Secretary of State for Transport]

This is an extremely complex issue on which the papers circulated (apart from the map) are not the clearest. For convenience I have summarised the key issues on one side at Annex A attached. The remainder of this brief deals with them a little more fully.

DECISIONS

2. The issues for decision are:

i. whether negotiations with the consortium proposing to develop Canary Wharf should be broken off if they cannot produce substantial evidence to justify the scheme proceeding by 27 February;

ii. whether the Government should support the eastward extension of the Docklands Light railway to the Royal Docks.

These decisions must be taken in the light of the strategy for London Docklands and, for the UDC programme generally.

BACKGROUND

Canary Wharf

temporarily retained 13/5/16

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

Temporarily retained 13/5/16

THIS IS A COPY. THE ORIGINAL IS RETAINED UNDER SECTION 3 (4) OF THE PUBLIC RECORDS ACT

4. It was agreed earlier that in order to secure this major development LDDC might exceptionally be authorised to pass the freehold to the consortium in advance of development taking place, provided the consortium could satisfy the Environment Secretary on a number of points and give guarantees that the development would go ahead. The present 'option agreement' with the consortium (first signed in May 1985) expires on 6 March.

5. In parallel, London Regional Transport (LRT) are in negotiation about the construction of the westward extension of the Dockland Light Railway (DLR). This is important to the commercial viability of Canary Wharf, and the consortium have therefore agreed in principle to contribute £45 million in Net Present Value to the total cost, most recently estimated at £130 million cash. LRT also have to be satisfied about revenue guarantees in order to justify their part of the investment. The Bill authorising the westward extension received Royal Assent on 19 December. Tenders for the construction of the extension expire on 28 February, and there is a risk of cost-overrun if this date is passed.

Royal Docks

6. The 270 hectares of land around the Royal Albert Dock and King George Five Dock are the last major area for development. LDDC are negotiating with three consortia for an intensive commercial and housing development. A key feature will be the eastward extension of the DLR to provide access. E(A)agreed last November that LRT might deposit before Parliament the necessary Bill to authorise construction on the basis that the Government would consider its attitude towards the proposal before the second reading, now planned for mid-March. The Environment Secretary suggests (paragraph 11 of E(A)(87) 4) that he should indicate Government support for the Bill, provided LDDC can satisfy him the scheme is viable.

THE ISSUES

7. The central issue is the attitude which the Government should take to the proposals for the development of Canary Wharf and for the Royal Dock. These are both very substantial schemes, and significant amounts of public money are involved in providing associated infrastructure. If both go ahead, the scope for investment in other UDCs within present public expenditure plans will be substantially reduced. There is therefore at least a case for switching the emphasis of UDC development from Docklands to the Midlands and the North; and although Mr Ridley does not actually say this, it is clearly at the back of his mind. On the other hand, he recognises that LDDC has been a substantial success story and that there is a case for continuing to build on it.

8. The problem is also compounded by the fact that the position on the LDDC projects is continually changing as negotiations proceed. The potential developers are naturally reluctant to disclose all their cards at the outset, and information reaches the Departments concerned only through the LDDC and LRT, who have their own set of objectives. Decisions will therefore have to be subject to review as circumstances require

9. For the purposes of discussion, the Canary Wharf and Royal Docks decisions can be regarded as separate. If Canary Wharf does not proceed, and the westward extension of the railway is dropped, the land values around the Royal Docks will be slightly reduced, but (in the view of DOE) not so much as to change significantly the economic or financial case for the Royal development and the eastward extension of the railway (Row F of Annex A to E(A)(87) 4).

Canary Wharf

10. The immediate issue is whether the Government should now set a final deadline for negotiations, so that if Mr Travelstead cannot provide the evidence and guarantees required by 27 February and complete all the negotiations by 13 March his project will be dead. In this case LDDC will need to consider alternatives, and

Mr Ridley suggests (paragraph 9 of his paper) that there is a more modest fall back option.

11. The economic appraisal shows that the consortium scheme is marginally preferable to the fall back. But the fall back will require substantially less public expenditure. Over the three years to 1989/90 the Canary Wharf scheme (assuming the westward extension of the railway proceeds) will produce a surplus of £34 million, whereas the fall back scheme (without the railway) would produce a surplus of £63 million. These surpluses would be available through the urban block for investment in other UDCs, including the four which Mr Ridley announced at the last Party Conference.

12. I understand from DOE officials that Mr Travelstead is unlikely to be able to produce the necessary evidence by next Friday. The degree of commercial interest in taking up space in the development has been less than expected. The City of London has recently changed its planning policies (partly because of the threat from Canary Wharf) so there will be more space in the city itself, and the opportunity generated by the Big Bang may now have passed. So from Mr Travelstead's view point Canary Wharf it becomming less viable. Indeed, DOE officials believe it is possible that he will never be brought to the point of signing an agreement. But he willnot want to appear to be responsible for the breakl. If the Government make the first move, he can be expected to be vocal in putting the blame on them.

The Royal Docks

13. LDDC are in negotiation with three consortia about various options. No firm proposals are yet on the table. But the current indications are that intensive commercial and housing development together with an eastward extension of the railway make sense in economic and financial terms. For that reason, Mr Ridley suggests that he should indicate support for the LRT Bill on second reading.

14. The Committee's agreement in November that the Bill might be deposited was on the basis that the Government would need to be satisfied before second reading that:

(i) the oustanding issues on the westward extension had been resolved;

(ii)there would be no significant risk that any of the costs of the eastward extension would fall as a burden on LRT.

As indicated above, it now appears that the westward extension is not a precondition for the viability for the eastward extension, and that, subject to that being confirmed, there is no direct link with the Canary Wharf negotiation. Mr Ridley reconfirms (paragraph 11) that he would need to be satisfied that the increased land values would be sufficient to avoid the need for additional public expenditure and that there would be no revenue risks on LRT. Subject to that, there appears no objection to the course now suggested.

HANDLING

15. You will wish to invite the Environment Secretary to introduce the discussion. The Transport Secretary will wish to speak on the negotiations between LRT and Mr Travelstead. The Chief Secretary, Treasury and other Ministers will also wish to contibute.

J B UNWIN

Cabinet Office
20 February 1987

ANNEX A

LONDON DOCKLANDS DEVELOPMENT: ESSENTIAL POINTS

CANARY WHARF

A decision is required next week on whether to break off negotiations with Mr Travelstead unless he can show satisfactory progress by 27 February

Arguments for breaking off are:-

(i) DOE have identified a cheaper alternative (which saves £43m in net public expenditure and £70m for LRT on the Docklands Railway);

(ii) the Consortium seem most unlikely to be able to show satisfactory progress in time.

Arguments for continuing negotiations are:-

(i) the scheme is very imaginative and has received great publicity;

(ii) the Government might well be blamed;

(iii) there could be legal problems.

ROYAL DOCKS

A decision is not needed so quickly. The Bill authorising extension of the Docklands Railway to the Royal Docks is due for Second Reading in March. The Government will then have to declare its hand. This will depend on whether the extension will cost extra public expenditure. The DOE figures suggest not; but they need more examination. Treasury and DOE should be asked to arrange this.

OTHER UDCs

Mr Ridley's real motive in reducing the Docklands cost seems to be to spend more on UDC's outside London. 4 have been announced (Trafford Park, Black Country, Tyneside and Teeside); he wants to set up other "low budget" UDCs elsewhere. If he succeeds on Docklands, he can do this within his block. But he might still want extra provision. This should await PES. No decision is needed now. If Mr Ridley wants to press this, he should do so later on the basis of a proper paper.

CCBG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

20 February 1987

Dear John.

This letter is intended to bring you and colleagues up to date with the position on the proposed extension of the Docklands Light Railway into the City and to highlight the decisions we need to make.

Appraisal of Scheme

My letter of 15 January to Nicholas Ridley mentioned that LRT had submitted a revised appraisal of the extension of DLR to Bank. We have now had an opportunity to carry out a detailed assessment of this paper and a copy of our analysis, which has been revised in the light of comments from your officials, is attached.

You will see from the analysis that the financial case for the project is no longer as robust as it appeared last March and it now seems unlikely, on the basis of a £45M NPV contribution from the Consortium, that it will achieve a 5% real return in financial terms. The project can however be justified if the quantifiable transport benefits to passengers are taken into account.

Given that the overall benefits from LRT's viewpoint are marginal the case for proceeding with the Extension is far from clear cut. Certainly we could not justify building the Extension if the Canary Wharf negotiations collapse since that would worsen the financial outcome at least to the extent of the Consortium's £45M NPV contribution, and the effect of lower revenues on the system. However, if we should collectively conclude that the Canary Wharf development proposal is still worth securing, and the development does in fact go ahead, then I believe the economics of the Extension are sufficiently sound to justify its approval.

Negotiations with Canary Wharf Consortium

Since my letter of 15 January, negotiations between LRT and the Consortium have resumed. It is still possible that a deal can be concluded by 28 February. LRT have not been able to secure an increase in the capital contribution of £45M NPV from the Consortium. However, the Consortium have agreed to drop their proposal that part of their contribution should be paid in the form of an annuity over 20 years. This will slightly improve LRT's cash flow as well as dispensing with the cumbersome and contentious annuity mechanism.

As at 13 February, LRT believed they had secured a breakthrough on the question of protection for their revenues in the event that development at Canary Wharf does not proceed at the pace or to the extent assumed in the railway appraisal. In recent discussions the Consortium's negotiators have conceded the principle that, insofar as development falls short of the levels assumed in the railway agreement, they should reimburse LRT for the consequent shortfall in revenue on an agreed formula. This would result in LRT receiving some £½M (March 1986 prices) each year for each 1M sq ft by which development falls short of their target. There would also be a cut off point (currently envisaged as the date on which building is due to be completed under the Master Building Agreement (MBA)) at which any remaining potential shortfall would be capitalised and paid to LRT as a lump sum. If final agreement could be reached on this, LRT would be protected from one of the most significant remaining areas of risk.

However LRT received a letter dated 17 February from the Consortium in which they attempt to renege on these crucial concessions on revenue guarantees. This may signal an attempt by the Consortium to pick a quarrel as a basis for breaking off negotiations. LRT are continuing to negotiate on the lines mapped out in the discussions but there must now be doubts about whether an acceptable agreement is attainable.

If revenue guarantees could be secured, the deal would offer LRT a high degree of certainty and protect them from risks associated with the Canary Wharf development. However, it would still be less than ideal in terms of the amount of capital on offer from the Consortium. The Consortium have consistently refused to increase their capital contribution and contend that LRT and Government have accepted the risk of capital cost overruns. If we were to try to insist on further capital contributions now they might well use this as an excuse to accuse us of bad faith and break off the deal. My conclusion is that to avoid giving the Consortium a pretext for accusing us of sabotaging the negotiations, LRT should continue to negotiate along current lines, at least up to 28 February.

Public Expenditure Implications

If the project goes ahead, the increase in estimated capital costs means that the resources earmarked in LRT's EFL and planning figures for the next three years will not cover their share of the cost of the extension. The appraisal sets out the extent of the likely shortfalls, taking into account the latest changes in the anticipated spending profile and the timing of the Consortium's payments. It has already been agreed that the shortfall in 1987/88 will have to be met from within the resources approved for LRT already during that year. But, without increased provision LRT will be unable to find the additional resources required in 1988/89 and 1989/90 without making cuts in their own investment programme. Your letter of 21 April 1986 accepted that their involvement in the City Extension project would not be used to impose an arbitrary squeeze on their investment programme. If we do agree that the Extension project should proceed, I shall therefore need to be in a position to assure LRT that we accept, in principle, that the deficit will be covered in the next IFR round.

Timing

The tenders received by LRT expire on 1 March and contractors will almost certainly increase their prices if LRT have to seek an extension. LRT have therefore put the Consortium on notice that they will expect them to meet any costs incurred due to delay in signing the MBA and Railway Agreements (assuming that the Agreements are in fact eventually signed.) However, if LRT are to be able to maintain this stance it will be important to be able to show that LDDC or the Government had not contributed to the delay. Otherwise, we could be faced with a need to find further public resources for the railway. The amount required will be affected by the length of any delay in finalising the agreements and it is important that LRT should have the clearest possible idea of when the agreements will be signed before asking contractors to extend their tenders or submit new ones.

Conclusions

We are to have a discussion in E(A) on 23 February on the future of the Canary Wharf project and the tactics for bringing negotiations to a speedy conclusion. Subject to that I would welcome your agreement to the following course of action:

(i) that I should inform LRT that we are prepared to see the railway proceed on the basis of the figures contained in the appraisal provided that an acceptable agreement can be reached with the Consortium;

(ii) that I should authorise LRT to continue negotiations with the Consortium on the basis I have outlined with a view to being in a position to sign an agreement by 28 February;

(iii) that I can inform LRT that should the project go ahead we will be prepared to agree that, other things being equal, the increased resources needed to cover the increased capital cost of the project will be taken into account in the 1987 IFR.

I am copying this letter to the Prime Minister, to other members of E(A), and to Sir Robert Armstrong.

JOHN MOORE

LRT: DOCKLANDS LIGHT RAILWAY - CITY EXTENSION: APPRAISAL

Introduction

1. Last March, on the basis of an outline appraisal, Ministers approved in principle a deal with the Canary Wharf Consortium on the funding of the City Extension to the Docklands Light Railway. This paper considers in detail LRT's latest appraisal of the project.

Development of the Proposal

2. When Ministers gave approval in principle to the project the proposal was for the City Extension to be built with sufficient capacity to serve a 10M square feet development at Canary Wharf at a capital cost of £103M (at outturn prices). To reduce their financial exposure should the Canary Wharf development not exceed 5M sq ft, LRT developed an option to build the railway in two phases: the first to serve 5M square feet by September 1990 at a capital cost of £93M; and a second phase to serve a further 5M square feet, should it be built, costing £16M, principally for additional rolling stock. The increased total cost of the phased option reflects the diseconomies of deferring part of the rolling stock order.

3. These proposals were prepared taking into account the traffic that would arise from 19,000 other jobs being created in other parts of the Isle of Dogs. However the promotion of Canary Wharf and the enactment of the City Extension Bill have already generated increased development interest and concrete plans for more intensive development than originally envisaged. LDDC have accordingly revised their assessment of the non-Canary Wharf jobs upward to 39,000. LRT have re-assessed the capacity requirement for the railway in the light of this employment forecast and they now propose that the first phase should provide similar capacity to that required to serve a 10M sq ft development at Canary Wharf with only 19,000 other jobs.

4. In the meantime the capital cost estimates for the project have increased by some £27M bringing the total estimated cost of the railway needed to serve the anticipated demand to £130M. A breakdown of the cost increases is given in Annex 1. They largely reflect additional unforeseen requirements arising from the nature of the site, problems identified during project design and negotiations with potential tenderers and higher costs for land and the settlement of Parliamentary Undertakings.

APPRAISAL

5. The financial appraisal has been based on the following:

i. A discount rate of 5% real (the required rate of return) as previously agreed with HM Treasury, on the basis that a high proportion of the capital and revenue income from the project is to be guaranteed by the Consortium;

ii. Appraisal over 50 years with due account being taken of renewal costs including the residual value of recently renewed assets at the end of the period;

iii. Inflation taken to remain at 5% throughout the appraisal period;

iv. Cash flows discounted to March 1986, the date of the agreement in principle with the Consortium on funding.

Capital Costs

6. The Net Present Value (NPV) of the capital costs on the above basis is £111M, towards which the Consortium have agreed to contribute £45M NPV. They originally proposed to provide this as a cash contribution of £45M during construction with the balance, to the value of £45M NPV, being provided as an annuity payable for 20 years after completion of the railway. They have now agreed instead to make their contribution wholly

during construction, on a pound-for-pound basis with LRT, and want to retain the option of a single cash payment. The revised payment schedule confers substantial advantages in reducing the immediate call on public expenditure but does not affect the appraisal. Asset renewals over the life of the project are assessed to cost an additional £12M NPV.

Operating Costs

7. LRT have established revised operating costs for the initial railway of £3.8M a year (1986 prices). The cost of operating the extension to Bank would add £2M by the time the service was operating at full capacity in January 1993, making a total operating cost of £5.8M (1986 prices) to service a 5M sq ft development at Canary Wharf, with 39,000 jobs elsewhere. The operating costs, over the life of the project, total £33.6M NPV.

Revenues

8. Assuming a 60% public transport modal share for all journeys to work in the Isle of Dogs and 80% for journeys to Canary Wharf, the maximum number of trips on the whole railway each year is expected to be 36.6M. Fares are assumed to be maintained at LRT levels throughout. The revenue from the railway, in the year of opening, 1989-90, is estimated on the basis of 3.2M sq ft of occupied space at Canary Wharf, to be £3.9M (1986 prices). This will grow to £9.6M (1986 prices) per annum when there is 5M sq ft of occupied space at Canary Wharf (from 1990-91) and, as well, all 39,000 non-Canary Wharf jobs are in place in the Isle of Dogs (from 1993-94). The discounted stream of revenues amounts to £96.4M NPV.

Network Benefits

9. LRT consider that the opening of the extension will not have a significant effect on the net revenue of the bus subsidiary. Losses caused by transfer of a significant number of bus passengers to the City Extension will be offset by

additional journeys generated by the development itself. The effects on the Underground are more difficult to assess. LRT estimate that increased patronage will produce additional gross revenue of £2-3M; but they believe this may amount to only £1M pa, net, when increased operating costs, through the need to increase service levels, are taken into account. This gives an NPV of £15.8M.

10. This is the weakest area of LRT's appraisal. It is possible that they have over-estimated the network benefits likely to accrue in practice. The LRT estimate assumes that all trips on the Underground resulting from the Canary Wharf development and the new jobs in the Isle of Dogs are completely new to the network; it makes no allowance for transfers from the rest of the network, nor does it include a detailed study of any additional costs which might be incurred to cope with increased demand on the network.

Summary of Financial Appraisal

11. The results of the financial appraisal, drawn together below, demonstrate that if the Canary Wharf development proceeds as planned (3.2M sq ft by September 1989 and 5M sq ft a year later) and the anticipated growth of jobs elsewhere on the Isle of Dogs materialises (39,000 by 1993-94), the project is at best marginally viable. Its justification in purely financial terms is weakened by the fact that little reliance can be placed on the assessed contribution of network benefits.

	NPV - £M 1986 Prices
Capital Costs	(110.75)
Developers' Contribution During Construction	45.00
Asset Renewals	(12.02)
Operating Costs	(33.56)
Revenue	96.42
	(14.91)
Network Benefits	15.80
NPV Benefit to LRT	+ 0.89

Non-Financial Benefits

12. While the financial justification of the project is very weak LRT estimate it would yield significant non-financial benefits worth £31.85M in present value terms. Standard cost-benefit techniques have been used to assess the value to passengers of savings in their journey times which the City Extension will bring about. Benefits to passengers travelling to and from the new development at Canary Wharf have been excluded from this analysis as it can be argued that the Consortium's contribution is being paid to secure these benefits. If these non-financial benefits are taken into account the project can be justified even if the estimated network benefits are disregarded.

RISKS AND SENSITIVITIES

A. Discount Rate

13. For reasons explained above, the discount rate used in this appraisal is 5%. The effect of using the 7% discount rate, more usual in public transport appraisals, is to reduce the financial NPV of the project by some £12M, leaving it viable in cost-benefit terms.

B. Capital Costs

14. The cost estimates have been refined as the scheme has been developed. We believe the £130M estimate for the project is not now susceptible to large further increases for the following reasons:

i. tenders have been received for the Tunnels and Banks Station contract, which are in line with the estimates.

ii. the estimates include an amount for the upgrading costs (both civil, E&M systems and rolling stock) which is based on the latest offer from GEC/Mowlem;

iii. the service pattern and rolling stock units provide 20% spare capacity over the predicted demand.

iv. the sizeable contingency in the estimate - currently about 10% - provides a substantial cushion against the risk of overspending.

15. If costs were to increase by 10% spread evenly over the construction period the financial NPV of the project would worsen by some £11M. if the increases were concentrated at the end of the construction period the effect would be slightly smaller.

C. Operating Costs

16. The other element in the equation is operating costs. These are closely based on the operating costs identified for the Initial Railway, most of which are now becoming firm, and it is therefore unlikely that there will be serious overruns in these costs. These costs are in any case a relatively minor component in the appraisal; even if they were to increase by 10% over the whole life of the project, this would worsen the financial NPV by only some £3.4M.

D. Traffic and Revenues

17. This is the area of greatest potential uncertainty and risk. The case analysed above assumes 5M sq ft of development at Canary Wharf by September 1990 and 39,000 jobs in the Isle of Dogs by 1993. There are therefore two main components in the traffic figures which need to be considered separately.

18. Canary Wharf Traffic: The viability of the extension is heavily dependent on the size and timing of development at Canary Wharf. If, instead of proceeding to the timetable assumed in the appraisal (ie. 3.2M sq ft net occupiable space by September 1989 and 5M sq ft net by September 1990) the Consortium build at the rate envisaged in the draft Master Building Agreement (ie. 3.8M sq ft net by March 1992 and 4.3M sq ft net by September 1993) the NPV of the revenue lost to LRT would be some £12M. If nothing were ever built at Canary Wharf the lost revenue would be worth up to £43.5M NPV. The size of the potential revenue losses underlines the need to secure revenue guarantees from the Consortium sufficient to cover the NPV loss associated with shortfalls in development; and liquidated damages covering the whole loss in the event of total default.

19. Jobs Elsewhere on the Isle of Dogs: The forecast of 39,000 jobs elsewhere on the Isle of Dogs has been provided by LDDC and reflects the high level of interest being shown by developers in the Isle of Dogs. There are now firm proposals for most of the available sites, many of which are ready to proceed if the railway goes ahead. LDDC believe that construction of the railway rather than development at Canary Wharf is the key trigger to commitment by other developers. They are therefore confident that their estimate is robust. If it is not there would be a significant impact on the viability of the railway; a 20% reduction in non-Canary Wharf traffic would reduce revenue to the railway by some £10.6M (NPV).

IMPLICATIONS FOR PUBLIC EXPENDITURE

20. The increase in capital costs, means that the provision made in LRT's EFL and planning figures for the cost of the extension is insufficient, as demonstrated by the table at Annex 2. It can be seen there will be difficulties in all three IFR years. LRT have already been told that the shortfall in 1987/88 will have to be found from within their existing EFL. We believe they should be able to achieve this by deferring other capital investment schemes. However, without an adjustment to their planning figures, we do not believe they will be able to find the extra £10M needed in 1988/89 or £8M in 1989/90 without making damaging cuts in other major capital investment projects. Large cuts in these years were made in the 1986 IFR and we doubt that significant additional asset sales can be secured (beyond those allowed for in the IFR). They will be very resistant to making such cuts and will want an assurance of increased resources before committing themselves to build the City Extension.

FUTURE DEVELOPMENT

21. To allow for the possible future development of Canary Wharf to 10M sq ft (as envisaged in the Consortium's original scheme) the LRT appraisal also includes a case which assumes this level of development is reached by 1997 when there will

be 39,000 jobs elsewhere in the Isle of Dogs. This will necessitate a higher capacity railway and will consequently mean additional capital cost of about £6M for the strengthening of structure and platform extensions and £13M for extra rolling stock, a total of £19M at outturn prices including suitable contingencies. This results in the following financial appraisal, which does not include any allowance for network benefits nor LRT's estimated £31.85M NPV in passenger benefits:

NPV - £M 1986 Prices

	Incremental Effect of Further Phase	Total for Both Phases
Capital Costs	(12.97)	(123.72)
Developers' Contribution During Construction	-	45.00
Asset Renewals	(2.04)	(14.06)
Operating Costs	(5.51)	(39.07)
Revenue	32.17	129.13
Net Financial NPV	12.19	(2.72)

22. It can be seen that the project would become much more financially viable, notwithstanding the need for additional expenditure, if the second phase of the Canary Wharf development were to take place.

SUMMARY OF CONCLUSIONS

23. The City Extension can be built to provide the capacity required by the Consortium and within the timetable specified by them at a likely maximum cost of £130M.

24. The projected financial performance of the project is now significantly less good than anticipated at the time the outline agreement on funding was struck with the Canary Wharf Consortium. The project's own internal cash flows would have a net present value of about -£15M on the most likely scenario. LRT estimate that this could be more than cancelled out by potential increases in net revenues on other LRT services but we do not believe their figures to be sufficiently robust to be relied on in justifying approval for the project.

25. The project can still be justified if non-financial transport benefits are taken into account and these are sufficiently large to provide a substantial buffer against downside risks.

26. The risks of a further worsening of the financial performance of the railway are limited, provided that guarantees on the development timetable for Canary Wharf can be secured from the Consortium.

27. There is one risk which it has not been possible to assess fully which is that the extension might generate capacity problems elsewhere on the network which would create a need for additional investment. While LRT do not believe this will occur, no detailed analysis has been carried out.

28. The provision in LRT's EFL in insufficient to cover the cost of the project, particularly in 1988/89.

ANNEX 1

DOCKLANDS LIGHT RAILWAY - CITY EXTENSION

SUMMARY OF COST INCREASES

	£m
Railway to serve 10m square feet Canary Wharf Development and 19,000 other jobs on Isle of Dogs, as approved in principle	103
1. TUNNELS AND BANK STATION	
(a) Improved interchange with District and Circle Line at Monument - to partially meet City Corporation's objections -	2.0
(b) Loss of Shorter St site - developer found to have planning consent for initially proposed tunnelling site, additional costs in only having one working site -	2.3
(c) Diversion of British Telecom cables - cables discovered to run directly across patch of new tunnel, LRT to reimburse BT's costs for raising cables -	2.5
(d) Underpinning adjacent GRE building - as part of agreed settlement of Parliamentary petition -	0.9
(e) Staff facilities etc at Bank Station -	0.9
	8.6
2. UPGRADING - CIVIL WORKS	
(a) Additional strengthening -	0.8
(b) Excess Mowlem tender price over LRT estimate -	1.2
	2.0
3. UPGRADING - M & E WORK	
(a) Additional cost of signalling	3.2
(b) Revised rolling stock requirements - 20 standard units instead of 13 extended units and 3 standard units modified to extended units	3.2
	6.4

	£m
4. LAND AND ASSOCIATED COSTS	
Shorter St - cost of changing foundations of new development to make room for railway tunnel -	2.5
GRE - additional cost of relocating telephone exchange in basement of GRE building to allow escalator link to be built -	3.0
Other increases in land costs and compensation to third parties affected by the railway -	2.8
	8.3
5. CONTINGENCIES	
Pro rata increase -	2.8
	27.0
RAILWAY TO SERVE 5m sq ft + 39,000	130.0

CITY EXTENSION TO DLR : EFL ALLOCATION

	TOTAL EXPENDITURE	CONSORTIUM CONTRIBUTION	NET COST TO LRT	EXISTING EFL PROVISION	ADJUSTMENT TO EFL
	£m	£m	£m	£m	£m
86/87	12	6	6		
87/88	52	26	26	13	+ 13
88/89	44	22	22	12	+ 10
89/90	19	-	19	11	+ 8
90/91	3	-	3	(outside) (IFR period)	
	130	54	76		

ESTIMATE AS AT 18.2.87. - PTL(d).

ANNEX 2

REGIONAL POLICY ...

INNER CITIES

PT 9

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CCBG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

For E(A) Monday.

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

20 February 1987

NRJM

Dear Nicholas,

CANARY WHARF NEGOTIATIONS WITH DRd

Thank you for your letter of 19 February which we are to discuss with colleagues together with your paper E(A)(87)4 on 23 February.

I agree that we must now seek to bring matters rapidly to a head since prospects for an agreement with the Consortium do not look bright, and any further substantial delays are bound to drive up the cost of the DLR Bank extension. I cannot be sure that we could recover these costs from the Consortium.

If we are to extend the deadline for the railway negotiation, currently set at 28 February, it is important that I try to give LRT as much certainty as possible about the extended timescale. Your suggestion of an effective final deadline of some two weeks after the date of expiry of the extended option agreement, 6 March, would certainly achieve that.

I am copying this letter to the Prime Minister, to other members of E(A), and to Sir Robert Armstrong.

JOHN MOORE

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REGIONAL
POLICY
INTERVIEWS
PT 9

COMMERCIAL IN CONFIDENCE

BF // For E(A) on Monday.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

19 February 1987

The Rt Hon John Moore MP
Department of Transport
2 Marsham Street
LONDON
SW1

Dear Secretary of State,

In my paper E(A)(87)4, to be discussed on Monday 23rd, I undertook to consult colleagues further about the handling of further negotiations with the Canary Wharf Consortium, the background to which was described in the paper.

I said then that the major question was whether the Consortium had secured enough firm takers of space to be willing to sign its commitments under the City rail extension and Master Building Agreements. I referred also to the agreements that negotiations could proceed on the basis of watertight and enforceable assurances by the banks themselves for the construction of "infrastructure" as a proxy for development - provided other aspects of the negotiations were satisfactorily concluded. The economic assessment to which I referred would justify a decision to approve the project at a level of 4.6m sq ft of development - though only marginally; and we would therefore need to be assured of at least that much development taking place on the timescale proposed.

The assurances by the banks were in themselves no more than a safety-net ensuring that in the last resort a mechanism was in place that would ensure that the infrastructure was completed. I attached more importance to our satisfying ourselves by evidence to be provided by the Consortium that the development was really likely to take place on the scale, and timescale proposed. In particular, we have asked the Consortium, and made it clear that we would need it well before approving the signature of the MBA, for evidence about:

- the guarantees (ie the assurances mentioned above) from the Consortium's international banking partners (the terms of these would have to be acceptable to us);

- the lending arrangements with the third party commercial banks;

- progress with construction and design contracts;

- letting arrangements with firms committed to taking a substantial volume of space.

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The Consortium have, in the last four weeks, been negotiating vigorously, after an extended lull, on details of the Master Building Agreement, and on the form of assurances to be provided by the banks. It is still possible that agreement on the content of the MBA and the form of the assurances may be reached by 28 February - although I understand that the prospects of a satisfactory Railway Agreement by that time may be receding. However, the Consortium have produced nothing of substance on any of the points of evidence set out in paragraph 3 above, of which over-ridingly the most important are evidence of commitment by the sources of funding and guarantee.

I am tempted to conclude that the Consortium do not have the evidence that would justify us in authorising LDDC to continue negotiating for more than a very short further period. The original proposal by Mr Travelstead, to which we agreed, was that all the necessary agreements should be completed within 30 days of Royal Assent for the Rail Extension Bill, which took place on 19 December. The Consortium were given notice in mid-January that the extension of the "option agreement" to 6 March then agreed should be seen as the final one. The longer negotiations go on, the more risk there is of discredit both for LDDC and the Government; we must certainly avoid a series of inconclusive extensions. The last date of currency of the tenders for the City extension of the DLR is 28 February, and we have set this as the target for completing negotiation. I understand that there is a real risk of cost over-run if this date is passed.

I propose that Mr Travelstead (who is to meet my officials early next week) should be told that unless he can produce substantial evidence, on the matters mentioned above to demonstrate that there is a scheme which would justify us in proceeding, we must bring the negotiations to a close. I suggest that he is asked to produce this by the end of the coming week ie 27 February. We should need to evaluate what he produced by that date, and I will keep colleagues informed at that stage. If we cannot do so to our satisfaction by the date of expiry of the extended option agreement on 6 March, I would nevertheless make it clear to Mr Travelstead that we would not authorise any extension of the option agreement as such. We should, however, set a final deadline of not more than a further 2 weeks.

We may well expect that the Consortium will take legal action at whatever point negotiations break down. Our legal advisers are not in a position to be certain, but do not think that the Government is vulnerable to successful legal action if we proceed as I propose. We do not however fully know what LDDC's legal position is; they are taking Counsel's advice. I do not think, in any case, that these considerations should inhibit us from acting as I propose.

It will be important to maintain confidence in Docklands if these negotiations collapse, as I now expect - there are good

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indications of substantial interest for alternative development at the Canary Wharf site. I would then urgently discuss the next steps with Christopher Benson, the Chairman of the LDDC.

I am copying this to the Prime Minister and other members of E(A).

Yours sincerely

BH Conard pp. (Private Secretary)

NICHOLAS RIDLEY

(Approved by the Secretary of State and signed in his absence)

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CYBG

SECRETARY OF STATE FOR THE ENVIRONMENT

PRIME MINISTER

TAKE UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

Following David Norgrove's letter of 20 January to my Private Secretary, my officials have analysed the take up of DOE grants and resources by inner city local authorities.

We have also consulted other relevant Government departments. DEmp/MSC will report separately. DES and Home Office have no substantial evidence to contribute (Private Secretary letters of 29 January and 4 February refer).

So far as our programmes are concerned, there are two main areas of non take up - Urban Development Grant and Estate Action (UHRU) initiatives; and under utilisation of grant, to the full, under the Urban Programme and Derelict Land.

So far as UDG is concerned, in the last two years 7 authorities who could have bid had ~~never~~ not done so - list at A. Not merely have these authorities forgone the extra Government resources reprsented by UDG: they have also forgone the extra private sector investment - typically four times as much - which it would bring about.

So far as Estate Action is concerned, I attach a schedule - at B, showing take up. There are four authorities - predictably, Liverpool; and also Lambeth, Doncaster, and Leeds. This latter may, however, not be a particularly useful example. And so far as Liverpool is concerned, it is fair to point out that schemes have now been put forward, and although one had to be rejected on cost grounds, the other is still under discussion.

Turning to the Urban Programme, a schedule is at C. Again, Liverpool features, as unwilling to promote economic schemes or support local firms. Hackney and Brent both underspend, as a result of poor management.

Turning to DLG, Liverpool again features, with Walsall: schedule at Flag D.

Ideological or philosophical reasons had been given in the case of Doncaster, and Lambeth in declining to take up Estate Action; the same is true of Liverpool with economic and voluntary sector schemes under the UP; but Hackney and Brent are poor managers of their UP, though there is also some reluctance to support particular types of schemes.

Taken together this package shows that there is some real basis for illustrating the non-take-up of grant by inner city local authorities. Most of the reasons for this are not defensible - certainly they go deeper than the usual claims that shortage of resources prevent take-up.

I am copying this to Nigel Lawson, Norman Tebbit, David Young, Douglas Hurd, Kenneth Baker, Nicholas Edwards and Malcolm Rifkind.

NR

18 February 1987

URBAN DEVELOPMENT GRANT

Some authorities have made extensive use of UDG. The front-runners in terms of projects approved are:-

	Applications	Approvals	UDG
Birmingham	53	17	£12.9m
Nottingham	27	11	£4.4m
Dudley	16	10	£4.2m
Leeds	22	10	£3.2m

On the other hand, 12 of the authorities invited to bid for UDG have never had a project approved. The following authorities who were invited to put projects forward have not even submitted an application in the last two years:-

Brent	Liverpool
Doncaster	North Tyneside
Hammersmith & Fulham	Rotherham
	St Helens

Not merely have these authorities foregone the extra Government resources represented by UDG: they have also foregone the extra private sector investment - typically four times as much - which it would bring about.

Key UDG statistics

57 authorities invited to bid. (List recently revised: 8 authorities added and 14 dropped.)

228 projects have been approved representing £106m Government grant.

These will bring about £441m private investment, 2,400 jobs, 12,500 man years of construction activity, nearly 5,000 houses and flats, and recycle 900 acres of urban land.

Estate Action

Doncaster	HIP/UP	potentially up to £1m in 1987/88 but depends on schemes submitted	no response to repeated invitations to meet Estate Action because of disagreement with EA's philosophy of localised estate management
Leeds	HIP	approval in principle to additional HIP allocation of £¾m in 1986/87 given on 26 March 1986 new unlikely to be used	unexplained delays in seeking tenders for approved works. Scheme has recently been resubmitted with substantially increased costings
Lambeth	HIP	not quantifiable	Refusal to apply for additional HIP allocation for EA projects for ideological reasons. No response to EA's homelessness initiative either
Liverpool	CRS/UP	not quantifiable	present administration had no interest in CRS schemes. But 2 schemes now put forward: one rejected on cost grounds, other still under discussion
Liverpool	privatisation/UP/DLG	not quantifiable	expression of interest by Barretts in redevelopment of Myrtle House. Non-cooperation by council and the block of flats concerned now demolished.

Urban Programme

Liverpool	UP		unwilling to promote economic schemes (eg designate Industrial Improvement Areas) or offer local firms grant under IUAAct powers. Resistance to making such grants now seems to be moderating. Unsympathetic to voluntary sector and this year have refused to submit 20 voluntary schemes for continued support
Hackney	UP	underspend about £¾m out of £11.6m allocation 1986/87	programme poorly managed. Unwilling to support economic and environmental schemes enough
Brent	UP	underspend about £½m out out of £4.5m allocation 1986/87	programme poorly managed. Projects not fully worked up or in accordance with Ministerial Guidelines.

Derelict Land Grant			
Walsall	DLG	£2m	schemes poorly managed. But also difficulties in acquiring derelict land from private landowners
Liverpool	DLG	£½m out of possible allocation of £¾m	low take-up mainly because of failure to meet Department's requirements to submit bills of quantity. Requirement regarded as onerous.
Transitional Grant			
Liverpool	Transitional Grant		grant designed to help fund voluntary groups in period following abolition. Liverpool only Council not to have taken full allocation because of unwillingness to make 25% contribution. Finally agreed to join scheme, but year 2 contribution is 50% so continued cooperation questionable.

Community Programme (Manpower Services)

Southwark, Islington, Hackney, Tower Hamlets	MSC/CP and UP	unknown	all decline to act as managing agents although all except Tower Hamlets will support, with UP, CP schemes run by voluntary organisations
Newham	MSC/CP	unknown	will not take part in CP because of ideological objections

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P 02516

From: J B UNWIN
17 February 1987

MR NORGROVE

cc Mr Woolley
Mr Monger
Mr Roberts

LONDON DOCKLANDS: E(A)(87)4

Mr Ridley has now circulated the above paper on strategic choices for London docklands and on UDCs generally. We must now decide how to handle this.

Issues

2. The paper is extremely complex, if not confusing. The immediate issue is the negotiations with the Canary Wharf Consortium which are due to be conmpleted by 28 February unless an extension is agreed. Mr Ridley exposes a dilemma facing the Government. The Canary Wharf scheme is marginally preferable to other alternatives on economic grounds, and will be very prestigious; but it is more expensive in terms of public expenditure, and will limit what Mr Ridley can achieve with UDCs elsewhere in England. However the paper does not seek any decisions at this stage: it is presented as essential background reading. Negotiations between LDDC and the Consortium are currently in train and Mr Ridley promises a further paper on handling and tactics which we hope will be circulated tomorrow. Even this will not seek any final decisions, but Mr Ridley quite sensibly wants a steer from his colleagues on how hard the LDDC negotiators should be encouraged to try next week in seeking to secure the development. The urgency is the 28 February deadline referred to above. Beyond that, Mr Ridley appears to be trying to slip in some general presumption in favour of more resources for UDCs to strengthen his hand in the next Survey.

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Handling

3. There has been a thought that it might be possible to take this paper at the meeting of E(A) before Cabinet on Thursday. But I imagine the Prime Minister will want to concentrate this meeting on the main item in prospect (the Rover Group) and it seems unlikely in any case that Mr Ridley's further paper will be available in time. Moreover, the Chief Secretary, who is essential to this discussion, is unavailable (he has a prior commitment to appear at the press conference at Greenwich).

4. I therefore recommend that we should take the docklands paper at the E(A) meeting provisionally arranged for 11.30 next Monday (23 February). This is not ideal for many Ministers and we should not normally want to arrange a meeting like this for a single item. But we cannot go beyond Monday if E(A)'s views are going to be taken into account in next week's negotiations. I should be grateful to know if this is acceptable to the Prime Minister.

J B UNWIN

Cabinet Office

PRIME MINISTER

2

HOUSING IN THE DOCKS

I understand you were asking how much housing would be created by the docklands developments. The answer is some 25,000 in total by the early 1990s. East Docklands is expected to produce around 7,000 houses.

DAVID NORGROVE

5 February 1987

001/2985

COMMERCIAL-IN-CONFIDENCE

PPs (only)

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

3rd February 1987

NBPM

Dear Nicholas,

CANARY WHARF DEVELOPMENT

Thank you for your letter of 23 January from which I note that you and John Moore are strongly of the view that the two negotiations with the Consortium on the Canary Wharf development and the western extension of the DLR should remain separate.

I am prepared to accept this, though it is essential that your two Departments and LDDC and LRT ensure that the negotiations are closely co-ordinated so that the Consortium are left in no doubt at any stage as to what the Government's overall requirements on both projects are. If there is confusion, we will give the Consortium the opportunity to play one side off against the other, with the potential result of increased costs falling on the public sector.

On the question of your PES provision for all UDCs I am grateful for your confirmation that you will ensure that sufficient resources are made available for Canary Wharf in 1987-88. Any eventual agreement to the project would need to be on the expectation that you will also meet the associated public expenditure costs in future years from within the provision for UDCs that we agreed in last year's Survey, though there are, as you say, several other major issues to be resolved before we can decide whether the Canary Wharf project should go ahead.

I am copying this letter to the Prime Minister, John Biffen, Norman Tebbit, David Young, John Moore, John Wakeham and Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

REG Pol' Inner cities pt 9

NA

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1

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

NBPN.

Robin Young Esq
Private Secretary
Department of the Environment
2 Marsham Street
LONDON
SW1

29 January 1987

Dear Robin,

TAKE-UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

d Flap

David Norgrove copied to me his letter to you of 20 January. We have looked at the take-up by inner-city authorities of the two specific grants paid by this Department - for the in-service training of teachers (INSET grant) and Education Support Grant (ESG). TVEI and MSC programmes generally are for D/Emp.

All local education authorities are taking up the INSET grant. If there is a distinction between inner-city and other authorities, it is the former group which is more likely to use allocations in full. For the new grant scheme starting in April, all authorities have submitted bids and received allocations. There is no sign of lower enthusiasm among inner-city authorities.

All the inner city LEAs have bid and received approval for projects assisted by ESG. In some cases the amount of the bid has been greater, and in others smaller, than we should have expected from an LEA of the size in question. But there is no consistent pattern of under or over-bidding; and no evidence that bids which seem low were so pitched because of a wilful decision not to take advantage of the grant.

I ought also to mention that some inner-city authorities are participating in the Programme for Lower-Attaining Pupils (LAPP) funded through the Urban Programme. Again, we have no reason to suspect bad motives in those inner-city authorities which did not apply.

I do not think therefore that we can offer any material concerning DES grants to put in your compilation.

Copies of this letter go to David Norgrove (No 10), Tony Kuczys (HM Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), John Turner (Department of Employment) and to Bill Fittall (Home Office).

Yours sincerely

Robert Smith

R L SMITH
Private Secretary

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Regional Polymer Cities PT9

COMMERCIAL IN CONFIDENCE

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

23 January 1987

Dear Chief Secretary,

CANARY WHARF DEVELOPMENT

Thank you for your letter of 20 January in response to mine of 13 January to the Secretary of State for Transport.

The "freehold guarantee" route is now, as you say, the only practicable way forward and I am grateful for your agreement that negotiations should proceed on this basis. There are, as you point out, several major issues that will have to be resolved before any final proposal emerging from these negotiations can be approved and I will, of course, consult colleagues further before such approval is given.

As John Moore points out in his letter to me of 15 January, it is important that we co-ordinate our approach on the MBA with LRT's negotiations on the City extension of the London Docklands Railway. Officials in my Department already hold weekly meetings with LDDC with officials from Treasury and Transport represented as necessary to discuss progress on the MBA. Effective co-ordination between the two Departments does not, however, necessarily imply that the basis of the two deals, and the guarantees they offer, have to be identical. On the contrary, I, and I believe John Moore takes the same view that by taking the two sets of agreements separately we will be able to obtain guarantees from the Consortium, which are more clearly tailored to the particular needs of LDDC and LRT than we could by seeking a single blanket commitment. I have explained why the form of agreement set out in my previous letter is as strong a commitment to ensuring development as I believe is achievable. I understand also why John Moore and LRT believe that more specific, and in effect more stringent, requirements are needed to safeguard LRT's revenues. I think the important thing from John's point of view is to secure an effective assurance of sufficient revenues to ensure the required return on the Railway project. It may prove more sensible to express the requirement in these terms in the Railway Agreement, rather than explicitly in the form of a guarantees development timetable. But however it is expressed I would not wish him to relax his line, even if that means specifying different rates of development in the two agreements. Of course, in the final stages of negotiation, there is still hard bargaining to be done on both fronts.

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I can confirm that I will remain within the agreed PESC provision for UDCs in 1987/88, although I am still determining the relative priority of the different elements under this heading. I will, of course, ensure that there are sufficient resources to cover potential expenditure under Canary Wharf, since without them the negotiations will collapse. So far as future years are concerned, it is too early for me to give the sort of commitment that you are seeking, although I will, of course, take what you say into account when putting together my Department's proposals for the next round.

I am copying this letter to the Prime Minister, John Biffen, Norman Tebbit, David Young, John Moore, John Wakeham and Sir Robert Armstrong.

Yours sincerely,

BH Conlard Private Secretary

pp.

NICHOLAS RIDLEY

(Approved by the Secretary of State and signed in his absence)

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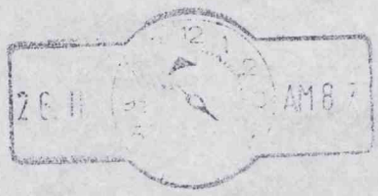
REGIONAL POLICY

INNER CITIES

PT 9



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 January 1987

Dear Robin,

TAKE UP OF CENTRAL GOVERNMENT PROGRAMMES IN INNER CITIES

The Secretary of State for Employment at a recent meeting with the Prime Minister referred to the fact that a number of local authorities in inner cities were choosing not to take up their entitlement to resources which were available to them through Central Government programmes. Southwark for example was taking no advantage of the Community Programme or YTS and the ILEA had refused money under TVEI. Your Secretary of State referred to the fact that some Inner London Boroughs had refused to take money under the Urban Housing Renewal Programme.

The Prime Minister believes that it would be useful to bring together available examples of this kind and I should be grateful if you could take this on, on the basis of your own figures and contributions from the Departments of Employment and Education (and any others if appropriate). The Prime Minister will wish to consider how best to make use of the material when it has been compiled.

I am copying this letter to Tony Kuczys (H.M. Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), John Turner (Department of Employment) and Rob Smith (Department of Education and Science).

Yours,

David.

DAVID NORGROVE

Robin Young, Esq.,
Department of the Environment.

CONFIDENTIAL

887

004/2770

COMMERCIAL IN CONFIDENCE

CC BC

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

NRSM

20 January 1987

Dear Nicholas,

CANARY WHARF DEVELOPMENT

Thank you for sending me a copy of your letter of ~~13~~ January to John Moore. attap

From what you say, I am willing to accept that the development of the Canary Wharf by Mr Travelstead's Consortium is only likely to proceed if agreement can be reached with them using the "freehold/ guarantee" approach you describe. I am also inclined to agree that alternative approaches such as leasehold must now be ruled out.

As you recognise, it is essential that the guarantees given by the Consortium's financial backers are watertight and I too would need to be satisfied on this point. Evidence of firm commitment from potential tenants of the office development, from contractors to construct the infrastructure and that the Consortium's financing arrangements are satisfactory must, as you say, also be obtained before the agreement is signed. You must also be clear yourself that the development of Canary Wharf can be successfully completed in the event of a default by the Consortium.

All that said, I still have a number of serious worries about your proposal which need to be resolved before I would be happy for the Government to approve the project. The first of these is the effect your proposed approach will have on the LRT's negotiations with the Consortium on the eastern extension of the Docklands Light Railway to which John Moore refers in his letter of 15 January. I agree with John that it is vital that our approaches to the separate negotiations on the MBA and the Railway be concerted.

REG. POLICY Lower Lea PT9

COMMERCIAL IN CONFIDENCE

I am concerned that what you are proposing is not consistent with what LRT will require to ensure the viability of the railway. While I have not yet seen the revised appraisal of the railway project, John's letter suggests that LRT will also need to negotiate separate, specific guarantees on the scale and pace of development or an increased capital contribution from the Consortium to ensure the viability of the railway. Given the likely objections by the Consortium to an increased capital contribution, surely it is giving the Consortium the wrong impression of HMG's overall requirement if you were to reduce your requirements concerning the occupancy of the development as you propose. Would it not be preferable to adopt an agreed approach to the negotiations whereby we seek similar commitments from the Consortium in the context both of the railway and the office development?

Second, the Government cannot of course approve the project until a satisfactory economic appraisal has been completed and we are all content that the project as a whole, including the railway extension is viable. I understand that there are problems with the methodology used by Peat's in the appraisal they have made. Our officials will be discussing these with Peat's shortly but I will need to be convinced about the methodology and the results of the appraisal before the project is finally approved.

Finally, I am concerned about the public expenditure aspects. It is not clear to me how you will fit all your proposed UDC activities into the increased baselines we agreed in the last Survey, given your current proposals not only for Canary Wharf but also for development of the Royal Docks and the eastern extension of the DLR and for the four new UDCs. I will need to know before you authorise LDDC to proceed with the Canary Wharf negotiations how you intend to fund all these activities within your agreed provision.

I am copying this letter to the Prime Minister, John Moore, John Biffen, Norman Tebbit, David Young, John Wakeham and Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

CONFIDENTIAL

C(87)5

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

15 January 1987

Prime Minister 2

DRS
16/1

Dear Nicholas,

CANARY WHARF DEVELOPMENT

Thank you for your letter of 13 January about negotiations with the Canary Wharf Consortium. I note that you are proposing to authorise LDDC to negotiate an agreement on the basis of a freehold/guarantee arrangement. I see the force of arguments for this approach, but it has to be recognised that the absence of enforceable development guarantees in the MBA will make it harder to secure them in the railway agreement. It will be vital over the next few weeks for us to concert our approaches to these separate negotiations.

My concern is the risk to LRT's revenue if development at Canary Wharf is slower or to a lower level than assumed in the railway appraisal. So LRT still need to negotiate separate, specific guarantees on the scale and pace of development, significantly quicker than that included in the draft MBA, to provide the traffic LRT require to avoid serious revenue losses. If they cannot secure the development guarantees they are seeking, LRT may need, as an alternative, to seek an increased capital contribution from the Consortium to cope with the extra risk they would be running.

I am glad that you will insist on substantial letting commitments before you allow LDDC to sign the MBA. Obviously this is a matter of keen interest for us and I hope your officials will keep mine fully informed, since it could have an important bearing on LRT's tactics in the railway negotiations.

LRT have submitted a revised appraisal of the railway project which my Department is examining urgently. As I explained in my minute to the Prime Minister on 21 November there has been a substantial increase (now estimated at up to

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01-212 3434

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

15 January 1987

Prime Minister 2

DRS
16/1

Dear Nicholas,

CANARY WHARF DEVELOPMENT

Thank you for your letter of 13 January about negotiations with the Canary Wharf Consortium. I note that you are proposing to authorise LDDC to negotiate an agreement on the basis of a freehold/guarantee arrangement. I see the force of arguments for this approach, but it has to be recognised that the absence of enforceable development guarantees in the MBA will make it harder to secure them in the railway agreement. It will be vital over the next few weeks for us to concert our approaches to these separate negotiations.

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I am glad that you will insist on substantial letting commitments before you allow LDDC to sign the MBA. Obviously this is a matter of keen interest for us and I hope your officials will keep mine fully informed, since it could have an important bearing on LRT's tactics in the railway negotiations.

LRT have submitted a revised appraisal of the railway project which my Department is examining urgently. As I explained in my minute to the Prime Minister on 21 November there has been a substantial increase (now estimated at up to

£25m) in LRT's forecast cost of the railway since we agreed a provisional deal with the Consortium back in the spring. There seems little prospect of recouping this increase through a larger Consortium contribution since we took the risk of capital cost overruns. This means that the railway is by no means certain to be viable in purely financial terms. We shall need to satisfy ourselves before giving our collective approval for the railway project to go ahead that the likely benefits will outweigh the costs. If we do authorise the project that will require additional resources in 1988/89 onwards to finance it.

For these reasons I hope you will make clear that the Government's commitment to the project is still subject to the satisfactory conclusion of an agreement on the railway.

The Consortium are suggesting to LRT that the negotiations should resume next week and LRT will be pressing them to adhere to their latest target of the end of February for an agreement to be reached. This is an important target date since delay beyond then may mean that contractors increase the prices in the tenders LRT have obtained. It is important therefore that both sets of negotiations should adhere to this timetable.

I am copying this letter, as yours, to the Prime Minister, John Biffen, Norman Tebbit, David Young, John MacGregor, John Wakeham and Sir Robert Armstrong.

JOHN MOORE

Regional Policy : Inner Cities Policy and Problems.

COMMERCIAL-IN-CONFIDENCE

ECB/G

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 270 0020
270 0296

15 January 1987

Robin Young Esq
Principal Private Secretary to the
Secretary of State for
the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

NBPR.

Dear Robin, at flap.

CANARY WHARF DEVELOPMENT

The Chancellor of the Duchy has seen your Secretary of State's letter of 13 January to the Secretary of State for Transport.

The Chancellor agrees with your Secretary of State's proposal that he should authorise LDDC to negotiate on the freehold/guarantee basis described in the letter.

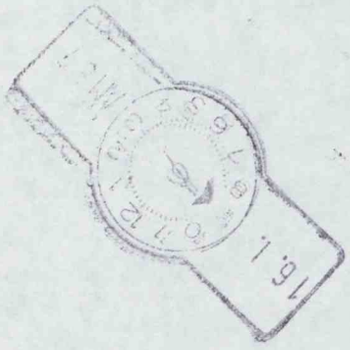
I am sending a copy of this letter to the private secretaries to the Prime Minister, Lord Privy Seal, Secretaries of State for Employment and Transport, Chief Secretary, Chief Whip, and to Sir Robert Armstrong.

Yours sincerely

A. Lansley

ANDREW LANSLEY
Private Secretary

REG POL: Lanes Cabs pt 9.



COMMERCIAL IN CONFIDENCE

C/BG

Prime Minister 2

Nr Ridley proposes to transfer land to the consortium subject to various undertakings. The final paragraph suggests that the whole project may be losing momentum.

DLW 14/2 AT FLAP PT8

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

13 January 1987

The Rt Hon John Moore MP
Department of Transport
2 Marsham Street
LONDON
SW1

Dear John

CANARY WHARF DEVELOPMENT

I last wrote to you and other colleagues about Canary Wharf on 9 July 1986 in advance of the meeting that you and I had with Mr Travelstead (on 23 July). This letter is to bring you and other colleagues up-to-date before I authorise LDDC, with your agreement, to move to the next stage of negotiations.

On that occasion we were ready to agree that in order to secure this major development LDDC might be allowed to pass the freehold of their land to the Consortium, in advance of development taking place, provided there were watertight assurances that the development would be completed as agreed. We were then talking about development of at least 5 million sq ft of office floorspace.

An alternative was also accepted - namely, for the freehold transfer to be supported by an undertaking that the Consortium would construct the whole of a defined infrastructure and for this to be supported by watertight "guarantees" from their financial backers. In effect, the latter - a "freehold/guarantee" approach for major infrastructure works estimated to cost about £300 million - would be relied upon to provide the necessary assurance that the Consortium and their backers would subsequently commit themselves to office development of a substantial enough volume to justify the investment of the public expenditure involved. This guaranteed infrastructure would include substantial car parking, shopping and other public space on a number of floor levels, as well as the usual service provisions for the site; and it would stand, in effect, as a proxy for the major office development which it would support.

The successful development of Canary Wharf on the scale envisaged by the Consortium - involving private investment of more than £1 billion - would undoubtedly be a success for us. But there are, inevitably, uncertainties in the market for development on this scale which we must recognise.

I have accepted - my advice from Christopher Benson and our external advisors is clear on that point - that for the land deal it would not now be realistic to try to secure guarantees of a specified volume of office development which would depend upon wider market conditions some years hence. But I am now assured that there is a form of undertaking for the freehold/guarantee -

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as outlined above - which would be legally enforceable. It could also provide a satisfactory assurance against some of the principal risks which can arise after entering into a deal on this scale.

These principal risks are, first, that though the Consortium funds the infrastructure satisfactorily, an inadequate volume of office development takes place subsequently, or follows on an unacceptably long timescale. At the time that a deal is struck we will need to have evidence of substantial letting commitments for offices as well as of the infrastructure investment, so that we can be satisfied that the risk of a low level of development is minimal. We will then also need to reach the judgement that the Consortium and their backers will require a volume of office development which will not only be enough to remunerate their own investment but will also be enough to justify the Government's contribution.

Secondly, we shall ensure that the risk of abortive public expenditure is minimised. I do not anticipate too much difficulty in that: the level of financial commitment of many of those involved from the private sector will be high from the outset and that will reinforce their determination to see things through. But this will need to be kept under close scrutiny.

Thirdly, the risks of the Consortium's abandoning the project before completion of the infrastructure or, fourthly, of their selling off land at a substantial profit immediately on signing the Master Building Agreement must be guarded against. Here the undertaking given independently by the Consortium's financial members will be crucial. It will ensure that the £300m infrastructure will be funded - and that infrastructure will be a useful asset for the regeneration of the area.

Its main features and the other terms of the agreement which I propose should now be negotiated are for:

(1) the Consortium to agree to build the infrastructure (within a set timetable), which would cost about £300 million and be sufficient to support 5m sq ft of office space;

(2) the Consortium to agree to build (but not to guarantee to build) a minimum 5.4m sq ft of completed office development - with an expectation of final developed space in excess of that;

(3) LDDC to sell the freehold of the greater part of the land required for the development;

(4) LDDC to provide specific local roads and other infrastructure, in a phased programme, in support of the development. (The currently estimated cost of this is about £50 million - but details are still to be negotiated);

(5) the agreement to be accompanied by a separate

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undertaking by members of the Consortium (Credit Suisse First Boston, First Boston International and Morgan Stanley International). This would be to provide LDDC on the basis of independent documentary evidence of a breach of the agreement, such as a Surveyor's Certificate - with a sum of money sufficient to complete the guaranteeed infrastructure; and for

(6) LDDC to retain a key parcel of land which would only be available to the Consortium on completion of the privately funded infrastructure and of a specified volume of building.

I am now satisfied that a structure of this kind, which would rest on undertakings from major banks, could be acceptable in principle, and which is as "watertight" as we could hope to negotiate with anyone.

A final deal will, of course, depend on Government's approval of the precise terms of the agreement and on a satisfactory result from the economic appraisal, which rests primarily on the increase in land values in the areas which are attributable to the project. This appraisal - which is currently being updated - is designed to answer Government's concern that wide economic benefits should arise from the development. This is a wider objective than meeting the more sectoral interests of our agents, LDDC and LRT. We shall, therefore, also need to reach a firm view here. It is not yet certain that the appraisal results will show these benefits to be sufficiently worthwhile - compared with those that might be obtained with less ambitious ideas for development but at a lower cost.

I would also not permit LDDC to proceed to signature until we have evidence of firm undertakings by bodies committed to taking a substantial volume of building (as noted above); and evidence of the contractors' commitments to construct the infrastructure and of the Consortium's own financing arrangements. Such a basis for confidence would be necessary for any project of this scale; but it is particularly important in this case.

You and other colleagues will be aware that the arrangement now proposed is novel particularly in its early release of the freehold to the Consortium. But the size and nature of this development is unpredecented in this country. So I am satisfied that LDDC's normal mechanism - of offering only a building licence to developers in the first instance - would not permit the Consortium to finance building on this scale. We also explored the possibility of entering into a leasehold arrangement, with an option of converting the leasehold to freehold on completion of the privately funded infrastructure. But it would not be feasible on the present timetable. It would be difficult to devise a structure satisfying both LDDC's obligations and those of the Consortium's lenders and lessees. It looks a less attractive arrangement than the one which, on firm advice, I now propose we should pursue. And it would put back the negotiations to square one.

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COMMERCIAL IN CONFIDENCE

Finally, I recognise that the project for the City extension of the Docklands Light Railway will need to be justified financially in its own right - although its cost is already taken into account in the economic appraisal. This will require assumptions to be made about traffic levels, and hence about the pace and scale of development, which may well have to be different from those in the land deal. You will also be seeking protection against a variety of risks - and I hope that our officials can remain closely in touch for the remaining stages of the negotiation to concert our approach. The public expenditure implications for that will be for you to consider.

The public expenditure bill to be met by LDDC specifically for the project - and more widely for the Roads programme in Docklands - has already been taken into account in the last PESC settlement. The basis of the present allocation is that LDDC would carry over sufficient resources including receipts from 1987/88 to enable them to fund their full programme.

In conclusion, I should welcome your, and other colleagues', agreement to my authorising LDDC to negotiate agreement on this - freehold/guarantee - basis. I shall make it quite clear that all of the precautions spelt out in this letter must be followed and that adequate safeguards against identified risks are taken.

I should welcome an early response. A letter ought to go to the Consortium by the end of this week to keep the negotiations moving. There are signs that they are flagging: it may be that Mr Travelstead is unable to secure sufficiently firm interst among potential occupiers to justify his yet going further. But he may also need some assurance of our good faith as well. I think that it may be difficult to strike a deal; but that we should keep trying with, perhaps, some more pressure on the timetable. When I have seen how far we get in this next period I will consider the position and be in touch with you again as need be.

I am copying this letter, as before, to the Prime Minister, John Biffen, Norman Tebbit, David Young, John MacGregor, John Wakeham and Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

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RGA. Policy Inner Cities PT9

2nd December, 1986

Prime Minister, 2

DRW
5/12

DEVELOPMENT

There are some encouraging signs of a quickening of pace in the field of urban regeneration.

I know over the years that you have been worried about the strength of feeling in the south-east against over rapid development, thinking that this is another example of a dog-in the-manger resistance to change and economic progress. It does, however, have some other advantages.

If we succeed in limiting development in the south-east to a more modest scale, and forcing some of the new housing and industrial development into the city areas (including London, Reading, Bristol and the other large towns of the south-east itself) the following advantages would flow:

1. The public expenditure demands for new schools and hospitals to service new towns and villages would be reduced in the shire areas.

2. The public expenditure and political costs of closures of schools and hospital wards in the inner city areas would also be reduced.

3. The pressure for more new road expenditure in the south-east to service new centres of population would be reduced.

4. There would be savings on the public budget in the inner city areas, as more private capital would be available and less dependence on public money.

5. Fewer active enterprising people might then move out of the cities, one of the main causes of the collapse in some London boroughs and in the centre of some of our towns.

Placing some limitation on south-east greenfield development and encouraging more action to redevelop the cities is good news in both places. It is true that antagonism to development in the south-east has become widespread and unreflective. People even oppose infilling developments, new industrial estates on old power station and gas board sites or

the use of old railway land. If we could claim that there was more balance in policy - that there were not going to be whole new villages and towns built over the greenfields of Berkshire, Hampshire, Surrey and East Anglia - we might find more brave souls prepared to argue in favour of sensible, reasonable scale developments and the re-use of urban land throughout the country.

John Redwood

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 December, 1986.

SOUTH CARDIFF URBAN RENEWAL

Thank you for your letter of 2 December to which was attached a revised text of part of your Secretary of State's speech to be given in Cardiff on Friday, 5 December. The Prime Minister is content, subject to the views of colleagues.

I am sending copies of this letter to the Private Secretaries to the members of EA, the Lord President, the Solicitor General, the Chief Whip, Mr. Richard Luce, and Sir Robert Armstrong.

(David Norgrove)

Paul Skellon, Esq.,
Welsh Office.

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CCBG.

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WHITEHALL LONDON SW1A 2ER
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01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

Prime Minister 2

The key paragraphs are on pages 17 and 21. They seem fine — and the speech is no less exciting than it was before.

2 December 1986

Dear David,

SOUTH CARDIFF URBAN RENEWAL

DRN
2/12

... Discussions following yesterday's EA meeting have resulted in the attached revised text, which has been agreed by my Secretary of State, Mr Ridley and the Chief Secretary. My Secretary of State will now use this text in his speech in Cardiff on Friday 5 December.

/ I am copying this letter and its enclosure to the Private Secretaries to the members of EA, the Lord President, the Solicitor General, the Chief Whip, Mr Richard Luce, and Sir Robert Armstrong.

Yours ever,

Paul Skellon

PAUL SKELLON

David Norgrove Esq
10 Downing Street
LONDON
SW1

CONFIDENTIAL

EXTRACTS FROM THE SECRETARY OF STATE'S SPEECH AT THE WELSH DEVELOPMENT AGENCY URBAN RENEWAL SEMINAR ON 5 DECEMBER 1986

At the start of this Conference about urban renewal we need to pause for just a moment to clarify the meaning of the words we use. To talk of an "inner city problem" or "urban renewal" is useful shorthand; but if we are to avoid confusion we should remember that the problems, the solutions and the opportunities vary greatly from place to place. Fortunately some of the most acute problems of urban decay and racial tension found in English cities do not exist in Wales and we are not here to talk about them today; instead, this Conference will consider what is being done and what more could be done in Wales to remove the dereliction caused by the decline of old industries and to make Wales a much more attractive place in which to live, work and play - a place which will attract visitors for the quality of its towns just as much as for the beauty of its countryside.

/The need ...

The need for urban renewal is greatest in the valleys and cities of South Wales and parts of Clwyd, the places where the mass of the population live; but elsewhere there are smaller towns where it is possible to do much to remove eyesores and improve the environment.

The instruments available to us are almost as varied as the problems we have to tackle, but the opportunities are also considerable. It will be my central theme that we can only realise the full potential for progress (which is enormous) if we combine all the available instruments and the financial resources of the public and private sectors to produce the greatest possible multiplier effect. In some instances the multiplier will be small: in others, where we can trigger wealth-creating projects, the opportunities are breathtaking. I shall be speaking of one such opportunity around Cardiff Bay.

The historic decline of basic extractive industries has left a legacy of dereliction. Since the disaster of Aberfan twenty years ago we have carried out here in Wales one of the most extensive programmes of land reclamation in Europe.

/Since 1979 ...

Since 1979 alone I have approved land reclamation work by the WDA amounting to £130 million at today's prices.

Completion of the latest WDA land reclamation programme, which I announced in July, will bring to 12½ thousand acres the amount of derelict land cleared by the Agency since its inception in 1976.

I am planning to provide about £13 million on top of existing planned provision for land reclamation over the next three years. This will cover the additional reclamation costs associated with the Garden Festival at Ebbw Vale and also enable more resources to be made available for reclamation schemes in the rest of Wales.

Derelict land improvement is not just a matter of removing tips and waste but also of removing ugly plant and buildings. In some instances a better approach may be to preserve and restore an old building as a monument and tourist attraction or for an entirely new use. Among many examples to illustrate my point are the Industrial and Maritime Museum in Swansea and the work now being carried out at

Wrexham to modernise the former Courtaulds works there. It was appropriate that the restored Custom House building in the heart of Cardiff should become the new home of the Land Authority. I am sure it must be a policy objective of Government to preserve and incorporate in new schemes a significant amount of this industrial heritage, though we must be careful not to go to the other extreme of preventing desirable development because of an obsessive desire to preserve everything from the past. Many towns can be transformed by the sensitive restoration of old buildings and the removal of eyesores; and much good work is being done by local authorities working with CADW and organisations such as the Civic Trust and the Prince of Wales Committee.

This is a convenient moment to emphasise that successful urban renewal is not achieved just by concentrating on land and buildings. What we are talking about is creating the kind of places that are attractive both to live in and to visit. Early in my career as a Minister I was berated by the Daily Mirror for suggesting that if you wanted to attract inward investment one of the first things that you should

consider doing is to build a golf course; but it was not such a damn fool idea! Golf courses, leisure centres, and sports facilities will be essential elements in the process, and so will the arts.

About a year ago, with the Welsh Arts Council and National Museum, I launched two major studies into the housing of the visual and performing arts in Wales. The arts are important because they enrich life and because they can act as magnets that will draw people into an area, generating wealth and sustaining new development. Earlier this week I announced a number of very important decisions arising from the recommendations of the Hudson-Davies report on the visual arts. Over the next three years we will carry out major improvements to the National Museum building in Cathays Park. I also announced that we would be making resources available for developments at St Fagans. I will have more to say later about the Industrial and Maritime Museum in the Docks.

In Swansea and in North Wales we will start fulfilling our commitment that the Welsh collections will be adequately displayed throughout

Wales. Swansea has led the way in illustrating how provision for the arts is an important instrument for achieving urban renewal and an essential component of civic activity. The plans for developing the old Guildhall and for the establishment of a photographic museum follow on the refurbishment of the Grand Theatre.

Cardiff plans a major restoration of the New Theatre. The Welsh Office/Welsh Arts Council study on housing the performing arts has urged the construction of a Centre For The Performing Arts in Cardiff as a home for dance, the Welsh National Opera and theatre. We examined closely the Hudson-Davies suggestion that this Centre might be housed in the courtyard of the National Museum but accepted the advice of consultants, Carr and Angier, that the alternative options of land immediately to the north of the Museum building or a site in the new Cardiff Bay development, are to be preferred. There are few things that I would like to have done more in my time as Secretary of State than to provide a home worthy of our great opera company and for the other performing arts, but the scale of the resources that we have to commit to the National Museum and to launching the development of

South Cardiff mean that it is not a realistic proposition to include yet a third major project in the next two or three years. However, I believe that a centre of this kind should form a central component of the Cardiff Bay plan and I have, therefore, agreed with the local authorities concerned that we will commission a design study to begin at once so that the results will be available for incorporation in development plans for Cardiff Bay as they are brought forward. I think it is a realistic objective to aim for a start on a Centre for the Performing Arts as part of the Cardiff Bay development in the middle years of the decade ahead. The greater our success in attracting private investment to the development of infrastructure in the area the easier it will be to turn that aim to reality.

It is perhaps not too difficult a step to move from the arts to garden festivals. Again you will be aware of my recent announcement that the 1992 Welsh Garden Festival will be held in Ebbw Vale. The site chosen is exciting and challenging. It was formerly occupied by the old Ebbw Vale steelworks. Among the guidelines to local authorities inviting them to bid to host the Festival were the following objectives:

to have a catalytic effect on decision-making so that reclamation of large derelict sites happens more quickly than would otherwise be likely;

to provide a higher quality landscape than would normally be the case and which remains an attractive setting for public open space or use partly or wholly for other development;

to act as a spur for environmental improvement over a wider area.

I believe that is exactly what the Ebbw Vale Garden Festival will do: act as a spur for the improvement of the whole South Wales valleys area. I am sure that it will give a massive boost to the programme of regeneration that I launched on 3 March, 1986 when I announced the Valleys Initiative.

The Valleys Initiative aims at bringing about a substantial and visible improvement in the valley communities. The seven applications successful in the first round were based on Merthyr Tydfil, Maesteg,

Aberdare, Pontardawe, Ebbw Vale, Pontypool and Tonypandy. Already the initiative is producing results because it does three things; it concentrates on making a visible impact on the appearance of key locations which people use for shopping, recreation and business; it makes use of local initiative and the contribution of voluntary bodies as well as a variety of public and private organisations; and it seeks to generate private investment in order to achieve the multiplier effect which I said would be a central theme running through the speech. It is only by combining the resources of the public and private sectors that we can attain our objectives.

The Rhondda Valley already provides an excellent illustration of what can be done by this approach. If you drive up the Valley today you will observe that an exceptionally high percentage of the roofs have now changed colour from slate grey to red, evidence of the scale of the Government's house improvement programme in recent years. Almost all those houses that have been re-roofed have also had their windows replaced and other modernisation carried out. Between 1979/80 and 1985/86 we have spent £333 million on renovation grants to the private sector.

At Penrhys there is a Priority Estates Project which is already having a big impact on improving the condition of what had become one of the worst of the post-war housing developments.

Close-by at Cwm Parc and Blaenau Cwm are excellent examples of areas being transformed by means of "enveloping schemes", while in Clydach Vale one of the largest derelict land schemes undertaken in Britain is already being followed by private house development undertaken by Barratts. Further down the Valley at Tonypandy, in an area approved for Valleys Initiative support, I recently had the pleasure of opening a splendid new retail shopping centre of the kind that we want to attract into these valley communities.

All that is happening in the valleys would have been impossible without the major improvement that has taken place in communications. The road to Merthyr with its spur into the Cynon Valley, the new access road into the Rhondda and the new route past Rogerstone and Risca are all major improvements that are opening up the valleys. Modernisation of the valley rail service, which feeds down into

Cardiff, is having the same effect. These communication links between Cardiff and the valleys form a vital element of our overall strategy.

Work is also underway on the Peripheral Distributor Road. Incidentally I do think it is high time that we had a more attractive name than "Peripheral Distributor Road" and I propose here and now that the County Council might hold a competition amongst local school children to find a suitable name for this important road which, when complete, will provide access into South Cardiff from the Valleys and from routes both to the east and the west. Earlier this week I was able to announce my approval for a start in 1987/88 on the crucial Bute Town Link section of this road which will provide a crossing of the River Taff and tie in to the proposed Central Link. Work on this should start within a few weeks.

I turn now to tell you about our plans for the capital city. There is one thing that distinguishes them from what is being attempted in some other parts of Britain. We are not attempting to reverse a continuing pattern of decline; we are building on success already achieved and a

notable transformation of Cardiff over recent years. Everyone here will be familiar with what has happened and seen the shopping area around the splendid St David's Hall become one of the best shopping centres in the country. Just to the south the new Holiday Inn forms the centrepiece of major redevelopment north of the railway which includes the skating rink and the library. That Holiday Inn development was made possible by one of the most successful of all this Government's initiatives in the field of urban renewal, the introduction of the Urban Development Grant scheme in 1982. Since that time grants of over £24 million in Wales have already triggered investment of over £140 million in around 50 projects. To the south of the railway another UDG grant made possible the redevelopment now being undertaken by Tarmac around the Bute East Dock which will do so much to re-establish the link between the modern shopping centre of the City and the old commercial heart around Mount Stuart Square in the docks. Our proposal now is to capitalise on what has already been achieved and to carry forward our examination of a development around Cardiff Bay which our consultants, Jones Lang Wootton, have said could be "of international significance".

Let me describe what we are considering. First the construction of a barrage between Penarth and a spot close to the entrance to the Queen Alexandra Dock. This barrage, which incidentally has absolutely nothing to do with the scheme for constructing a tidal barrage across the Severn, would cover the tidal mud flats that are there at present with a lake that would extend up the Ely and Taff Rivers right into the City centre. An important distinguishing feature of the waterfront on this newly-created lake is that a large amount of it would be soft edged, not hard dockside, as is the case in most other recent city waterfront developments. The study undertaken by Jones Lang Wootton identifies an area in South Cardiff not far short of 3,000 acres immediately available for development or refurbishment. Of this perhaps 600 acres is immediately developable in an area close to the water's edge. During the consultation exercise that we have carried out a great many experienced people have expressed excitement about the kind of development that the construction of this lake would be likely to stimulate. A number of bold and creative ideas have already been put forward and there is genuine interest from the private sector in putting together financial packages for the

infrastructure, including the barrage. There are interesting parallels between Cardiff Bay, which is what we would propose to call it, and the inner harbour of Baltimore which is now one of the most attractive and successful waterside developments anywhere in the world: the area around which development could take place is comparable in scale, and the Inner Harbour area is almost exactly the same size as the Roath Basin at Cardiff. There are many lessons to be learned from the American experience. Perhaps the most important is the need to create a critical mass of related developments which can support each other and draw in sufficient numbers, both from the immediate area and from outside, to sustain a project on the scale that is envisaged.

In Baltimore the remarkable aquarium which attracts 1.2 million visitors a year, a Hyatt Regency Hotel and convention centre, together with a festival, shopping and restaurant complex developed by the Rouse company forms part of the essential critical mass superbly sited around the water. In Cardiff the new headquarters of the South Glamorgan County Council is already under construction. The Roath

Basin area would provide a superb location for an aquarium, a hotel, and what I shall call Rouse-type development. The Industrial and Maritime Museum is already there and there are plans for its extension. Close-by there are dry docks which could be converted to make that Maritime Museum a major feature. At a later stage, as I have indicated, it may be possible to build a Centre for the Performing Arts.

Elsewhere around the wide sweep of the Bay developments of a different kind might be more suitable. Already at Penarth, Crest-Nicholson are building their marina. I am confident that an increasing number of people would want to live in high quality housing close to the water's edge and housing will form a great deal of the development that would take place.

Another lesson from America is the need to close the gap that exists between the existing heart of the City and the waterside area. Tarmac's scheme and the South Glamorgan Headquarters have begun the process of closing that gap, and new road links are to be constructed.

Further consideration is already being given to transportation requirements, which could include a light transit system. Other ideas are that part of the Commonwealth Games' sports complex could be sited in the area south of the central railway station and there could be a new southern entrance to the station. Close attention is being given by the County Council to the design of the distributor road so that it does not create a barrier and provides good access to adequate car parking.

The Welsh Office and Jones Lang Wootton have been carrying out an immensely thorough consultation exercise with both the public and private sectors. My advisers and I have visited a number of cities in the United States and sought advice both there and in this country. Those consultations have been extremely valuable. They have revealed not only that there is great enthusiasm for the project; but also exposed the need for firm and consistent control, a clear plan, careful zoning and protection of the key sites, particularly a waterside walk. Some will no doubt argue that there must be complete freedom for landowners and developers to build what they want with all

/the energy ...

the energy and speed that can be mustered. No-one, I think, can argue that I have not driven forward this project with considerable energy and at a great pace; but I note the strength of the advice, particularly from the United States, about the need for effective control. Those responsible in Baltimore believe that it has been a vital feature of their own success.

The consultation has also enabled us to proceed, stage by stage, with the agreement and enthusiastic support of the principal local authorities. The City, the County and the Vale have been informed step by step of our thinking and have indicated their support for these ideas. That is very important and is a situation quite different from that experienced in the London Docks and in other places where Government has had to impose an organisation on unwilling local authorities.

Against that background I can now announce the Government's decision, with the support of local government, to set up an Urban Development Corporation under the powers of the Local Government Planning and Land

/Act 1980. ...

Act 1980. The UDC will be known as the Cardiff Bay Development Corporation. It will be a small organisation with a highly qualified and dynamic team. Jones Lang Wootton's report spoke of the need for "superb leadership". There will be no large bureaucracy; but it will use facilities made available to it by the local authorities on an agency basis; it will work with Government agencies, such as LAW and the WDA, and it will employ outside consultants where appropriate.

The Corporation will have five Board members representing the three local authorities and eight others, including the Chairman, appointed by the Secretary of State. I hope to be able to make an early announcement of the Chairman and some of the first Board members. The Corporation will have the limited, specific, but highly important, task of seeing that the development potential of the area is realised. Once their task is complete it will relinquish its responsibilities to the local authorities who will continue to exercise all their other normal functions in the area. I want to emphasise that nobody is aiming to create a second and competing City but rather to exploit the full potential of Cardiff's magnificent situation by the sea for the

/benefit not ...

benefit not just of the City but the industrial valleys and the whole of Wales. I shall be seeking to find as members of the Board people with the drive and vision that is required, together with the financial and property skills associated with a project of international importance which will attract proposals and investment from Britain and overseas.

Though it must be right to seek this very wide backing, I am equally confident that a very major and critical contribution will be made by landowners and developers from within the area. Associated British Ports are particularly well placed to ensure that what is done unleashes the potential that has been identified and I know that they have already begun working on exciting and very promising plans for the area.

The American experience indicates that the Corporation must be prepared, when necessary, to use powers of compulsory purchase to assemble land. In Baltimore this is taken for granted and enables developments to take place that are larger and more comprehensive than

/would otherwise ...

would otherwise be possible. They are also done in a way that rewards both the public sector for its investment and the landowners involved through participation in the enlarged schemes that this approach makes possible. There will be the need for the closest co-operation between the Corporation, the landowners and developers.

To put the Corporation in place will take time (it requires a Parliamentary Order) and our target start date is 1 April 1987; but to avoid delay in getting the process of consultation underway I will be inviting local authorities, prospective Board members and others involved, including representatives of local business, to form an ad hoc committee to prepare a mission statement and to set in motion the preparation of the development strategy and zoning proposals, so that much of the preparatory work can be completed by the time that the Corporation takes up its formal duties.

I will also be asking local business men and women to form a Cardiff Bay Business Committee to act as a forum for consultation and for the involvement of the local business community. We will also be holding exhibitions and consultative meetings with those who live in the area.

The Corporation's responsibilities will cover a large part of Cardiff to the south of the railway and a part of Penarth as shown on this plan: about two thousand acres in all. The proposed boundaries take account of the comments and views of all three local authorities.

We believe that the barrage concept is an exciting one capable of creating a major development opportunity, and the technical and engineering studies so far carried out are encouraging. The first task of the new Corporation will, therefore, be to take the project forward by carrying out the necessary further technical and ecological work and financial appraisals and to examine the options for obtaining the greatest possible contribution by the private sector to the costs of the necessary infrastructure in South Cardiff, including the barrage. Clearly a firm decision to proceed with the construction of the barrage will depend on a successful outcome to these studies. Given such a successful outcome it will be necessary to seek Parliamentary approval. The earliest date at which a Bill could be introduced would be 1987 and construction of a barrage is expected to take about three years so that it might be possible to have the barrage in place early in the 1990s.

I have taken careful note of the objections that have been raised by those concerned with bird life on the mud flats. I have consulted with the Nature Conservancy Council and have had a study carried out by the Institute of Terrestrial Ecology. We fully appreciate the significance of the site. We are examining a number of ways in which the loss of feeding grounds might be minimised; but I am certain, on the basis of very widespread consultation that, with such potential benefits both for Cardiff and the wider area of South Wales, it is right to take the further steps I have outlined.

There remains much to be done. I take immense encouragement from the very positive and helpful advice that we have received from so many experienced people. I am encouraged, too, by the expressions of interest that have come from the United States where they have much experience of developments of this kind; but, above all, I take encouragement that this project has brought together the various local authorities and the political parties in a manner that is likely to give great confidence to those who wish to join in exploring this bold and ambitious venture. Our advisers tell us that "this is a rare

opportunity to develop a superb environmental setting which will have few, if any, competitors in Great Britain". Surely nothing less should be the objective for our capital city.

PART 8 ends

[redacted] PMG to PM undated.

PART 9 begins:-

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