Prime Minister
An alternative view is that the PLA deficit is a red herring. It seems implausible that a premium on this sale will be just enough to avoid recourse to deficit grant. So decide now on its merits.
AT.

CONFIDENTIAL

P 01630

PRIME MINISTER

LONDON DOCKLAND DEVELOPMENT CORPORATION (SUPPLEMENTARY BRIEF)

I understand that at their discussion last evening the Transport Secretary proposed to the Chief Secretary that the lease already negotiated by the PLA should proceed since the implicit subsidy involved would avoid the need for a subsequent deficit grant to the PLA.

2. This does, however, raise an important new policy point. Ministers have already decided that there should be no further operating subsidies to the PLA. To accept the lease the PLA have negotiated as a substitute for a further operating subsidy would, therefore, in effect be a reversal of the present policy, which would require fuller consideration than the papers now before E(A) allow.

3. You will want, therefore, to ask the Transport Secretary to report on last night's meeting, and the Chief Secretary to comment. If his proposal is that the lease should be allowed to proceed in lieu, as it were, of a further deficit grant, I think the right course would be to ask Mr Ridley to submit a new paper to the Sub-Committee after the holiday setting out the case for this. He may argue that this would cause unacceptable delay. But if the Sub-Committee endorsed Mr Jenkin's proposal for using the Government's vesting powers, this would take much longer (6 months, I think).

4. If Mr Ridley withdraws from last evening's proposal, then you will wish to take the Sub-Committee's views on Mr Jenkin's original proposal and reach a decision this morning. If not, it would perhaps be better to ask Mr Ridley to set out the issues more fully, including the wider considerations affecting the PLA.

J B UNWIN

31 July 1985
Cabinet Office

P 01626

PRIME MINISTER

E(A)(85)17th MEETING AT 10 AM ON 31 JULY

London Dockland Development Corporation: Acquisition of the Royal Docks

FLAG A

Letters of 17 July from the Secretary of State for the Environment to the Chief Secretary; of 22 July from the Chief Secretary to the Secretary of State for the Environment; and of 23 July from the Secretary of State for Transport to the Secretary of State for the Environment

FLAG B

FLAG C

BACKGROUND

1. The Chief Secretary, Treasury, and the Secretary of State for Transport disagree over the terms on which the London Dockland Development Corporation (LDDC) should acquire the Royal Docks from the Port of London Authority (PLA). They hope to resolve the issue tonight (Tuesday); but the item has been placed on the tomorrow's E(A) agenda so that if they fail (as seems likely) the Sub-Committee can take a decision before the recess in order to prevent the momentum for the regeneration of docklands (including the STOLport) being lost.

MAIN ISSUE

2. The main issue is whether the Government are prepared to use vesting powers under the 1980 Local Government and Land Act to secure the land for the LDDC at a lower price than they have been able to negotiate.

The Royal Docks

3. The area of the attached map which is both stippled and orange shows the land at present owned by the PLA which the LDDC wish to develop. It comprises 270 hectares of land and water.

4. There are four ways in which the LDDC might acquire the the site:

(a) by agreed purchase, at the District Valuer's (DV's) valuation; (£3.1 million)

(b) by compulsory purchase, at the DV's valuation;

(c) by relying on the Government's vesting powers in the 1980 Local Government Planning and Land Act (at the DV's valuation); or

(d) by an agreed lease. LDDC and PLA had reached agreement on a lease of £10.1 million

On the assumption that the DV valuation is £3.1 million, the Net Present Value of the lease according to standard Treasury methods is £10.1 million. The Transport Secretary disputes the Treasury methodology used to evaluate the full economic cost of the lease, and argues that the financing cost - £6.5 million - is the relevant figure. But the main issue remains unchanged, since there is still a large premium. The economic assessment of the options is shown in the Annex to the Environment Secretary's letter.

5. The PLA could not accept course (a), believing that the DV's valuation did not recognise the full development potential of the site (and also because Treasury would claw back the capital receipt). LDDC could not contemplate (b) because the necessary public inquiry would delay development by several years. Mr Jenkin's initial view was that the Government should not use (c) its vesting powers (which were intended originally only to establish the LDDC at the outset). The LDDC therefore negotiated a lease which is not clawed back by Treasury. Because they attach importance to acquiring the site and developing it quickly, they were ready to agree terms reasonably generous to the PLA. The Treasury, however, less influenced by the need for urgency and applying the normal investment appraisal assumptions, think that the premium of £7.0 million that the lease on their calculation represents over the DV's basic valuation is too high to be acceptable.

6. Mr Jenkin therefore reassessed his policy, and decided that it

would after all be acceptable to use the Government's vesting power, in order to secure a swift transfer at the DV's valuation. He hopes that it the Government make it clear they are ready to use the power, the parties will agree a more reasonable lease. If this fails, the Government will have to proceed with vesting, which requires a statutory instrument subject to affirmative resolutions in both Houses and probably scrutiny by a Lords committee.

7. Mr Ridley, however, is unwilling to be party to any action to press the PLA to act other than to its greatest commercial advantage and argues that the Government would look very odd if they rejected an agreement fairly entered into by two responsible bodies.

8. The merits of the arguments are difficult to discern. On the one hand it is arguably unreasonable to use the vesting power the Government just happen to have in this particular case to disadvantage the PLA: would the Government contemplate this if the PLA were in the private sector? On the other hand the PLA would long since have been bankrupt if it were in the private sector, so the question would not arise in this way. The Treasury may reasonably argue that if public money is to be given to the PLA, this should be done deliberately, and not by allowing the PLA to exploit a particular commercial situation to extract an excessive price from another public sector body.

HANDLING

9. You will wish to ask the Secretary of State for the Environment to introduce the issue and the Chief Secretary, Treasury to explain why the lease negotiated is unacceptable. The Secretary of State for Transport will wish to explain why he cannot accept that the Government should intervene to have the lease renegotiated.

CONCLUSIONS

10. You will wish to reach a decision on whether the Government should indicate to the PLA and LDDC that they are ready to exercise their vesting powers unless the parties can agree terms of a lease more acceptable to the Government. If not, can the lease proceed on the terms which have been agreed?

J B UNWIN

30 July
Cabinet Office

Economic Appraisal of the LDDC Royal Docks Strategy

Area of East Docklands CPO and PLA Freehold