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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

INTERNATIONAL CONFERENCE CENTRE

I would only ask you to re-open a decision by Cabinet in the most exceptional circumstances. Both the Chief Secretary and I are convinced that we should do so in regard to the International Conference Centre. The Cabinet reached last week what, on reflection, seems to us manifestly the wrong conclusion on the financing of this Centre now that it is decided that it should go ahead. We therefore ask for your agreement to Cabinet re-considering this on Thursday.

2. The Chief Secretary and I accept that the majority of Cabinet consider that the Centre should be built. We do not seek to re-open that decision.

3. The decision last week on how it should be financed emerged understandably enough, because we considered separately first whether the Conference Centre should go ahead as part of public expenditure, not knowing the terms on which private finance would be available, and then last week whether it should go ahead on the terms offered by the Pearl Assurance Company. As a result, last week's discussion was essentially directed to the choice between going ahead on the Pearl's terms, or not going ahead at all. We do not feel that Cabinet really addressed itself dispassionately to the relative merits of going ahead with the scheme with private finance, or as part of public expenditure.

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4. However now the Centre is to go ahead, there is an overwhelming case for it being built as a public sector project, and financed as part of public expenditure. The main arguments for this are:

(i) In substance even the Pearl scheme is a public sector project - we are not introducing any significant private sector risk-taking.

(ii) The method of lease and lease-back is a form of borrowing: the most direct comparison is that the real cost would be about two and a half times that currently required on indexed gilts. In effect we should be committing ourselves to paying almost indefinitely to the Pearl  $\pounds 1\frac{1}{2}$  million a year at 1981 prices (the actual money amount would, of course, be indexed to the movement of office rents) more than we should need to pay if the project were directly financed through our own borrowing.

(iii) There are few, if any, gains in terms of better management of the project likely to arise to set against this cost.

(iv) Although under present public expenditure and PSBR definitions, the public expenditure and PSBR totals for the next few years would be less if it were financed by the Pearl Scheme, the overall macro-economic effects would be virtually identical to those with public sector financing: as Annex B to my Cabinet paper on Economic Strategy explained there would be identical effects in relation to the "national cash limit". There is no significant gain to set against the extra expenditure cost.





(v) The financing arrangements will be seen as an expensive sham to reduce the effects on the public expenditure and PSBR statistics - a sham which under our own current rules would be forbidden to a nationalised industry or local authority, either of which would have to count the capital value involved against its EFL or cash limit, and so within the planning total for public expenditure. (I am reconsidering the present conventions concerning central government projects.)

5. We fully accept that if the Conference Centre is to go ahead as a public sector project, the Secretary of State for the Environment will want it to be treated as an addition to the PSA programme, rather than being financed from savings elsewhere. We should far prefer to see a higher public expenditure total on this account, openly acknowledging that this was the effect, than to go ahead with the method of private financing now proposed. That method will inevitably bring the justifiable criticism, not least, we must expect, in due course from the Public Accounts Committee, that we are incurring additional cost just to distort the figures, and with no other significant advantage.

6. Finally perhaps I should add that the announcement of this project - which may well attract criticism as a public sector extravagance, and is bound to be criticised for its unnecessarily expensive financing arrangements - on 2 July is likely to sit very oddly with the parallel announcement I have to make the same day about the significant tax increases required to offset the revenue lost through the reduction in the increase in the duty on derv originally proposed in my Budget.

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7. I am sending copies of this minute to the Home and Foreign Secretaries, the Secretary of State for the Environment and Sir Robert Armstrong.

*Jm.*

(G.H.)

30 June 1981

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CH

5075 Building  
w2 2/7



FILE

10 DOWNING STREET

From the Private Secretary

30 June, 1981

International Conference

Centre

The Chancellor minuted the Prime Minister this afternoon on the above subject, and as you know, they had a word about it this evening. This is to confirm that, while the Prime Minister accepts that the arguments against the Pearl scheme are powerful, such that it should not be regarded as a precedent for similar type financing of public sector projects in future, she does not wish last week's Cabinet decision to be re-opened.

I am sending copies of this letter to John Halliday (Home Office), Brian Fall (FCO), David Edmonds (Department of the Environment) and David Wright (Cabinet Office).

I. P. LANKESTER

A J Wiggins, Esq  
HM Treasury

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*Willie*

*per*

*Press*

*2076*

Foreign and Commonwealth Office

London SW1A 2AH

30 June 1981

*Dear Willie,*

International Conference Centre (ICC)

As the Secretary of State for the Environment will be holding a press conference tomorrow to announce the plans for the ICC you may like to know that the line to be taken by the FCO News Department in response to any enquiries will be "Conference facilities are an essential part of modern diplomacy and the Secretary of State welcomes the first-class facilities which will become available to HMG when the ICC on Broad Sanctuary opens in 1986".

*Yours ever,*

(F N Richards)  
Private Secretary

William Rickett Esq  
10 Downing Street  
LONDON  
SW1



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Mr. I. M. Whitton / Mr. 2. Mr. P. ...

PRIME MINISTER

The Chancellor has dismissed this, and agreed that the decision could not be reopened.

INTERNATIONAL CONFERENCE CENTRE

Mr 30/6

The Chancellor wants to re-open last week's Cabinet decision on the International Conference Centre. He accepts that the building of the Centre should go ahead, but he wishes to substitute financing from the contingency reserve for financing by Pearl Assurance.

His reasons are that the Pearl scheme is effectively no different from public sector financing, yet is far more expensive; and that it will be criticised by the PAC and others as a sham. He is also extremely concerned, although the minute does not say this, that the scheme will lay the Treasury open to similar "private sector financing" of nationalised industry investment projects: he sees this as the thin edge of the wedge.

The Chancellor has a powerful case, and I am sure a number of Ministers (including the Foreign and Commonwealth Secretary) would have no objection to the money coming from the contingency reserve if that is what the Chancellor would prefer. But whether, after Treasury Ministers have had a full opportunity to express their view at last week's Cabinet, you feel you can have yet another Cabinet discussion ( there have already been two ) is another matter. The re-opening of Cabinet decisions of Ministers who have been worsted is obviously bad in principle, and creates a bad precedent for others who might want to do the same in future. It is also not entirely clear that the Chancellor would win. There are certainly some Ministers, including Mr. Prior and Mr. Heseltine, who see last week's decision as a victory for the argument that public investment could be financed by bringing in private finance (even though the Treasury argue that the latter is effectively public borrowing).

/There may also

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- 2 -

There may also be some Ministers in the big spending departments who will object to the contingency reserve being used for this purpose when they think their departments have a better claim on it.

It is also relevant that while no documents have yet been signed, DOE have already started discussions on the details of the scheme with Pearl; and they have sent out invitations to a Press Conference announcing the scheme for Thursday. (However, the latter could in theory be used to announce that the Conference Centre will go ahead financed from the contingency reserve).

I believe you could only possibly agree to this going back to Cabinet if Mr. Heseltine could be persuaded to go along with the Chancellor's proposal. You would have to persuade Mr. Heseltine yourself, for he has already told the Chancellor this evening that he believes Cabinet's ~~decision~~ decision last Thursday was right and that its implementation should proceed. Mr. Heseltine feels, quite apart from the merits of the case, that there would be considerable embarrassment now with Pearl if we were to pull back.

You are seeing the Chancellor tomorrow evening at 1730 but that is really too late if we are to do anything about this. If you did feel inclined to take the Chancellor's side, I think you would need to see him and Mr. Heseltine first thing tomorrow morning before NEDC. Alternatively, you could have a word with the Chancellor immediately after the vote at 1900 and then see Mr. Heseltine on his own tomorrow morning.

30 June 1981

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Govt Building

2 MARSHAM STREET  
LONDON SW1P 3EB

Tim

R W  
1/7

My ref:

Your ref:

2 July 1981

Mr Richard

INTERNATIONAL CONFERENCE CENTRE

- with wa?

The Secretary of State was grateful for your letter of yesterday afternoon, replying to mine of earlier yesterday. My Secretary of State will take on board the drafting amendments. However, he has asked me to point out that the deleted sentences contain substantial references to the private sector involvement in this scheme. He believes that it will be important for him today to make clear his determination to maximise private sector involvement in the management of the contract, the construction of the building, the running of the Centre when it opens and, of course, in its financing. He takes the view, as he has made clear in all the Ministerial discussion and correspondence, that this involvement of the private sector is highly significant and something which the government should take great credit for, and he proposes to make this clear today.

new me

He has noted the proposed Treasury questions and answers. He is not prepared to use Q and A1. He find the answer to Q5, which includes the phrase "but of course the fact of the construction work will have to be taken account in deciding the public expenditure totals in the autumn", totally unacceptable. There has been no such decision. My Secretary of State believes that it is quite wrong for the Treasury to have invited him to make such a statement in the context of this announcement.

I am copying this to Tim Lankester at No 10, Jim Buckley at CSD, and David Wright at the Cabinet Office.

*D. A. Edmonds*

D A EDMONDS  
Private Secretary

Richard Tolkien Esq



22 JUL 1987

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*Tim*

*Mike*



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

*TL*

Your ref:

1 July 1981

*47*

*to Ann Marie*

*Dear Tim*

INTERNATIONAL CONFERENCE CENTRE

I attach, as promised, a copy of the draft press notice which my Secretary of State proposes to issue tomorrow. As you know, we could not finalise this until your discussions with the Treasury had been completed and so time is now rather short. I would therefore appreciate any comments from you or from those to whom this is copied, if at all possible by 5.00 pm today.

I am copying this to John Wiggins (Treasury), Brian Fall (FCO), Jim Buckley (CSD), and David Wright (Cabinet Office).

*[Handwritten signature]*

D A EDMONDS  
Private Secretary



THE INTERNATIONAL CONFERENCE CENTRE

Michael Heseltine, Secretary of State for the Environment, today announced that he had accepted an offer of private finance for the planned International Conference Centre proposed for the Broad Sanctuary site, and that he expected work on the superstructure to commence early next year. He has also appointed Bovis as management contractors for the construction of the building.

In answer to a question by  
Mr Heseltine said:

MP for

"In the light of a report made to me by Messrs Healey and Baker, I propose to accept an offer of private finance made by the Pearl Assurance Company Ltd, subject to our reaching agreement on detailed terms; I expect construction of the centre to start in April next year".

Commenting on the decision Mr Heseltine said:

"I believe this is an important achievement for a number of reasons.

"We can now look forward to seeing this site developed that has been so long a shameful eyesore. And developed with a fine building fully fitting in design and importance to its location. It will meet the need in this country for the kind of facilities required for international governmental conferences and which will supplement the outstanding facilities that Britain can offer the world for commercial and business conferences. I see it as a major example of the contribution of private enterprise to our public life. This is a building designed by consultants to be built by private contractors and financed by private funds and on the advice of leading private surveyors. Moreover I intend that it shall be run as commercially as practicable - and it will be available for private hiring whenever possible".

Tram  
want  
this out.

.. A brief summary of the accommodation to be provided is attached.



## SUMMARY OF ACCOMMODATION AND FACILITIES

LEVEL	FLOOR	ACCOMMODATION
0	Sub-basement	Telephone Exchange.
1	Sub-basement	Broadcasting Studios, Staff Accommodation, Storage and Plant and Machinery.
2/2P	Basement	Car Park and Plant and Machinery.
3	Ground	Entrance foyers with independent entrances for V.I.P.'s delegates and Principal Auditorium (capacity about 700 people).
4	First	Upper part to level 3 Auditorium, together with Press Centre (with working space for 130 journalists) and Management Offices, Conferences Offices.
5	Second	Press Offices, Broadcasting facilities, Restaurant (seating for 200), Kitchen (1,000 meals per sitting), Briefing Rooms, Plant and Machinery.
6	Third	Four Conference Rooms of varying size, together with delegates lounge, and ancillary offices.
6M	Mezzanine	Ancillary accommodation servicing the various Conference Rooms on Level 6; Private Dining Suite.
7	Fourth	Offices and ancillary accommodation for delegates and staff.
8	Fifth	Offices and ancillary accommodation for delegates and staff, Lounge.
9	Sixth	Conference Room for 200 people, Lounge Area, Plant.
10	Seventh	Plant and ancillary accommodation serving the Conference Room at Level 9.



*✓ Ann Miss*



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

1 July 1981

David Edmonds, Esq.,  
Private Secretary to the  
Secretary of State for the Environment

*Dear David,*

INTERNATIONAL CONFERENCE CENTRE

I have seen a copy of your letter of today's date to Tim Lankester with a copy of the press notice your Secretary of State intends to issue tomorrow.

The Chancellor would be grateful if you could make the following changes:-

- delete the words "private finance" in the first sentence of the PN and the answer to the PQ; substitute "direct finance". Had this project been built in the conventional way the source of finance would have come from the private sector through sales of gilts in much the same way.
- delete the antepenultimate and penultimate sentences of the proposed comment on the decision. It is arguable whether there is anything unique in the private sector involvement in design, building and finance.
- delete also "Moreover" in the last sentence.

..... I also enclose with this letter some notes for Supplementary Questions we should like your Secretary of State to use if he is questioned about the wider implications of this project.

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

*Yours ever,*  
*Richard Tolkien*  
R.I. TOLKIEN



- Q1 Are there likely to be many more such deals in central government?
- A1 No. This is a one off arrangement. Any other proposals will be considered on their merits.
- Q2 Does this mean you will be prepared to allow nationalised industries to conclude similar leasing deals?
- A2 Unorthodox methods of finance are to be considered in the NEDC working party which has just been set up. In the meantime our position remains as set out by the Chief Secretary to the Treasury in the public expenditure debate on 9 April. A key condition which would have to be satisfied is that there should be a gain from improved efficiency in order to outweigh the higher costs of the finance.
- Q3 So the Conference Centre will cost more financed in this way?
- A3 The details are still subject to negotiation and are therefore confidential. But we would expect there to be some extra cost, because the Government can normally borrow on better terms than the private sector.
- Q4 Why finance the Conference Centre in this way?
- A4 It makes sense to provide a Conference Centre to meet our EEC and other international obligations. We need it by 1986 or 1987 when we are next in the Presidency of an expanded EEC. This deal is a good way of getting as much private management into the building project and subsequent operation of the building as we can.
- Q5 Will this affect public expenditure totals?
- A5 Not immediately. In due course rent will be payable. But of course the fact of the construction work will have to be taken into account in deciding the public expenditure totals in the autumn, in relation to the Government's overall economic strategy.



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