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LONDON SW1P 3EB

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My ref:

Your ref:

9 July 1985

Dear Chief Secretary

BIRMINGHAM CONVENTION CENTRE

Thank you for your letter of 29 May. I have also seen the letter from the Prime Minister's private secretary of 31 May.

Since they first described the project to me, I have been encouraging Birmingham to seek to recast the project to increase the involvement of the private sector. This is not straightforward. The scheme is projected in itself, as you note, to run a revenue deficit. It is not therefore attractive to private risk capital. I understand that convention centres on this scale are, even in the United States, invariably supported by the public sector, which looks to them to generate economic activity to the benefit of the surrounding area.

Birmingham have nonetheless been seeking ways in which the public expenditure consequences of the project could be minimised. They have developed two alternative approaches. One would require the sale and leaseback of the National Exhibition Centre - itself a testimonial to the City Council's skill in developing very large scale projects of this sort. This would generate a capital receipt, which would enable Birmingham to finance the project themselves, and operate within the capital expenditure control system without the need for a special capital allocation.

The alternative would be to take the project formally outside the local authority sector. The company Birmingham has established to operate the National Exhibition Centre would take over responsibility for constructing the Convention Centre, raising money in the market for the purpose, perhaps through a debenture stock issue. The company would build and operate the Centre; the City Council would still have to fund the deficit.

Either option would still require substantial ERDF grant (some £23m as a minimum). We need to decide within the next week or so whether to pursue our application in Brussels. My strong support would be essential if the project is to succeed. Under the options set out above, Treasury agreement would be needed to give Birmingham a supplementary borrowing approval equivalent to at least part of the total of ERDF grant to avoid repercussions for the rest of the City Council's capital programme; or alternatively, to approve the payment of grant direct to the company operating the scheme. But a major difficulty with the earlier proposal - the pre-emption of large amounts of capital allocation - would no longer arise.

Reg Pol: Inner Cities RES JTED

With that difficulty removed, I hope your attitude to the proposal will now be more favourable. I believe we should agree that I will give the application the support it needs in Brussels. I explained my reasons in my letter of 20 May. I should again underline the political considerations. The project commands all-party support on the City Council, to the extent that they are prepared if necessary to bear the considerably greater rate burden which will come from proceeding without a special capital allocation. It would be very difficult to explain publicly why we were turning down a project on which Birmingham seeks no central Government grant, not even block grant, and which commands local support right across the political spectrum.

I would welcome an opportunity to discuss this proposal with you, although it will have to be soon as the Commission will be asking searching questions about our support for the scheme.

I am copying this letter as before to the Prime Minister, Norman Tebbit, Tom King, David Young, Peter Walker and Norman Fowler. In addition, in view of the interest he has expressed, I am copying this letter to Grey Gowrie.

Your sincerely

Patrick Jenkin

PJ

PATRICK JENKIN

Approved by the Secretary of
State and signed in his absence