



Treasury Chambers, Parliament Street, SW1P 3AG

R A J Mayer Esq
Private Secretary to the
Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1

24 May 1982

Dear Anthony,

PRIVATE FINANCE FOR ROADS

The Chief Secretary has seen some of the recent press reports about proposals to use private capital for building roads. An article in the "Daily Telegraph" on 17 May seemed to suggest that the principle had been approved by your Department and the Treasury. Because this is, of course, not so, the Chief Secretary has asked me to write setting down the position as he understands it.

So far as motorways and trunk roads are concerned, the position rests with the Chief Secretary's letter of 19 April to your Secretary of State in which he agreed that officials should hold discussions with the construction industry and other interests. The purpose of these talks is purely exploratory, and they are being held with a view to identifying the efficiency savings, if any, that might compensate for the additional cost. The results will need to be carefully appraised by Ministers, and there can of course be no commitment to the eventual outcome.

Turning to local authority schemes, to which the "Daily Telegraph" article mainly related, the Chief Secretary understands that proposals have been put to your Department by the West Midlands County Council, and that your officials are discussing their implications with the Treasury and other Departments concerned. Any question of agreement, explicit or tacit, to local authorities financing their share of local roads expenditure by payment of royalties is thus entirely premature.

The Chief Secretary hopes that an opportunity will be found to make it clear that the Government has not yet formed a view on any particular scheme or, indeed, on the use of private finance

for building of roads. - Otherwise, as he said in his letter to your Secretary of State, there is risk that expectations may be raised, and outsiders' resources committed unnecessarily.

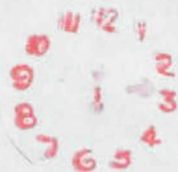
Yours ever

Terry Mathews

T F MATHEWS

Private Secretary

26 MAY 1982





as
COTV Transport

NBPM

MW 26/5

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
No.10 Downing Street
London SW1

25 May 1982

Dear Michael,

I have recently written to Mayer at the Department of Transport about recent press reports of proposals to use private capital for building roads. I enclose a copy for your information.

I am copying this letter to the Private Secretaries to E Committee Members, to David Wright and to Bernard Ingham.

Yours sincerely
Terry Mathews

T F MATHEWS
Private Secretary



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Transport *cc JV*
Thank
Prime Minister (2)

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

MUS 27/4

27 April 1982

Dea Leon

PRIVATE FINANCE FOR ROADS CONSTRUCTION

Thank you for your letter of 19 April.

*paid in PM's Box over
w/e*

I shall now put the consultations in hand. As you ask, we will make it clear that they are exploratory and without commitment. I shall also try and keep them low-key, but - as you appreciate - there is very widespread interest in the subject in the serious press as well as in the industry; as some publicity is inevitable, it will be better to seek recognition in such quarters of a genuine attempt to find ways of involving private funds, rather than to appear to be reacting grudgingly to the initiatives of others.

I shall, of course, let you know how our consultations progress and discuss the outcome with you before reporting back to E Committee as required by E(82)8th Meeting, Item 2.

I am copying this letter to the Prime Minister, to other members of 'E' and to Sir Robert Armstrong.

Gm en
David

DAVID HOWELL

27 APR 1982

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9 8 7 6 5 4 3 2



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Prime Minister (4)

MUS 20/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

19 April 1982

PRIVATE FINANCE FOR ROAD CONSTRUCTION

2 David
Thank you for your letter of 29 March. I have seen, too, the letter from the Prime Minister's Private Secretary to yours of 1 April and his reply of 5 April.

I remain very sceptical about the prospects for our devising an acceptable scheme whereby finance would be raised privately for road construction and repaid by Government in the form of vehicle royalties. It seems that such a scheme would be significantly more expensive in discounted terms than conventional public expenditure, and that the additional costs would considerably outweigh the possible benefits. In our discussion on 11 March, colleagues saw, I believe, the difficulties that could arise in accepting the future liabilities that would result. This risk, I think, would not be lessened by likely changes in the size of particular programmes after the current planning period.

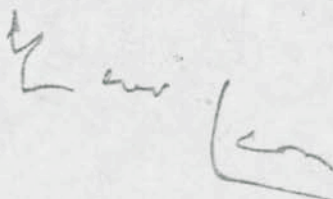
Nevertheless, I recognise that there may still be possibilities for efficiency savings from private financing. Taking, for example, the points you make about responsibility for maintenance and a fixed terminal date for royalty payments, it might be possible to build in an incentive to complete the road quickly and, in particular, to maintain it in ways that cause as little inconvenience as possible to road-users. I am therefore prepared to agree that your officials should hold further talks with the construction industry and other interests.

I must naturally make clear (as no doubt your officials will make clear to the industry) that these talks cannot involve any commitments whatsoever to the eventual outcome. It is important that they should be presented as purely exploratory, and conducted in as low-key a manner as possible. Otherwise expectations may be raised and outsiders' resources committed

unnecessarily. It will also be absolutely essential to take steps to ensure that alternative terms suggested by companies for conventional financing are realistic and are not pitched unrealistically high. I should say, too, that I believe that we cannot, in considering PES, exclude from our minds any expenditure on roads that is financed in the way you envisage.

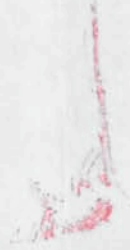
I look forward to hearing about the conclusions of the report on tolls. While I accept what you say, it may be that in the longer-term their introduction is a better prospect than the use of unconventional forms of financing.

I am sending copies of this letter to the Prime Minister, to other members of 'E', and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Leon Brittan', with a stylized flourish at the end.

LEON BRITTAN

20 APR 1962



YD



✓ MAF

*Transport
LCC JV*

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: H/PSO/12520/82
Your ref:

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[Handwritten initials]

APR 8 APR 82

PRIVATE FINANCE FOR ROAD CONSTRUCTION

David Howell sent me a copy of his letter of 29 March to you.

Given that there is no possibility of immediate action on the subject of tolls, I strongly support David's suggestion that he should now start detailed discussions with the construction industry on his proposal to attract private finance into road construction through a scheme based on royalty payments. As he says, there is a debate in progress within the industry on the general subject of private finance for construction projects, and I agree that the Government should not stand aloof from it. As agreed at the meeting on 11 March, the outcome of consultations on this subject could be further considered by E Committee.

I am sending a copy of this letter to the Prime Minister, to the other members of E and to Sir Robert Armstrong.

*Yes er
[Handwritten signature]*

MICHAEL HESELTINE

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Transport
of SV



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

2

Prime Minister

But if they bring

the programme forward

will they really

5 April 1982

They will have to! accept a smaller programme later?

Michael Scholar Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

Dear Michael

MCS 6/4

PRIVATE FINANCE FOR ROAD CONSTRUCTION

"how can there be additional spending on roads without additional public expenditure?"

In your letter of 1 April you set out the Prime Minister's comments on my Secretary of State's letter of 29 March to the Chief Secretary.

I have shown your letter to my Secretary of State.

He has asked me to explain that building a road on the royalty basis will release public funds in the immediate future that can be used to bring forward bypass schemes from later in the programme. It is a means of speeding up work, not of increasing the total programme. My Department's spending on schemes built under the normal method is concentrated in the period of construction. Spending under the royalty system will start two to three years later and be spread over fifteen years.

The royalty payments as they are made will certainly be public expenditure and will have to be accommodated within my programme. And to the extent that in the long run they prove more expensive than traditional financing (which will depend on the rate of traffic growth) that extra cost will have to be so covered. But in the meantime we will have been able to get ahead more quickly, and much of the cost will fall at the end of the decade, or beyond, when our present trunk road construction programme will be nearing completion.

I am copying this letter to the recipients of yours.

Yours sincerely

Sean Bohan

PP T JOHNS
Private Secretary

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DEPARTMENT OF TRANSPORT
PASSENGER SERVICE DIVISION



15 APR 1965



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cc: E Clee
Co

bc: John Vercher

10 DOWNING STREET

Tran

From the Private Secretary

1 April 1982

PRIVATE FINANCE FOR ROAD CONSTRUCTION

The Prime Minister has seen a copy of your Secretary of State's letter of 29 March to the Chief Secretary.

She has commented that she does not understand how, on the royalty method, there can be additional spending on the roads without any addition to the total of public expenditure.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee and to David Wright (Cabinet Office).

MS

Anthony Mayer, Esq.,
Department of Transport.

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BK

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X JV



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

(2)

Prime Minister

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1

I don't understand how there can
be additional spending on roads
29 March 1982

See Len

I agree
not

on the royalty method without
adding to the total of public
expenditure.

PRIVATE FINANCE FOR ROAD CONSTRUCTION

Mls 30/3

At their meeting on 11 March, E Committee invited us to consider the proposals in our respective memoranda on this topic, and any other alternatives, against the criteria set out in Annex B of Michael Heseltine's memorandum (E(82)22), with a view to reaching agreement by early in the week of 22 March. I think it was clear from the Committee's discussion that colleagues see the case for additional spending on roads, provided this can be privately financed and therefore would not add to the total of public expenditure. Our officials have had a full discussion and I am writing now to set out my own position.

You are, as I am, interested in the possibilities of tolls. I have commissioned a study of the feasibility and implications of tolling new motorways, the results of which I expect to reach me very soon. When the report is available we shall, of course, let you see it, but I understand that the results emerging do not support great initiatives. In any event, you will know that QL Committee have concluded that there is no Parliamentary time for legislation on tolls next Session, so there is nothing we could do to get a tolls scheme off the ground in this Parliament.

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For the present my objective as put to E Committee, is to get on with consultations, without commitment, on a much more limited experiment, by way of royalty payments, which seems to me fully consistent with the criteria in Annex B of Michael Heseltine's paper, and therefore would not add to the total of public expenditure.

I can see a number of ways in which my original proposal might with advantage be modified to increase the degree of risk which the contractor would bear. I have already agreed to consider making the contractor responsible for repairs and maintenance throughout the concession period and to work to a fixed termination date for royalty payments related to the start, rather than the completion of work, to encourage speedier construction; I am certainly willing to consider requiring contractors to bid on a fixed price basis, i.e. with no allowance for variations in costs during the construction period (as is of course normal under conventional contracts). But the implications of all of these factors for the cost of road-building can only be established, first, by talking to the industry and ultimately by putting the matter to the test.

Important firms in the construction industry have been showing considerable interest in the possibility of using private finance for road construction. There is now a public debate in progress on this subject involving the industry, including the civil engineering EDC, financial interests and local authorities who are interested in the possibility of using private finance for their own schemes. The only party not actively involved in these discussions is the Government. I do not believe that our continuing to stand aloof is acceptable. If we are to retain any credibility for our claimed

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interest in involving private finance in an area that has hitherto been entirely funded by the Exchequer, I believe it is essential that we should now join in that debate by starting detailed consultations on the basis I have proposed.

I am sending copies of this letter to the Prime Minister, to the other members of 'E' and to Sir Robert Armstrong.

Yours

David

DAVID HOWELL

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