



10 DOWNING STREET

THE PRIME MINISTER

2 October 1984

Y
Lou Grace

Thank you for your letter of 14 September. I am indeed sorry that you have decided to break off negotiations with the Department of Health and Social Security concerning the sale of the site of the former St. George's Hospital. I understand that the negotiations which had resumed when I wrote to you on 16 May had come very close to reaching agreement. Certainly a formula under which an extra payment would only be payable by the Estate if the Department's calculations turn out to be correct had seemed the most promising way of reconciling the differences between the Estate and the Department about the valuation of the site.

Norman Fowler has told me that he is very ready to have negotiations resume on the basis of the formula which was under discussion and I very much hope that this will happen. It would be unfortunate if, given the efforts which have already taken place, the two parts of the site had to be developed separately. I am glad to hear, therefore, that a meeting is now to take place between Kenneth Clarke and Mr. James.

Kind regards,

Y
Louis Mountbatten

Raymond Stanger

His Grace The Duke of Westminster, D.L.



DEPARTMENT OF HEALTH & SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522
From the Secretary of State for Social Services

David Barclay Esq
 Private Secretary
 10 Downing Street

28 September 1984

*Prime Minister
 Reply to the Duke
 of Westminster attached
 for your signature if
 you agree.*

FERS

1.10.

Dear David

ST GEORGE'S HOSPITAL, HYDE PARK CORNER

Thank you for your letter of 20 September. I enclose, as requested, a note setting out the history of negotiations between the Department and the Grosvenor Estate, particularly during the last few months. I also enclose a copy of the letter which the Minister for Health wrote to Grosvenor after they had told us that they were breaking off negotiations. As you will see from the letter, Grosvenor's decision came as a considerable surprise to Ministers as we had seemed to be nearer to a successful conclusion of the negotiations than ever before.

Grosvenor have attempted to present the breakdown as being the result of intransigence on the part of the Department. They have implied that their withdrawal from negotiations was because ^{we} were were demanding a price of £10 million, compared with their offer of £6 million, and that we had rejected reference to the Land Tribunal. In fact, the negotiations have been proceeding on a quite different basis for nearly a year. Since we could not agree on a once-for-all payment, we have been pursuing a profit-sharing formula under which Grosvenor would make an initial payment of £6.1 million and would only make a further payment if the profitability of the development turned out to be nearer to our assessment than to theirs. The additional payment was to be assessed on the basis of the rental value actually achieved and the conversion cost actually incurred.

At the beginning of this month, we appeared to have reached agreement on the principles of the formula but Grosvenor's agents wished to modify some of the figures to be used in it. In particular, they wished to increase the base rental figure above which additional payments would be required from £2.4 million to £2.85 million. Ministers considered this matter on 14 September and decided that it would be right to make some concession on the rental value even though

E.R.

the figures of £2.4 million was Grosvenor's own estimate. Our agents, Richard Ellis, were then authorised to continue negotiations on this basis. The next we heard was Grosvenor's decision to break off negotiations.

The summary breaking off of negotiations by Grosvenor at this stage and their presentation of the background seems quite out of proportion to the difference between the two sides. I am glad to be able to report that, following the robust line taken by Ministers here in response to Grosvenor's announcement, Mr James of the Estate has written suggesting a Ministerial meeting and Mr Clarke has agreed to this. It will provide us with a useful opportunity to make sure that Grosvenor understand our proposal - their public statements and recent letters suggest that they may not - and to get negotiations going again.

I attach a draft reply for the Prime Minister to send to the Duke of Westminster.

Yours

Steve

S A Godber
Private Secretary

ST GEORGE'S HOSPITAL, HYDE PARK CORNER

The Estate's original offer, made in March 1983, was for £6 million with the Estate also meeting all planning costs so far expended (£0.2 million). Richard Ellis, who in April 1983 were asked to provide a second opinion, valued the Department's share of the site at £9.8 million. This was not acceptable to the Estate and on 30 November 1983 the Estate formally broke off negotiations. At this stage the Estate suggested that the matter should be referred to the Lands Tribunal for arbitration. The Department rejected this as not being appropriate since we were not obliged to sell to the Estate.

Despite breaking off negotiations the Estate wrote to the Department on 14 December 1983 suggesting a meeting, which took place on 16 December. At this meeting we suggested, since it was obvious that agreement was not going to be reached on the capital value of our part of the site, the idea of a "some now, some later" formula which would provide an initial lump sum and a further payment, based on the profitability of the development, once the site had been developed.

On 25 January 1984 the Estate put forward such a formula. On 6 February we rejected the Estate's formula (Richard Ellis' view was that it was designed to give us an initial payment of £5.5 million and nothing more) and put forward some tentative thoughts on a differently based formula. On 8 February we met with the Estate and on 15 February we wrote outlining our objections in full.

On 17 February the Estate invited us to put forward our ideas on a formula. This we did and on 7 March a meeting between the Department, Richard Ellis, the Estate and Gerald Eve was held in an attempt to reconcile the differences. This failed.

On 14 March the Estate informed the Secretary of State that they had decided to withdraw from the negotiations.

On 25 April Richard Ellis submitted a revised formula designed to meet the Estate's objections to the previous formula.

On 3 May Gerald Eve gave initial comments on the new formula and during May there were various discussions between the parties which culminated in a letter from Richard Ellis dated 19 June outlining our response to Gerald Eve's initial (and by now other) comments on the formula.

During June and July there was a flurry of related activity - viz PQs and letters to Ministers - and a number of meetings between Richard Ellis and Gerald Eve.

On 24 July Gerald Eve wrote to Richard Ellis continuing the argument and on 1 August Richard Ellis replied. On 8 August Gerald Eve wrote again continuing the argument but hinting of concessions. Following this letter Richard Ellis and Gerald Eve met for some "off the record" talks.

On 7 September Gerald Eve wrote conceding:

- 1) the amount of the lump sum payment to be £6.1 million;
- 2) any movement as a result of the later payment to be in an upward direction only;
- 3) the Department's involvement in monitoring the development.

But their letter proposed alterations in the figures provided by themselves used in the formula.

On 13 September Richard Ellis replied with arguments about the figures. The same day Gerald Eve replied to the effect that their offer, made on 7 September, was final.

The position was considered again by Ministers on 13 and 14 September and following the meeting of 14 September Richard Ellis spoke to Gerald Eve on the telephone offering a concession on the one remaining point at issue. On 17 September the Location of Industry Bureau (the potential occupiers of the site) told us that Grosvenor Estate would break off negotiations; and on 19 September the Estate informed us of their decision.

DRAFT REPLY TO THE DUKE OF WESTMINSTER

Thank you for your letter of 14 September. I am indeed sorry that you have decided to break off negotiations with the DHSS concerning the sale of the site of the former St George's Hospital.

I understand that the negotiations which had resumed when I wrote to you on 16 May had come very close to reaching agreement.

Certainly a ~~profit sharing~~ formula had seemed the most promising

way of reconciling the differences between the Estate and the DHSS

about the valuation of the site.

Norman Fowler has told me that he is very ready to have negotiations resume on the basis of the formula which was under discussion and I very much hope that this will happen. It would be unfortunate if, given the efforts which have already taken place, the two parts of the site had to be developed separately. I am glad to hear, therefore, that a meeting is now to take place between Kenneth Clarke and Mr James.

Department of Health and Social Security

under which extra payments would only be payable by the Estate if the Department's calculations

Department

turn out to be correct



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
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From the Minister for Health

J N C James Esq
 The Grosvenor Estate
 The Grosvenor Office
 53 Davies Street
 LONDON
 W1Y 1FH

cc Mr Godber
 Mrs McKessack
 Mr Joyce
 Mr Dorn
 Mr Bolton
 Mr Gavlick
 Mr Lillywhite
 Mr Wood

21.9.84

Dr Mr James,

Thank you for your letter of 19 September to the Secretary of State about the site of the former St George's Hospital at Hyde Park Corner. Norman Fowler has asked me to reply on his behalf.

I am afraid that my reaction to your letter is one of surprise and disappointment that you have chosen to withdraw from the current negotiations. I have kept in close touch with the negotiations and I understand that the position had been reached where, on the formula proposed by our agents, there was only one point of difference between us - viz the estimated rental value which we wished to retain at your original figure of £2.4 million as opposed to your current proposal of £2.85 million. As recently as last Friday I discussed this with our agents and authorised them to continue negotiations on this aspect and to take a flexible line - providing that our flexibility was reciprocated. For the Estate to break off negotiations at this point seems to me to be premature and yet another example of the Estate's unwillingness to negotiate in a sensible way.

I cannot therefore accept your contention that we have not been serious in our attempts to reach agreement or that the proposals put forward by our agents have been unrealistic. I would point out that on the present formula no additional payment will become due to the Department if the Estate's calculations of the potential profitability of the site are, in the event, correct. An additional payment will only become due if the Richard Ellis' calculations are correct and since you hotly dispute their calculations I fail to see why, if you have confidence in your figures, you are so reluctant to put the matter to the test. I must also point out that the Department has never broken off negotiations. We are still prepared to negotiate and still of the opinion that a negotiated settlement can be achieved. The blame for the present breakdown clearly rests with the Estate and we have made this clear in our response to your press release.

I hope that you will reconsider your decision and resume negotiations but, in the meantime, I have noted your statement that you intend to go ahead and develop your part of the site independently.

My officials, in conjunction with our agents, will therefore have no option but to consider the future of our part of the site and of the Wilkins Building and will be in touch with the Estate about this in due course.

J. N. C. James

KENNETH CLARKE



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister for Health

Donald de Parc Braham Esq
Director
Location of Industry Bureau
34 Great Smith Street
LONDON
SW1P 3BU

21.9.84

Dear Mr de Parc Braham,

Thank you for your letter of 17 September about St George's Hospital, Hyde Park Corner.

I am sorry that I did not reply immediately but it was not until yesterday that I was formally told of the Estate's decision to break off the negotiations. My reaction to their letter was one of surprise and disappointment since my understanding of the situation was that there was only one point of difference between the Estate and ourselves on the formula proposed by Richard Ellis. As recently as last Friday I authorised our agents to continue negotiations and to adopt a flexible attitude to the one remaining point of difference, provided that some flexibility was also shown by the Estate. To be so near a settlement and then to find negotiations abruptly broken off is most frustrating. For our part we are prepared to continue negotiations and I have today written to the Estate in the hope that they will reconsider their attitude. I fully appreciate the difficult position in which you find yourself and I understand how frustrating the lack of progress must be for you but I do not think that much would be achieved by our meeting at this stage. If the Estate are not prepared to resume negotiations my officials, in conjunction with our agents, will need to consider urgently the future of the Wilkins Building and of our part of the site generally. I would be happy to meet you then to discuss our mutual interests and the best way forward.

KENNETH CLARKE

NAT HEALTH: St Georges Hospital
Jan '82