

SUBJECT.



RH
cc DGE
CS, HMT
CS D
MOD
ODA

10 DOWNING STREET

✓. *Master act*

From the Private Secretary

11 June 1981

Dear Godfrey

MOD Dispersal to Glasgow

The Prime Minister held a meeting at 1730 hours yesterday evening to discuss your Secretary of State's letter to Mr. Heseltine of 1 June, and the correspondence on this subject. Your Secretary of State, Mr. Heseltine, the Chief Secretary, Mr. Hayhoe, and Mr. Blaker were present.

Your Secretary of State said that it was impossible for the Government to go back on its commitment to disperse 1400.. MOD posts to Glasgow. There was already deep suspicion in Scotland that the Government would not honour its commitment to dispersal. He was under considerable pressure to respond to the report of the Select Committee on Scottish Affairs. The problem was that the PSA had no provision in PES for this scheme. He would like to be able to reply to the Select Committee that the Government had considered their views, and had agreed to develop the Anderston site to receive the MOD posts. The Government's reply could then express the hope that the dispersal could take place earlier than previously planned, and at an lower cost. It could go on to say that the question of finance was still under examination. But it was imperative that the question of principle should not be reopened. The Anderston site had been obtained, and was already prepared. The construction of the building would provide two and half thousand jobs, and the majority of these could be filled locally.

The Chief Secretary said that he agreed that the Government could not escape from its commitment to dispersal. But there was simply no provision in PES either for the £20m. required to develop the site, or for the £10m. for the installation of specialised defence equipment. The problem would not be completely solved by arranging for the private sector to construct the building and lease it to the Department. The installation of the specialist equipment would have to be financed from public funds. The proposal would therefore have to be considered as a fresh bid in the PESC review in the normal way. This did not mean that the Government could not commit itself to the development. But it did mean that there could be no commitment to timing. The Chief Secretary said that he would therefore be content if the

/Government's

J.S.

Government's response to the Select Committee was suitably non-committal on the timing of the completion of the Anderston site.

Mr Heseltine suggested that a possible solution would be for the Government's response to the Select Committee to commit the Government to the dispersal of the MOD posts. It could go on to say that the Government were examining various methods of financing the project, including the involvement of the private sector. The statement could then say simply that the completion of the project would depend on satisfactory resolution of the financial arrangements, and that 1986 was the PSA's latest estimate for completion.

Summing up, the Prime Minister said that the meeting was agreed that the Government's response to the Select Committee's report should repeat the Government's commitment to the dispersal of 1400 MOD posts to Anderston. It should not, however, commit the Government to completing the project by 1986, or even to the earlier dates that the decision to develop Anderston rather than St Enoch suggested were possible. The Chief Secretary should consult the other Ministers present at the meeting with a view to producing a suitable draft passage for inclusion in the Government's response. One possible formula would be to state that "on present plans, the project was expected to be complete by 1986". The Prime Minister said that the Ministers concerned should note that the proposal should be considered as a fresh bid in the next PESC review in the normal way. Mr Heseltine and Mr Younger were free to pursue sources of private finance for the project if reasonable terms could be obtained.

I am copying this letter to the Private Secretaries to the other Ministers present.

yours
William Rickett



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

PRIME MINISTER

DISPERSAL TO GLASGOW

We are meeting tomorrow to discuss the Government's response to the Select Committee on Scottish Affairs' Report on the Dispersal of Civil Servants to the West of Scotland, which has been the subject of correspondence (which has been copied to you) between myself and colleagues concerned. We shall be able to discuss the issues fully when we meet; but beforehand I thought it might be useful were I to sketch out a little of the background, and I should also like to register one or two points in relation to Leon Brittan's letter of 5 June in particular.

You will recall that in July 1979 following our review of the previous Administration's dispersal plans we concluded and announced inter alia that at least 2,000 MOD and ODA posts would be dispersed to the West of Scotland. The ODA move - though affected by manpower reductions - is taking place to offices at East Kilbride where about 420 ODA staff will be joined by the Crown Agents' Pensions Department and - it is hoped - by some FCO staff to give the total of 650 required by Cabinet. The MOD move involves 1,400 posts and it was essentially controversy over the timescale of this move that gave rise to the investigation of the programme by the Select Committee. We had decided that the MOD posts would be located in a building to be constructed at St Enoch in the centre of Glasgow, a prime site which had been intended to house the main bulk of the previous Administration's programme and whose development is in my view most important to the regeneration of Glasgow. Towards the end of 1979 it was announced that the necessary work at St Enoch could not be completed until 1986. This was widely criticised as an unacceptably long timescale.

In undertaking their investigation the Select Committee asked that we re-evaluate the merits of a rival site half a mile away at Anderston Cross for which a building had already been planned by PSA as an overflow from the previous dispersal plans. It was clear that with some modifications to suit the new move that building could be ready somewhat earlier. In considering our response to the Committee with colleagues I had been minded to stick with St Enoch but Michael Heseltine persuaded me that the timing advantages of Anderston were such as to make it preferable. In his letter of 7 May he notes that the "roof could be on at Anderston" in 1984 (with completion in 1985), while the completion of St Enoch has

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

now been allowed to slip to 1987. Following advice from the Scottish Development Agency who have overall charge of St Enoch's development I am now rather more confident than two years ago that a satisfactory development can be found for that site without MOD offices. I am now clear therefore that Anderston represents the best solution both politically and from the point of view of bringing work to Glasgow; and John Nott is willing to go along with the change.

It is against this background that the current difficulty about funding - which would apply both to St Enoch and to the cheaper Anderston - has arisen. PSA have not secured PES cover for the development - initially they say because it fell outwith the PES survey period and subsequently because they hoped to find private finance for it. They have recently concluded that they are less likely to secure the necessary private finance; possible changes in the PES rules mean that, even if they can do so, they might require PES cover; and they will in any event require to find some £10 million for specialised requirements. Michael Heseltine and Leon Brittan will be able to report fully on the circumstances in which this has arisen. My own concern is that the Government's commitment to, and the implementation of, dispersal should not be prejudiced by what has occurred with concomitant serious political embarrassment.

Against that background perhaps I could turn to Leon's letter of 5 June. First Leon suggests that the proposed memorandum of response contains a firmer commitment to dispersal than the Government has yet entered into. But, as a result particularly of scepticism about our will to deliver the dispersal programme against the widely suspected opposition of the Civil Service, we have all taken pains to emphasise publicly the firmness of our commitment. You yourself made this quite clear in the House in May of last year. I do not therefore consider that his suggestion that the response should make reference to expenditure constraints is a starter.

Secondly, he suggests that, if Michael Heseltine cannot fund the building himself, the only source would be to require the Scottish Office to pay for it. But the responsibility for implementing our policies on dispersal lies neither exclusively nor mainly with me, but with dispersing departments and DOE. This suggestion is quite inappropriate. Moreover, since it is DOE who have, for whatever reason, failed to secure from Treasury the necessary guarantee of funding which will be required (whether or not a measure of private finance can be achieved on terms acceptable to Treasury) for the MOD building in Glasgow, I feel particularly strongly that a solution must be sought in Michael Heseltine's Department with Treasury assistance if necessary.

As you know, the Select Committee have been pressing me and Barney Hayhoe to appear before them to explain why the Government has not yet responded to their Report. We have so far managed to hold them off; but it will be extremely difficult for us to do so if there is a further delay in our response. Our appearance in these circumstances would give them an

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

opportunity to embarrass the Government; and it would I think set an unwelcome general precedent.

I am copying this minute to Michael Heseltine, Leon Brittan, Barney Hayhoe, John Nott and for information to Neil Marten.

G. Y.

SCOTTISH OFFICE
10 JUNE 1981

1861 JUN 1984

11 12 1 2 3
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1861 JUN 1984



for mtg of Ministers 2 PPS Thursday

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

9 June 1981

Dear Tim

MOD DISPERSAL OFFICES, GLASGOW

You asked David Edmonds for a note yesterday on the dispersal of MOD offices to Glasgow. I understand that a meeting has now been fixed for Thursday, 11 June at 5.15 pm.

/ I attach, as requested, a short background note.

I am copying this to the Private Secretaries to the Chief Secretary, the Secretary of State for Defence, the Secretary of State for Scotland, and Sir Robert Armstrong.

Yours ever

Jeff Channing

J P CHANNING
Private Secretary

MOD DISPERSAL OFFICES, GLASGOW

1. The Government is committed to dispersing some 1,400 MOD jobs to Glasgow. The Secretary of State for Scotland is about to re-affirm this commitment in response to the report of the Select Committee on Scottish Affairs who reported in January calling for the dispersal to be expedited. The Committee also questioned the choice of site for this development: they favoured the Anderston site rather than St Enoch's (which was the Government's choice announced in 1979) because the former could be completed sooner and is cheaper. (The two sites are about half-a-mile apart in the city centre: MOD favour St Enoch's but are prepared to accept Anderston. The Secretary of State for Scotland has decided to revert to Anderston).
2. The Government's response is held up because PSA have never had provision in their PES for this scheme. Until 1979/80 the start of construction lay beyond the PES period. The new works provision has since been cut by 60% and PSA have proposed proceeding on a lease-leaseback basis with a private developer - if acceptable terms could be obtained. No approach has been made to the market because the change of site has not yet been announced. The advice of Agents is that the prospects for private finance for such a large development in Glasgow are not very promising.
3. The Secretary of State for the Environment has therefore warned that the scheme involves a potential claim on public funds for which he has no provision in PES. Recognising the political commitment to dispersal he has proposed that an approach be made to the market but that, if this fails to produce an acceptable offer, the public funding of the scheme should be considered later in this year's PES round.
4. The total cost of the scheme is about £22.5m over the period 1982/3 - 1985/6. (excluding fees and interest during construction). Expenditure would peak at £8.5m in 1984/85. In that year there is some £19m available for major new works, of which £13.3m is committed to computerisation of PAYE. The remainder is allocated

to other high priority schemes, notably computerisation of DHSS local offices. Many schemes to which Departmental Ministers attach importance have had to be cancelled or deferred to make way for these computerisation projects.

4. The Government's response to the Select Committee can proceed provided it is recognised that the scheme represents a potential demand on public funds, for which provision may need to be made. But private finance for a lease-leaseback scheme will be sought first.

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1988 JUN 27



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/15133/81

Your ref:

9 June 1981

MOD DISPERSAL

George Younger has sent you a copy of his letter to me of 4 June about PES provision for this scheme. It is clearly essential to reach a decision on this matter quickly in view of the Select Committee's pressing interest.

I have not questioned the political commitment to this scheme. I have simply sought to emphasise the potential commitment of public funds. In his last paragraph George Younger repeats the suggestion that I made in my letter of 3 June - that if you agree, it is not essential to resolve now how the cost of this scheme is to be met - provided that it is recognised that there is no provision in PSA's PES for the scheme and that, if acceptable arrangements cannot be made for private financing of the whole of the capital cost, provision will have to be made for all or part of it in PES. We can decide later in the current PES round how the cost is to be met: but it certainly cannot be met from PSA's PES unless other new works commitments, notably computerisation of PAYE, are to make way for it.

George Younger asks why PSA have not made provision in PES for at least the cost of the specialist elements in the scheme. The reason is firstly that other operational requirements have taken priority for the limited funds available, and secondly that we will not know what proportion, if any, of the costs of the scheme will have to be funded in this way until prospective developers/investors have been approached. It is a potential claim on resources, but we do not yet know its size or phasing in relation to the total project cost.

suggest that George Younger should now send his response to the Select Committee and the financial implications will have to be followed up subsequently. I assume that you agree that the first step will be to ascertain what terms are available for private financing for the whole scheme or as large as part as possible. As I have said before, if the Government want this scheme to go ahead it has to be paid for by one means or another. It cannot be financed from a new works programme that has already been cut by 60% and where the bulk of the remaining funds over the next three years or so is committed to the computerisation of PAYE.

I am copying this to the Prime Minister, George Younger, John Nott and Barney Hayhoe.

Yes
Michael Heseltine

MICHAEL HESELTINE

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10 DOWNING STREET

Tim. 12

Thursday 11th
at 1715 at
No 10.

Choy Lee:
May have difficulties
with Finance
Committee.

cf.

9/6.



10 DOWNING STREET

Caroline

MOD Dispersal to Scotland

Pls fix 1/2 hour (or
if poss. 3/4 hour) meeting

for this week :

Nott or Trenham

Hayhoe

Heseltine

Brittain

Younger

No officials

12

9/6

*With the Compliments
of the
Secretary of State*

*Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU*



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

5 June 1981

Dear Michael,

MOD DISPERSAL

Thank you for your letter of 3 June.

I can see that you have difficulties - though I find it hard to follow why PSA have not budgeted for that element of the costs which will inevitably arise on leasing, or why they do not accept their own responsibility to resolve the problem, if a leasing solution proves impossible.

There are two fundamental points about all this that are being missed. The first is that the Government collectively is firmly committed to dispersal. The second is that I do not have the option not to reply to the Select Committee.

I therefore have two immediate options.

I can reply as I propose, in line with the firm Cabinet decision taken as long ago as July 1979 and with all Government statements since then. Or I can reply telling the Select Committee that they have been wasting their time in considering the timetable and alternative sites, have been led on to do this by Government Ministers and that at this eleventh hour the Government is without warning back tracking on a commitment it has clearly made and confirmed on many occasions.

I am sure you will agree that our colleagues would never agree to such a disastrous volte-face, and the first course is really the only one we can contemplate.

I therefore hope that you and Leon Brittan can reach an agreement which will enable me to issue the memorandum to the Select Committee now, confirming a firm commitment to dispersal to Anderston in 1985. Whether that agreement involves the finding of the necessary resources now, or an undertaking that they will be sought during the forthcoming PES round

(either from DOE's PES or from elsewhere) is immaterial to the present issue. The point is that we have a policy commitment and the resources must be found to honour it.

I am copying this letter to the Prime Minister, to Leon Brittan, Barney Hayhoe and Tom Trenchard.

Yours ever,

George.



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F-55JUN 1987



*cc. A. Duquid.
J. Vereker*

*Cu
Sawre*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger MP
Secretary of State
Scottish Office
Dover House
Whitehall
London SW1A 2AU

5 June 1981

R. George

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976*

TPM

I have seen Michael Heseltine's letter of 3 June in which he says that he has no room for the move to Anderston within his existing programme and that even a lease-back proposal would require Government funding of the £10 million specialised accommodation.

I am afraid this inevitably means that I cannot agree to the reply to the Select Committee going forward in the form you proposed.

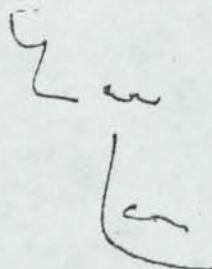
That draft reply represented, as I understand it, an advance on the commitments so far made in that it brought the date forward to 1985 and made the pledge more definite. If the Government is to pledge itself in this way, we must have an understanding in advance that the money will be found from within existing public expenditure totals. If Michael cannot find the money, the only source seems to be a transfer from your provision. If you made such a proposal I would not object, though it would pre-empt some of our room for manoeuvre when we come to discuss your programme later in the year.

Any decision to find the money must of course be without prejudice to the discussions we shall be having in the autumn on public expenditure and must be subject to what Cabinet eventually decides on the level of your and Michael's programmes.

In view of all this, if the matter cannot quickly be resolved in one of the ways I have referred to, I think it might be most sensible for the reply to the Select Committee to include a reference to the financial constraints. It is after all Government policy that the availability of finance is a constraint.

expenditure and there should therefore be no surprises when that is re-expressed.

I am sending copies of this letter to the Prime Minister, Michael Heseltine, Barney Hayhoe, Neil Marten and Tom Trenchard.

A handwritten signature in dark ink, consisting of a stylized 'L' followed by 'e' and 'n', with a long horizontal stroke at the bottom.

LEON BRITTAN

It newly proved

PRIME MINISTER That accommodation costs should be borne by departments not the PSA.

You have already seen some papers on the funding of the building for MOD staff to be dispersed to Anderston in Scotland. This has now reached an impasse, as you will see in the attached exchange of letters between George Younger and Michael Heseltine and Barney Hayhoe.

Mr. Younger's letter sets out the very real political problem. But the figures sidelined in Mr. Heseltine's letter make it clear that there is simply no money in the PSA programme to meet the costs concerned.

This is not going to get sorted out in correspondence. Are you prepared to have a meeting, which will need to include Ministers from the Scottish Office, Environment, Treasury and CSD? If so, this correspondence should be an adequate basis, provided we have available some clear figures on the costs of the options Mr. Younger has in mind.

Yes
MB

Caroline

MB

5 June 1981



Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

The Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
Whitehall
LONDON SW1A 2AU

4 June 1981

Dear George,

I have seen copies of your letter of 1 June to Michael Heseltine, Leon Brittan's to you of the same date, and Michael Heseltine's reply of 3 June, about the response to the Select Committee on Scottish Affairs.

It must be for Leon and Michael to determine how the necessary money can be made available for the Glasgow dispersal. For my part, I am clear that in view of the Government's firm and repeated commitments to the Glasgow dispersal it is essential that means be found to fund the scheme, and within the right timescale.

In view of the increasing anxiety being expressed by the Select Committee on Scottish Affairs I hope this matter can be resolved very quickly indeed.

I am sending copies of this letter to the Prime Minister, Leon Brittan, Michael Heseltine and Tom Trenchard.

BARNEY HAYHOE



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MANAGEMENT IN CONFIDENCE

WFSR o/a
3 PPS.



From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

Barney Hayhoe Esq MP
Minister of State
Civil Service Department
Whitehall SW1A 2AZ

4 June 1981

Dear Barney,

Thank you for your letter of 12 May about ECGD dispersal to Cardiff.

I wish to be cooperative, but I am not prepared to prejudice the effective operation of the ECGD. Already we are being criticized for transferring various sections of ECGD to Cardiff, and it is important for us to give an effective back-up to UK exporters. This could not be done with any additional transfer of jobs to South Wales.

We have cooperated with the dispersal programme through the additional transfer to Newport of 100 posts in our statistical services. We have thus now agreed to transfer the 800 jobs required from the ECGD and the Departments of Industry and Trade to South Wales.

I feel, therefore, that unless you can accept this it would be best for us to put the issue to colleagues.

I am sending copies of this letter to Nicholas Edwards, members of E Committee and to Sir Robert Armstrong.

Yours
Cecil
Parkinson

CECIL PARKINSON

MANAGEMENT IN CONFIDENCE



ST. LOUIS, MO. 63101
1 2 3 4 5 6 7 8 9 0



BF on 10/6

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/14970/81

Your ref:

3 June 1981

Thank you for your letter of 1 June about financial provision for the MOD dispersal offices in Glasgow.

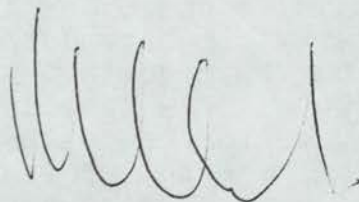
As I have explained, there has never been any provision in PSA's PES for this scheme. Until the 1979/80 PES round the bulk of the expenditure fell beyond the PES period. In 1979 and again in 1980 provision for major new works was sharply reduced, and is now 60% below the 1979 baseline (before the current option cuts). It was therefore necessary to explore the lease-leaseback alternative. This was not unusual - 60% of the office estate is leased and there have been several leaseback schemes in recent years. In discussions at official level it has always been made clear that, if acceptable terms could not be obtained on the market, the only alternative was a Crown-build - for which provision would have to be made. It is not yet known whether acceptable terms could be obtained for the Anderston site (the Agents' advice is that St Enoch's would be the same) and, as we have not yet been able to approach the market, we have to take account of the potential call on public funds. Some £10m would be required in any event to fund the specialist elements in a leased development.

There is no way in which I can meet this requirement from the PSA programme. As a result of the cuts agreed in the past two years there is room only for essential operational requirements and for the replacement of a few premises where leases cannot be renewed. By far the largest of these commitments is to cater for computerisation of PAYE. Leon Brittan will know that until last year there was no provision for this in the PSA programme but, despite the cuts, I agreed to give it top priority at the expense of many other requirements to which Departmental Ministers attached importance. As a result, in 1984/85 when expenditure on Anderston would reach its peak at £8.5m, I have £19.2m available of which £13.3m is required for computerisation of PAYE. The priority claim on the balance is for the computerisation of DHSS offices (CAMELOT). If option cuts at the levels now proposed were made, there would be insufficient to meet these commitments.

I hope I have demonstrated that we cannot expect to make drastic cuts in PSA's programme and then undertake projects for which no provision has been made. In view of the political importance attached to the dispersal commitment, I suggest that for the present we must keep open the lease-leaseback option and, if that proves not practicable, additional provision will have to be considered when we come to decisions on the current PES round. I am prepared to accept the £270,000 required for fees etc on the Anderston scheme in 1981/82. Beyond that, if the scheme is to go ahead, adequate provision will have to be made.

I am copying this to the Prime Minister, Leon Brittan, Barney Hayhoe and Tom Trenchard.

Yours ever



MICHAEL HESELTINE



3 JUN 1981

PRIME MINISTER

WR
3/6

The Select Committee on Scottish Affairs reported in January on the dispersal of Civil Service posts to Scotland, strongly supporting the Government's planned dispersal. You ought to be aware that Mr Younger hopes to publish his reply to the Select Committee this week (as in the draft at Flag A). The reply will announce that 1,400 Ministry of Defence posts will be dispersed in 1985, following the construction of a new Government building at Anderston. Crown Agents and ODA staff will be dispersed by 1982.

Mr Heseltine is however having some difficulties over the funding of the building for the MOD staff. Mr Younger is pressing him to agree since the Select Committee asked for a response by mid-March. You will wish to await Mr Heseltine's comments on Mr Younger's latest approach before deciding whether or not to comment yourself.

WR

2 June, 1981

MB.



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4/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
Whitehall
London SW1A 2AU

1 June 1981

George,

DISPERSAL OF MOD TO GLASGOW: PSA COSTS

We spoke during the weekend about the proposed draft response to the report on dispersal to Scotland by the Select Committee on Scottish affairs, on which you have recently exchanged letters with Michael Heseltine and Barney Hayhoe. I recognise the political importance of this issue, and the difficulty in which you are placed. But there are some points on finance which I must make.

First, Michael indicates that PSA have recently been considering the possibility of a lease and lease-back development for the Glasgow site. I understand that it now in fact seems unlikely that private financing could be arranged for such a large development in Glasgow. But I should in any case make the point that Treasury Ministers are, as Michael says, considering the treatment of financing expenditures by lease and lease-back and other arrangements. We hope that we can devise guidelines for the assessment of such prospects. Until the guidelines have been prepared, and we can see how the Anderston development stands in relation to them, I am afraid that we cannot assume that it could be financed by a leasing arrangement. Even if it could, the capital costs might still be a charge on public expenditure.

If the expenditure had to be treated by PSA in the normal way, we would come right up against the difficulty, which we discussed over the weekend, that there is no provision for the development in the PES figures. I understand that my officials have now explained to you how this came about, the main reasons being that PSA earlier assumed that leasing would be possible and that no major expenditure would have been incurred on St Enochs, which was then the preferred site, within the PES period. As matters stand, however, I have to make it clear that expenditure on the Glasgow accommodation must be found from within the totals already agreed. I am afraid therefore that I can agree to our telling the Select Committee that we have decided on the move to Anderston only if you and the other Ministers involved can confirm that this will be done.

As I said, I recognise the political importance of this subject. But I know you will understand why I cannot agree to adding now to figures for public expenditure announced only three months ago.

I am sending copies of this letter to Michael Heseltine, Barney Hayhoe, Neil Marten and Tom Trenchard.

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LEON BRITTAN

5-4 JUN 1987





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

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

1 June 1981

Dear Secretary of State,

*will
- request if
required*

Matters have moved on somewhat since my letter of 21 May to Barney Hayhoe to which was attached a copy of my proposed memorandum of response to the Select Committee on Scottish Affairs dealing with their inquiry into the dispersal of Civil Service posts to Scotland.

Barney and Neil Marten are content with the terms of the proposed response; but your officials have been in touch with mine and those of Leon Brittan to indicate that you are likely to see some considerable difficulty in agreeing the text of the memorandum - and particularly the inclusion of a firm date for the dispersal - unless an arrangement can be reached with Treasury about the funding of the building for the 1,400 MOD posts in Glasgow.

We are now agreed - subject to Tom Trenchard's views - that the building should be at the less expensive Anderston site; and my own views on the matter were very much swayed by what you yourself said about the rival merits and timing of completion of the two sites in your letter of 7 May. I know that in that letter you drew colleagues' attention to your lack of PES cover for the dispersal; and I appreciate that the current consideration of the treatment of leasing, the difficulties which your officials now see about the prospects of finding private finance for Anderston, and the earlier timing of the Anderston move, does cause problems for you. But in view of the Government's firm and repeated commitment to the Glasgow dispersal made as a result of Cabinet decisions in 1979 I had taken the view that, whatever the outcome of your current deliberations, it need not affect the response to the Select Committee since it is clear that whatever happens the means must be found to pay for the dispersal. In view, however, of the concern which your officials have expressed about the funding, I spoke to Leon Brittan on the matter. He shared the concern that a response should be withheld until it was clear that the funding could be provided, and, while he is anxious to help in any way he can, I think it is a fair reflection of his view that in the first instance this is a problem which you will have to resolve. I have some sympathy with that view, to the extent that we have all known for two years that the dispersal was to go ahead and that it would be DOE's responsibility to provide the building.

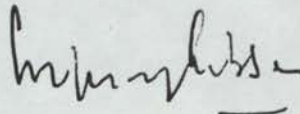
CONFIDENTIAL

This is a matter which must be resolved very quickly. The Select Committee, who asked for a response by mid-March, have been putting pressure on Barney Hayhoe and myself to meet them to explain why the Government has not yet responded to their Report; any further delay will inevitably encourage the suspicions of those who are persuaded that there is a Whitehall conspiracy against dispersal; and I am most anxious to respond to the Select Committee very quickly - this week if I can.

I therefore hope that whatever the outcome of the consideration of leasing, you will find it possible to agree at this stage to find whatever resources are necessary to enable Anderston to be completed in 1985. I should say that, in view of what you said about future delay if we were to opt for St Enoch, I no longer see that as a possibility (even though the later expenditure would presumably help your difficulties); and since the main public justification for moving to Anderston must be the earlier dispersal which that will permit we have no option but to aim for completion in 1985.

On a point of detail, may I take it that despite the reservations which your officials now have about the prospects of obtaining private finance for Anderston the conclusions expressed in the proposed response about the rival attractiveness of the two sites to commercial developers still stands.

I am copying this to the Prime Minister with a copy of the draft memorandum of response; and to the recipients of the earlier correspondence.

Yours sincerely,


Approved by the Secretary of State
& signed in his absence.

A

CONFIDENTIAL

DRAFT MEMORANDUM RESPONDING TO REPORT ON DISPERSAL
BY SELECT COMMITTEE ON SCOTTISH AFFAIRS

Introduction

1. The Government have taken careful note both of the contents as a whole and the specific recommendations contained in the Report of the Select Committee on Scottish Affairs on the dispersal of Civil Service jobs to Scotland. The Government accept fully the Committee's commendation of the long term benefits of the announced programme of dispersal to Scotland and wish to assure the Committee that it is not their intention to sacrifice these benefits to short term needs. The Prime Minister in the House of Commons (Hansard 19 May 1980, Vol 985, Cols 1-2) announced that the Government are firmly committed to the revised dispersal programme announced in 1979.

Ministry of Defence Dispersal to Glasgow

2. The Report refers to the need to make firm decisions on the composition of the package of Ministry of Defence posts to be dispersed to Glasgow. The Ministry of Defence will continue to keep under review the make-up of the dispersal package, taking firm decisions whenever possible on component parts. No delay to the programme announced on 26 July 1979 has been caused by following this policy. The accommodation requirements of the posts included in the blocks of work selected for dispersal are known in sufficient detail to permit building design to proceed.

3. The Report also stressed the value of staged dispersal of the Ministry of Defence posts. Opportunities arising for staging will be fully explored as firm decisions on the nature of component parts of the move are taken as part of the review referred to above. The Property Services Agency (PSA) have carefully examined with Glasgow District Council the Lord Provost's offer to make existing Council buildings available to facilitate early dispersal. Only the building at 302 Buchanan Street was considered in principle suitable to accommodate the move of the Army Pensions Office already announced; but during negotiations it became clear that insufficient space could be made available there for the staff concerned and that costly modifications at the PSA's expense would in any event have to be made. PSA have concluded therefore that they should proceed with the adaptation of a Crown Building in Waterloo Street to accommodate the Army Pensions Office move in 1982/83, the timetable already announced.

Interdepartmental Machinery for the Co-ordination of Dispersal

4. Keeping under review possibilities for early dispersal was one purpose of the interdepartmental machinery proposed by the Committee to undertake a number of tasks involved in the implementation of the programme. The Departments concerned do of course liaise closely together on questions relating to the implementation of the programme; but the Government have taken note of the concern that has been expressed, notably by the West of Scotland Ad Hoc Committee on Dispersal, about the arrangements. The Government accordingly accept the Committee's recommendation and are establishing interdepartmental machinery to keep the dispersal programme under review and to progress its implementation. The Departments involved, namely the Civil Service Department, the Ministry of Defence, the Overseas Development Administration, the Property Services Agency and the Scottish Office will participate in this machinery and the Scottish Office will take the lead on matters arising within Scotland, though the Civil Service Department will of course continue to exercise its wider responsibilities for overall policy on dispersal.

Accommodation for Ministry of Defence

5. The Committee also recommended that a reappraisal be made by the Property Services Agency on the advantages and disadvantages of the St Enoch site and that at Anderston Cross, Glasgow, as the location for the Ministry of Defence posts to be dispersed; and that the possibilities for commercial leasing of existing properties on a permanent basis should be explored as a further alternative. The Government are clear that commercial leasing of existing buildings for this purpose is not a practical proposition; a significant element of specialised accommodation will be required including that to house a computer which it would be inappropriate and costly to include in a commercial lease. As requested by the Committee, however, PSA have re-assessed the St Enoch and Anderston sites and have in particular given attention to the question of whether one or other of them would more readily attract private capital. The advice which has been received from private estates consultants engaged to carry out the evaluation is that there are no significant differences between the 2 sites in terms of their attractiveness to private investors. The financial consequences to PSA between developing an office at the St Enoch or Anderston sites will therefore be related directly to the estimated building costs. In the light of the initial conceptual design studies it was considered that there would be no significant difference in building cost. These studies have now been refined taking into account the planning decisions which have been announced regarding the general infrastructure of the total St Enoch development, and they now indicate that

● would cost in round terms £1.5m more to develop St Enoch. As the Committee were informed the St Enoch site is more valuable than Anderston and the valuations provided by the PSA's property consultants indicate that on the open market the St Enoch site should fetch some £0.25m more than Anderston.

6. PSA have also re-examined the implications of revising the original Anderston design to accommodate the presently planned Ministry of Defence blocks of posts and have concluded that completion in 1985 could be achieved. This represents at least a year's saving in time over the St Enoch option if it were decided now to choose the Anderston site.

7. On resource costs and benefits, as indicated in paragraph 5 the Government do not believe that leasing on a permanent basis of existing buildings would be a practicable way of housing the Ministry of Defence in Glasgow - and the Committee in their Report accept this as rather unlikely. For this reason no calculation of the resource costs and savings of that option has been undertaken. The Government have, however, as requested by the Committee at paragraph 34 of their Report, undertaken a comparative calculation of resource costs and benefits involved in a move to St Enoch or to Anderston on the basis of the Property Services Agency's re-appraisal of their costs and timing. The results, together with an explanatory note, are attached as the annex to this memorandum. In resource terms Anderston is the more favourable site.

8. Against this background the Government has given careful consideration as to whether there is a case for altering the decision announced on 26 July 1979 that the Ministry of Defence posts to be dispersed should be located at St Enochs. As the Committee are aware the Government regard the redevelopment of the St Enoch site as being of great importance for the redevelopment of Glasgow's city centre as a whole. It is in the Government's view most desirable that those involved with the redevelopment of the centre of the city should be concerned with reviving its style and appearance, which is essential for the regeneration of the city in both social and economic terms. The Government also acknowledge the strength of opinion in the Select Committee and elsewhere that these considerations argue at the same time for the earliest possible dispersal of civil service jobs to inner Glasgow: and the Government too are anxious to implement the main Ministry of Defence dispersal as soon as possible. In their evidence to the Committee, the Lord Provost of Glasgow and the Convener of Strathclyde Regional Council, while not pressing specifically for a change of site at this time, were anxious to stress that their preference as

● which of the two sites should be utilised would be determined by which would enable the Ministry of Defence dispersal to take place more quickly. Furthermore, the Scottish Development Agency who have charge of the overall development of St Enoch, are now satisfied that development appropriate to a city centre site of such importance would not be significantly inhibited if the Ministry of Defence element were removed.

9.

Since it is now clear that the use of Anderston to achieve this would not endanger the development of the St Enoch site the Government have decided that the office block for the Ministry of Defence should be constructed at Anderston thereby allowing the dispersal to take place in 1985. This decision will also make a saving in the cost of the dispersal, and is in resource terms more favourable. The necessary design work is therefore being put in hand immediately; and so that the timetable may be met the Government do not propose to review the decision further. In the meantime the Scottish Development Agency are proceeding urgently to the development of modified proposals for St Enoch.

Overseas Development Administration and Crown Agents' Dispersal

10. Paragraph 16 of the Report refers to the decision taken in principle on the dispersal of the Crown Agents Pensions Department to East Kilbride. This decision has now been confirmed and arrangements for the move have begun. It is hoped that it will be completed by the end of 1982.

Conclusion

11. The Government are grateful to the Committee for the examination which they have made of this question. It is hoped that the Committee for their part will be reassured by the terms of this response. Much has been made of the difficulties in implementing dispersal. There are practical problems in any large scale operation of this kind. But having settled the policy in 1979 the Government are moving ahead towards implementation - and intend to ensure that the Scottish dispersal programme is completed to the timetable set out in this response.

DISPERSAL TO SCOTLAND

Resource Cost/Benefit Analysis

1. The Tables in the attached Annex show estimates, year by year, of the costs and savings of resources due to the planned dispersals of MOD and ODA (with Crown Agents) to West Central Scotland. In the case of MOD, we have costed the move of 1,400 posts (a) to the St Enoch's site in late 1986 and (b) to Anderston Cross a year earlier. In each case an advance move of 100 posts (the Army Pensions Office) is assumed in 1982/83. The resale value of whichever plot of land is not to be used for the MOD dispersal has not been taken into account in the tables. The ODA-Crown Agents costing supposes 450 posts to be moved to East Kilbride early in 1981/82 and 200 a year later. All future costs are expressed as far as possible in terms of 1981 Survey prices.

2. The tables can be compared with those taken from the costing exercise carried out in 1979, which were used to advise Ministers during the 1979 review of the dispersal programme, and from which the costs for the Scottish dispersals were taken to supply earlier information to the Select Committee. The chief difference between this costing and the earlier one lies in the different price-base. The assumptions underlying the costing are largely the same. However, it has been possible to make more accurate estimates of some of the elements than it was two years ago. Also, since the current costing has been specifically of the MOD and ODA dispersals, whereas the earlier costing model was designed to cover all proposed dispersals, it has been practical to tailor the estimation a little more accurately to the circumstances of these dispersals. These two areas of refinement account for larger or smaller changes in certain elements than result simply from a change in the price-base.

3. It should be noted nevertheless that these costings are estimates and therefore do carry a degree of approximation both in amounts and in the dates at which the resources will be consumed or released. It makes no difference in resource terms whether the MOD building is Crown-built or built by another body for lease to the Crown.

Net Present Values (NPVs)

4. The NPVs of the two MOD options have been calculated on the following basis using a 7% Test Discount Rate (TDR):

- a. only the resource costs and savings from 1981/82 and thereafter have been included;
- b. the calculation is in terms of 1981 Survey prices; and
- c. a base-year of 1980/81 has been used.

Two calculations for each site have been made, one excluding and the other including the resale value of whatever plot of land is not to be used. The results are:

| | Resale value of land not to be used: | |
|-----------------|--------------------------------------|----------|
| | Excluded | Included |
| Anderston Cross | £5.6M | £6.3M |
| St Enoch's | £3.9M | £4.4M |

On the same basis, the NPV of the ODA dispersal is £9.7M.

5. To aid comparison of the two MOD options the NPV of the future cost differences between the two sites has also been calculated using a 5% TDR* and

taking into account the resale value of whichever plot of land is not used. On this basis the NPV of the Anderston Cross option is higher than that for St. Enoch by £2.6M, rather than £1.9M.

* A Test Discount Rate (TDR) of 7% pa is normally used for public sector investment appraisals because of the difficulty in forecasting long-term trends and the consequent tendency to optimism - ie of overestimating benefits and underestimating costs. A 7% TDR was therefore used for previous appraisals of dispersal. However, Treasury advice is that when the problem is simply one of comparison, as between the Net Present Values of the St Enoch's and Anderston sites, it is more realistic to use a 5% TDR.

Resource Cost/Benefit Analysis
Dispersal of ODA to EAST KILBRIDE

| | 1980 -81 | 1981 -82 | 1982 -83 | 1983 -84 | 1984 -85 | 1985 -86 | 1986 -87 | 1987 -88 | 1988 -89 | 1989 -90 | EACH YEAR INCREASING |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------------|
| COSTS | | | | | | | | | | | |
| Accommodation: | | | | | | | | | | | |
| Buildings | 850 | 450 | - | - | - | - | - | - | - | - | - |
| and Occupational Services | 170 | 200 | - | - | - | - | - | - | - | - | - |
| Furnishings and Supplies | 100 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 |
| Regional Rents | | | | | | | | | | | |
| PSA Departmental Expenses | 150 | 100 | - | - | - | - | - | - | - | - | - |
| Regional Rates | 40 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 |
| Telecommunications: Capital | 190 | - | - | - | - | - | - | - | - | - | - |
| Recurrent | 10 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 |
| Additional Manpower | 180 | 320 | 290 | 200 | 170 | 170 | 170 | 170 | 170 | 170 | 170 |
| Allowances to Staff: | | | | | | | | | | | |
| Transfer payments | - | 590 | 260 | - | - | - | - | - | - | - | - |
| Travel and Subsistence | | | | | | | | | | | |
| Provisions | - | 190 | 280 | 280 | 280 | 290 | 290 | 290 | 290 | 300 | 300 |
| TOTAL COSTS | 1690 | 2770 | 1740 | 1400 | 1380 | 1380 | 1380 | 1380 | 1390 | 1390 | 1390 |
| SAVINGS | | | | | | | | | | | |
| London Rents | - | - | 400 | 990 | 1180 | 1190 | 1200 | 1220 | 1230 | 1240 | 1240 |
| London Rates | - | - | 160 | 400 | 470 | 470 | 470 | 470 | 470 | 470 | 470 |
| Net Employment Effect | 40 | 310 | 420 | 430 | 440 | 450 | 460 | 470 | 480 | 490 | 490 |
| Differential House Prices | - | 1450 | 640 | - | - | - | - | - | - | - | - |
| Differential Computing Costs | - | 50 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 |
| Differential Domestic Rates | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SAVINGS | 40 | 1810 | 1700 | 1900 | 2170 | 2190 | 2220 | 2240 | 2260 | 2280 | 2280 |
| NET COST OR SAVING | -1.6M | -1.0M | - | +0.5M | +0.8M | +0.8M | +0.8M | +0.9M | +0.9M | +0.9M | +0.9M |
| CUMULATIVE NET COST OR SAVING | -1.6M | -2.6M | -2.6M | -2.2M | -1.4M | -0.5M | +0.3M | +1.1M | +2.0M | +2.9M | |

Notes: Figures in the bottom two rows are expressed in £M, rounded to the nearest £0.1M

All other figures are expressed in £'000s, and no figure is quoted more accurately than to the nearest £10,000 (0 indicates an element estimated as less than £5,000)

As figures are rounded independently, there may be slight discrepancy between the sums of constituent items and the totals.

RESOURCE COST/BENEFIT ANALYSIS

DISPERSAL OF MOD TO ST ENOCH'S

| | BEFORE 1981 -82 | 1981 -82 | 1982 -83 | 1983 -84 | 1984 -85 | 1985 -86 | 1986 -87 | 1987 -88 | 1988 -89 | 1989 -90 | EACH YEAR THEREAFTER |
|---|-----------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------------|
| <u>COSTS</u> | | | | | | | | | | | |
| Accommodation: Buildings, Land, and Occupational Services | 1100 | - | 260 | 1300 | 7500 | 9000 | 5000 | 1000 | - | - | - |
| Furnishings and Supplies | - | - | 70 | - | - | - | 560 | 210 | - | - | - |
| Regional Rents Lost | - | - | 10 | 40 | 40 | 40 | 40 | - | - | - | - |
| PSA Departmental Expenses | 80 | 750 | 1010 | 1490 | 500 | 500 | 580 | 280 | - | - | - |
| Regional Rates | - | - | 10 | 20 | 20 | 20 | 420 | 800 | 800 | 800 | 800 |
| Telecommunications: Capital | - | - | - | - | 250 | 830 | 150 | - | - | - | - |
| Recurrent | - | - | - | - | - | - | 70 | 150 | 150 | 150 | 150 |
| Additional Manpower | - | 10 | 50 | 60 | 40 | 290 | 630 | 630 | 460 | 370 | 370 |
| Allowances to Staff: Transfer payments | - | - | 170 | 10 | - | - | 2000 | 50 | - | - | - |
| Travel and Subsistence Provisions | - | - | 10 | 20 | 30 | 30 | 400 | 770 | 780 | 790 | 790 |
| TOTAL COSTS | 1180 | 760 | 1580 | 2950 | 8380 | 10700 | 9850 | 3890 | 2190 | 2110 | 2110 |
| <u>SAVINGS</u> | | | | | | | | | | | |
| London Rents | - | - | - | - | 160 | 220 | 220 | 220 | 2650 | 2670 | 2670 |
| London Rates | - | - | - | - | 70 | 90 | 90 | 90 | 1020 | 1020 | 1020 |
| Net Employment Effect | - | - | 30 | 150 | 510 | 600 | 820 | 1040 | 1000 | 1020 | 1020 |
| Differential House Prices | - | - | 424 | - | - | - | 4520 | - | - | - | - |
| Differential Commuting Costs | - | - | 0 | 10 | 10 | 10 | 90 | 170 | 170 | 180 | 180 |
| Differential Domestic Rates | - | - | 0 | 0 | 0 | 0 | 10 | 20 | 20 | 20 | 20 |
| TOTAL SAVINGS | - | - | 460 | 170 | 750 | 930 | 5750 | 1540 | 4860 | 4910 | 4910 |
| NET COST OR SAVING | -1.2M | -0.8M | -1.1M | -2.8M | -7.6M | -9.8M | -4.1M | -2.4M | +2.7M | +2.8M | +2.8M |
| CUMULATIVE NET COST OR SAVING | -1.2M | -1.9M | -3.1M | -5.8M | -13.5M | -23.2M | -27.3M | -29.7M | -27.0M | -24.2M | |

Notes: Figures in the bottom two rows are expressed in £M rounded to the nearest £0.1M
All other figures are expressed in £'000s, and no figure is quoted more accurately than to the nearest £10,000 (0 indicates an element estimated as less than £5,000)
As figures are rounded independently there may be slight discrepancy between the sums of constituent items and the totals.

Resource Cost/Benefit Analysis
Dispersal of MOD to ANDERSTON CROSS

| | BEFORE 1981 -82 | 1981 -82 | 1982 -83 | 1983 -84 | 1984 -85 | 1985 -86 | 1986 -87 | 1987 -88 | 1988 -89 | 1989 -90 | EACH YEAR THEREAFTER |
|---|-----------------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------------|
| <u>COSTS</u> | | | | | | | | | | | |
| Accommodation: Buildings, Land, and Occupational Services | 1100 | 270 | 1460 | 7230 | 8500 | 4800 | 310 | - | - | - | - |
| Furnishings and Supplies | - | - | 70 | - | - | 560 | 210 | - | - | - | - |
| Regional Rents Lost | - | - | 10 | 40 | 40 | 40 | - | - | - | - | - |
| PSA Departmental Expenses | 600 | 300 | 1880 | 930 | 460 | 540 | 260 | - | - | - | - |
| Regional Rates | - | - | 10 | 20 | 20 | 420 | 800 | 800 | 800 | 800 | 800 |
| Telecommunications: Capital | - | - | - | 250 | 830 | 150 | - | - | - | - | - |
| Recurrent | - | - | - | - | - | 70 | 150 | 150 | 150 | 150 | 150 |
| Additional Manpower | - | 10 | 50 | 60 | 300 | 630 | 630 | 460 | 370 | 370 | 370 |
| Allowances to Staff: Transfer payments | - | - | 170 | 10 | - | 2000 | 50 | - | - | - | - |
| Travel and Subsistence Provisions | - | - | 10 | 20 | 30 | 390 | 760 | 770 | 780 | 790 | 790 |
| TOTAL COSTS | 1700 | 580 | 3650 | 8560 | 10180 | 9610 | 3180 | 2180 | 2100 | 2110 | 2110 |
| <u>SAVINGS</u> | | | | | | | | | | | |
| London Rents | - | - | - | - | 160 | 220 | 220 | 2620 | 2650 | 2670 | 2670 |
| London Rates | - | - | - | - | 70 | 90 | 90 | 1020 | 1020 | 1020 | 1020 |
| Net Employment Effect | - | 10 | 100 | 480 | 560 | 790 | 980 | 980 | 1000 | 1020 | 1020 |
| Differential House Prices | - | - | 420 | - | - | 4520 | - | - | - | - | - |
| Differential Commuting Costs | - | - | 0 | 10 | 10 | 90 | 170 | 170 | 170 | 180 | 180 |
| Differential Domestic Rates | - | - | 0 | 0 | 0 | 10 | 20 | 20 | 20 | 20 | 20 |
| TOTAL SAVINGS | - | 10 | 530 | 500 | 810 | 5720 | 1470 | 4810 | 4860 | 4910 | 4910 |
| NET COST OR SAVING | - 1.7m | - 0.6m | - 3.1m | - 8.1m | - 9.4m | - 3.9m | - 1.7m | + 2.6m | + 2.8m | + 2.8m | + 2.8m |
| CUMULATIVE NET COST OR SAVING | - 1.7m | - 2.3m | - 5.4m | - 13.5m | - 22.8m | - 26.7m | - 28.4m | - 25.8m | - 23.0m | - 20.2m | |

Notes: Figures in the bottom two rows are expressed in £M, rounded to the nearest £0.1m

All other figures are expressed in £'000s, and no figure is quoted more accurately than to the nearest £10,000 (0 indicates an element estimated as less than £5,000)

As figures are reported independently, there may be slight discrepancy between the sums of component items and the totals



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