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My ref:

Your ref:

The Rt Hon Norman Lamont MP
The Chief Secretary
Treasury
Parliament Street
LONDON
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*NORMAN
LAMONT
4/8*

2 August 1989

Dear Chief Secretary

As you know, in his letter of 31 May, my predecessor made no bid for the London Docklands Development Corporation, feeling that the uncertainties at the time were too great. The Prime Minister's Group considered the Corporation's strategy on 19 July following Nicholas Ridley's paper of 11 July and decided to proceed as fast as possible with its transport programme. This letter is written in the light of the outcome of that meeting.

Since the meeting, my officials have run over the figures in detail with the Corporation. Some adjustments have been made but the scale of the overall requirement remains much as set out in Nicholas Ridley's paper of 11 July. The requirement includes an addition to the Corporation's EFL for 1989/90. It is as follows:

	1989/90 £ million	1990/91 £ million	1991/92 £ million	1992/93 £ million
Current EFL	188*	104	94	96
Main Bid	34	129	96	-
DLR Finance	-	99	38	(Potential repayment to HMT see para 7)
Total Bid	34	228	134	

* includes £91 million from Summer supplementary and £11 million EYP.

As you see I have divided the bid between main Bid and the consequences of your predecessor's decision not to pursue a private sector funding vehicle for the DLR Extension. A detailed breakdown of the programme which the bid would buy is set out at Annex A. The bid must be subject to two main uncertainties - the actual level of tender prices and the eventual level of land sales.

MAIN BID

The main bid which takes account of current forecast receipts and land sales, will achieve the following objectives:-

it will allow the Corporation's roads infrastructure to be built as quickly as possible in line with the Prime Minister's Group's decision. We have adjusted the estimates for road projects in the light of recent contract prices;

it will allow site servicing and environmental work to proceed which will boost the value of the Corporation's land holding and hence its receipts, and for some further land acquisition;

it provides for a package of social and community projects which underpin agreements with Newham and Tower Hamlets that are essential if the transport infrastructure is to be completed and which will ensure a balanced regeneration benefitting all sections of the community;

it will allow for a modest programme of social housing (£7m per annum in a PES year) for new building or refurbishment. This will support the agreements with the local authorities in assisting with the local housing problems and help to reduce the contrast between the worst housing conditions and the new development around them (itself a deterrent to developers and purchasers).

DLR BECKTON EXTENSION

The DLR Extension is to be financed from land sales, more specifically the extra value which the railway itself will create. In rejecting the case for a private sector funding vehicle (Tigerwall) your predecessor offered an agreed bid to provide grant to even out cashflow from land sales and to meet additional tax liabilities on those sales. Your officials indicated that the best estimate of the grant required and the timing of repayment would be:

1990/91 £ million	1991/92 £ million	1992/93 £ million
61	48	-(100)

We have rechecked the figures in the light of market changes and re-worked the tax assumptions. Our current estimate of the grant requirement is £137m over the two years. I should underline that this is an estimate; LDDC are doing further work on the tax implications.

A major virtue of Tigerwall was its flexibility to respond to unforeseen circumstances. The company could have drawn more heavily on a bank facility if during a year land sales did not yield the expected income. Funding a railway through grant as proposed does not offer as much flexibility because of the constraints of annuality and the supply process. I hope you can reassure me that you will look sympathetically at the need for additional resources in year in the event that LDDC's prudent land sales forecasts prove optimistic or if tenders for building the railway come in significantly over our best estimates. The Treasury would of course recover any additional outlay in later years when land sales would be in surplus; I suggest my officials discuss the timing of this with yours.

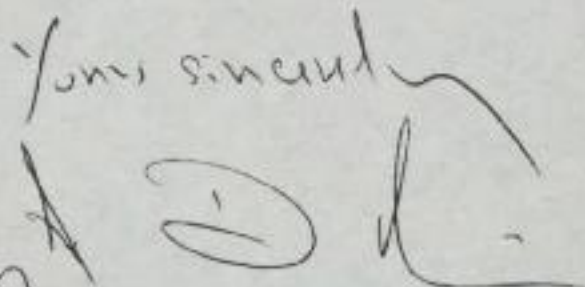
Otherwise LDDC propose to operate Tigerwall as previously planned - that is the Corporation will transfer the land back to the company and will ring-fence its operations and funding within LDDC's wider budget.

CONCLUSION

It was clear from the outcome of the Prime Minister's meeting on 19 July that the resources would be found for LDDC's programme and I look forward to your acceptance of my bid against that background. I strongly support the view expressed by Nicholas Ridley that it would not be reasonable for the remainder of the urban block to be cut back as a result. It would be very difficult to explain to the people of Sunderland and Sheffield for instance, why we should spend less on their Inner City problems to spend more in Docklands. Similar arguments would apply if you were to suggest reductions elsewhere in my Department's programmes. As you will no doubt recall Nicholas was himself inclined to defer the Beckton extension.

I would be grateful for an early answer on the position in 1989/90 - without prejudice of course to our wider PES discussions.

I am copying this letter to the Prime Minister and Cecil Parkinson.

Yours sincerely


PP

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

TABLE A

EXPENDITURE £million

	<u>1989/90</u>	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>
<u>Transport Projects</u>				
1. Limehouse Link - construction etc	48*	78	77	32
- replacement housing	33	26	1	0
(*including £3m insurance)				
- Total Limehouse Link	81	104	78	32
2. Canary Wharf Eastern Access	8	7	0	0
3. Poplar Link	9	6	3	3
4. East India Dock Link	0	22	34	4
5. Lower Lea Crossing	15	24	15	1
6. Royal Docks Major Roads	29	10	5	6
7. Other Road and Transport Projects	31	17	21	14
8. DLR Beckton Extension	21	123	68	21
TOTAL TRANSPORT	194	313	224	81
<u>Non-Transport Projects</u>				
1. Site Servicing	47	31	12	24
2. Environmental Improvements	12	12	10	4
3. Land Acquisition (Non-Transport)	14	1	0	1
4. Community Support	12	17	20	5
5. Education and Training	10	11	5	2
6. Social Housing/Housing Refurbishment	24	10	12	10
7. Industry Support	1	1	0	0
8. Promotion and Publicity	1	1	0	0
TOTAL NON-TRANSPORT	121	83	60	46
ADMINISTRATION	19	21	22	24
TOTAL EXPENDITURE	334	417	306	151
<u>INCOME (£million)</u>				
1. Grant	188	104	94	96
2. Land Disposal Receipts (Net)	80	85	78	159
TOTAL INCOME (NET)	268	189	172	255
PROJECTED SURPLUS/(DEFICIT)	(66)	(228)	(134)	104
CUMMULATIVE SURPLUS/(DEFICIT)	(34)*	(262)	(396)	(292)

*£32m carried forward from 1988/89

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