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My ref:

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do

The Rt Hon the Lord Young of Graffham
Department of Trade and Industry
Victoria Street
LONDON
SW1

28 March 1989

*NBAM unit
DTI regard.*

*REC 6
30/3*

Dear Secretary of State,

NATIONAL EXHIBITION CENTRE: LOCAL GOVERNMENT AND HOUSING BILL

I am writing about the effect on the National Exhibition Centre (NEC) of the proposals on local authority interests in companies in the Local Government and Housing Bill.

The NEC is owned by Birmingham City Council. There is, however, a company ("the NEC company") which acts as the City Council's agent in running the centre, which is owned 50/50 by the City Council and the Birmingham Chamber of Commerce. Given Birmingham's 50% interest and the various arrangements between the City Council and the company, it is clear that the company would come under the proposed category of a "local authority influenced company". This means that its borrowing would count against the totals available to the Council under our new capital finance system.

The problem arises over the future plans of Birmingham City Council for the NEC: they want to invest over £400 million to double its size over the next ten years. This they are proposing to borrow through the NEC company, with a full guarantee by the Council. This is clearly a situation where the public sector is bearing the risk and the borrowing rightly, in my view, will score against Birmingham's total. Birmingham say that they cannot possibly find this amount at the expense of other projects and therefore wish to be exempted from our new rules on companies and capital finance.

The obvious question is why an expansion requiring investment of over £400 million cannot be privately financed on the basis that it will generate an appropriate commercial return. Birmingham say that it would not be viable as a fully private sector operation. Indeed they suggest privately that they need the VAT exemption they enjoy by passing NEC expenditure through the Council to avoid an operating deficit now. If that is right I am inclined to question the case for such a vast expansion, but I suspect that the City Council are reluctant to move NEC into the private sector because they want to

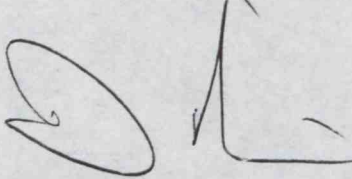
retain control while competing in the big league of European exhibition centres. I enclose a copy of a letter from the Chief Executive of NEC to Ian Mills which sets out their case.

You will gather that I see no case for exempting Birmingham's arrangements from our new rules. If the Council want to retain control and offer a guarantee then the borrowing must score against their total. Since I could not possibly find £400 million from my programmes for this purpose Birmingham will be in difficulty unless help is available from elsewhere. I appreciate that you may be concerned with the national role played by the NEC in the context of industrial policy. If you consider the expansion prospect under Birmingham's aegis of sufficient importance to justify the necessary public expenditure commitment you may like to consider the possibility of finding provision from your programme.

Of course if we decline to give Birmingham the exemption they seek and cannot find the £400 million they will mount a vigorous campaign claiming that the Government is halting the NEC in its tracks, causing us to lose out in Europe, not least in the context of 1992. I believe we should seize the initiative and offer to examine how the NEC could successfully be moved, perhaps with transitional support, into the private sector. If Birmingham could agree to this objective within an agreed timetable we might consider a transitional exemption, as foreshadowed in our consultation document.

There is a not dissimilar issue affecting Hull City Council's telephone company and I hope to be writing to you shortly about this.

I am copying this letter to the Prime Minister and to the Chief Secretary. I should be grateful for views by 3 April since there will undoubtedly be an amendment to the Local Government Housing Bill on this point soon after Easter and we need an agreed line.

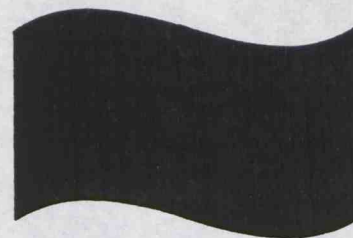
Yours sincerely
pp A 
NICHOLAS RIDLEY

(Approved by the Secretary of State
and Signed in his Absence)

TEG/JH

31 January 1989

Mr I C Mills MP
House of Commons
London
SW1A 8AA



National Exhibition Centre

Dear Mr Mills

Local Government Legislation
Companies in which a Local Authority has an interest

The NEC Board is most concerned about one particular aspect of the intended new local government legislation. We would greatly appreciate your help in concentrating the attention of Government on the potential repercussions for the Centre's well-being. It is the Board's view that, should the wording which is presently proposed remain unamended, then this will create a fundamental constraint to the Centre's future development (and therefore to the standing of International Exhibitions held in the UK). We find it difficult to believe this is in accordance with the Government's overall intention - but, if care is not taken, it could be a by-product of a wider reform.

In essence, the NEC - since its inception in 1969 - has been successfully developed and managed by a management company (which has a Board comprising City of Birmingham and Birmingham Chamber of Industry & Commerce representatives) acting as an Agency for Birmingham City Council. The Council owns the land and buildings - ie the assets - and receives any net income after annual financial charges and operating costs have been met.

The management approach, a partnership which brings together public and private sector leaders, has proved extremely effective and the Centre is now highly regarded internationally. However, it operates in an extremely competitive world.

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Ever since opening, the NEC has faced pressure to expand its facilities from leading UK trade associations. Until now it has been possible, through various financial schemes, for the Council to respond to such pressure. Two new halls have already been built (in 1980 and 1984) and three further halls costing over £41 million will be opened by Her Majesty the Queen next month. The very considerable capital investment required has been arranged, with Government approval, in such a way that the level of the Council's public sector capital allocation is not penalised.

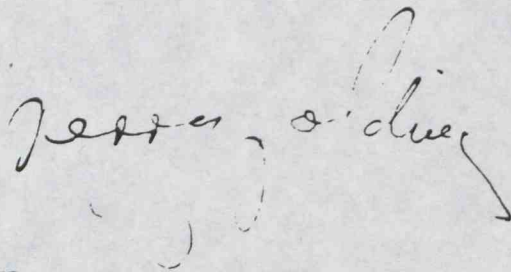
This situation would no longer apply under the proposed new arrangements, yet the market pressure on the NEC facilities will remain as intense as ever. Even taking into account the current, substantial enlargement, the NEC is only ninth in the West European league-table of major venues. The Board's strategic master plan envisages a further phase of expansion ready for 1993 (an estimated £70 million) and our market-studies predict the need for subsequent large-scale new buildings in the late 1990's.

It is the Board's considered view that the initial capital investment required for each phase (when related to the short-term direct financial return to the NEC's owners) represents an unrealistic proposition for private sector investment. We also know that the long-term success of NEC depends on the Centre's ability to keep in step with its main European rivals. While in a regional context, there remains a compelling case for continued investment in the Centre, in terms of the substantial economic benefits the Centre generates for the Birmingham and West Midlands service sector.

We understand that the legislation is shortly to begin its parliamentary process. Your assistance is sought in ensuring that future arrangements for expanding the NEC are safeguarded.

I will, of course, be very happy to provide any more detailed information you require.

Yours sincerely



T E Golding
Chief Executive

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