



FCS/85/263

SECRETARY OF STATE FOR THE ENVIRONMENT

International Conference Centre

1. Thank you for your letter of 8 October.
2. I agree generally with the approach you are adopting. It seems to me right that your Business Plan should be based on the decisions which Ministers have already taken and that the aim should be to secure the highest possible revenue for the Centre from private sources. Certainly, we could not countenance an alternative approach which either jeopardised the Centre's plans for the UK Presidency or reduced the level of security which we have agreed.
3. We accept the constraints on our dealings with the Centre which you propose in order to maximise its income. I note that we can, if necessary, fall back on Lancaster House.
4. We are content to be charged the competitive London rates for our use of the Centre and note that we will not be asked to pay the premium for the major rooms.
5. I am copying this to the recipients of yours.

Foreign & Commonwealth Office
15 October 1985

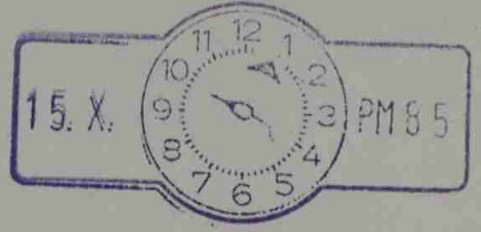
GEOFFREY HOWE

CCOK

NSM

GOUT BUILDINGS
CONFERENCE CENTRE

PT 2





B. Beck

Treasury Chambers, Parliament Street, SW1P 3AG

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

W. S. M.

23 October 1985

Dear Kenneth,

THE QUEEN ELIZABETH II CONFERENCE CENTRE


Thank you for sending me a copy of your letter of 8 October to Geoffrey Howe.

I am very concerned about the projected operating loss which the Centre is expected to make on present plans. It is essential that we attempt to make the Centre commercially viable as quickly as possible.

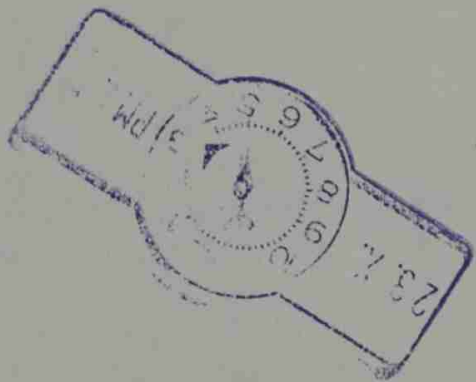
I am glad therefore that you are looking at alternative uses for the Centre. I hope the review can be completed by January 1986; I should like it to have a firm objective of eliminating the operating deficit for 1987-88 and subsequently. If the strength of subsidised competition means there is no way in which the Centre can meet its operating cost with conferences as its main activity, then the review should consider whether an alternative mix of activities, with less emphasis on conferences, would be more profitable; or, as Peter Rees suggested, whether we should dispose of it.

In the meantime I accept that you cannot afford to stand still and I agree that you should pursue a strategy aimed at bringing in private sector use to the maximum possible extent. I suggest that charges should be at a level to maximise revenue rather than necessarily a standard percentage above competitors' rates. My agreement is however on the understanding that the more radical review is pursued vigorously.

I am copying this letter to the Prime Minister, Leon Brittan, Douglas Hurd, Michael Heseltine, Nicholas Ridley, and Sir Robert Armstrong.

Yours ever,

 JOHN MacGREGOR

GOVT BUILDINGS
CONFERENCE CENTRE
PT 2





DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: PSO/18368

Your ref:

27 November 1985

NBM

QUEEN ELIZABETH II CONFERENCE CENTRE

I am replying to your letter of 23 October to Kenneth Baker about the financial outlook for the Centre.

Kenneth and I entirely share your views on the need to make the Centre financially viable as quickly as possible. The immediate priority is, of course, to ensure that everything is ready and working in time for the Presidency next July. There is a great deal of detailed work still to be done and the new management team are concentrating their efforts on that. An experienced consultant from the private sector, Mr Barry Newman, of Barry Newman Associates, has joined the team to handle the marketing and he will be rapidly raising the Centre's profile in the marketplace. His initial assessment of the commercial outlook is encouraging, and your clear endorsement of a policy of flexible pricing with the objective of maximising revenue will be a great help in building up the business.

That being said, I must sound a cautionary note about the speed at which we can realistically expect to build up the commercial side of the business. Although commercial bookings are already being taken and confirmed for 1986/87 and beyond, it would be unrealistic to assume that full capacity and maximum earnings could be achieved within the first eighteen months of operation, particularly with the long lead times required by many conference organisers when making bookings.

The Centre's management team have been concentrating all their available resources on the immediate task of preparation for the Presidency, and setting up a marketing operation. They will not have the spare capacity to tackle concurrently the wider and more radical review of the options to which Kenneth Baker referred in his letter of 8 October, and it will be necessary to bring in consultants. My officials will be in touch with yours and others very shortly with proposals for pressing forward with this exercise with the assistance of consultants.

/ I am copying this letter to the Prime Minister, Geoffrey Howe,
Leon Brittan, Douglas Hurd, Michael Heseltine and Nicholas
Ridley and to Sir Robert Armstrong.

*Yours
Sincerely*

SIR GEORGE YOUNG

GOVT BUILDINGS
FRUIT CONCENTRATOR
PT 2





cc/OL
QUEEN ANNE'S GATE LONDON SW1H 9AT

23 October 1985

Dear Kenneth,

THE QUEEN ELIZABETH II CONFERENCE CENTRE

Thank you for copying to me your letter of 8 October to Geoffrey Howe. I have also seen a copy of his reply to you of 15 October.

Like him, I agree generally with the approach you are proposing. I do not at this stage see a realistic alternative. Clearly you need to make the Centre as viable as possible, and that means bringing in private customers. We will have to accept the limitations on Government use that this might impose. It is useful that Lancaster House will be kept in reserve for the time being in case there are unforeseen requirements.

I am aware that the security authorities have been closely involved in the planning arrangements so far and I am sure that close contact should continue. Inevitably, if the Centre is opened up to private users there will be a risk of weakening the security arrangements and we must be careful to ensure that in seeking commercialisation the purpose for which the Centre was conceived is not defeated. It would therefore be right for the views of the security authorities to continue to be taken properly into account as commercial uses are explored.

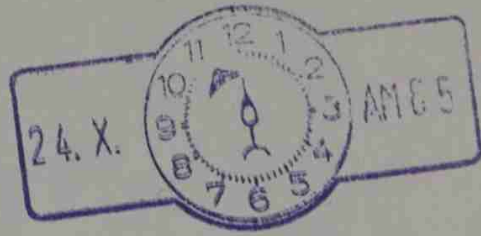
I note that your officials will be in touch with officials in other Departments in the near future about alternative uses for the Centre and we will, of course, think hard about any potential uses that we might have.

I am copying this letter to the recipients of yours.

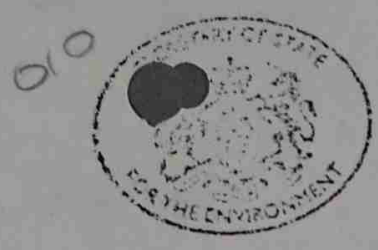
The Rt Hon Kenneth Baker, M.P.

Baker
Douglas

GOVT BUILDINGS : CONF. CENTRE PT 2



3/F // Await DL comments ~~ccol~~
A



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Prime Minister

See pp 293.

DHS
24/10.

My ref:
Your ref:

8 October 1985

Dear Foreign Secretary

THE QUEEN ELIZABETH II CONFERENCE CENTRE

The new Conference Centre is now approaching completion and it will be fully operational in time for the EC Presidency in July 1986, which was the main requirement colleagues had in mind in taking their collective decision in 1982 to go ahead with construction using public funds.

There is already a strong and growing market interest in the Centre and a number of private bookings have been made in accordance with Patrick Jenkin's announced intention of bringing in private users. Buckingham Palace have been approached on the possibility of a royal opening by the Queen next Summer, and the publicity from such an occasion will undoubtedly stimulate further market interest. Meeting the requirements of the EC Presidency starting in July next year must, of course, be our prime concern for the present and nothing must be allowed to stand in the way of achieving operational readiness for that first major event. We must, clearly, also look beyond the Presidency to ensure that there is a continuing income, and this will necessitate active marketing now.

A Business Plan has been prepared, with the assistance of Mr Geoffrey Smith, an independent Conference Consultant who was formerly Director of the London Visitors and Convention Bureau and of the London Tourist Board. The starting point in preparing this Plan has been the Cabinet's decision, taken in 1982, that the Centre should be built primarily to meet the Government's needs for highly secure conference facilities, and my predecessor's subsequent decision to bring in private conferences to help maximise income. The first question is whether we should now accept this basis for the Business Plan or whether we should delay its implementation while we explore further options for maximum revenue.

I cannot accept a recurring loss of £3-4m a year without a very thorough examination of all possible alternatives - but we can't wait for the result of such studies, which could take until the Spring 1986 - before implementing on the present basis (which does not preclude any further change). In particular we cannot afford to let up on our current efforts to secure bookings to maintain the flow of conference income from all users. This means directing our marketing at Government Departments every bit as much as at private users, because they too will have freedom of choice under the FMI to make their bookings in private facilities if we cannot attract them to our Centre.

Commercial marketing will inevitably limit the availability of the Centre for Government use. The second question is whether we accept the constraints which maximising income from the private sector will entail. Private bookings, particularly for the large (and lucrative) professional and trade association conferences for which the Centre's facilities will be especially attractive tend to be made a long way ahead. If the Centre is to attract substantial private conference business, as I believe it must, then bookings will have to be contractually confirmed at least up to 2 years ahead of the event concerned, and protected against cancellation in favour of a subsequent Government requirement.

Our officials have recently discussed this point and I understand that it is not a major problem for you. The approximate dates of the major international events for which the Centre has been designed, and which cannot be readily catered for elsewhere - the EC Presidency, the Economic Summit, Commonwealth Heads of Government and Commonwealth Finance Ministers meetings - are normally known more than 2 years ahead. Other Government conferences tend to be relatively small and a careful analysis of the accommodation requirements for such conferences held in London over recent years has indicated that the Centre's Secure Suite (which would in any case have to be reserved solely for Government use for security reasons), together with the existing conference facilities in Lancaster House, should provide sufficient flexibility to cater for the Government's normal short-term conference requirements. The Plan accordingly proposes that the Lancaster House facility, and also some small meeting rooms in the Centre, should be retained as back-up accommodation for Government use when the Centre is fully booked.

These arrangements would not, however, cater for a major Government meeting called at less than 2 years' notice where security considerations required the clearance of the whole building, and for which the back-up facilities in Lancaster House were too small. Such events are, on past experience, likely to be very rare indeed. They would have to be dealt with in the light of circumstances at the time.

If you accept this I shall pursue a strategy aimed at bringing in private sector conference use to the maximum extent compatible with the building's status as a Government facility, and with the original requirement to provide permanent, highly secure conference facilities for Government use. This will require, in particular, that:-

- a. The Secure Suite, and certain small meeting rooms, should be reserved at all times exclusively for Government use; and, these rooms apart.
- b. Private conference bookings should be taken and contractually confirmed up to 2 years ahead of requirement; and, once confirmed, they should not be subject to cancellation in favour of a subsequent requirement for use by Government;
- c. The existing secure conference facilities in Lancaster House should be retained against the possible need for use by Government when the Centre's facilities are already booked. This requirement would need to be kept under close review as experience is gained of operating the Centre;

d. Charges for facilities in the Centre should be set at competitive London conference market rates, with flexibility to respond to seasonal and other variations in demand. For hirings to the private sector for major rooms a premium of 10-15% above those for the main London competitors is envisaged to avoid charges of unfair competition.

On this basis, and setting a target of 70% utilisation rates by 1989/90, the Plan points to a nett operating loss of £3.5m-£4m in 1986/7 reducing to £2.25m to £3m by 1989/90. These figures will not be easy to attain and I am bringing in a good marketing manager from the private sector whose remit will be to bring in as much business as practicable.

Meanwhile we will carry on with the work of looking at alternative uses for the Queen Elizabeth II Conference Centre. My officials will be in touch with yours and officials in other Departments and the Policy Unit.

I would be glad of your agreement, and of those to whom this letter is copied, to these proposals. Could I ask for responses to this letter by Monday 21 October; otherwise I will assume you are content.

I am copying this letter to the Prime Minister, Leon Brittan, Douglas Hurd, Michael Heseltine, Nicholas Ridley and John McGregor, and to Sir Robert Armstrong.

Yours sincerely

SW Anderson

KB

KENNETH BAKER

Approved by the Secretary of
State and signed in his absence