

Pomie Winter 2

No need for you to intervene
I suggest.

mt

PRIME MINISTER

DLW
9/7

9 July 1986

DOCKLANDS LIGHT RAILWAY AND CANARY WHARF

It is perhaps not surprising that the Canary Wharf Consortium is getting cold feet over the development of Canary Wharf.

Seeing the prospect of competition from this development, the City authorities have relaxed their planning restrictions to allow the office capacity of the City itself to expand. Meanwhile, on the Western edge of the City, the Fleet Street area offers interesting development potential now that the newspapers have started to move out. Taking advantage of modern office technology, some of the teams formed in readiness for the Big Bang have moved as far away as Victoria. In any case, there is growing recognition that not all the financial services teams formed prior to the Big Bang will survive the fierce competition thereafter; the bulge in office requirements may be now rather than later.

Much as the Government prides itself on the development of Docklands and is understandably keen to promote Canary Wharf, it would be wrong to get drawn into further financial support for the transport infrastructure if the development itself no longer looks commercially sound.

Recommendation

We support John Moore's proposal to give the Consortium one more chance to undertake to contribute to the upgrading and extension of the Docklands Light Railway. If not, the Government should not even consider further concessions until the Consortium has clearly demonstrated its intention to proceed with the development of Canary Wharf.



JOHN WYBREW



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

// B/LF Monday

L July 1986

Dear Nicholas,

DOCKLANDS LIGHT RAILWAY AND CANARY WHARF

You ought to know that negotiations with the Canary Wharf Consortium over the financing of the Bank Extension to the Docklands Light Railway are running into difficulties. The signs are that the Consortium are faced with growing uncertainty over the prospects of finding tenants for their development, and in consequence are seeking to amend the deal we reached with them in March in a way which would expose us to unacceptable financial risks over the railway. We thus face the prospect of a damaging confrontation with the Consortium.

There are three principal areas of difficulty. The first relates to the costs of upgrading the Initial Railway. This needs to be embarked upon shortly, otherwise the planned opening of the Railway in July 1987 (and the benefit of our investment of £77m in it) will be delayed, and costs will rise. The Consortium have agreed to finance the upgrading costs as they are incurred, but they now say they want full reimbursement if the Bill is not enacted by 1 January 1987 when, they say, they will have to abandon the whole project for commercial reasons. In the absence of the required guarantee from the Consortium, I cannot authorise LRT to proceed with the upgrading works. Any significant delay now will greatly add to the total costs of the extension and would necessitate a renegotiation of the whole funding deal if the Bank Extension is to go ahead.

Secondly, the Consortium are seeking to reduce their cash contribution to the project. The agreement was that they should provide £45m in net present value terms, but they now want to use a later reference date than that

used in the financial appraisal on which their contributions were based.

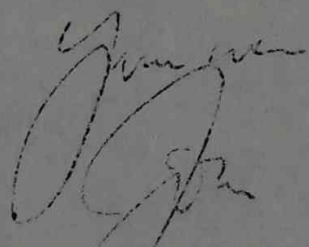
Thirdly, the Consortium are seeking enforceable obligations from LRT that they will build the railway to an agreed timetable, but they are not willing to give reciprocal enforceable guarantees in respect of their development. I understand that the Consortium are seeking, on your side, an agreement with LDDC to secure the freehold of Canary Wharf without any commitment to develop. This is all too consistent with the line they are taking over the railway negotiations and places an unacceptable risk on the operating finances of the railway.

Recent negotiations between LRT and the Consortium (with my officials present) have taken place without Mr Travelstead and it is still possible that the Consortium may back away from their new requirements at the next stage of negotiations with Mr Travelstead himself. However, there is very little room for manoeuvre on our part and we must I think face the possibility of a real breakdown, with potentially damaging allegations of obstruction on the Government's side from the Consortium.

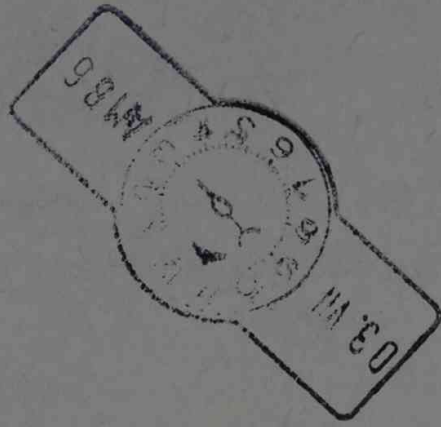
If the Consortium remain inflexible I believe it would be best to call off any attempt to reach agreement on upgrading the Initial Railway now and to propose a renegotiation of the main financing deal when the Consortium are more confident about their own timetable.

These considerations lead me to suggest that matters might better be brought to a head on your side by seeking to expose the Consortium's real intentions in the context of negotiations over the Canary Wharf Master Building Agreement. I should be grateful for your guidance on that. In the meantime I propose to authorise my officials to engage in one more round of discussions with Mr Travelstead, as the Consortium's principal negotiator, to see if they are prepared to honour the earlier understanding we reached with them.

I am copying this letter to the Prime Minister, the Lord Privy Seal, the Chancellor of the Duchy, the Secretary of State for Employment, the Chief Secretary, the Chief Whip, and Sir George Young, and to Sir Robert Armstrong.



JOHN MOORE



Regional Policy: PTS



The Rt Hon John Moore MP
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

NBPM

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

9 July 1986

Dear Secretary of State,

Thank you for your letter of 2 July. I quite see that there is the prospect of confrontation with the Consortium, and I am sure that we need to handle these stages with great care. This is a very important project and we must do all we can to secure it - provided this can be done with proper protection for essential public interests.

You suggest that matters might be brought to a head on my side by seeking to expose the Consortium's intention in the context of negotiations over the Canary Wharf Master Building Agreement. You also propose that your officials should have one more round of discussions with Mr Travelstead. As to the freehold of Canary Wharf, which you mention, I am sure that we could not, even if the railway considerations were not involved, agree to the LDDC disposing of it without effective and enforceable guarantees of a significant quantity of development taking place. To do so would put the LDDC in the position of having passed the freehold to the consortium without the means of ensuring development of the Wharf. The arrangements which had previously been under discussions between LDDC and the Consortium envisaged a lease, with the freehold passing stage by stage only as development was completed. With the freehold passing from the beginning and without enforceable guarantees, there would be the opportunity for the Consortium to re-sell the land at a higher price.

George Young has discussed the issue with Christopher Benson, Chairman of the LDDC, and I understand that Mr Benson also takes the view that the freehold should not pass without adequate guarantees of development. It is not, however, certain that the Consortium are fully aware of our position; but it is clearly important that they should know how we stand.

If we really are in danger of a real breakdown, I believe that the best way to settle the matter would be for us jointly to invite Mr Travelstead to talk about the issues, both those relating to the railway and to the land disposal. Proposing such a meeting would keep the initiative in our hands, both on the substance and on the important presentational aspects.

I have in mind writing to Mr Travelstead, once our meeting, if you agree, is arranged, letting him know that, as well as the points on your side, we have in mind talking about the freehold aspects as well. I should also like to consider further whether it would be advantageous to invite Mr Benson to join us when we see Mr Travelstead. It is clearly important to demonstrate that we are all of one mind.

There will no doubt be some significant secondary issues to consider, including the future of the Bill for the City extension of the railway.

I am copying this letter to the Prime Minister, the Lord Privy Seal, the Chancellor of the Duchy, the Secretary of State for Employment, the Chief Secretary, the Chief Whip and Sir Robert Armstrong.

Yours sincerely

BH Leonard

Private Secretary

PP.

NICHOLAS RIDLEY

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

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

JM/PSO/9197/86

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

12 July 1986

NRPM

Dear Nicholas,

DOCKLANDS LIGHT RAILWAY AND CANARY WHARF

Thank you for your letter of 9 July.

I agree with you that we might now jointly invite Mr Travelstead to talk through the outstanding points of difficulty. I would have no objection to Christopher Benson joining us if you judge that would be helpful.

At such a meeting I suggest our prime objectives will be:

- a. to convey the Government's clear intentions as to the way in which the land at Canary Wharf should be made over to the Consortium;
- b. to indicate the guarantees that the Government will require as to the timing of the development, for the purposes both of the Master Building Agreement and the railway funding agreements;
- c. to resolve the remaining points of principle on the railway funding agreements, and in particular those which are currently delaying the conclusion of the agreement on the funding of the upgrading costs of the Initial Railway.

We shall of course have to be quite clear at this meeting what our absolute requirements are on the various major points of principle, where some negotiation may

be possible, and the cost of any concessions. No doubt our respective officials can prepare an agreed brief for our meeting with Mr Travelstead in time for us to have a word if necessary before the meeting takes place. In the meantime perhaps our private offices can get on with the arrangements for the meeting itself, at which you may care to act as host.

I am sending copies of this letter to the recipients of yours.

A handwritten signature in cursive script, appearing to read "John Moore". The signature is written in dark ink and is positioned above the printed name.

JOHN MOORE

REGIONAL POLICE Office P18



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1

NBP 7

16 July 1986

Dear John,

DOCKLANDS LIGHT RAILWAY AND CANARY WHARF

I have seen your two letters of 2 and 12 July, together with Nicholas Ridley's letter of 9 July.

Like you, I agree with his proposal that you and he should see Mr Travelstead. I do not dissent from the objectives you propose for the meeting and agree that it would be sensible for officials to prepare an agreed brief. I should like my officials to be involved in that work.

I am copying this letter to the Prime Minister, John Biffen, Norman Tebbit, David Young, Nicholas Ridley, John Wakeham and to Sir Robert Armstrong.

Yours,

JH

JOHN MacGREGOR

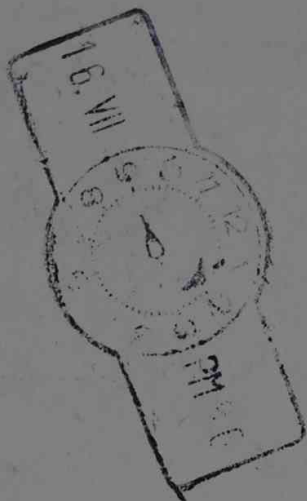
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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

24 July 1986

Pamie Winter 4

The meeting with the
promoters of Canary Wharf
went well.

Dear John.

DES 25/7

DOCKLANDS LIGHT RAILWAY AND CANARY WHARF

As agreed in the correspondence which rests with your letter of 16 July, Nicholas Ridley and I met Mr Travelstead and his associates in the Canary Wharf Consortium on 23 July. I am glad to say that one outcome of the meeting was that we got him to agree that an agreement must now be reached relating to the costs of upgrading the Initial Railway. Mr Travelstead is ready to meet the costs of this, up to £4.5m, but there are two points I need to bring to your attention.

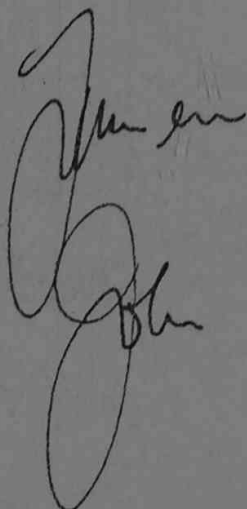
The first relates to the circumstances in which these payments would be reimbursable to the Consortium. It has always been agreed that they would not be reimbursed if the Consortium of their own volition abandoned the Canary Wharf project, but that they would be reimbursed if the project was frustrated because the Bill for the Railway Extension failed to receive Royal Assent through no fault of the Consortium. However, Mr Travelstead argues that some time limit must be set to this, and has suggested that the Bill should be regarded as having failed if it is not through by 1 January next. The Bill is in fact now in the Lords and there is no reason to foresee a problem. We obviously cannot guarantee passage by 1 January, since we do not control the timetable of what is a private Bill. But for the purpose of an agreement about the upgrading costs it seems reasonable to accept a date of 31 March 1987.

The second point concerns some other costs in addition to the upgrading cost. During the passage of the Bill in the Commons, LRT have been obliged to give undertakings, with the agreement of the Consortium, to secure the

withdrawal of two petitions, and in consequence of these undertakings, money has to be spent in advance of the passage of the Bill. In the first, money has to be spent now in modifying the foundations of a building under construction on the line of the proposed extension. The second case is similar, and the expenditure arises in the autumn. Together, these represent costs approaching £4m, which are to be met by the Consortium. They are of character similar to the upgrading costs, and the Consortium claim that they should be reimbursable under the same conditions as the upgrading costs. It is difficult to argue against that.

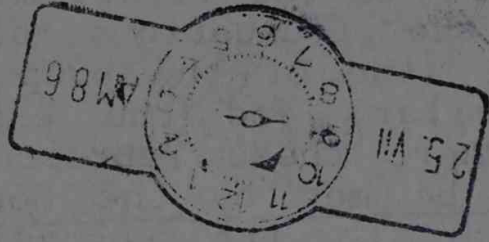
The contingency is therefore that expenditures up to a total of £8.5m would be reimbursable to the Consortium if the project failed to go ahead for the reason that the Railway Bill had not received Royal Assent by 31 March 1987 for reasons other than the fault of the Consortium. Unless you see difficulty, I propose to authorise LRT to go ahead with the upgrading works at the cost of the Consortium on this basis.

I am sending copies of this letter to the Prime Minister, the Lord Privy Seal, the Chancellor of the Duchy, the Secretary of State for the Environment, the Secretary of State for Employment, the Chief Whip and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'John Moore', written in a cursive style.

JOHN MOORE

REGIONAL POL: Unver Citus PTB



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 London
 SW1P 3EB

28 July 1986

Dear John,

DOCKLANDS LIGHT RAILWAY AND CANARY WHARF

Thank you for your letter of 23 July. *with DRN*

I understand that it is a matter of urgency to agree the terms on which the Consortium is to cover the £8.5 million costs which you mention. Your proposals do seem to be within the spirit of the original concession to the Consortium under which it was accepted that the Consortium might be reimbursed if all of the expenditure proved to be nugatory. On the basis that you are satisfied that the risk of the Bill not being enacted by 31 March 1987 is minuscule, I would not object to your proposals.

I am copying this letter to the Prime Minister, John Biffen, Norman Tebbit, Nicholas Ridley, David Young, John Wakeham and Sir Robert Armstrong.

*Yours,
 JH*

JOHN MacGREGOR

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