SECRETARY OF STATE FOR THE ENVIRONMENT

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LONDON SW1P 3EB
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My ref:

Your ref:

17 July 1985

Dear Chief Secretary

LDDC: ROYAL DOCKS

I am writing about the London Docklands Development Corporation's plans for the acquisition and regeneration of that part of the Royal Docks at present owned by the PLA. The Prime Minister has expressed the wish in her Private Secretary's letter of 10 July that the momentum of private sector development in Docklands is maintained. I should therefore like us to reach an early decision on the terms of acquisition by the LDDC.

The LDDC has transformed the western part of its area since its creation in July 1981. I think you know in general terms of the striking progress that has been made. More than £820m of private investment has been attracted and more than 4,100 permanent jobs have so far been created. LDDC now wish to develop the Royal Docks. At present they own the western third of these docks but 270 hectares of land and water, including the STOLport site, are still in the ownership of the PLA and have been idle since 1981. The LDDC have been unable to lease this property from the PLA on terms acceptable to the Treasury.

The PLA are unwilling to agree to an outright sale at the District Valuer's valuation partly because they consider that this would not adequately reflect the development potential of the site, partly because under the terms of their Memorandum of Understanding a capital receipt of this kind would stand to be clawed back by the Treasury because they are so heavily in debt to the public purse, but mainly because they wish to secure a continuing income from the site.

The PLA and LDDC therefore agreed the terms of a lease at the end of last year and Transport Ministers told the PLA that they were content with its terms. I was unable to give final approval to the lease pending consultation between my officials and yours. Your officials took the view that the lease does not represent good value for money. The terms do, indeed, offer the PLA a premium over the District Valuer's valuation for leasing the land to the LDDC.

Despite these setbacks, I consider that it is vital, if the Prime Minister's objective is to be achieved, to ensure that early control of the site passes to the LDDC in order to build on the success already achieved by the LDDC and regenerate the area. LDDC argue that early transfer of the land would secure a number of important developments now under active discussion, which would otherwise be lost. It would also ensure the most effective and economical provision of public services which could not be guaranteed if the docks were developed in two stages. Mr Moss' letter to the Prime Minister refers also to the consequences of any delay in STOLport becoming operational as a result of doubt about control of the adjoining land. There can be no doubt at all that having one body, not two, in control of the whole area and charged with developing it to the best advantage will strengthen the confidence of would-be investers. Continuation of doubt about who is in charge is bound to impede momentum. Christopher Benson, Chairman of the LDDC, has explained very clearly to us why his experience makes it clear to him that divided responsibility, even in the form of a joint venture, is likely to be ineffectual.

The PLA's reluctance to renegotiate the terms they have secured is understandable. Transport colleagues have, as you know, appointed Brian Kellett to run the PLA on a realistic and commercial basis. I do not dissent from that aim. But I am not sure that the PLA is being realistic if it considers that it can secure some benefit from the Royal Docks other than by disposing of them to the LDDC.

Christopher Benson has expressed to me in the strongest terms his view that the PLA, as a port undertaking, does not have the necessary skills or resources to get the best in development terms out of this area. I do not think that Transport Ministers would dissent. Christopher considers that most of the major developments currently under discussion for the area would be abandoned if the LDDC did not have the remaining PLA land in its control.

We therefore need to seek a way forward which recognises the PLA's special position and ensures that the interests of the taxpayer, as provider of funds to the LDDC, are fully protected. The most obvious way of doing this is to renegotiate the lease with a lower net present value. The PLA have, however, made it clear in more recently negotiations with LDDC, that, despite the Treasury's rejection of the earlier terms, they are not willing voluntarily to agree to a reduced total value of the lease.

One possibility would be a CPO, but that would be too long and costly and momentum would be lost. It would not, in the LDDC's view and mine, be practical to develop effectively the Royal Victoria area (the most westerly section of the Royals, and already in LDDC hands) without being able to offer a clear prospectus about ownership, servicing and marketing of the rest of the area. Terms for outright sale cannot be agreed with the PLA who would sooner await the outcome of a CPO than sell immediately.

There remain three options:-

(i) to agree to the present lease;

(ii) to use the vesting procedure provided in the 1980 Local Government Planning and Land Act;

(iii) to be ready to use the vesting procedure to strengthen the LDDC's hand in renegotiating the lease.

The key figures for these options are given in the enclosed annex.

The vesting procedure is the means by which some tranches of PLA land have previously been acquired. It requires the prior agreement of the Secretary of State for Transport and a Statutory Instrument subject to affirmative resolutions of both Houses and almost certainly scrutiny by a Lords committee. Passage might not be easy, but it is very much quicker than a CPO. Transport Ministers are reluctant to consider compelling the PLA to sell a major asset for less than the price expressed in the proposed lease, but I believe that if we are to maintain the momentum of development whilst ensuring that public money is not needlessly wasted, we must seriously contemplate it and be prepared to use it as a last resort. I hope that once the PLA is aware that we are prepared to use the vesting procedure, they will be prepared to renegotiate a lease. This seems to me the best way forward. It is, however, impossible to provide realistic figures for any reduction in the terms of the lease that might be secured under the threat of vesting: that is bound to be a matter of political judgement, balancing what we could bring ourselves to agree to against the undoubted difficulty of applying force majeure to the PLA.

I hope that you and Nicholas Ridley, to whom I am copying this letter, are prepared to agree that we should tell the LDDC and the PLA that we are prepared to use the vesting proedure if they are unable to agree quickly a revised lease. If either of you have any difficulty, I should like to arrange a very early tripartite meeting so that we can reach a decision which will enable me to meet the Prime Minister's wish that the momentum of private sector development in Docklands should be maintained.

I am copying this letter to the Prime Minister, to Nicholas Ridley and Sir Robert Armstrong.

Yours sincerely

AH Davis

for PATRICK JENKIN

Approved by the Secretary of State and signed in his absence

The Rt Hon Peter Rees QC MP

ANNEX

COMPARISON OF THE MAIN COST ELEMENTS OF VESTING, CPO AND LEASE: £000s AT END '84 PRICES

Option	NPV (Discounted at 5%)	Not Discounted 85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	TOTAL
Vesting	3,100 (3)	3,100												3,100
CPO	3,000 (4)		250	250	3,100									3,600
Lease (1) (net financing costs)	6,500	777	966	1,023	1,068	794	494	522	546	568	586	516	1,159	9,019
Lease (total costs) (2)	10,076	3,877	1,341	1,023	1,068	794	494	522	546	568	586	516	1,159	12,494

The table expresses the cost of vesting and CPO compared with the lease. Net present value (NPV) discounts the stream of costs over time to bring them to a common base at present day values.

(1) Net financing costs: does not include inquiry costs or Treasury requirements for capitalising the value for public expenditure purposes. This assessment also allows for land disposal as the strategy proceeds, thereby reducing the rental payments over time. The Treasury do not accept that these figures correctly reflect the cost of the lease option since they are not computed in accordance with Treasury guidelines.

(2) Total costs: this is the cost based on Treasury guidelines and includes costs, capitalised value of the land and net financing costs of the lease.

(3) This is simply the estimate of the compensation code valuation of the land (including STOLport) given in the LDDC's economic appraisal. The only other costs under vesting would be administrative.

The DV's latest estimate of the compensation code value of the land (including STOLport) is £6.75m. This is, however, a very tentative estimate. A higher value for the land would not significantly alter the relationship between the options since it enters into each calculation (the rent under the lease is derived directly from the CPO valuation).

(4) Including LDDC's estimate of inquiry costs at £0.5m, but excluding any provision for the resources saved through the postponement of annual dock maintenance costs for the two to three years of the CPO.