

PRIME MINISTER

Agree private sector management be investigated
AF 19/7

19 July 1985

INTERNATIONAL CONFERENCE CENTRE

The saga of the International Conference Centre would be funny if it were not so catastrophic.

It transpires that consultants' fees amounting to 20% of the total cost, landscaping costs, and some of the equipment costs were all omitted from the estimates; and proper allowance was not made for inflation. As a result, the building will cost £66 million instead of £30 million.

This sum is being written off.

But we are told that - even with the capital costs written off - there will be a net cost of between £2.5 million and £3.7 million each year. The Treasury say that this is due to a combination of huge running costs and lower-than-expected private demand.

See
CST's letter
of 23 May

Ministers are now exchanging polite insults about the responsibility for this fiasco.

Next Steps

The Chief Secretary wants to "reconsider the long-term future of the Centre", on the basis of the "business plan"

now being prepared by DoE. But if the plan is anything like the original estimates, it will not help much; and the "long-term" is not soon enough. Something needs to be done in the next few weeks to put the situation right.

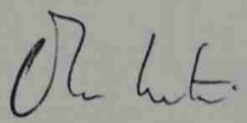
It is absolutely absurd to claim that a building of this size (equipped with a restaurant, huge auditorium, four big conference rooms, security suite, lounge, offices and press facilities) is capable of raising only £300,000 - £1,500,000 a year in gross receipts.

If a conference like the American Bar Association used the Centre for one week they would have to pay only £1,000 for each seat in the conference halls to produce the £1,500,000 that is claimed as the maximum take for the whole year. In practice, the price would be way below £1,000 per delegate, since the same people do not occupy all the conference rooms at once; and the restaurant and bar ought to make a huge profit. In other words, the Centre should, in a year, be able to rake in tens of millions of pounds.

We have no faith whatsoever in the capacity of the PSA or other public sector bodies to run on enterprise of this sort, and the absurd estimates now being presented merely confirm that view.

The only sensible solution is to contract the whole show to a private sector operator, who could make money out of it. Instead of footing an annual bill, the Government could begin to recoup part of its £66 million outlay on construction.

We recommend that you should press for immediate discussion of a private sector contract. This building is already an eyesore; it ought not to be a drain on taxpayers' resources as well.


OLIVER LETWIN

MR FLESHER

19 August 1985

INTERNATIONAL CONFERENCE CENTRE

I shall be meeting PSA officials and others to discuss the new business plan on 2 September. That meeting should cast more light on the prospects for increased revenue.

In the meantime, I suggest that the Prime Minister should merely note the letter of 5 August from Patrick Jenkin's office.

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OLIVER LETWIN



Ree Muntz

The Policy Unit
will be discussing with
DoE in early September
the prospects for increasing
Revenue.

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref: J/PSO/15949/85

Your ref:

S August 1985

Dear Andrew

OR
25/8

QUEEN ELIZABETH 11 CONFERENCE CENTRE

Thank you for your letter of 22 July about the income figures forecast for the Centre, which have struck the Prime Minister as excessively low.

In preparing the Business Plan for the Centre, PSA have been greatly assisted throughout by Mr Geoffrey Smith, an independent conference consultant and former Director of the London Convention Bureau and of the London Tourist Board. His clear advice is that there is indeed a strong potential commercial demand for the Centre's facilities. They are likely to be attractive for the large professional and trade association conferences, both national and international. We already have a number of provisional bookings, including the Small Business congress next year, about which Sir Charles Villiers recently wrote to the Prime Minister. There is also a useful, though somewhat smaller, potential market for company meetings. The National Freight Consortium have, for example, recently pencilled in a provisional booking for their big shareholders' meeting in 1987.

It will inevitably take time to build up a steady private business of this kind, and vigorous marketing with a hard commercial edge will certainly be needed. To this end, PSA intend to enlist shortly an experienced marketing manager for the Centre from the private sector; and they also have it in mind to strengthen the commercial advice available to the Management Board which up to now has been relying solely on Geoffrey Smith.

Geoffrey Smith's advice is that it would be reasonable, though tough, to set a target for the Centre of a 70% utilisation rate, over the year as whole, by the fourth year of operation, ie 1989/90. That is what we shall be aiming for in our marketing. It implies building up to a steady gross annual income at this level of usage from commercial bookings and catering (which will be contracted out on the best commercial terms we can obtain) of over £2m at current prices, representing around 80% of the total income forecast in 1989/90 from both Government and private sources. The nett effect of this would be to reduce the bottom-line operating loss by around £1m.

In addition, there will be savings from relinquishing PSA's existing conference facilities in London, other than Lancaster House, which will no longer be needed when the Centre becomes operational. This rationalisation process has already started, and will be completed as quickly as the various lease conditions permit. These savings will eventually amount to some £1m a year at 1985/86 prices.

My Secretary of State's firm intention is to bring in private sector use to the maximum extent compatible with the Centre's status as a Government facility, and with the requirement to provide permanent secure conference facilities for Government use. He will be writing to his colleagues immediately after the August holiday with a strategy to achieve this aim.

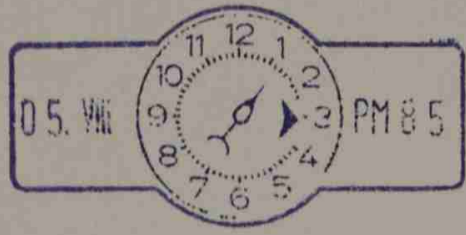
Copies of this letter go to the recipients of yours.

Yours sincerely

Sue Vandervord

MISS S VANDERVORD
Private Secretary

Govt Building, Internal Conf. Centre Pt 2



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SRW

File



bc: Nick Owen

10 DOWNING STREET

From the Private Secretary

22 July 1985

Dear John.

INTERNATIONAL CONFERENCE CENTRE

The Prime Minister has seen the exchange of correspondence on the International Conference Centre. She was struck by the estimates in the Chief Secretary's letter of 23 May that the running costs will be about £4 million while income is likely to amount to £0.3-£1.5 million. The income figures strike her as excessively low. She has asked whether the possibility of private sector management of the Centre has been investigated as a way of ensuring the maximum commercial income.

I am copying this letter to members of the Cabinet and Richard Hatfield (Cabinet Office).

Your sincerely

Andrew Turnbull

(ANDREW TURNBULL)

John Ballard, Esq.,
Department of the Environment.

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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.

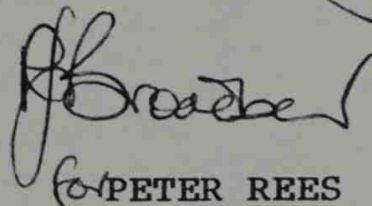
I understand the running costs of the Centre will be about £4.0 million. Income is likely to amount to £0.3 - £1.5 million (no market research into likely private demand was conducted in 1980.) There will therefore be a net annual loss of at least £2.5 million and perhaps £3.7 million indefinitely.

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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