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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



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

DECISIONS

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



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CANARY WHARF NEGOTIATIONS: STRATEGY FOR DOCKLANDS

(E(A)(87) 14)

DECISIONS

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 consortium 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.

Need to be satisfied (to avoid need for legal challenge)

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 decision 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



COS/KP

CONFIDENTIAL

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

DECISIONS

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

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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, which includes an extension to Monument 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 Blyd

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.

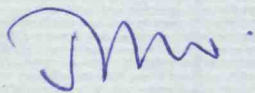
- 2 Although the market for new office accommodation in and around the City has gone off the boil for the time being, Travelstead has strengthened his Consortium with the addition of five substantial British construction companies, the reputable Bechtel Corporation and another major US developer. This 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