



~~L.A.P.~~  
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FCS/85/183

CHIEF SECRETARY, TREASURY

International Conference Centre (ICC)

with MEA

1. Thank you for sending me a copy of your letter of 23 May to Patrick Jenkin. I have now seen Michael Heseltine's comments and agree with him that there is no reason why our two Departments should pay the difference between the cost of running the ICC and its commercial income. I note George Younger's views. Your proposal seems to me to ignore two important aspects of the problem.
  
2. The first is that the ICC is the product of a collective decision within the Government as a whole. Successive Governments were agreed on the necessity of having a well equipped and secure Government Conference Centre. In the context of the final decision-taking it was the FCO's duty to put forward the foreign policy arguments. Others put the arguments on other points. A wide range of considerations were taken into account, including the fact that conference visitors can be expected to be a useful source of foreign currency. The Centre will clearly be used by several Whitehall Departments, for example for meetings with their opposite numbers during the Community Presidency.
  
3. Secondly, your proposal would in my view lead to unnecessary confusion over where responsibility for the ICC lies. The

/Property



Property Services Agency has played a leading part in the planning, design and construction of the ICC. They now occupy it on behalf of the Government. It has been agreed that they will manage it. I do not see how they can fulfill these responsibilities without full control over the Centre's income and expenditure. I believe that they have the task of making as good a going-concern of it as they can. I cannot accept that the additional funding which PSA will need to meet this Government commitment should come from FCO. As with the capital costs, I would expect them to look to the Treasury for financial cover for any losses on running costs. I note that Patrick Jenkin has submitted an additional bid for this purpose in the present Public Expenditure Survey.

4. I am copying this minute to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

17 June 1985

Govt. Buildings PTZ

Renovation in the Westminster  
Area





CONFIDENTIAL

WBPM

AT 31/7

CCNO

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

31 July 1985

Dear Peter,

INTERNATIONAL CONFERENCE CENTRE

Thank you for your letter of 18 July; I agree with you that we should look to the future rather than rake over past decisions.

I expect to be ready to circulate the summary of the Business Plan for operating the centre very shortly; it will contain revised calculations of the expected running costs and revenue. It would be premature to consider the long term future of the centre at this stage, before we have had any experience of operating it in response to both government needs and private sector opportunities. As you know, we have recently announced the Queen's agreement to the centre being named after her, and preparations are being made in anticipation of her agreement to open the centre next year.

I am very concerned at what you say about the funding of the potential operating loss. As I made clear in my letter of 2 July, it would be quite unacceptable to expect PSA to fund this without extra resources being provided. George Younger has already expressed his concern about the implications for the overall accommodation programme if PSA are forced to fund the deficit at the expense of their office and general construction programme. In the interests of colleagues, I am bound to press you strongly for additional funds in the forthcoming PES bilaterals. There is no logic in the view that, because PSA has the task of running the centre on behalf of Government, the operating loss should fall on its votes without an increase.

I am copying this letter to the Prime Minister, members of the Cabinet and to Sir Robert Armstrong.

*Yours ever*  
*Patrick*

PATRICK JENKIN

The Rt Hon Peter Rees QC MP

Cont. Buildings : Road Sanctuary #2



CONFIDENTIAL



NDM

CC/NO

ST

18/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1P 3EB

18 July 1985

*Dear Secretary of State*

**INTERNATIONAL CONFERENCE CENTRE**

Thank you for your letter of 2 July about the International Conference Centre. Michael Heseltine, Geoffrey Howe and George Younger have also written to me about this.

I do not think we will gain much by raking over the minutiae of the collective decision to proceed. I am more concerned to ensure for the future that expenditure on capital and running costs alike is not to be committed unless it is clear that funds can be made available. As it is we now find ourselves faced with a net deficit of up to £3.7 million a year.

Had the running costs been identified at the outset, approval of the project could have been made conditional on its sponsors being responsible for them. They were not. And reluctantly, I do not think I can press Geoffrey Howe or Michael Heseltine any further. That means that PSA, which is responsible for managing the centre, must carry the deficit. Of course, we have yet to discuss PSA's overall position in the Survey, but I am bound to say that I will find it difficult to accept any additional bids.

I remain of the view that we should reconsider the long term future of the centre in the light of expected levels of usage. I hope the business plan your officials are preparing will be available soon as a basis for this reassessment.

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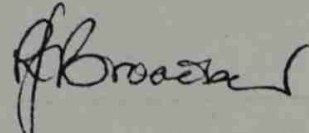
Govt Buildings, Renov. of Westminster A2

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In all this I take comfort only in the fact that we did not sign the agreement with the Pearl Assurance Company which would have added substantial extra financing costs to those we now face.

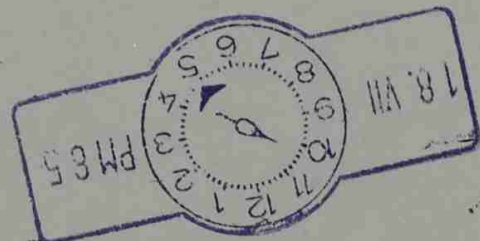
I am copying this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely



for PETER REES

[Approved by the Chief Secretary]



CONFIDENTIAL





NBM

cc 1/0

M

2 MARSHAM STREET  
LONDON SW1P 3EB

3/7

01-212 3434

My ref:

Your ref:

2 July 1985

Dear Peter,

## INTERNATIONAL CONFERENCE CENTRE

I was very surprised by your letter of 23 May about the International Conference Centre which seems to overlook the four collective Ministerial discussions in 1980 to 1982. In his memorandum to the Cabinet in 1982, your predecessor accepted that the Conference Centre should be built in the timescale planned. This is being done, and I am confident the building will be ready in 1986, a target colleagues set in 1980, although the go ahead was not given until 1982.

Your criticisms of the capital costs are based upon a selection of figures which do not bear true comparison. A 1980 estimate for construction costs has been compared with a 1985 figure which includes both other and later costs. A point to remember is that when colleagues agreed in April 1982 to proceed with the project using public sector funding, most of the design costs and the sub-structure costs (which included the Parliamentary telephone exchange) had already been incurred. We were concerned therefore primarily with the future expenditure, and to cover this your predecessor agreed to provide an additional £40.65m in lieu of the alternative offer from the Pearl Insurance. Some extra features have been added since then to make the Centre a better commercial proposition; but the current construction cost figure of the superstructure (£46.4m) is - allowing for inflation and items such as security and landscaping not covered by the proposed deal with the Pearl - entirely in line with the 1982 figure.

I cannot understand either your comment that running costs were not brought into the Cabinet debate at an earlier stage. Our prime concern then - as a study of the papers shows - was whether a permanent conference centre was needed, and how to ensure it was ready by 1986. Temporary expedients, even if they were practicable, were seen to be very expensive. Colleagues therefore decided in favour of a permanent centre at Broad Sanctuary.

Michael Heseltine announced in 1981 that the Centre would be run as commercially as possible, and my aim is to minimise the operating costs by a sound marketing strategy, bringing in private sector use to the maximum extent compatible with the original objectives. But this will still leave an operating loss which the government will have to finance. Unless the two main users



are prepared to meet this - and I have now seen the responses of both Michael Heseltine and Geoffrey Howe on this point - I see no alternative to the Treasury providing extra finance. It would be quite unacceptable for the costs to fall on the PSA's Office Programme without extra resources being provided, since this would have to be at the expense of essential work to meet all Departments' accommodation requirements.

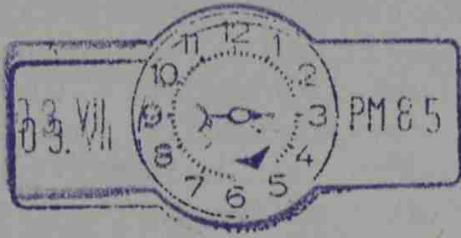
Finally, you suggest that we reconsider the Centre's future and perhaps sell it. If colleagues no longer believe that the Centre is wanted, then there would be grounds for getting rid of a loss-making asset. The need for the centre was however clearly accepted in successive Cabinet discussions and I am not aware that anything has occurred since then to invalidate the decisions. In my view, we would be ill advised to slacken our efforts at this stage to complete the project on time. It is needed for the EC Presidency in July 1986; the Queen has already agreed to the Centre being named after her, and I plan to make this public by an inspired PQ shortly; I would also hope that she would formally open the Centre next summer.

I am copying this letter to the Prime Minister, to Members of the Cabinet and to Sir Robert Armstrong.

*Your ever  
Patrick*

PATRICK JENKIN

Govt: Buildings : Int. Conf. A2







NEW ST. ANDREWS HOUSE  
EDINBURGH EH1 3SX

CCND

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

*J. AT to see  
2 pa.*

11 June 1985

*Dear Peter,*

INTERNATIONAL CONFERENCE CENTRE

I was extremely concerned at the information contained in your letter of 23 May to Patrick Jenkin about the costs of the International Conference Centre.

I have no direct departmental interest in this project but I recall very vividly our discussions at the time and I am perturbed that we were apparently so seriously misled in relation to an issue which was the subject of strong differences of view. In view of the well developed practices for investment appraisal in relation to major projects, and the discipline which your officials rightly impose to ensure their application, I find it difficult to understand how such glaring omissions occurred and escaped detection. I fully support your view that we need to consider what lessons can be learned on the basis of a full explanation of what went wrong in this case.

My other concern is with the handling of the continuing losses generated by the Centre, on which you specifically invited views. It would be unacceptable to me if they were to be treated as a charge against provision which might otherwise be available for my own programme or for the extensive range of programmes for which colleagues are responsible but which determine provision for my programme through the block and formula arrangements. Consequently, I agree with your proposal for the allocation of responsibility for bearing the public expenditure consequences.

I am copying this letter to the Prime Minister, members of the Cabinet and Sir Robert Armstrong.

*Yours sincerely,  
George.*

GOVT. BUILDINGS :

1. C.C ; A 2.

12/6





cc 100  
NAPM  
AT  
10/6

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 35

7th June 1985

*Deu Pali*

INTERNATIONAL CONFERENCE CENTRE

You sent me a copy of your letter of 23rd May to Patrick Jenkin.

It is now a long time since I have had to consider this matter, but it seems to me that only two possible candidates are liable for responsibility for what has happened.

If the original cost assessment for this building were factually wrong, then that must be a matter for the Property Services Agency. But the decision to proceed with the project, in the public sector, was taken by the Cabinet. There is no know method of weighing whose argument in Cabinet discussion was the most persuasive in support of this project going ahead within the public sector; there are certainly no grounds for singling out for responsibility for the cost overruns the budgets of just two of our colleagues in Cabinet who argued in favour of the project. I certainly cannot accept any liability against my own budget.

In logic, the most obvious responsibility for the cost over-run, other than that of the Property Services Agency, is that of the Treasury. It was the Treasury who argued for a public sector financial solution. You can be sure that the omissions in the original statement of cost would have been flushed out if the

The Rt Hon Peter Rees QC MP

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Property Services Agency had been allowed to proceed with its preferred solution and reached an agreement with the private sector for the financing of this project.

It seems to me, therefore, that, far from being a claim on the Contingency Reserve - which in this matter is innocent - the additional public funding requirement to bring this project to completion, and to run it, should be met by economies from within the Treasury itself.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

*Yes* *low*

A handwritten signature in dark ink, appearing to read "MH" followed by a flourish.

Michael Heseltine



Court Buildings · Broad Sanctuary

147



*CFNO*  
*NBPM at the stage.*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1P 3EB

23 May 1985

*Dear Secretary of State*

**INTERNATIONAL CONFERENCE CENTRE**

It is clear that many of the worst fears expressed about the ICC are likely to be fulfilled. We must decide what its future should be and what lessons can be learnt from this sorry episode.

**Capital Costs**

I understand the capital costs of the Centre are now put at £65.6 million, more than double the £29.5 million reported to Cabinet in June 1980. Price increases account for a large part of the increase. But part is accounted for by the fact that consultants' fees (20 per cent of the total) were inexplicably excluded from the original estimate. Also excluded were landscaping costs and some of the technical equipment required.

The capital costs must, I suppose be regarded as irretrievable. I draw attention to these points so that such conspicuous omissions can be avoided in future.

**Running Costs**

The original investment appraisal also made no mention of running costs. The pressure from the Foreign Office and the Ministry of Defence about the overriding need to have a Conference Centre for the 1986 Summit simply overrode what should have been standard investment appraisal procedures. No matter how sophisticated our systems of appraisal, their effectiveness depends on our will to use them. When assertions are repeatedly employed in collective discussions, in this case for example that a Centre was essential for wider policy reasons, it will always be difficult, to say the least, to



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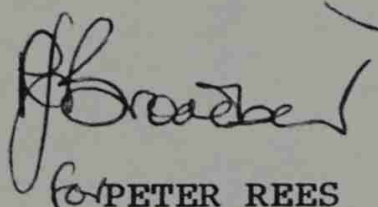
avoid the argument degenerating into one about the immediate capital cost and who should bear it. The Conference Centre illustrates the result.

I understand the running costs of the Centre will be about £4.0 million. Income is likely to amount to £0.3 - £1.5 million (no market research into likely private demand was conducted in 1980.) There will therefore be a net annual loss of at least £2.5 million and perhaps £3.7 million indefinitely.

I think we are bound to reconsider the Centre's future. Perhaps we can sell it. I have asked my officials to consider the possibilities.

In the meantime we must decide who is going to meet these costs. It would be wrong to allow this as a charge on the Reserve. In my opinion, those departments (Defence and Foreign Office) who argued the overriding policy need for a Centre should meet the difference between its running costs and commercial income. I should be grateful for colleagues agreement to that course.

I am copying this letter to the Prime Minister, members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely  
  
PETER REES

[Approved by the Chief Secretary]

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