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CCBB

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

24 December 1985

Dear Nigel

CAPITAL EXPENDITURE CONTRACTS

FLAP PT 19

I have been considering how best to give effect to the recommendations in Sir Robin Ibbs' note to the Prime Minister on the approval of capital projects, which was circulated to colleagues on 21 November.

Most of the recommendations are already standard practice for the road programme. We do however need to consider how the recommendation that projects over, say, £25m, should be subject to examination by Ministers should be interpreted in relation to the road programme. The report by the Efficiency Unit, on which the recommendations are based, identifies "approval in principle" as the key stage of project approval. Road schemes are however subject to scrutiny at a number of stages from their entry into the programme to the clearance to invite tenders for construction. The whole planning process is geared to the statutory procedures including public inquiries, which on average takes 10-12 years.

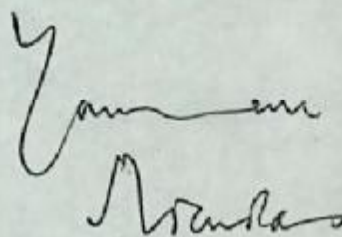
Major reviews of the road programme are normally carried out biennially. Ministers here decide which schemes to add to the programme, and which to defer or abandon. These decisions are announced in Roads Reports or White Papers, which are cleared with Treasury colleagues. However entry to the programme does not involve approval of a specific scheme, but only recognition of a problem needing a solution. Even if some options have been identified at that stage, they can only be costed in broad terms.

Once schemes are included in the national programme, a number of options are worked up for public consultation, using an agreed cost/benefit system (COBA) to evaluate

the economic return, and a structured statement of environmental and other costs and benefits which cannot be evaluated in money terms. Ministers here decide on the option to be selected following public consultation as the basis for statutory orders to be considered at public inquiry, and on any modifications to be made to the scheme following public inquiry. All schemes in the programme have to be referred to the Treasury for specific approval if at any stage they fail to show a positive return, using a 7% test discount rate, or if it is proposed to select an option which, even though the return is still positive, is significantly less than economically optimal. Our officials have recently carried out a joint review of the financial management of the road programme and have made recommendations for increasing levels of delegation and improving the monitoring and control of the programme as a whole, over and above the existing arrangements for Treasury review of a number of schemes in the programme each year.

I believe that our system of appraisal is generally recognised to be very rigorous and ensures that the costs and benefits are fully assessed at every stage. It provides a standard method of identifying schemes on which difficult judgements need to be made. I hope you will agree that we should continue to use this test in applying the procedures proposed by the Efficiency Unit. I therefore suggest that our officials should discuss how these procedures should operate in the particular circumstances of the road programme.

I am copying this letter to the Prime Minister and Ministers in charge of Departments and to Sir Robert Armstrong and Sir Robin Ibbs.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY

Ministers in charge of Departments

The Rt Hon Michael Jopling, MP	-	MAFF
Richard Luce Esq MP	-	Arts and Libraries
The Rt Hon Norman Tebbit, MP	-	Chancellor of the Duchy of Lancaster
The Rt Hon Michael Heseltine, MP	-	MOD
The Rt Hon Sir Keith Joseph, Bt MP	-	DES
The Rt Hon The Lord Young of Graffham	-	DEm
The Rt Hon Peter Walker, MBE MP	-	DEn
The Rt Hon Kenneth Baker, MP	-	DOE
The Rt Hon Sir Geoffrey Howe, QC MP	-	FCO
The Rt Hon Norman Fowler MP	-	DHSS
The Rt Hon Douglas Hurd CBE MP	-	HO
The Rt Hon Sir Michael Havers QC MP	-	Law Officers' Dept
The Rt Hon The Lord Cameron of Lochbroom QC	-	Lord Advocate's Dept
The Rt Hon Lord Hailsham of St Marylebone CH	-	Lord Chancellor
The Rt Hon Tom King MP	-	NIO
The Rt Hon Kenneth Clarke QC MP	-	PGO
The Rt Hon Viscount Whitelaw CH MC	-	Privy Council Office
The Rt Hon George Younger TD MP	-	Scottish Office
The Rt Hon Leon Brittan QC MP	-	DTI
The Rt Hon Nicholas Edwards MP	-	Welsh Office

GOUT MACH

RAYNER

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