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TO MR W J SMITH, NIO, 67 GEORGE STREET, LONDON
FROM MR R H KIDD, DEPARTMENT OF FINANCE, STORMONT, BELFAST

DOC have sent us the enclosed draft memorandum as a basis for a further submission to the Treasury about the Europa and Russell Court Hotel problem. Decisions are urgently needed since DOC believe that either or both hotels will close within a few weeks if no action is taken.

My immediate reaction is to support DOC's tactics, which are to keep the Europa going but to confine the offer to the Russell Court to an offer of interest relief grant of £100,000. This contrasts with the latter's accumulated losses of about £1m and interest charges of about £300,000 a year. DOC do not believe that an offer large enough to be certain to keep the hotel open could be justified, and in fact would expect the suggested offer to be refused.

The case for keeping the Europa open is in this Department's view, sound. The main arguments are already on record, but DOC add a modest employment consideration (about 200 jobs), and it needs to be made clear that the £60,000 involved would come from existing allocations. We ourselves would give a good deal of weight to the arguments centring on business and public confidence.

I know there has been NIO interest in these proposals, and before writing to the Treasury, would be grateful if you could let me have your early reaction to the theme of the DOC draft memorandum.

25 November 1974

cc. Mr Mais
Mr Buxton
Mr Pickering

DRAFT

FINANCIAL ASSISTANCE TO CITY CENTRE HOTELS - EUROPA AND RUSSELL COURT

Background

1. The attached letter dated 8 October 1974 sets out HM Treasury's reasons for rejecting the case put forward for a £60,000 interest grant to the Europa Hotel, Belfast. In subsequent discussion with Department of Commerce officials the Minister of State, Mr Orme, has agreed that HM Treasury should be asked to reconsider their views.

2. The Department's concern about the Europa has been strengthened by its latest information on the even more critical condition of the only other large new hotel in Belfast, the Russell Court. This 180 bedroom hotel has received grants totalling some £587,000. It is incurring very substantial losses and is certain to close in the near future unless the owners, the hotels division of CIE, see early prospects of financial relief or manage to sell the business as a going concern. The danger is that both hotels will close within a few months of each other. This would have undesirable employment consequences and, perhaps more important, would be a considerable blow to commercial confidence in the city.

3. Mr Orme recently met representatives of the Russell Court to discuss their problems. He made it clear that no 'rescue' by Government was in mind but undertook to have the position reviewed and confirmed as quickly as possible.

Possible Options

4. In carrying out this review the first^{point}/is whether we are considering the plight of hotels in general in Northern Ireland or simply these two modern Belfast hotels. Many hotels are, of course, suffering from loss of trade through the decline of tourism and the security situation. Security costs and staff

shortages add to the difficulties of these hotels and also affect those better placed to attract business. The Department has been able to help marginally with the Security Staff Grant Scheme and, while they were in operation, with the City Centre Rate Relief and Employment Grant Schemes. ~~There is no possibility of extending these schemes to other hotels wherever located.~~ The Department proposed earlier this year that it should be able to offer interest relief (or interest relief grants) in selected cases with the object of encouraging hotels to weather the present doldrums and be ready when business picked up again.

5. Irrespective of the merits of a selective scheme the Department considers that the Europa and Russell Court are in a special category which can, if necessary, be considered apart from other hotels and without creating an embarrassing precedent. The Europa was given exceptional assistance including a substantial loan because the Department believed it important for both tourist and industrial/commercial reasons to encourage the provision of a new generation of up-to-date internationally acceptable facilities in Belfast. The Russell Court came later and received only standard grant assistance but the total was considerable and the project would in normal times have been a useful complement to the Europa.
6. Taking the two hotels as a special case which can be considered apart from others, there appear to be three possible options for Government in the present situation.
Option 1: Refuse any further aid to either hotel.

7. HM Treasury's reasons for rejecting the proposal to help the Europa would seem equally valid for the Russell Court - ie if it is believed that the case is basically for expenditure on 'propaganda'; that there are no substantial employment grounds for further support; and that it could not be justified in the face of the competing demands on public funds.

8. The Department considers that much more weight must be given to the possible effect of the closure of these two hotels on commercial and public confidence. The Europa in particular has become a symbol of the resilience of the business community in the face of repeated terrorist attack and this in itself is important. It is much more, however, than simply cocking a snook at the IRA. Companies must be encouraged to feel that the Government itself has some faith in the future and is prepared to help industry to overcome difficulties in the meantime. The withdrawal of Grand Metropolitan and CIE would be a strong indication that business activity in Belfast had taken a drastic downturn.
9. Although our earlier proposals for the Europa did not highlight the employment aspect it must be noted that the two hotels employ between them some 270 people. While many of these might find employment elsewhere in the industry the loss of jobs on this scale would be a serious reduction in the total number available in the industry and would be a delaying factor in recovery when conditions for hotels improve.
10. It must also be borne in mind that the Government has an investment of over £1.8 million by way of grant and loans - and other substantial amounts in bomb damage compensation - in the two hotels. If the Russell Court were to close there would be no prospect of recovery of the grants involved (because of the size of loan charges). It could be argued that the building would still be there but there can be no guarantee that it would be used in future as a hotel.
- Option 2: Assistance for one hotel only.
11. The argument in favour of this course is that it makes sense to concentrate any funds which might be made available on trying to secure the future of the hotel with the best prospects. On this argument it would make sense to offer

help to the Europa and refuse it to the Russell Court - on the grounds that the latter's financial problems are insoluble within any sum which we could contemplate and that it would be better to let this hotel go and allow the Europa to benefit from the reduced competition.

12. The main objection to this course is the difficulty of defending an offer of public funds in one case and not in the other. The fact that an offer had been made to the Europa would almost certainly become public knowledge and the decision could be given an unfortunate political twist because of the ownership of the Russell Court.
13. It is also the case that we do not know for certain what Government assistance it would take to persuade CIE to keep the hotel going. In normal times the contact with CIE and its tourist network would be a most valuable asset to have in Belfast and the Department would not like to have to take a decision which operated specifically against this hotel at the present stage.

Option 3: Assistance to both hotels

14. The Department would still advocate an offer to the Europa on the lines originally proposed - ie waiver of interest on the Government loan for one year - value £60,000. This would fall considerably short of off-setting estimated losses for the present financial year but might be a sufficient incentive to GM to undertake to maintain the business for at least a further year. In this connection we have noted HM Treasury's comment on the problems which GM faces with its hotel operations generally. The fact that GM now has these problems seems to give support - rather than the reverse - to the view that they should be encouraged to soldier on with the Europa during this difficult period. (At the risk of labouring the point the Department wonders

if everyone considering this question is aware of the way in which the Europa physically dominates this section of the city and the effect it would have to see this large building closed and, probably, in an increasing state of dilapidation.)

15. In the case of the Russell Court there is no offer which we could make which would put the hotel into a viable position while it continues to bear its heavy debt burden. (The CIE representatives who met the Minister of State were talking in terms of an equity contribution of £1 million or an annual interest grant of £200,000 for five years.) It is clear, nevertheless, that it will be a considerable embarrassment to CIE to give up this hotel and there is a remote possibility that the offer of interest relief of say £100,000 would be a sufficient token of Government concern to encourage them to find an alternative solution. If this were not the case we would be in no worse position and it would no longer be possible to claim that the Europa had been offered preferential treatment. We would thus secure the practical advantage of Option 2 without the potential odium.

Conclusion

16. It is proposed that HM Treasury should be asked to reconsider their original objections to assistance being offered to the Europa, and to consider also the principle of offering assistance within a limit of £100,000 to the Russell Court. The Minister of State has a commitment to give an early indication of the Government's decision on the latter.

22 November 1974