

PREM 19/3040

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Review of the arrangements for consultation with the construction industry.

INDUSTRIAL
POLICY

FEBRUARY 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
26.2.80		25.1.82					
29.2.80		2.3.82					
17.3.80		10.3.82					
20.3.80		11.3.82					
1.4.80		28.4.83					
22.4.80		15.4.87					
10.12.81		15.11.84					
1.12.81		6.9.80					
2.12.81		5.9.80					
		8.10.90					
/// CLOSED							
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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(82) 8 th Meeting, item 1	11/03/1982
E(82) 22	02/03/1982

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 20/8/2016
PREM Records Team

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*n.b.p.m.
BHP
8/10*

Treasury Chambers, Parliament Street SW1P 3AG

Michael Spicer Esq MP
Minister of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1

8 October 1990

Dear Michael

CONSTRUCTION INDUSTRY PRICES AND DEMAND PRESSURES

I was grateful for your letter of 5 September about falling orders and weakening prices in the construction industry.

2. As you say, the figures have important implications for the funds required for any given level of output. The volume of construction that can be bought by existing provision is significantly larger than was expected when the baselines were set in the 1989 Survey. This is particularly true outside the private housing sector. I understand that the Royal Institute of Chartered Surveyors have forecast that the level of new tender prices in 1991-92 will be very much lower than they were expecting a year ago.

3. I certainly cannot accept that we should increase public expenditure to take advantage of these developments on construction prices. Given the fact that departments are already enjoying windfall gains in the purchasing power available within existing plans, to increase cash provision for construction is unaffordable, and appears also to be unnecessary. Departments should be examining their spending on construction to ensure that they are making full use of the scope for savings that this offers when compared with earlier estimates.

4. It will also be a helpful presentational point for colleagues to make that in terms of recent and new contracts, the purchasing power of the baseline provision will be substantially higher than expected a year ago. Local authorities will of course benefit from this, as well as departments.

5. I am copying this letter to the Prime Minister and Cabinet colleagues, and to Sir Robin Butler.

Norman Lamont
NORMAN LAMONT



Minister for Housing
and Planning

Prime Minister

An interesting note on
construction prices and output.

X1 however is a familiar
line in PES discussions.

When construction is booming, Departments bid for
more because the cash cost of given output increases.

When as now construction is in a downturn, Departments
bid for more because higher output can be achieved for any cash

! sum - construction becomes "good value" 5 September 1990

Department of the Environment
2 Marsham Street
London SW1P 3EB

Telephone 01-276 3310

2

Dear Hon -

BHP
579

mf

CONSTRUCTION INDUSTRY PRICES AND DEMAND PRESSURES

Chris Patten wrote to you last year, as his predecessor had to yours the year before, to summarise the state of prices and demand in the construction industry. This letter sets out our assessment of the industry's position this year; and is background for the Public Expenditure Survey discussions.

The two central points of interest are the substantial contraction now facing the construction industry, and the accompanying fall in the relative price of construction work. The construction industry is no longer helping to push up the inflationary spiral. It is beginning to help hold it back as it did in much of the 1980s. The table below shows the outturn of construction industry price increases in the past two years; compared with our previous forecasts; and our forecasts of relative construction industry prices for the current year.



RECYCLED PAPER

Construction Industry Price Increases Relative to General
Price Increases

<u>Year</u>	<u>87/88 to 88/89</u>	<u>88/89 to 89/90</u>	<u>89/90 to 90/91</u>
<u>"DOE Forecasts"</u>	5-10% above	2-7% above	0-3% below
<u>"Outcomes"</u>			
All new construction prices	5-6% above	3-4% above	-
Whole industry (implied deflator including repair & maintenance)	2-3% above	0-1% above	-

Note: The two 'outcomes' diverge because the fixed 1985 weights in the all new construction index give greater weight to sharply risen prices in e.g. private housing than the current weighting in the implied whole industry deflator.

This turnaround in the relative price of construction is being achieved against a background of total output of the construction industry that was higher than expected in 1989, and still rising into the first quarter of this year.

For housebuilders however, the credit squeeze has already bitten. Their output has been falling since 1988 under the impact of high interest rates. New private housing demand may be beginning to bottom-out, but only at levels of severe recession. Private demand still remains fragile. Output of new subsidised housing is now substantially lower than it was in the 1981 recession.

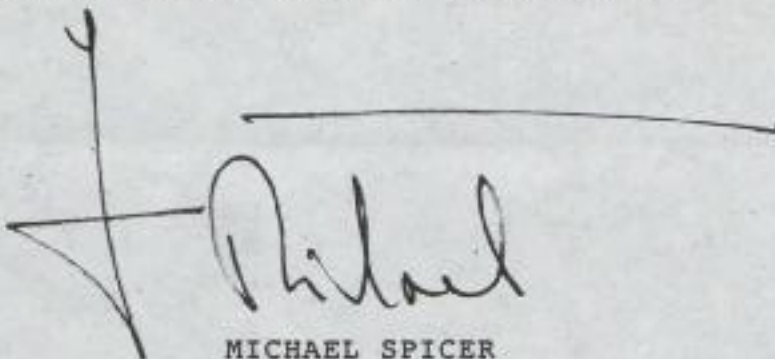
The industry's output has been maintained by the expansion of private industrial and commercial new work. The figures for orders, and in particular the new inquiries, show that the squeeze is now hitting this stream of investment also. These projects take time to complete. The decline in new starts will mean lower outputs for these customers for two years or more.

Heavily borrowed companies have been suffering severely under the pressure of high interest rates. The industry in general is experiencing a sharp squeeze on margins for new work. Developers' returns are being squeezed by the prospect of a major overhang of unlet commercial space.

Overall, the industry's forecasters expect these weakening markets to lead to a 6 or 7% fall in total output over the next two years. The resulting spare capacity may lead to a reduction of 50-100,000 jobs in the industry (a major part of the general rise of unemployment expected by many outside forecasters) as well as falling relative prices.

The decline in real prices, and the emergence of spare capacity, has helpful implications for the public sector's own investment decisions - especially in sectors such as house building where public sector demand is low relative to general demand. We can expect construction programmes to show unusually good value for money over the Survey period, and this will be relevant to Survey decisions on the timing of investment, as well as on the funds required for any given level of output. We cannot expect conditions to be as favourable in the mid-1990s.

Copies go to colleagues in other Departments.



MICHAEL SPICER

Chief Secretary to The Treasury





CCP

MRP

15/9

Treasury Chambers, Parliament Street SW1P 3AG

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

15 September 1989

Dear Secretary of State,

CONSTRUCTION INDUSTRY PRICES AND DEMAND PRESSURES

Thank you for your letter of 8 September.

It seems to be common ground that:

- (a) construction output price increases this year far exceed those for industry as a whole. You say construction prices in 1989-90 are rising 6-7 per cent faster than the RPI. This is a sign of severe overheating; and
- (b) we need to respond to construction market signals in phasing our spending priorities.

But your letter ends by saying that:

"indications now suggest that the construction industry should be able to cope with likely levels of demand over the PES period and beyond."

It is not entirely clear what this is meant to imply for policy. But if it is meant to suggest that concerns about overheating in the industry should not deter us from accepting spending Ministers' massive construction bids, I strongly disagree.

It is perfectly true that some outside forecasts show construction output flattening out temporarily next year before rising again thereafter. But this is based on the assumption that demands from the public sector - apart from housing which would fall - will be roughly flat next year.

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This assumption is very much at odds with the dramatic rise in public sector demand on the industry which would follow from accepting the massive bids made by colleagues. In aggregate the increase of something like a quarter between this year and next (with a further substantial increase in the following year) would ensure that overheating would remain a serious problem. This assessment, as well as considerations of affordability, lay behind John Major's recommendation, which Cabinet accepted, that the bids should be drastically scaled back and phased. Although some individual construction programmes may be a relatively small part of the total, it will be necessary for all colleagues with construction bids to contribute to ensuring that we do phase demands on the industry in such a way that overheating does indeed fade away and does not recur.

A massive growth in overall demand on construction would be likely to have a pervasive impact on almost all sectors via the markets for labour and skills and also for materials. This impact would be felt in the trade deficit in construction materials (now running at an annual rate of around £3 billion) and in price increases in 1990-91 and beyond. Cabinet agreed that the top priority was to get inflation down, and that continued tight control of public expenditure was essential.

I am copying this to the Prime Minister and to Cabinet colleagues.

Yours sincerely,

P. Walters

pp **NORMAN LAMONT**

*[Approved by the Chief Secretary
and signed in his absence.]*



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cel. u.

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

Miss Carys Evans
Private Secretary to
The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

12 September 1989

NBLM
Recd
MS

Dear Carys

CONSTRUCTION INDUSTRY PRICES AND DEMAND PRESSURES

I regret to say that in my Secretary of State's letter of 8 September to the Chief Secretary on this topic a paragraph was omitted after paragraph 2. The missing paragraph reads as follows:

WITHIN? / WITH REQUEST TO GOVERNMENT

"A similar forward look this year would suggest lesser increases in construction prices. The likely range for 1990/91 would be 2% to 7% above general inflation; falling in 1991/92 to a range from a little below general inflation to a small percentage point above. Of course, some particular sectors may continue to do better than these ranges suggest."

My apologies for any inconvenience this may cause.

Copies go to Paul Gray at No.10 and to the Private Secretaries to all members of the Cabinet.

R Bright

R BRIGHT
Private Secretary



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RA

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Rice Micks

Rec 6

11/9 8 September 1989

Dear Chief Secretary

CONSTRUCTION INDUSTRY PRICES AND DEMAND PRESSURES

Papers for the PES Cabinet in July referred to pressure in the construction industry. You may recall that there were concerns about construction over-heating last year also. Nicholas Ridley wrote to John Major on 31 August 1988 to set out the Department's judgement of the situation then. It is worth reviewing that assessment, and bringing it forward a year.

Nicholas's 31 August letter looked forward to national construction prices in 1989/90 rising 5%-10% faster than general inflation. The two broadest price indicators for the industry are those for new construction, and the implicit deflator for the whole industry. On average for the financial year, these rose 7% and 6% more than the RPI, respectively. Tender prices for public sector building rose rather more, 10% over the RPI.

Output in the construction industry is forecast to show no growth between 1989 and 1990. Resumed growth foreseen in 1992 should be at a slower rate than in the last 5 years. Housebuilding has already slowed, as you will know. My bids for social housing allow for continued headroom in house building and repairs. Reports of some softening of tender prices foreshadow the expected reductions in the pace of other building. Materials stocks have already risen.

Construction margins are likely to be squeezed as increases in costs decelerate more slowly than output prices. Nonetheless, the industry is aware of the medium-term prospect for renewed growth of output, and of the need to prepare for it.

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As Nicholas reminded us last year, we all need to respond to the construction market signals in phasing our spending priorities. These indications now suggest that the construction industry should be able to cope with likely levels of demand over the PES period, and beyond.

Copies go to the Prime Minister and Cabinet colleagues.

John Smith
R. B. G. W.

CP CHRIS PATTEN

*(approved by the Secretary of State
and signed in his absence).*

PRIME MINISTER

②

D. J. Armitage

CDD 24/15

Prime Minister

THE CONSTRUCTION INDUSTRY

Last week you asked me for some sourcing figures on the construction industry. I understand that you wanted to consider these in connection with the possible impact on the trade balance of additional public expenditure on infrastructure.

I am sorry that this has taken so long; through one of the quirks of departmental 'responsibility' we have to verify these with DoE.

You will see that the picture is better than I predicted on the materials side; rather less good, though not embarrassing, in the field of equipment and machinery.

I would further comment

- i. virtually all raw timber is imported (not shown on the table).
- ii. specialisation and cross-sourcing by multinational manufacturers in the machinery sector (as in road vehicles) is open to differing interpretations in getting at a 'real' figure.
- iii. even the traditional private-owners' badge, the Georgian door (ex Korea) which people put on their newly acquired council house is subsumed within a total of 15% import penetration, *under that heading.*

So it looks (but could of course only be verified by a survey) that there is scope for further expansion of activity in this sector without distorting the present sourcing patten. Even at present of course the net sums are considerable e.g. the overall expenditure on stones is £2.6 Bn. Seven per cent of this is £188m on the deficit.



ALAN CLARK

W06A2T

MATERIALS IN CONSTRUCTION INDUSTRY

	TOTAL UK MARKET (EST) £m	MARKET SHARE	
		UK Manufacturers %	Imports %
Constructional Steelwork	2054	87	13
Builders Carpentry and Joinery	1388	91	9 (a)
of which			
Wooden doors	442	85	15 (a)
and frames units ('000s)	15021	70	30 (a)
Window frames	328	97	3 (a)
units ('000s)	7582	98	2 (a)
Metal windows & doors			
Aluminium	606	93	7
Steel	169	91	9
Plastics building products	1340	93	7
of which			
Pipes & fittings	512	93	7
Sanitary ware	164	79	21
Door & window frames	475	97	3
Stone, sand, clay and gravel etc	2684	93	7
of which			
Sand & gravel	547	99	1
Slate and slate products	48	76	24
Flat glass	305	66	34 =
Glazed tiles	220	52	48 =
'000 sqm	40621	39	61 =
Structural clay products	790	98	2 (a)
of which			
Building bricks	633	99	1 (a)
Cement, lime plaster, etc	920	95	5 (a)
of which			
Cement	801	95	5 (a)
Mortar	36	97	3 (a)

(a) Figures for 1987

TOTAL UK MARKET (EST)

MARKET SHARE

		UK Manufacturers	Imports
	£m	%	%
Construction & Earth-moving Equipment			
Total (including parts)	1157	41	59
(excluding parts)	970	53	47
of which			
Excavators, trenchers, diggers, etc	442	62	38
Dumpers & dump trucks	159	82	18
Cement & mortar mixers	26	81	19
Asphalt, etc machines	61	87	13
Other (a)	282	13	87

Notes - All figures are for 1988

There is a considerable degree of specialisation in this industry in that manufacturers produce some models in the UK and other overseas, and because of this, the import penetration is matched by a high percentage of UK production going to export. The overall percentage of UK production which went for export in 1988 was 50%

(a) The balance of equipment not separately listed above.

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PRIME MINISTER

15 April 1987

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CONSTRUCTION INDUSTRY PERFORMANCE

The Jeremiahs go on trying to destroy our new-found business confidence; "the private sector could never undertake a nuclear power station like Sizewell - the risk of delays and cost over-runs would be unacceptable"; "we won't see a Channel Tunnel unless the Government is prepared to underwrite the construction risks". Meanwhile the body of evidence sustaining such carping fades into the 1970s.

Last week NEDO published the results of a recent study showing that of 25 engineering construction projects completed since 1981, or due to be completed later this year, only one has been completed 5 months late; the rest have been built either largely to schedule or to the client's satisfaction. Eight schemes were built ahead of schedule and six were under budget (refer overleaf).

The results rebut the familiar portrayal of the British construction industry as badly-planned, poorly-managed (and hopelessly strike-prone). Many factors have contributed to this impressive turnaround. As important as any has been the recognition that the management of a major project requires a high order of dedicated professionalism, the facility to apply the latest computer-based aids to planning and control and - as always - leadership qualities of a high order. The new generation of British project managers and their professional teams can now hold their own against the international competition.

This has far-reaching implications. With confidence that construction uncertainties and risks are relatively low and manageable, the private sector has greater incentive to be enterprising and innovative. Significant private sector

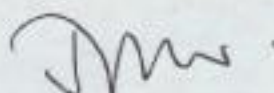
initiatives in the transport and energy fields are quietly being developed. As construction risks reduce the cost of risk capital comes down. And a good track record at home means that our construction industry is better placed to win export business.

ENGINEERING CONSTRUCTION PROJECTS SINCE 1981 NATIONAL AGREEMENT

Project	Year of completion	Performance	Time lost through disputes as percentage of manhours
Torness nuclear power station—South Scotland Electricity Board	1988	On schedule	less than 1%
Drax B coal-fired power station—CEGB	1986	Seven months under schedule 15% under budget	1.46%
Heysham nuclear power station—CEGB	1987	Construction on time to budget	1.56%
Sellafield—site ion exchange effluent plant—BNFL	1984	Completed to client's satisfaction	less than 2%
Sellafield—fuel handling plant—BNFL	1985	Completed to client's satisfaction	less than 2%
Port Talbot hot strip mill—BSC	1985	Completed on time	0.4%
Redcar blast furnace rebuild—BSC	1986	Substantially on time	0.4%
Billingham nitric acid plant—ICI	1984	Ten months faster than previous comparable project	Virtually zero
Easington rough on-shore storage facility for British Gas	1986	Completed to client's satisfaction	Significant
Mercambe Bay terminal—British Gas	1985	Completed to client's satisfaction	Negligible
Pembroke continuous catalyst regeneration/catalytic refining unit—Texaco	1985	Four months ahead of schedule—significantly under budget	360 manhours
Pembroke visbreaker—Texaco	1984	Three months ahead of programme significantly under budget	Minimal
Mossburn ethylene unit—Esso	1985	Five months ahead of schedule	1.2%
Grangemouth ethanol plant—BP	1982	One month ahead of schedule	0.6%
Easington gas terminal—BP	1983	On time; within budget	Virtually zero
Killinghome—Lindsey oil refinery expansion	1983	Five months behind schedule; within budget	0.4%
Killinghome Lindsey oil refinery MTBE/TAME project	1987	One week behind schedule	Minimal
Culham—Joint European Taurus nuclear fusion research project	1983	On schedule	Negligible
Barry silicone plant—Dow Corning	1984	Completed to client's satisfaction	503 manhours
Dalry vitamin C production plant—Hoffman La Roche	1983	On schedule	2.5%
Mossburn gas separation unit—Shell	1984	Completed to client's satisfaction	1.28%
Stanlow platformer—Shell	1985	Under budget; under schedule	0.02%
St Fergus terminal—Shell	1987	Three months under schedule; within budget	1.23%
Stanlow lube oil project—Shell	1987	On schedule; within budget	0.56%*
Shell Haven Kero mode project—Shell	1984	On schedule; under budget	Zero

* Hours lost through unauthorised absence—including disputes

Source: National Economic Development Office



JOHN WYBREW

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Prime Minister: 2



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Prime Minister
RIBA JOURNAL SUPPLEMENT

I thought you should see the attached supplement to this month's issue of the journal of the Royal Institute of British Architects which my Department has sponsored.

As you know, we have been promoting a range of initiatives in the last few years designed to meet the important objectives of supporting the construction industry, encouraging diversification of the housing stock and promoting inner city renewal and environmental improvement in partnership with the private sector. These initiatives are now beginning to yield impressive results on the ground, and it seemed right to publicise them widely, not least as examples to the public and private sectors of what can be achieved. I think you will agree that the supplement makes encouraging and impressive reading.

In addition to its circulation with the RIBA journal - which has a circulation of 22,500 copies and is perhaps the most influential and widely read journal in construction and development - I shall be sending copies to the Chairmen of the leading investment and construction companies and, after the local elections on 5 May, to the leaders of local authorities in England.

I am sending copies of this minute and the supplement to members of the Cabinet.

TK

28 April 1983

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Ind. Pol.

P.0675

PRIME MINISTER

Private Investment in Construction

(E(82)22)

BACKGROUND

The Secretary of State for the Environment reports in E(82)22 on the outcome of his review, in conjunction with the Chief Secretary, Treasury, of the direct involvement of market finance in construction projects in the public sector.

2. There are already in operation, or under discussion, a range of instruments which enable public sector guarantees, pump priming public expenditure, joint ventures and privatisation; they are summarised in paragraphs 7 to 10 of E(82)22. The Secretary of State for the Environment wishes to use these measures more vigorously to stimulate activity in the construction industry where 25 per cent of the work-force is currently unemployed and there is a fear that the loss of capacity and skills during the recession will lead to bottlenecks as output picks up. In particular, the Secretary of State hopes that the measures he has in mind will help to improve the housing stock, the country's infrastructure, and the inner cities. Although there is no quantification in his paper, he has in mind a very substantial stimulus to the construction industry in 1983-84.

3. Since E(82)22 was circulated on 2 March, the Chancellor of the Exchequer has announced in his Budget statement a number of measures which take account of points made to him by the Secretary of State for the Environment and which are specifically designed to help the construction industry and to take up spare capacity. The Budget measures include some increases in public expenditure, and tax changes, which in particular encourage home improvement schemes, new private investment in housing for rent, a stimulus to industrial building and house construction and earmark up to £70 million of the provision for

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the Urban Programme and for Derelict Land reclamation in 1983-84 for projects that encourage participation by the private sector.

4. The proposals in E(82)22 for further mobilizing private financing of construction projects are on the face of it attractive. But the Chief Secretary counsels caution. As explained in paragraphs 3 and 4 of the paper, unless the inducements are managed with care they could have effects very similar to reflation by fiscal means with consequences for the money supply and for interest rates over and above what the Chancellor of the Exchequer has assumed in his Budget strategy. The Chief Secretary has, therefore, recommended that both measures and particular projects should be scrutinised with care and evaluated both against competing claims and the criteria set out in Annex B of E(82)22. The purpose of these criteria is to ensure that the mobilization of private sector finance will bring a positive advantage (eg cheaper and more efficiently executed projects) as distinct from simply substituting, or effectively adding to, public expenditure which could be financed more cheaply through Government borrowing.

5. In paragraph 13 of E(82)22 the Secretary of State for the Environment recommends the acceptance of the criteria in Annex B, encourages other Ministers responsible for construction programmes to look urgently at the possibilities for associating private finance with their programmes, and recommends that the Chief Secretary, in association with himself, should exercise a general oversight over these initiatives. While he accepts the proposed criteria he will undoubtedly be looking for endorsement for a much greater drive than previously in the Government's efforts to mobilize private sector finance and he recommends, in his paragraph 13(ii), a public statement to explain the Government's approach and to encourage the private sector to put forward proposals.

MAIN ISSUES

6. The Secretary of State for the Environment is not seeking approval at this stage either of new instruments or of additional public expenditure. The immediate question is whether the Committee agrees that measures and projects, which might be proposed either by the Secretary of State for the Environment or by other Ministers responsible for construction programmes, should be examined

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against the criteria in Annex B of E(82)22 and subject to the general oversight of the Chief Secretary in consultation with the Secretary of State for the Environment. There is a strong case for insisting on such an evaluation in order to guard against forms of private sector financing which would be bogus in that the public sector was taking the burden of the risks and the private sector securing the financial returns. The Secretary of State for the Environment will, however, be anxious to ensure that the criteria are not operated unduly restrictively. He might, for example, point out that there should not be a blanket ruling against public sector guarantees; there might be a case for guaranteeing particular aspects of a project while still leaving the main burden of the risks with the private sector interests involved. Provided that the need for proper evaluation is accepted, the Committee may wish to support the Secretary of State for the Environment by calling for a positive and constructive approach to the policy and in examination of particular proposals within it.

7. If these procedures and approach are approved, the Committee will wish to consider what should be said publicly. The Secretary of State for the Environment seems to be looking for some major public statement; indeed he had hoped that the paper could be discussed before the Budget so that the Chancellor of the Exchequer could say something, going beyond the particular measures now announced, in his Budget statement. The Committee will, however, wish to consider whether there is a risk that private sector expectations might be raised unduly high only to be disappointed by the application of the proposed criteria. The Chancellor of the Exchequer will have views on how such a statement might fit in with his own Budget statement. The solution might be for the Committee to require the Secretary of State for the Environment to clear the terms of any statement which he might make with Treasury Ministers and also to incorporate in it a full explanation of the criteria by which the Government would evaluate proposals; in that way it should be made clear to the private sector what the Government expects of them and of the policy.

HANDLING

8. After the Secretary of State for the Environment has introduced his paper, you might invite the Chancellor of the Exchequer to comment on it in the light of

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his Budget statement and then the Chief Secretary, Treasury, to give his views on the details. Of the Ministers attending, the Secretaries of State for Industry, Wales, Transport (whose specific proposals in E(82)24 are the second item on the agenda) and Energy have the main interest in construction programmes.

9. The main questions before the Committee seem to be:

(i) Are the general principles in E(82)22, and in particular the criteria in Annex B of the paper, generally acceptable?

(ii) Should other Ministers concerned review the possibilities for associating private finance with their construction programmes?

(iii) Should the Chief Secretary, in consultation with the Secretary of State for the Environment, be in the lead in making arrangements for the general over-sight of these initiatives?

- If this were agreed, it would be for the Chief Secretary to work out the detailed arrangements and, for example, to decide on the type of projects which he and his officials would wish to call in for examination.

(iv) Is it desirable for the Secretary of State for the Environment to make a public statement on the Government's approach to private sector participation in construction programmes and, if so, should he be required to clear the terms of his statement with Treasury Ministers?

CONCLUSIONS

10. You will wish to sum up with reference to the four questions listed above which cover the recommendations in paragraph 13 of E(82)22.

PLG
P L GREGSON
Cabinet Office
10 March 1982



SECRET
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRET

PRIME MINISTER

PRIVATE INVESTMENT IN CONSTRUCTION

Unbreakable commitments in Scotland make it impossible for me to attend the meeting of E on Thursday. I do, however, have an interest in the points that arise from the papers to be taken.

2. As regards E(82)22, the range of my responsibilities is such that I have on a number of fronts bumped up against issues of the kind with which Michael Heseltine is dealing. As long as a central thrust of our policies is to control public expenditure, and to stimulate suitable forms of private investment, that situation is likely to continue. I realise that important questions about macro-economic issues and the management of the PSBR arise on the different propositions advanced in the paper but I hope progress can be made in areas where useful flexibility can be conceded, eg in relation to Housing Corporation guarantees for housing associations. I hope that the ideas in the paper will be considered against the background of the particularly low level of activity in the construction industry in Scotland.

3. As for E(82)24, I support David Howell's proposal that his plans might be worked up in more detail. The heavy end of the construction industry is still hungry for work and the climate seems to me to be right for exploring now, in the limited way suggested, the possibility of attracting private money into road building.

4. If a group of colleagues are to study particular issues further, I should like to have a chance to participate in their work.

5. I am sending copies to the members of E Committee, Nicholas Edwards, Francis Pym and to Sir Robert Armstrong.

C.Y.

10 March 1982

SECRET



Prime Minister

PRIVATE INVESTMENT IN CONSTRUCTION

I regret that I am unable to attend the meeting of the Economic Strategy Committee on Thursday and thought I should put on record my general support for the initiative to enlist private participation in public construction projects.

2. I fully agree with the general case for stimulating the construction industry. The specific problems which Michael Heseltine's paper addresses in relation to augmenting the housing stock, renewing obsolescent infrastructure and revitalising the inner cities are represented in Northern Ireland on a scale which is, frankly, daunting. The paper usefully clarifies the circumstances in which private investment can make a real contribution to these problems. It establishes that projects of this nature need not be inconsistent with the broader objectives of economic policy and can offer real benefits in terms of increased efficiency.

3. In comparing the list of schemes which the Department of Environment (in Great Britain) has either in hand or under consideration with the position in Northern Ireland, I can report that we are also active in many of these areas and are considering developing parallel schemes in others. The principle of leverage could be particularly important in Northern Ireland where, for obvious reasons, private funds and other industrial finance is especially difficult to attract. I believe, however, that promotion of private participation as a nationally announced initiative (as recommended in paragraph 13(ii)) would generate increased interest in genuine partnership deals on the part of private sector institutions which could only help my continuing efforts here.

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4. I fully support the paper's concluding recommendations, and I particularly agree that there should be a clear public statement that the Government is ready to direct its construction policies towards securing maximum participation by the private sector in genuine risk sharing partnerships on competitive terms.

5. Turning to David Howell's ideas about using private capital in trunk road projects, I agree with Leon Brittan's recommendation that the possibilities should be explored further by officials.

6. I am copying this letter to E Committee colleagues and to Sir Robert Armstrong.

Joseph

PP

J P

10 March 1982

(Signed on behalf of the
Secretary of State in
his absence)

CONFIDENTIAL

CONFIDENTIAL



and for

10 DOWNING STREET

From the Private Secretary

25 January 1982

Thank you for your letter of 22 January about the proposed remit for a paper for E Committee on private sector finance for increased construction investment.

The Prime Minister has noted the terms of the remit which you have agreed with the Treasury. She is content for you to proceed on this basis. She comments that there might be advantage in inserting the word "partial" before "public guarantees" five lines from the bottom of the remit. She also notes that Mr. John Wakeham is, as she understands it, also engaged in work on these lines.

I am copying this letter to Terry Mathews (HM Treasury), Joanna Donaldson (Department of Industry) and David Wright (Cabinet Office).

M. B. SCHOLLS

D.A. Edmonds, Esq.,
Department of the Environment

R

CONFIDENTIAL

CONFIDENTIAL

1



Prime Minister

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Agree?

Your ref:

22 January 1982

Hus 21/1

Dear Michael

You wrote to me on 21 December about a proposed remit for a paper for E Committee on private sector finance for increased construction investment. I am glad to say that we have now agreed with the Treasury the precise terms of a remit, which is attached. If the Prime Minister agrees, my Secretary of State and the Chief Secretary will get on with preparing a paper.

I am copying this to Terry Mathews and to David Wright.

John
Edmonds

D A EDMONDS
Private Secretary

*Please note - John
Walter is also
doing something
don't think
was not*

Michael Scholar Esq - No 10

THE CONSTRUCTION INDUSTRY - DRAFT REMIT

The Secretary of State for the Environment, in conjunction with the Chief Secretary, Treasury, is invited to submit a paper which considers the direct involvement of market finance in construction projects in the public sector. The paper should take into account the effects of any such funding on the Government's wider economic policies, including the aim of limiting the extent of the public sector and the growth of the money supply and total nominal expenditure. It should also consider how market finance might be raised under conditions of fair competition with the private sector and how far the greater cost of market finance would be justified by additional pressure for better performance in each case. The paper should set out the various initiatives of this kind which have been taken or are being considered, including also schemes where a small amount of public expenditure or partial public guarantees might be used to attract additional private investment, and make recommendations as to what further initiatives might be proceeded with.

The paper should be submitted to E Committee not later than the end of February.



CC. 111
He vs
Ind. Pol

10 DOWNING STREET

From the Private Secretary

21 December 1981

The Construction Industry

We spoke several times last week about the proposed remit for a paper for E Committee on private sector finance for increased construction investment.

BR
The Prime Minister has suggested that the best way forward would be for your Secretary of State to have a word with the Chief Secretary, HM Treasury, about what the precise terms of the E paper remit should be. I would be grateful, accordingly, if you would get in touch with the Chief Secretary's Office and would let me know in due course what has been agreed between the two departments.

I am sending copies of this letter to John Kerr and Terry Mathews (HM Treasury).

M. C. SCHOLAR

es

David Edmonds, Esq.,
Department of the Environment,

CONFIDENTIAL

Inc 89.
EJ



B/C A. Duguid

10 DOWNING STREET

From the Private Secretary

14 December, 1981

Construction Industry

I mentioned to you on the telephone this morning that the Prime Minister has it in mind to commission an E paper exploring the various ways in which private sector financing could be brought about on a wider scale for certain public sector construction projects. This arose from a conversation with the Secretary of State for Environment last week at which he expressed his anxiety about the low levels of activity in the construction industry.

see Gov to Mrs 19/12/81

I attach a draft which has been put to the Prime Minister of a letter from her commissioning such work. She would like to discuss this with the Chancellor at their regular meeting on Wednesday.

I am sending a copy of this letter to Terry Mathews (HM Treasury) only.

M. C. SCHOLAR

Miss Jill Rutter
HM Treasury

PRIME MINISTER

I understand that Mr. Heseltine talked to you about the possibility of his preparing for E Committee a paper on private sector financing for increased construction investment. I believe that he offered to suggest language with which you might commission such a paper.

Here is a draft letter offered by his office, as a basis for us to write round, commissioning a paper. But you may think that, before anything is set in hand, it would be helpful to bring the Chancellor into the discussion. Would you like to raise the subject when you see him on Wednesday?

MP

Yes please - but not

Perhaps you can submit the memo

for their comment. There will be plenty!!

11 December 1981

PERSONAL

Ind Pol



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

6 December 1981

MAJ.
Dear Michael

I understand that the Prime Minister discussed with my Secretary of State, informally, the possibility of his preparing for E Committee a paper on private sector financing for increased construction investment. I also understand that the Secretary of State offered the Prime Minister a possible form of words seeking the preparation of this paper.

/ With great modesty, I attach a form of words which you might consider using!

D A Edmonds

D A EDMONDS
Private Secretary

Michael Scholar Esq - No 10

DRAFT

Concern has been expressed to the Prime Minister, from a number of quarters, about the continuing low levels of activity in the construction industry. She is anxious to explore all possible ways of bringing about enhanced levels of activity in the construction industry at ^{little or no} ~~the minimum~~ cost to public funds.

The Prime Minister recalls from recent Ministerial discussions that your Secretary of State has on occasion suggested ways in which private sector financing could be brought about on a wider scale for certain public sector construction projects. She understands that this could involve looking at the public expenditure conventions relating to funding; and public sector guarantees with a very high private sector gearing have also been referred to.

The Prime Minister believes it would be helpful for Ministers collectively to discuss ways in which the construction industry could be given a boost. She would, therefore, be grateful if your Secretary of State could put in hand the preparation of a paper for early discussion at E Committee.

I am copying this to the Private Secretaries to the Chancellor of the Exchequer, the Chief Secretary, the Secretaries of State for Scotland and Wales and to the Secretary to the Cabinet.

Industrial Policy



The Architectural Association

Patron: Her Majesty the Queen
Constituted 1847
Incorporated 1920

34-36 Bedford Square, London WC1B 3ES Telephone 01-636 0974

Secretary: Edouard Le Maistre

NOT S/R C/F?
PS PPS

P24

22 April 1980

The Rt Hon Mrs M. Thatcher
10 Downing Street
London SW1

copy to DES.
R
24/4

Dear Prime Minister

Thank you for your letter of 20 March. We are encouraged by your own support in principle of our appeal to your colleagues at the DES.

We well appreciate the need for your government to apply vigorous criteria in examining those academic institutions claiming eligibility for public funds in the present financial climate.

In this light, we look forward to having further discussions with the DES in order to see our way forward, as you have suggested.

Yours sincerely
Adrian Gale

Adrian Gale
PRESIDENT



Not Quash

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

cross office

PA

MS

-1 APR 1980

Dear Godfrey

My Secretary of State wrote to yours on 14 February explaining that he proposed to wind up the National Consultative Council for the Building and Civil Engineering Industries (NCC), its Regional Joint Committees in England and the Joint Advisory Panel in Scotland and the Joint Advisory Committee in Wales. He had expected an announcement to be made on 29 February but, as I subsequently explained to you, the announcement was deferred.

I am now writing to let you know that the announcement of the Secretary of State's decision is to be made by means of a written PQ and answer on Wednesday 2 April at 4.30pm.

I am copying this to Nick Sanders (No. 10), George Craig (Welsh Office), Joseph Pilling (Northern Ireland), Don Brereton (DHSS), Peter Shaw (DES), Genie Flanagan (Transport), Murdo Maclean (Chief Whip), and Geoffrey Green (CSD).

Yours sincerely

Paul Bristow

P N BRISTOW
Private Secretary

Godfrey Robson Esq

Original
in C/R.

FILE

DS
CCDES

C.F. to note



10 DOWNING STREET

THE PRIME MINISTER

20 March 1980

Dear Mr. Gale,

Thank you for your letter of 11 February about the designation of courses at the Association's School of Architecture for mandatory awards. I am sorry it is taking so long for a decision to be reached but you will appreciate that the question is a complex and difficult one and bears on the claims of many other independent institutions.

Mark Carlisle, who is directly responsible for the matter, is not opposed in principle to designation of courses at independent colleges. Neither am I. But we are both concerned that especially in the present economic circumstances applications from such establishments should be considered against strict and consistent criteria to ensure the wisest possible use of public funds.

Mark Carlisle and his Ministerial colleagues have been carefully considering what criteria should be applied. I have asked for this consideration to be concluded urgently and I hope that the Department of Education and Science will be able to enter into discussions with you in the near future aimed at reaching agreement on the way forward.

Yours sincerely

Anthony Barber

Adrian Gale, Esq.

PH



WPA DS
cc CO
HMT
CSO

10 DOWNING STREET

From the Private Secretary

17 March 1980

Dear Paul

The Prime Minister has seen the Secretary of State for the Environment's minute of 11 March, about Ministerial discussion with the "Group of Eight".

She is disappointed to find that a dispute of this nature has had to be raised with her. She considers that the amount of time spent by Ministers and, presumably, officials in correspondence and discussion must have been an expensive misuse of time: it would have been cheaper, quicker, and more acceptable to have agreed straightaway that either the Financial Secretary or Lord Cockfield should have accompanied Mr. Heseltine for a brief meeting.

As the matter has been brought to her notice, she has commented as follows on the merits of the argument. The Chief Secretary is quite right to take the view that when it is a question of receiving a deputation from an industrial body - or for that matter any other kind of pressure group - it is the responsibility of the sponsoring Minister (in this case your Secretary of State) to explain the policies to which the Government is collectively committed. It would clearly impose an intolerable burden on Treasury Ministers if they had to accompany every Departmental Minister every time such a body was to be seen, and no group has the right to demand to see a Treasury Minister as well as the appropriate Departmental Minister.

But for every good rule there are times when exceptions may be advantageous; and the Prime Minister wonders whether this may be such a time. Your Secretary of State is of course perfectly capable of dealing on his own with all the points which the Group of Eight may raise, and will certainly want to deal himself with all their points about public expenditure on building and construction. But the Group of Eight may want to ask - and even if they do not ask they ought to be told - about the Government's general strategy (of which the control of public expenditure is only part) and the reasons for it, and it might be positively advantageous for your Secretary of State to be able to turn to a Treasury Minister to deploy that more general argument. His statement could usefully include a section about the importance of getting inflation under control and the role of management in pay bargaining - where the record of the construction industry has not always been particularly distinguished in the past.

It would no doubt be overdoing it to confront the Group of Eight with two Cabinet Ministers; but the Prime Minister suggests

/that

DS

that, subject to the views of the Chancellor of the Exchequer and the Chief Secretary (to whose Private Secretaries I am copying this letter), the Financial Secretary might be asked to support your Secretary of State in the way suggested, when he meets the Group of Eight - preferably after rather than before the Budget.

M. A. PATTISON

Paul Bristow, Esq.,
Department of the Environment.

Five

BBC

MR. WRIGHT
CABINET OFFICE

I mentioned to you the enclosed minute to the Prime Minister from the Secretary of State for the Environment, and his exchanges on this subject with the Chief Secretary to the Treasury, some of which are included below.

I need to put this in the Prime Minister's weekend box. If Sir Robert Armstrong has any advice to offer as to how the Prime Minister might respond, it would be helpful to have this in the course of the afternoon.

M. A. PATTISON

14 March 1980

JWL



Prime Minister
Contract for a letter to go to
the Health Minister's office in the house
suggested by Sir Robert Armstrong?
Khal
14/3

Ref. A01706

MR. PATTISON

Flag A

You asked for advice as to how the Prime Minister might respond to the Secretary of State for the Environment's minute of 11th March.

2. The Prime Minister really should not be asked to arbitrate on a matter of this kind. Her colleagues ought to be able to sort it out between themselves.

3. In principle the Chief Secretary is quite right. When a Departmental Minister is asked to see an industrial body or pressure group in the field for which he bears Ministerial responsibility, it is up to him to explain the whole of the Government's collective policies. Treasury Ministers cannot be expected to support Departmental Ministers every time they hold such a meeting.

4. On the other hand there have been exceptions to prove this rule in the past, and I believe that this may be an occasion for another such exception. Quite apart from the fact that, if a Treasury Minister does not go, the Group of Eight will demand another interview with the Treasury or even with the Prime Minister - a demand which could of course be refused - the meeting should provide a Treasury Minister with an opportunity for restating the Government's general economic strategy to a group of industrialists from an industry which they may not usually meet in other ways.


5. I therefore suggest that, if the Prime Minister agrees, you should send a letter on the lines of the draft attached.

RA

ROBERT ARMSTRONG

14th March, 1980

Has anyone costed this correspondence? It would have been cheaper, quicker, more acceptable to have used straight way for letter Nigel Lawson or Lord Calford to have accompanied Robert Keblett for about 1/2 - 3/4 hour. MS.



DRAFT LETTER FROM M. A. PATTISON TO
D. A. EDMONDS, PS TO SECRETARY OF STATE FOR
THE ENVIRONMENT

The Prime Minister has seen your Secretary of State's minute of 11th March about whether he should be accompanied by the Chief Secretary to the Treasury when he sees the "Group of Eight" about the problems of the construction industry.

She thinks that the Chief Secretary is quite right to take the view that when it is a question of receiving a deputation from an industrial body - or for that matter any other kind of pressure group - it is the responsibility of the sponsoring Minister (in this case your Secretary of State) to explain the policies to which the Government is collectively committed. It would clearly impose an intolerable burden on Treasury Ministers if they had to accompany every Departmental Minister every time such a body was to be seen, and no group has the right to demand to see a Treasury Minister as well as the appropriate Departmental Minister.

But for every good rule there are times when exceptions may be advantageous; and the Prime Minister wonders whether this may be such a time. Your Secretary of State is of course perfectly capable of dealing on his own with all the points which the Group of Eight may raise, and will certainly want to deal himself with all their points about public expenditure on building and construction. But the Group of Eight may want to ask - and even if they do not ask they ought to be told - about the Government's



general strategy (of which the control of public expenditure is only part) and the reasons for it, and it might be positively advantageous for your Secretary of State to be able to turn to a Treasury Minister to deploy that more general argument. His statement could usefully include a section about the importance of getting inflation under control and the role of management in pay bargaining - where the record of the construction industry has not always been particularly distinguished in the past.

It would no doubt be overdoing it to confront the Group of Eight with two Cabinet Ministers; but the Prime Minister suggests that, subject to the views of the Chancellor of the Exchequer and the Chief Secretary (to whose Private Secretaries I am copying this letter), the Financial Secretary might be asked to support your Secretary of State in the way suggested, when he meets the Group of Eight - preferably after rather than before the Budget.



A

PRIME MINISTER

MINISTERIAL DISCUSSIONS WITH THE "GROUP OF EIGHT"

Flag B

You may recall receiving a copy of the letter from the President of the Royal Institute of British Architects, on behalf of the Group of Eight, of 14 February asking for a meeting with myself and one of my Treasury colleagues to discuss the consequences for the construction industry of the Government's current economic policies, and particularly public expenditure reductions.

paper behind

As you will see from the exchange of correspondence between John Biffen and me following that letter, John takes the view that it would not be right for him to participate in a meeting with this Group. I think you should be aware of the likely outcome of this decision, in that it will personally involve you and the Chancellor of the Exchequer, as the Group of Eight will certainly write to you directly and publicly seeking a meeting with you.

I should like very briefly to sketch in the background. My responsibilities, of course, include sponsorship of the construction industry, and together with John Stanley I conduct a good deal of daily business with them. The Group of Eight was set up by the industry in the aftermath of the slump in the industry produced by the previous Government's spending cuts. It represents employers, unions and professions in an industry which is noted for its disparateness. Over 2 million people are employed in the industry which contributes 10% of the GDP. Their first meeting with Government was taken by the previous Prime Minister, and they did see the previous Chancellor as well as Secretary of State.

They attach a great deal of importance to seeing now a Treasury Minister as well as me. As you will see from the reasons given in his letters of 10 March and 27 February, John Biffen takes a different view. I totally understand his concern about collective responsibility, but I have no doubt that to refuse to see the Group now will unnecessarily add to their concern about the economic policy of this Government, and will add to their ability to argue in public that our consultative processes are a great deal less effective and caring than those of the previous government.

I think there is also a point that as a Government we are engaged not only in pursuing certain policies but in persuading people to follow our lead in their implementation and acceptance. Realisation by the private sector that they cannot rely on public works indefinitely is an important part of that process.

In these circumstances, I believe that we should be very careful indeed before rejecting a specific request from such an important grouping on the simple issue of consultation. As noted above, if I



do write refusing the presence of a Treasury Minister it will simply lead to further requests which will involve you. And, of course, if either you or the Chancellor should accept such a request it would make my initial letter of refusal look rather silly; and if you do not accept it will simply aggravate the position further.

I have discussed this by phone with John Biffen and, of course, have mentioned to him that in the continued unwillingness on his part to see the Group of Eight I would have to inform you and Geoffrey Howe. I hope however, that you will agree that it would be right for the Treasury and the Department of the Environment to work as one on this.

I am copying this to Geoffrey Howe and John Biffen.

WJH

MH

11 March 1980



Treasury Chambers, Parliament Street, SW1P 3A

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

10 March 1980

Dear Michael,

GROUP OF EIGHT

Thank you for your further letter of 4 March.

I am still not persuaded that it would be right for me to participate in your meeting with the Group of Eight. Your letter does not affect my essential point, which was that the decisions which concern the industry and which they seek to influence are those of the Government, not the Treasury. If the industry think that the Treasury determines the level of public sector construction expenditure, it is they that have got it wrong. To encourage them to think that (as you rather imply) they will only get down to fundamentals on construction expenditure when they see a Treasury Minister, would only reinforce that misapprehension. Much better that you should explain the collective nature of our decisions, and assure them of your ability to make your colleagues aware of their views.

My view remains, therefore, that I should not attend the meeting. This conclusion is based on careful consideration of the matter, and I hope that you will now feel able to accept it.

Yours

John Biffen

JOHN BIFFEN



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

4 March 1980

JL

GROUP OF EIGHT

I think from your letter of 27 February that you've got it wrong. The Group of Eight is the most significant industry-wide representative group in the construction industry.

They think it important to put their views to their sponsoring Department and to the Treasury. We are going to take them through hard times. I see every gain from a decent communication atmosphere, and I don't want irrelevant carping to sour the position. That is what they will focus on if we don't even agree to let them see the white of the Treasury's eyes.

Of course I can - hopefully - put the Government's position to them, but they will feel better if you too have been seen to listen, and if their many members can be told that you have listened. It is obviously not your view that the judgements of the Treasury do not influence the climate within which the industry operates. They also know this.

I am as keen as you are on new attitudes, but I think that hard-line views on this sort of issue actually reduce in a tiny way our prospects of success by creating obstacles and excuses. Will you think again?

you see

MHE

MICHAEL HESELTINE



IN CONFIDENCE

2 Feb 1980

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Mr
Mr

R
W

The Rt Hon Michael Hesletine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

29 February 1980

NATIONAL CONSULTATIVE COMMITTEE FOR THE BUILDING AND CIVIL
ENGINEERING INDUSTRIES

Thank you for your letter of 14 February letting me know of your intention to wind up the National Consultative Council for the Building and Civil Engineering Industries (NCC), its nine subsidiary regional joint committees in England and also, subject to my views, its subsidiary body in Scotland, the Joint Advisory Panel (JAP).

2. I agree with your conclusions that the time has come to dispose of this structure of consultative machinery, including the JAP in Scotland. I too have gained the impression from within the construction industry that this body is regarded as rather cumbersome and ineffective; as you say, it was for such reasons that the Group of Eight has emerged to serve as a channel of contact with Ministers on important matters of policy concerning the industry.

3. The winding up of the JAP does mean that we will have to consider how best Scottish Office Ministers should conduct relations with the construction industry as a whole in Scotland. To the present we have been glad to use the JAP, with its broad and representative membership, as an appropriate forum in which to meet the industry and to hear its views on policies and programmes for which Scottish Office is responsible. For this purpose Alex Fletcher attended the last meeting of JAP held on 17 January. There are moves here however among the organisations which make up membership of the JAP to set up a more compact and effective body, along the lines of the Group of Eight, for the purpose of communicating with Scottish Office Ministers and Departments. While we have not so far given this initiative any official encouragement your decision now gives us a positive reason to encourage the emergence of such a body which can cover the industry's interests in Scotland and with which we can communicate in an orderly way. After your announcement is made, therefore, my officials will take the opportunity to encourage progress in this direction.

I am sending a copy of this letter to Nicholas Edwards and to those who have received a copy of yours.

GEORGE YOUNGER

Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

27 February 1980

Da Michael

You wrote on 14 February about your proposal to announce on 29 February your decision to discontinue the National Consultative Council for the Building and Civil Engineering Industries (NCC) and consequently the Joint Advisory Committee for Wales. As the Department of the Environment is the sponsoring Department, the decision is entirely a matter for you. I am not sure however that in Wales there will be as little reaction from the industry as you suggest.

My Department already has regular meetings with local representatives of the National Federation of Building Trade Employers (NFBTE), usually at official level but occasionally with a Parliamentary Secretary in the Chair. We take care to ensure that these meetings do not duplicate discussions in the Joint Advisory Committee for Wales.

I expect to review the future of this Department's liaison arrangements with the construction industry shortly in the light of impending staff economies, though I have no immediate changes in mind. Meanwhile, as you know, a meeting with the Group of Eight is being arranged at their request.

/ I am sending a copy of this letter to the other recipients of yours.

Jew
Ned

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

27 February 1980

Dear Michael,

GROUP OF EIGHT

Thank you for your letter of 22 February.

I can well understand your concern that we should maintain good relations with the construction industry and that we should be seen to listen to their views. But I am not sure why you feel that this objective cannot be adequately met without the direct involvement of a Treasury Minister. It should be possible to get the industry's representatives to understand that the policies which they seek to influence are those of the Government collectively, and that you are able to conduct relations with them on behalf of the Government as a whole. As indicated in my Private Secretary's letter of 11 December, the allocation between construction and other expenditure is not settled by the Treasury, and I do not think that the industry should be encouraged to make their representations to the Treasury.

The Group's letter of 14 February admittedly suggests that you should be accompanied by a Treasury Minister at the proposed meeting. But the letter does not make any special point of this, and I would have thought it entirely appropriate to respond by offering them a meeting at which you could take note of their representations and subsequently communicate them to your colleagues as necessary. A Treasury presence would I am sure suggest a more distinctive role for the Treasury in the matters which concern the industry than actually exists, and would be better avoided.

In the light of these considerations I continue to think it would be better if neither I nor any of my Treasury colleagues attended the meeting.

*Yours
John Biffen*

JOHN BIFFEN

1 ad. PA

FILE

DSG



cc: NIO
DHSS
SES
D/TRANSPORT
CWO
M/ST, CSJ
WO

10 DOWNING STREET

From the Private Secretary

26 February 1980

Dear Paul

The Prime Minister has seen a copy of your Secretary of State's letter of 14 February to the Secretary of State for Scotland, about his review of the arrangements for consultation with the construction industry. She is content with the decisions which he proposes to announce on 29 February.

I am sending copies of this letter to the Private Secretaries to the recipients of yours.

Yours ever

Mike Patterson

Paul Bristow, Esq.,
Department of the Environment.

DSG



FROM THE SECRETARY OF STATE

ELIZABETH HOUSE,
YORK ROAD,
LONDON SE1 7PH
01-928 9222

P.A.
MAL
26/2/80

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
London SW1P 3EB

25 February 1980

Dear Michael,

Thank you for your letter of 14 February ^{have requested} proposing that the National Consultative Council for the Building and Civil Engineering Industries should be discontinued together with the nine regional joint committees in England. I would be content for you to proceed in this way. However, it is important, as you say, to stress that we still attach importance to consultation with the industry and in particular with the Group of Eight. My officers will be meeting representatives of the Group of Eight after Easter for a discussion about educational building programmes.

I am sending copies of this letter to the recipients of yours.

Yours ever

Mark.

MARK CARLISLE

7



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: #/50/11514/80

Your ref:

22 FEB 1980

J. B.

GROUP OF EIGHT

The Chairman of the Group of Eight - Bryan Jefferson, current RIBA President - wrote to me on 14 February asking for a meeting at an early date to discuss public expenditure on construction. He copied his letter to the Prime Minister and also to Geoffrey Howe. In the letter he makes it clear that the Group is anxious to meet not only Ministers from this Department, but also a Minister from the Treasury.

The Group is particularly concerned at what they see as a worsening of prospects. They fear the consequences of further reductions in construction programmes and wish to ensure that their counter arguments are fully appreciated by Ministers in the central Departments as well as the spending Departments. Of course the major decisions on next year's public expenditure levels have already been taken (although the Group do not know that). Nevertheless on presentational grounds I see it as highly desirable that when the Group meet me, a Treasury Minister should be present, so that they have the opportunity to address him directly. It is important for the industry to maintain a coherent dialogue with the Government and the Group is by far the best means of doing this. Failure to meet them now would not only suggest we are unconcerned over the problems of the industry, but would also impair the Group's own credibility with the industry.

I hope therefore that you, or another Treasury Minister if it proves inconvenient from your own point of view to attend, will be able to join me in seeing the Group on a date to be arranged in the near future, and that you will be able to let me know your mind on this in the next few days.

Yours ever
MHE

MICHAEL HESELTINE



2
2 MARSHAM STREET
LONDON SW1P 3EB

PRIME MINISTER

Mr Heseltine proposes to sweep away cumbersome consultative machinery for the construction industry. There might be some industry reaction, as it is feeling unfairly hit by public expenditure decisions.

My ref:

Your ref:

14 February 1980

mt.

Dear Secretary of State

HR 18/2

As part of our general campaign to improve efficiency in Government I have been reviewing the arrangements for consultation with the construction industry to see how they can be made both more effective and more economic.

For many years the formal machinery for consultation between Government and the industry has consisted of the National Consultative Council for the Building and Civil Engineering Industries (NCC), which is chaired by the Minister for Housing and Construction, with various specialist and regional sub-committees and working groups, among them the Joint Advisory Panel for Scotland. The NCC was listed in Sir Leo Pliatzky's report on non-departmental public bodies, but was not the subject of special comment.

The NCC is a cumbersome gathering, and is widely regarded as ineffective; so much so that under our predecessors the leading organisations in the industry set up their own body, the Group of Eight, which has now become the established channel of contact with Ministers on matters of strategic importance to the industry. I believe that the NCC has outlived its usefulness, and should now be discontinued; though one or two of the specialist sub-committees (including those for the sub-contractors and materials producers) should remain for the time being. I also propose to discontinue the nine regional joint committees in England, since their quarterly meetings consume substantial resources (costed at £60,000 a year) for little discernible advantage. I appreciate however that you may wish to consider alternative arrangements for the Joint Advisory Panel for Scotland, to which I understand that Alex Fletcher has already been giving some thought.

I would not expect much reaction from the industry. We shall make it clear that we are not reducing the opportunities for consultation, nor wish to show anybody the door and we shall stress the importance we attach to the Group of Eight. But these arrangements need reviewing regularly to ensure that they match the needs of the times. I think that this is widely accepted among the major organisations, and the smaller bodies will be reconciled to it if they continue by other means to have access to Ministers.

C O N F I D E N T I A L

It is desirable to move as quickly as possible in making this decision public and I should like if possible to make an announcement on February 29th.

I am writing in similar terms to Nicholas Edwards and am copying this letter to the Prime Minister, Humphrey Atkins, Patrick Jenkin, Mark Carlisle, Norman Fowler, Michael Jopling and Paul Channon.

Yours sincerely
Paul Busby
(Private Secretary)

MICHAEL HESELTINE
(agreed by the Secretary of State
and signed in his absence)

B

Royal Institute of British Architects 66 Portland Place London W1N 4AD ☎ 01-580 5533

From the President's Office

14 February 1980

Dear Secretary of State,

I am replying on behalf of the Group of Eight to your letter of 15 January in reply to my two letters of 23 October, following our meeting on 16 October, and of 20 December about the White Paper on Public Expenditure for 1980/81.

Your general remarks about the place of the industry in the economy and the importance of stability in our workload are appreciated; so also is your support for official discussions on the content of programmes after the publication of the White Paper on Public Expenditure for future years.

In the light of recent statements by the Prime Minister and other members of the Government about the need for further reductions in public expenditure we cannot allow your comment about the share of cut-back borne by public sector construction to go unchallenged. We believe programmes had already fallen to an entirely unreasonably low level when we met you in October. This is why we attach importance to the assessment of the appropriate level of public sector construction investment. Actual investment is already falling significantly short of planned expenditure. Any further cut-back would seriously worsen this situation, particularly at a time when prospects for construction in the private sector are poor. Such reversals are inconsistent with the overall government objective of stimulating investment, to which construction investment is integral. All other industries depend upon the infrastructure.

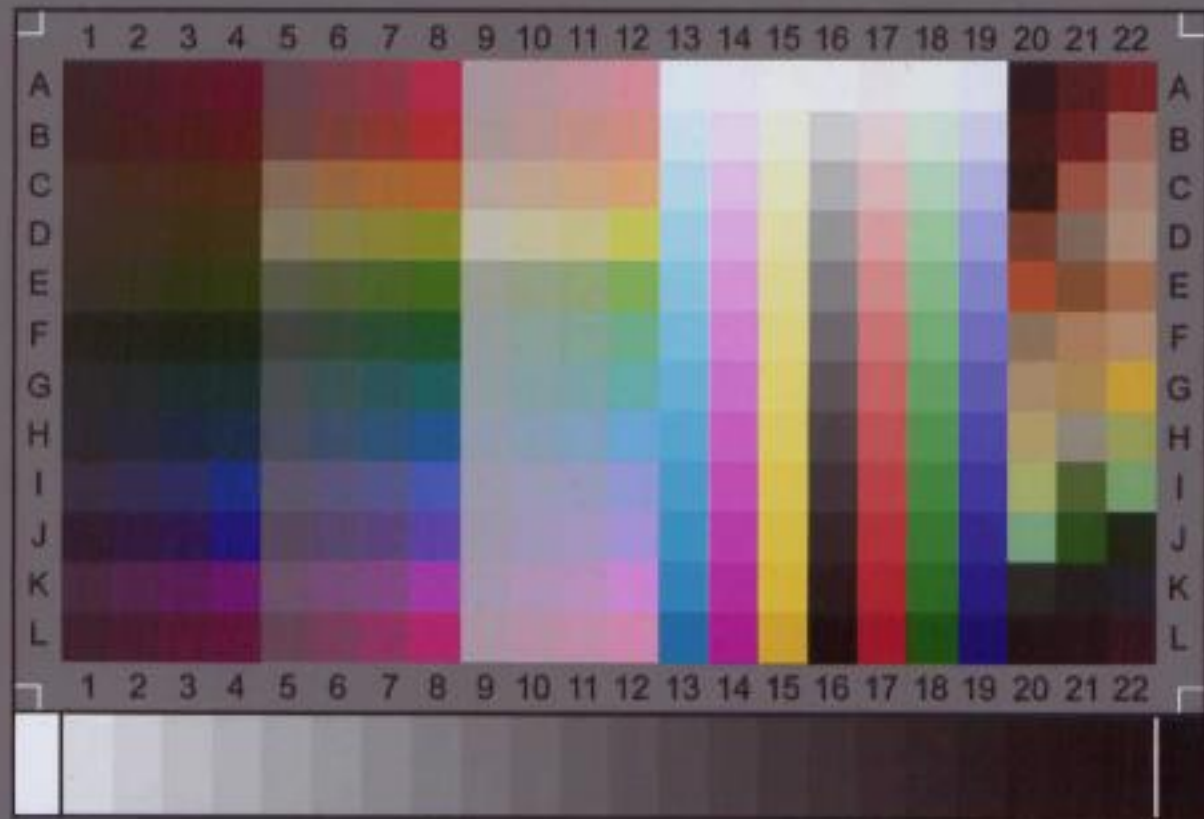
The Group believe it is of the utmost importance to the future efficiency of the industry they represent and to the economy as a whole that these issues are fully understood by Cabinet. I am sure you have yourself been arguing this case, but I am writing on behalf of the Group to ask that you and one of your Treasury colleagues meet us at an early date in order that we may put at first-hand what we believe to be the consequences of any further cuts or indeed of a continuance of the present deteriorating situation.

I am sending a copy of this letter to the Prime Minister and the Chancellor of the Exchequer and we will be releasing it to the press in due course.

Yours sincerely
Bryan Jefferison

BRYAN JEPPELSON
President

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment



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