

CEBG  
✓FCS/86/226

1. CDP to see (note X)
2. NBPM.

SECRETARY OF STATE FOR THE ENVIRONMENT

The Queen Elizabeth II Conference Centre:  
Review of Operating Strategy

1. Thank you for your letter of 27 August setting out the options identified by Peat Marwick in their recent management consultant survey of the QE II Conference Centre. I have now seen a copy of John MacGregor's letter of 9 September.

2. I believe it is important to keep the QE II Conference Centre operating successfully as a Conference Centre which can accommodate major Government events; I accept also the need to reduce to the minimum the operating losses. I therefore support the recommendations put forward for the future marketing strategy as set out in sub-paragraphs (i), (ii) and (iii) of your letter, subject to our being consulted before any bookings are taken for the periods of particular interest to us.

X | 3. The extension of the booking period could inhibit flexibility over dates, eg for a European Council for the next Presidency; these are jointly agreed in the Community only about a year before the event. We are most likely to want to hold our next European Council in the first fortnight of April 1992. We would want to be consulted by the Centre both before any firm bookings are made during that period and over other dates in our next Presidency. Similarly, we would wish to ensure that full use of the Conference Centre

/is



is retained when we come to host the Commonwealth Finance Ministers Meeting (very possibly September 1988), Commonwealth Heads of Government Meeting (likely in Autumn 1991) and the Economic Summit (probably June 1991).

4. As for the conversion of part of the 4th floor to allow for greater catering facilities, we were concerned that this might reduce the Centre's suitability for future European Councils and possibly other major events. This of course is one of the major purposes for which the Centre was designed and we could be open to public criticism on that score. However, we have been assured that adequate flexibility will be retained to enable the area to accommodate a future European Council. We are therefore prepared to accept the proposed change, if that is the general consensus in the light of the feasibility study.

5. I am copying this minute to those to whom you sent copies of your letter.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office

29 September 1986

GOVT. BUILDINGS  
CONFERENCE  
CENTRE





Foreign and Commonwealth Office

London SW1A 2AH

2 October 1986

LCRG  
CDP  
2/x.

Dear Mr. Young,

The Foreign Secretary's minute of 29 September concerning the operating strategy of the Queen Elizabeth II Conference Centre contains a misprint. In paragraph 3, April 1992 is put forward as the most likely date for the next European Council. This should be taken as December 1992.

I am copying this letter to the Private Secretaries of the recipients of the minute.

Yours sincerely,  
J C Line.

(J C Line)  
Private Office

Robin Young Esq  
PS/Secretary of State for the Environment

GOVT BUILDINGS  
WESTMINSTER AREA

PT 2





*CSG*

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref: R/PSO/17562/86

Your ref:

The Rt Hon John MacGregor OBE MP  
Chief Secretary  
Treasury

15 September 1986

*Dear John*

QUEEN ELIZABETH II CONFERENCE CENTRE  
REVIEW OF OPERATING STRATEGY

Thank you for your letter of 9<sup>at trap</sup> September.

I am glad you were able to go along with my proposals and, for my part, I am content to accept your conditions. The question of provision to cover the operating loss is a matter I shall want to pursue in our forthcoming discussion on my PES bid.

I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon, Douglas Hurd, George Younger, John Moore and Sir Robert Armstrong.

*Yours sincerely*

*N Ridley*

NICHOLAS RIDLEY

*N Ridley*

GOVT BUILDINGS Westminster Area PT2





## MANAGEMENT IN CONFIDENCE

DN.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London SW1P 3EB

NBRM

9 September 1986

*Dear Nicholas,***THE QUEEN ELIZABETH II CONFERENCE CENTRE:  
REVIEW OF OPERATING STRATEGY**

Thank you for your letter of 27 August about the future operating strategy for the Conference Centre. It is disappointing that the consultants were unable to identify possible uses which would have eliminated the operating loss while retaining the essential conference facilities.

I agree that we could hardly demolish the building and sell the site. The choice, therefore, rests between option 7 (i.e. leasing for office use) and your preferred solution on the lines of option 3 (i.e. continuing to use the centre for conferences but maximising its commercial use).

Even if the consultants have seriously underestimated the capital costs of conversion option 7 would still continue to show a considerable cost advantage. I am reluctant to see further consideration of it totally dropped, though I see the difficulties of changing tack at such a very early stage.

I am prepared, therefore, to go along with your proposals subject to the following:

- (a) that there should be a formal review of the future of the Centre at the end of 1989 in the light of the first three years operations - if things went badly we really would have to consider the difficult decisions that a change in use would give rise to;



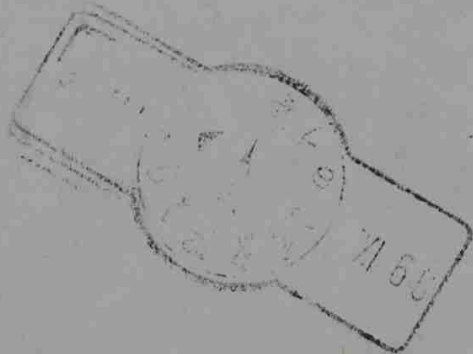
## MANAGEMENT IN CONFIDENCE

- (b) that users of the entire Centre for high security events should as a general rule be required to pay the full costs. This is consistent with good financial management. I have noted your comments about flexible market pricing, but it seems to me that given the absence of alternative suitable venues for such events, the market price is normally unlikely to be lower than the full operating cost. I can see no good reason, therefore, for rejecting the consultants' recommendations that the full costs should be passed on to the users;
- (c) that this implies no commitment to acceptance of your additional PES bid to cover the operating loss. You should, therefore, plan on meeting the costs from within existing allocations.

I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon, Douglas Hurd, George Younger, John Moore and Sir Robert Armstrong.

Yours ever,  
JH

JOHN MacGREGOR



4  
PRIME MINISTER

THE QUEEN ELIZABETH II CONFERENCE CENTRE

You may like to know that Peat Marwick have completed a review of the prospects for the Conference Centre and its future operating strategy.

They conclude that far the most attractive option financially would be to turn the Conference Centre over to office use if planning permission would be obtained. The next best option would be to demolish the centre and sell the site.

Mr. Ridley, understandably, has found neither of these options attractive and proposes that the Centre should continue broadly as now, though with some changes in pricing policy and with a substantial increase in the catering facilities at the Centre. The Treasury agree. With these changes the predicted operating loss in 1990/91 is put at £1.8 million.

There seems no need for you to intervene.

  
DAVID NORRGROVE  
9 September 1986





The Rt Hon Sir Geoffrey Howe QC MP  
 Foreign and Commonwealth Office  
 Downing Street  
 LONDON  
 SW1

2 MARSHAM STREET  
 LONDON SW1P 3EB  
 01-212 3434

My ref:

Your ref:

27 August 1986

*Dear George*

THE QUEEN ELIZABETH II CONFERENCE CENTRE; REVIEW OF  
 OPERATING STRATEGY

In October last year, Ministers endorsed an interim business strategy for marketing the Queen Elizabeth II Conference Centre on the lines proposed by my predecessor in his letter to you of 8 October 1985. At the same time, it was agreed that there should be a thorough review of the possibilities for increasing income from the Centre.

Following discussions at official level with Treasury, FCO, MOD and MPO, Peat Marwick Management Consultations were appointed to examine a wide range of business options for the Centre, including non-conference related activities, with the objective of improving the financial results to the maximum extent possible. Meanwhile, the Centre's management have been vigorously marketing the facilities on the basis of the 1985 strategy, and substantial business is being won. The recent one-day EUREKA Conference fully proved the Centre's capabilities for staging major top-level inter-government events, with interpretation and full international media coverage; and you have of course already had your own direct experience of hosting EC Presidency meetings held there. The Royal Wedding provided a unique opportunity for showing off the building to a selected commercial clientele; it was well (and profitably) used on that occasion and the interest aroused should generate future business. With the diary now almost fully booked into the New Year (including, in addition to Presidency meetings, the 2nd International Vascular Symposium, the International Small Business Conference and a new-model car launch) the Centre looks well on course to meet the target of £1.15m revenue in 1986/87.

The report of the Peat Marwick study thus comes when we know from practical operating experience that there is indeed a role for the new Centre in the London conference and related exhibitions market. The main conclusions from the study are:-

- (i) the high security facilities - the raison d'etre for the building - impose a high financial penalty;
- (ii) in common with virtually all such venues around the world, the Centre will not be able to operate at anything but a substantial nett deficit. This confirms the findings of the 1983 Horwath & Horwath report that no private sector



organisation would be prepared to run the Centre, except for a fee;

(iii) of the options considered for conference-based operations, two will reduce the forecast deficit significantly, namely increasing the confirmed booking period from 2 to 5 years, and increasing the catering activities, including conversion of parts of the fourth floor for catering purposes;

(iv) two of the radical options (leasing for office use; and demolition and sale of the site for redevelopment) produce a positive financial effect. But these may not be realistic in practice, partly because the design of the building makes it inherently unsuitable (and very costly) for conversion; and partly because there would be planning difficulties with such changes of use.

(v) a reduction in the rating assessment would have a significant effect on cash flow.

/ A summary of the options which the consultants examined, and the associated cost figures, is annexed.

The prime conclusions I draw from this report are that we have no practical option but to accept that the building should remain as a conference centre managed, as we agreed last autumn, by Government as a mixed Government/commercial enterprise with the aim of maximising income and reducing the nett operating loss as far as possible. Although the figures suggest, prima facie, that the two radical options of leasing the building for office use and of demolition and sale of the site for redevelopment would be financially attractive, either course would raise formidable political problems, even if the propositions were in practice viable in themselves, which is doubtful. The design of the building itself makes it inherently unsuitable for conversion to offices, and there would also be severe planning difficulties with such a change of use. Moreover, my officials in PSA are of the opinion that the consultants' broad estimate of the cost of conversion considerably understate the position. I do not consider that we should proceed further with either of those two options. There is the further practical point that, should it become known that our minds were turning in that way, as it surely would, then private sector bookings would cease, increasing the operating loss during the period of the assessment. Once market confidence had been lost in this way, it would be a long and very difficult task to re-establish it. Either option would also confront us with the problems we faced six years ago - the absence of a suitable and secure venue for major government conferences.

The report examines a number of possible changes to the current marketing and operating strategy, each of which would enhance income and reduce the nett operating costs. The most immediately attractive and practicable of these are the extension of the period for confirming forward bookings from 2 years to 5 years;



the introduction of "standby" pricing for short-term bookings by Government for facilities that would otherwise be unused; active marketing of the facilities specifically for catered functions; and selective letting of the secure suite for private events, subject to sponsorship by or through a Minister. We should, in my view, introduce these changes forthwith.

A policy of allowing general letting of the secure suite to all and sundry would, the security authorities advise, seriously prejudice their ability to guarantee security of top-level Government events of the kind for which the Centre was originally designed and built. I do not think that we can justify any compromise on security for such events, and I accept that advice.

The level of the potential financial return from extending the present catering facilities in the building is certainly attractive, and well worth looking at further. Making full use of existing facilities, and also converting the present reprographic room on the fourth floor to a kitchen, using the open-plan secretariat area on that floor for dining purposes, almost doubles the potential income from catering. For a capital cost of perhaps £100,000, the nett operating cost in 1990/91 could be reduced in this way by nearly £300,000. I intend to ask the Centre's management to undertake a detailed feasibility and cost study of the proposed conversion early next year, in the light of the operating experience gained during the current EC Presidency. If we decided to proceed I would have to bid for the funds for the conversion.

The report emphasises the extent to which the design of the building as a high security Government conference facility is an inherent constraint on its financial performance. It suggests reflecting this opportunity cost in a higher price to be charged - principally to Government Departments - for high security events. Doubling (to £30,000 a day) the charge for letting the entire Centre for high security events could, the report suggests, reduce the annual operating loss in 1990/91 by £100,000 (from £2.8m to £2.7m). These are relatively small improvements by comparison with those to be gained from changing to a 5 year forward booking period, which could yield some £0.5m extra a year in 1990/91. Whilst it would, in principle, be right to recoup the costs of security in this way, in practice it simply means one Government Department charging the other ones more. In view of the relatively small amounts involved, my preference would, on balance, be against imposing any rigid requirement and to stick to flexible market-pricing as we agreed at the outset.

In summary, I propose that we should accept that the building should continue in use as a conference centre for mixed Government/commercial use; and that the following changes should be made to the marketing strategy we agreed on last autumn with the aim of increasing income and minimising the nett operating loss:-



MANAGEMENT IN CONFIDENCE

(i) increase the period for confirmed forward booking from 2 years to 5 years;

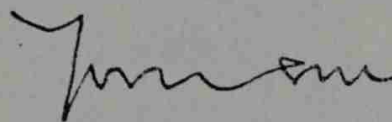
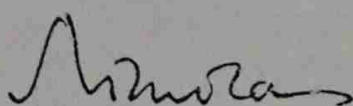
(ii) extend the business to include catered functions not related to particular conferences, making fullest possible use of the existing catering facilities; and mount a feasibility study early in 1987 with a view to the conversion of the fourth floor for catering purposes in the light of operating experience, particularly during the EC Presidency;

(iii) allow limited marketing of the security suite for private events, subject to sponsorship by or through a Departmental Minister.

The nett effect of these changes would be to reduce the predicted nett annual operating loss in 1990/91 from £2.8m on the present marketing policy to £1.6m.

I would be glad of your agreement, and of those to whom this letter is copied, to these proposals. As they will affect my PES bid, I should be grateful for an early response.

/ I am copying this letter to the Prime Minister, Paul Channon, Douglas Hurd, George Younger, John Moore and John MacGregor; and to Sir Robert Armstrong.

NICHOLAS RIDLEY



MANAGEMENT - IN CONFIDENCE

QUEEN ELIZABETH II CONFERENCE CENTRE  
REVIEW OF THE BUSINESS OPTIONS

Introduction

1. In October 1985, Ministers endorsed an interim business strategy for marketing the new Conference Centre to both the public and private sector. In his letter of 8 October 1985 to the Foreign and Commonwealth Secretary (Annex B) the then Secretary of State made it clear that the prospective recurring operating loss, forecast at some £3-4m p.a., was unacceptable unless a thorough review of possible alternatives showed it to be unavoidable. A review was accordingly set in hand, by Peat Marwick Management Consultants, in January 1986. This submission outlines the main findings of the study; and, in the light of the report, recommends a number of changes to the interim marketing strategy, which should reduce the operating loss to some £1.8m by 1990/91.

Background

2. The central elements of the business strategy endorsed by Ministers in October 1985 were:-

- (a) Secure facilities should be reserved at all times exclusively for Government use; and these rooms apart
- (b) conference bookings should be contractually confirmed up to a maximum of 2 years ahead of requirements;
- (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 for private use;
- (d) charges should be set at competitive market rates, with flexibility to respond to seasonal and other variations in demand.

3. Following discussions at official level with Treasury, FCO, MOD and MPO, Peat Marwick Management Consultants were asked to examine a wide range of business options for the Centre,



MANAGEMENT - IN CONFIDENCE

including non-conference related activities, with the objective of improving the financial results to the maximum extent possible. Meanwhile marketing of the Centre's facilities has continued on the basis of the 1985 strategy, and substantial business is being won.

The Options

4. The Peat Marwick report considers 12 possible changes to the present business strategy, including radical options involving completely different uses. These are set out in Annex A, which shows the costs compared with the present strategy; figures are shown for the predicted nett annual operating costs in 1990/91, by when the Centre will have fully established itself in the market, and also for the nett present cost of the different options discounted over the whole life of the building (50 years).

5. Some of the measures listed in the Annex can be conveniently grouped together, giving eight possible alternatives to the present strategy, as follows:-

<u>Options</u>	<u>Description</u>	<u>Predicted nett operating costs in 1990/91</u> fm	<u>Nett present cost over 50 yrs</u> fm
Present strategy	Continue with present strategy	2.8	64
Option 1	Pricing changes and limited extension of catering functions (Annex A, items (i)-(iv))	1.9	48
Option 2	As in option 2 but with major extension of catering facilities (Annex A, items (ii)-(vi))	1.8	46
Option 3	As in option 2 but with changes in security policy (Annex A, items (ii)-(vii))	1.6	43
Option 4	Unconstrained commercial utilisation. All security constraints removed; no high security conferences; restaurant open to public; open foyer policy	1.6	49



MANAGEMENT - IN CONFIDENCE

<u>Radical Options</u>	<u>Description</u>	<u>Predicted nett operating costs in 1990/91</u> £m	<u>Nett present cost over 50 yrs</u> £m
Option 5	Intermittent high security use, otherwise mothballed	4.8	112
Option 6	Complete mothballing	3.0	77
Option 7	Leasing for office use	+1.5 <u>(profit)</u>	2
Option 8	Demolition, site cleared and sold	-	22

The Review

6. The central conclusion of Peat Marwick's review is that there is no way in which the Centre can be made to operate in the conference and related fields of business other than at a substantial nett loss. This confirms the findings of a previous study by consultants Horwath & Horwath in 1983, and is a common feature of all such centres in this country and overseas. If the Government is to continue to run its own secure Conference Centre, the issue is how to minimise the loss.

7. The report brings out very clearly the high inherent cost of the security features which have been designed and built into the Centre, reflecting its original raison d'etre. The high security floors account for 47% of the total deficit although they account for only 27% of the lettable area of the building. Whilst there is not much that can be done about that as long as the Centre remains the Government's high security conference venue, the report points out a number of ways in which income could be enhanced and the nett operating costs reduced without jeopardising security. Two of these stand out as having a major impact on the revenue earning potential of the Centre: first, the extension of the contractually binding booking period from the present 2 years to 5 years; and secondly, expanding into the lucrative catered-functions market, including the conversion for catering purposes of parts of the 4th floor, currently designated for secretariat and other conference



back-up services. These two changes, together with others proposed in the pricing policies, could reduce the nett annual operating loss by around £1m (from £2.8m on present policies to £1.8m by 1990/91), and the nett present cost over the whole life of the building by some £18m.

8. The report draws attention to the relatively high proportion of fixed costs represented by the rates payable on the building. A reduction in the present rating assessment, which at £1.7m Peat Marwick believe is unreasonably high, would have a significant effect on the expenditure side of the balance sheet. The rating assessment is a matter for negotiation between the Rating of Government Property Department (part of the Treasury) and Westminster City Council. We are aware from the experience of the Barbican and Wembley that rating conference centres is not an easy matter, and it could take some years to resolve this issue satisfactorily.

9. A number of radical options have also been considered, including intermittent mothballing of the building when not required for Government use; complete mothballing; leasing the building for office use; and total demolition and sale of the site. The absence of income with continued high fixed costs mean that the two mothballing options would be more costly than operating under the current strategy. The figures in paragraph 5 above show that the best financial return would be gained by conversion of the building and leasing it for office use: indeed, this is the only option to show a positive operating gain in 1990/91. This result, however, needs to be treated with caution. The report itself expresses strong reservations about whether the conversion could in fact be achieved in practice, partly because of the inherent unsuitability of the internal layout of the building and its services, and partly because a change to office use would be likely to run into grave difficulties with the local planning authority. Moreover, the consultants were unable to make more than the very broadest estimates of the costs of conversion and, in PSA's view, the



figures in the report considerably understate the true position.

The same goes for the costs of providing elsewhere for secure Government conferences. The facilities provided in the Centre do not currently exist in toto elsewhere and provision would have to be made if the Centre were to be abandoned.

Conclusions of Officials in Departments mainly concerned

10. The report has been discussed with officials in Treasury, FCO, MOD and MPO, and the following are the main conclusions that have been reached:-

- (i) The two radical options of getting rid of the building as a conference centre and either leasing it for office use, or demolishing it and selling the empty site for development are, prima facie, the most attractive on economic grounds and, indeed, offer the only possibility of a positive cash flow. These figures should, however, be treated with caution. The report certainly understates the likely cost of conversion, even if this were practicable which, because of the inherent unsuitability of the building's design, is doubtful. There would also be serious planning difficulties.

Either course would, moreover, imply a complete change of mind by the Government regarding its needs for secure conference facilities, and going back on the decision taken only 4 years ago to build the Centre at public expense. The need for conference facilities for hosting such regular events as the EC Presidency and the Economic Summit has not changed, and the security requirements have, if anything, increased.

Officials, on balance, recommended against further consideration of the radical options, on practical grounds alone.

(ii) Of the possible changes to the operating strategy, the same considerations rule out unconstrained commercial use of the Centre (Option 4). This option does not give a better financial return than Option 3, primarily because of the cost to Government of finding an alternative venue for its high-security conferences (which, as indicated in paragraph 9 above, appear to be understated in the report).

Proposed Measures to Reduce Operating Loss

11. Officials are agreed that the following measures to reduce the operating loss would be generally acceptable and practicable:-

- increasing the period for confirmed forward bookings from the present 2 years to 5 years. This extension should not inconvenience the FCO and other user Departments much more than the present 2-year period. The number of additional events likely to be attracted by this change is predicted to be 10 per year by 1990/91, so the diary would not be booked solid;
- extension of the business to include catered functions not related to particular conferences, making fullest possible use of the existing catering facilities; and a feasibility study to be mounted early in 1987 into the conversion of the 4th floor for catering purposes in the light of operating experience, particularly during the UK Presidency;
- whilst opening up the use of the secure suite for general marketing would not be acceptable, limited marketing for private events sponsored by or through a Departmental Minister should be permitted.



12. The nett effect of these changes would be to reduce the predicted nett annual operating loss in 1990/91 from £2.8m on the present marketing policy to £1.6m; and the lifetime nett present cost from £64m to £43m.

Recommendations

13. Ministers are invited:-

- (i) to note the principal conclusion of Peat Marwick's review that, although the Centre can achieve a successful position in the London conference, and conference-related market, a substantial recurring operating loss is inescapable;
- (ii) to agree that the radical options of conversion to offices, or demolition and sale of the site should not be pursued; and
- (iii) to endorse the changes in the present business strategy outlined in paragraph 11 above with the aim of reducing the predicted operating loss by over £1m a year by 1990/91; and the nett present cost over the life of the building (50 years) from £64m to £43m.

14. If these changes are acceptable the Secretary of State will wish to seek the agreement of the other Ministers most closely concerned. A draft letter for this purpose is below which, following earlier practice, could be addressed to the Foreign and Commonwealth Secretary, and copied to the others.

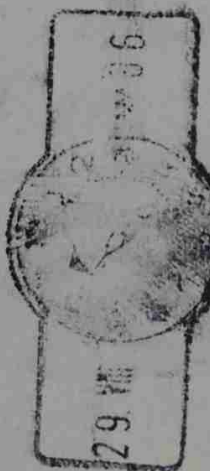
G HOPKINSON  
Director  
PSA London Region  
21 July 1986

GOVT BUILDINGS

WESTMINSTER AREA

P T 2

198-16





MANAGEMENT - IN CONFIDENCETHE QUEEN ELIZABETH II CONFERENCE CENTRE  
REVIEW OF BUSINESS STRATEGY - THE OPTIONS

The changes to the current operational/marketing policy which are examined in the report, and their effects on the costs that are predicted on the basis of the present strategy, are as follows:-

<u>Item</u>	<u>Description of proposed change</u>	<u>Effect on costs relative to present strategy</u> (-reduction; +increase)	
		<u>Nett Operating Cost 1990/91</u> £m	<u>Nett Present Cost (Over 50 Years)</u> £m
(i)	Confirmed booking period extended to 5 years	-0.47	-8
(ii)	Reduced charges for short-term bookings from Government for rooms which would otherwise be un-let	-0.09	-2
(iii)	Doubling the cost of hiring the entire Centre for high security events	-0.15	-3
(iv)	Holding non-conference related catered functions in areas already equipped for the purpose	-0.16	-3
(v)	Conversion of 4th floor open plan area and reprographic room for catering purposes	-0.13	-2
(vi)	Letting secure suite for selected private sector high-security events	-0.04	-1

MANAGEMENT - IN CONFIDENCE

<u>Item</u>	<u>Description of proposed change</u>	<u>Effect on costs relative to present strategy</u> (-reduction; +increase)	
		<u>Nett Operating Cost 1990/91</u> fm	<u>Nett Present Cost (Over 50 Years)</u> fm
(vii)	Letting secure suite to private sector for general conference business	-0.10	-2
(viii)	Unconstrained commercial utilisation of the Centre, including concerts and free public access to foyer, shops and restaurant; all security constraints removed	-1.24	-15
<u>Radical Changes</u>			
(ix)	Intermittent use of the Centre for high security Government events only	+0.97	+48
(x)	Complete mothballing	+0.18	+13
(xi)	Conversion of the building for offices and subsequent leasing	-1.29	-62
(xii)	Demolition and sale of site. Actual operating loss would be zero in 1990/91.	-2.84	-42

21 July 1986