



CCP

DEPARTMENT OF TRANSPORT  
**CONFIDENTIAL** MARSHAM STREET LONDON SW1P 3EB  
01 276 3000

My ref  
Your ref

Rt Hon John Major MP  
Chief Secretary to the Treasury  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

*John*

*NBPA do this stage.*

*REG  
24/5*

24 MAY 1989

**PES 1989**

1. When I wrote to you last year with my bids for the PES round I said that the demand for the services and facilities provided by my Department had been rising and were likely to continue to rise at a rapid rate. This has not changed in the intervening twelve months. Indeed it is now abundantly clear that the growth in demand for all forms of transport is far outstripping the capacity of the supporting infrastructure and that we face major and growing problems of congestion.

2. The increased provision agreed last year was helpful. But it scarcely begins to make inroads into the problems. Although we expect to continue to make efficiency gains and savings they too cannot make any material impact on the gulf between my present PES baseline and what we need to spend on transport infrastructure and allied services if we are to respond to the needs of business in a growing economy and meet the legitimate expectations of the public. As a result, I must table unavoidable and substantial bids for additional provision in a number of areas. I start with the national roads programme, the largest of the bids.

#### National roads

3. I do not need to rehearse at length the very serious problems with the motorway and trunk road network. Our officials jointly undertook sometime ago now an extensive review of the position and it has been considered at length with colleagues in E(A). It has been agreed that we must substantially increase the scale of the road construction programme and quickly. The White Paper "Roads for Prosperity" issued earlier this month commits us to a greatly expanded programme. We must now translate words into deeds and to do so means substantial additions to the present PES baselines.

4. I have considered most carefully how we can meet the undertaking in the White Paper. The joint review concentrated

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on the need to expand the total programme. But to complement this, and to be consistent with our overall aim, we must also accelerate the schemes in the programme which we set out in the White Paper two years ago. Many of these schemes will reach the construction stage in the next three years. It is essential we press on and build them. Construction of the new schemes announced in the recent White Paper "Roads for Prosperity" will not start until the end of the period. If they are to be seen as an adequate response to the problems of congestion then it cannot be at the expense of not building schemes on which an earlier start can be made. In the past slippage in starting new construction has been a worry. Whilst we can never avoid it entirely, I have set my Department challenging targets which effectively halve the time taken to get schemes to public consultation and from there to announcement of the preferred route. The results so far are encouraging.

5. But I cannot solve the problem that my present baseline is inadequate to begin construction of cost effective schemes which are, or soon will be, ready for construction. Nothing would be achieved by merely reallocating resources within an inadequate baseline.

6. The largest element of my bid for an accelerated programme is therefore concerned with schemes on which most preparatory work has already been done. The amounts required are £325m in 1990-91, £560m in 1991-92 and £665m in 1992-93. The biggest step change is in 1990-91 and is a reflection of the number of schemes which are about ready to go but which are held back for lack of provision. The bid assumes a declining rate of price increases after the recent peak.

7. In order to accelerate the road building programme, we need also to expand its size in line with the latest White Paper commitment. You have already agreed to release £25m from the Reserve so that we can make a start in 1989-90. To build on this, the amounts required for expansion are £100m in 1990-91, £150m in 1991-92 and £400m in 1992-93.

8. As we recognised last year, not only do we need to build more roads we must also maintain them adequately. It is in the end a false economy to postpone maintenance work since delay results in higher costs and poor value for money.

9. On road maintenance I need to bid for £50m in 1990-91, £50m in 1991-92 and £25m in 1992-93. This is to keep us on course towards our commitment to eliminate the maintenance backlog by the end of 1992-93 and to bring skidding resistance on the network up to standard.

10. The requirement for bridge maintenance is for an additional £40m in 1990-91, £60m in 1991-92 and £80m in 1992-93. Some work has been delayed, there is an increasing requirement for steady state maintenance, and we must begin the remedial work on

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concrete bridges which the Maunsell report has identified as necessary. We cannot skimp any of this work if we are to meet the ending of the EC derogation.

11. Finally on current maintenance the addition required over baseline is £25m in 1990-91, £30m in 1991-92 and £35m in 1992-93. This is principally because of the reclassification of survey work in line with your officials advice. Without it the capital maintenance bid would be some £18-20m higher. There is also an extra requirement for additional inspections and routine maintenance of concrete bridges and for extra litter clearance.

12. Taking together the acceleration of the road building programme and maintenance requirements, the total amounts required for the road programme are £540m in 1990-91, £850m in 1991-92 and £1,205m in 1992-93.

13. I recognise that a bid on this scale is very substantial. In the longer term, if our expectations are realised, the private sector might be able to take up some of the burden of providing the roads which the economy needs. But it can have no significant impact in the PES period. Unless the public sector is prepared to invest now on the scale I propose we shall have no hope of keeping up with the growth of traffic on our motorway and trunk road network or enabling business to respond to the challenge of 1992. Colleagues in E(A) recognised that other spending programmes might have to make room for a greatly expanded roads programme. I fear the size of the bid I am making will not make your task any easier in that respect; but that in no way diminishes the need for the bid.

Local Transport

14. I am faced with two problems on local transport. First I must put right the damage done to local transport programmes by the maldistribution of spending power under the present capital control system: the three year legacy of underspend has to be made good. Second the success of the economy means growing problems of congestion across the whole of local transport. Although not as pronounced as on national roads it is nevertheless increasing significantly.

15. We have to consider the needs of local roads, public transport and airports separately although roads and public transport are obviously closely related. In their case the elimination of the squeeze on capital allocations means that I need to alter the balance between grants on the one hand and credit approvals derived from the Annual Capital Guidelines on the other. As a result I need your agreement to a transfer from credit approvals to TSG as well as seeking increases in the baselines.

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Local Roads

16. Local authority roads have suffered badly under the present system of controls on local capital spending. The joint review which our officials conducted confirmed the conclusions of an earlier study that we needed to maintain the real rate of investment in local roads of more than local importance at the level achieved in 1985/86. In practice there have been increasing underspends in recent years on what we planned. Minor roads have fared even worse. We now have an opportunity under the new capital finance regime to get back on target. The public and business will expect no less at a time when we are proposing to spend substantially greater sums on national roads. Local roads are vitally important as feeders to the national network, particularly for the movement of goods. We must ensure an adequate local road network too if we are to get best value for money from spending extra money to ease congestion on inter urban routes.

17. I acknowledge that the new capital finance regime goes a considerable way towards eliminating the mismatch of needs and capital spending power that exists under the present system. But it still falls short of the review target and local authorities face the same prospects of higher prices as on national roads. I recognise that local authorities will not be sufficiently geared up in 1990-91 on their preparation work to do more than achieve investment equivalent to the sum of the Annual Capital Guidelines implied by the baseline credit approvals for transport and the TSG and IDA baselines. What I need to ensure, however, is that this is targeted towards important schemes on roads of more than local importance to ensure consistency with the national roads programme and to get maximum value for money. To achieve this I must seek a transfer of £51m from credit approvals to TSG for 1990-91 carried through into the later years.

18. In addition the baselines for credit approvals and grant are insufficient to allow for anticipated price increases and they certainly do not leave sufficient room to get investment levels up to those recommended by the joint review. Furthermore, I need an additional £15m in both 1991-92 and 1992-93 if I am to implement an efficiency review recommendation that we should accept preparatory work on major schemes for TSG support two years before construction is due to start. Even without allowing for further growth in investment to meet the joint review target, I need additions to the credit approval baseline of £21m in 1991-92 and £34m in 1992-93 plus increases in TSG of £25m in 1991-92 and £35m in 1992-93.

Local public transport

19. Public transport has an equally important role to play both in relieving road congestion in a number of urban centres and in regenerating the inner cities. I am looking to involve the private sector in this on the basis of proper risk transfer and

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on the principle that users should pay through the fare box for the benefits they receive. But a public sector contribution too is unavoidable, not least because road congestion and regeneration benefits cannot be captured in fares. This means that there will normally still have to be a public sector contribution at local level, which requires credit approvals, and from my Department by way of s.56 grant.

20. The existing baseline for credit approvals only makes limited provision for the Manchester Metrolink project and there are a number of light rapid transit schemes in preparation including a privately promoted venture in Bristol. If they all prove viable the local public transport programme would have to be more than doubled to accommodate them. I am not proposing this. But I do need adequate provision for the two projects which are at a sufficiently advanced stage to be reasonably sure of their merits. These are the first stages of both the Manchester Metrolink and the Sheffield Supertram scheme. To accommodate both of them I need increases in the credit approvals baseline of £14m in 1990-91, £23m in 1991-92 and £11m in 1992-93 and increases for s.56 grant of £7m in 1990-91, £20m in 1991-92 and £21m in 1992-93. The bids for the second and third Survey years include a small element to begin investment in other light rapid transit schemes which are likely to come forward by then.

Local airports

21. Last year we made some provision for the Manchester second terminal, but not enough. It is vital that it opens in 1993 if there are not to be severe problems of congestion at what is now one of Europe's largest international airports. The advice I shall soon be receiving from the Civil Aviation Authority on airport capacity will underscore the need to press on with developing terminal facilities at the other major regional centres, not least at Birmingham and Luton. Traffic growth in the regions generally means that there is no scope for savings at other airports. We are already experiencing severe problems at many airports in the summer peak, and in view of the forecasts for future traffic growth, we must ensure adequate provision for further development of these regional airports. I therefore need additions to the baseline credit approvals of £24m, £54m and £36m.

Total bids for local transport

22. In total my bids for local transport are therefore:

	£ million		
	1990-91	1991-92	1992-93
Credit approvals	38	98	81
TSG	-	25	35
Section 56 grant	7	20	21
	<hr/>	<hr/>	<hr/>
Total bid	45	143	137

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In addition to which I need a transfer of £51m from credit approvals to TSG in all three years.

Ports

23. You have already agreed to accept a claim on the Reserve for extra severance pay in 1989-90 under the National Dock Labour Board scheme. We clearly need to make similarly adequate provision in the PES period for extra severances as the scheme is wound up. To cover this I need additions to the baseline of £7m in 1990-91 and £3m in 1991-92.

London Transportation Survey

24. We shall need in 1991 to undertake this decennial study. It provides the only comprehensive source of data on travel in London and we draw upon it extensively to model future trends. The new survey will be a major underpinning to our thinking in the 1990's about London's transport needs. In order to meet the costs I need additions to the baseline of £1m in 1990-91 and £6m in 1991-92.

Running Costs

25. As you will see from the enclosed running costs management plans, I plan to make continuing efficiency gains which across the PES period will significantly exceed the minimum 1½% annual target. It is only thanks to these savings that I expect to be able to manage within the baseline carried forward from last year's settlement for pay and prices and the generality of running costs. This is on the assumption that pay and price increases are not too far adrift from the assumptions agreed in previous PES rounds for 1990-91 and 1991-92.

26. My Department underspent its running costs provision last year but I do not expect this state of affairs to continue. To overcome recruitment difficulties in key areas, for example with civil engineers needed for the roads programme, we have been making increasing use of the new pay flexibilities, with some success. I expect we shall continue to have to do this as the labour market tightens in the 1990s. My Department is also having to find cover out of the baseline provision for centrally negotiated awards that have been significantly higher than the assumptions we made about pay increases in recent settlements. As a result of these factors I expect the past underspend to be eaten up in the Survey years.

27. Indeed I have to say that if my Department's pay bill continues to increase at the rate of the last year or two then I can foresee real problems in keeping within my baseline. To take just one example, centrally negotiated and local pay awards in the last pay round have increased DTp(C)'s pay bill by nearly 10% in 1989-90. This compares with an assumed increase of only 5½% underlying the settlement for that year. If there continues to be such a wide gap between the real increase in the paybill

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and the assumed pay increases underlying running cost settlements then there must come a point when I shall have to reopen a three year settlement for pay. But thanks to the savings we plan, and those we have already made in recent years, we have not quite reached that point yet.

28. What I am unable to do is also absorb within the baseline the demands imposed by new work, volume growth and certain specific cost pressures which were not addressed in last year's settlement. It will help to understand the position if I explain my needs in terms of Highways, the rest of the DTp(C) and DVLD.

29. There are two elements to my bid for extra resources in Highways. First, although I am already making progress in cutting the time it takes to get roads built, I need to accelerate further the delivery of schemes set out in the White Paper two years ago. To do so, I need more resources in the regions to handle them and for engineering and information technology support. In addition, I not only need front line resources in the regions to expand the size of the programme in line with the latest White Paper but extra staff are required to cope with the major demands it will create in other areas. These are needed to maintain the expanding network, to take forward the private finance initiative and to improve the M25.

30. I shall need 92 extra man-years rising to 127 by the end of the period to accelerate schemes near to the construction stage. This is a fairly modest requirement bearing in mind the volume of the extra construction and preparation activity which my programme bid will support. As a result the extra staff will generate a considerable efficiency gain.

31. I also need additional staff to expand the total programme itself. Most staff effort on road schemes is needed before construction begins and, because of the front end loading, I shall need 243 extra man-years rising to 373 by the end of the period to handle the expanded programme. We agreed last year that the running cost consequences of the expanded programme follow automatically from whatever expansion is decided. Our officials are currently considering what extra running costs are needed in 1989-90, within the ceiling of £2m which you have agreed, to support the £25m you have released from the Reserve to make a start on the expanded programme.

32. This means that in total Highways needs an extra 335 man-years in 1990-91, 443 in 1991-92 and 500 in 1992-93. To support the increase I need additions to my baseline of £10m in 1990-91, £13m in 1991-92 and £15m in 1992-93. Part of this is to carry forward into the Survey years the increase in running costs needed this year to make a start on the expanded programme.

33. For DTp(C) I must bid for two specific items not covered in last year's settlement. These are the VAT surcharge to be imposed by PSA on PRS rents and the potential costs of relocating

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staff out of London and the South East. These bids cover Highways, whose accommodation costs are brigaded within the DTp(C) totals. I realise that, when the arrangements were announced last year for the VAT surcharge, the Treasury ruled that Departments should absorb it just like any other cost increase. Frankly, at a time when I am striving to absorb real cost increases, not least much higher pay rates than we had bargained for, I cannot accept that we should also be expected to absorb a self inflicted increase like the VAT surcharge which is after all merely an accounting change and will not affect the PSBR. The bid for relocation is provisional as plans are at an early stage. But I must make some provision in order to enable my Department to realise the potential cost savings wherever possible. I would be content for this element of the bid to be ring fenced, to be adjusted to meet actual costs as they occur.

34. The management plan shows that the expected efficiency savings in DTp(C) are needed to meet cost pressures in the PES period. They are insufficient to fund the manpower I shall also need to deal with safety issues and to carry forward crucial policy work in areas like privatisation, competition and the development of new transport infrastructure. Staff are required, for example, for the newly created Aviation Security Inspectorate, in the Railways Inspectorate and for Channel Tunnel traffic enforcement. Besides safety, I need staff for the privatisation of British Rail and deregulation of London Buses and for the Channel Tunnel rail link, amongst other issues. Total staff numbers in DTp(C) should decline in the Survey period producing a net saving of 162 man years. Nevertheless, I still require additional resources to cover the costs of this new work which accounts for 133 posts, many of them requiring more highly qualified and more expensive staff than we are releasing. Taking the specific items and the staff costs together, the addition to the baseline to met the requirements in the rest of DTp(C) is £8m in 1990-91, £10m in 1991-92 and £11m in 1992-93.

35. The picture for DVLD is similar. DVLD is faced with the prospect of continuing substantial growth in its existing workload and also with new tasks. Workload in 1988/89 was 9.3% above the level of the previous year. This carries forward into 1989-90, when a further increase of 4.9% is forecast, to be followed by additional growth of 18.6% over the Survey period. As a result, DVLD will need an extra 197 man years in 1990-91, rising to 279 by the end of the period. This is on the assumption that DVLD will be able to offset some of the impact of workload growth through substantial further efficiency gains, amounting to 6.5%, 4.1% and 2.9% in the three Survey years. The increasing volume of activity also calls for additional provision for postage and stationery.

36. Extra staff are also needed to cope with new tasks. Some 157 additional man years, rising to 201 by the end of the period, are needed principally to enable DVLD to take over work currently done by the Crown Prosecution Service in order to improve the



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effectiveness of VED enforcement. This will generate over £3m a year in receipts to the Exchequer. My Department has proposed to the Efficiency Unit that an Efficiency Scrutiny of the work on VED enforcement should be carried out to see what further improvement in the arrangements might be possible. I hope that the results of this will be available by the autumn. An extra 57 man years, rising to 108 by the end of the period, will be needed for the new "Sale of Marks" initiative. I indicated last year that additional resources would be needed for this and I would like to make use of the marginal receipts concession to cover staff and other running costs to be incurred in the Sale of Marks. For an outlay of some £3-4m a year in running costs, we expect eventually to generate annual receipts of some £21m. I must also bid to cover the costs of the VAT surcharge in DVLD's case and of the Post Office agency contract. The agency costs were set aside in last year's settlement and we agreed they could be bid this year without re-opening the settlement.

37. In total DVLD needs 411 extra man years in 1990-91, 426 in 1991-92 and 588 in 1992-93. As a result, and to cover the other costs which I have mentioned, the addition to baseline is £13m in 1990-91, £17m in 1991-92 and £27m in 1992-93.

38. Although I am seeking to absorb within baseline general pay and price increases in all three areas in 1990-91 and 1991-92 I must allow for realistic increases in 1992-93 particularly bearing in mind the cumulative effects of higher than budgeted pay settlements in the earlier years of the Survey. The by now traditional 2½% uprating of the running costs baseline is clearly inadequate and I must bid on the more realistic basis that pay in 1992-93 will increase by 6% and other costs by 5%. By recent standards these are modest assumptions. Allowing for the carry through into the third year of bids I have made to cover extra manpower and other costs the requirement for pay and prices in 1992-93 is £3m for Highways, £7m for the rest of DTp(C) and £3m for DVLD.

39. My total bid for running costs is therefore:

	1990-91	<u>£ million</u> 1991-92	1992-93
<u>Highways</u>			
Additional requirements for accelerated programme	5	5	6
Expanded programme	5	8	9
Pay and prices	-	-	3
<u>Rest of DTp(C)</u>			
VAT surcharge	2	3	3
Relocation	2	3	3
New work	4	4	5
Pay and prices	-	-	7

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DVLD

Stationery/postage	1	2	2
VAT surcharge	-	1	1
PO Agency	5	8	12
Sale of marks	3	3	3
New work	2	2	2
Workload growth	2	2	3
Pay and prices	-	-	3
Total	31	40	62

40. I ought to say a word about accommodation costs. These are subject to great uncertainty, not least on the maintenance side, because of the changing relationship with PSA. I need not bid until July for maintenance, and my officials are in the process of assessing the forward requirements. Because of the uncertainties I have decided not to bid this year for rent and rates or for other costs arising out of the PSA changes. But I must reserve the right to bid these items next year when the extra costs are known. We shall in any case need to agree the conditions which will allow this year's settlement to be reopened.

41. Finally, I am not expecting major changes in manpower numbers in areas outside gross running costs. The Vehicle Inspectorate expects broadly to maintain manpower numbers across the Survey period and the Driver Testing and Training Organisation expects to reduce manpower by 85 man years by the end of the period.

Minor items

42. I have not dealt in this letter with a number of minor items and savings. As in past years, I shall try to meet any small additional requirements by transfers within my existing provision, subject to obtaining a satisfactory overall settlement. But there are two points I should mention.

43. I must enter a contingent bid for Civil Aviation Services. Eurocontrol plans to invest heavily to improve air traffic management systems in Western Europe. This would be highly desirable. The UK is pressing for Eurocontrol to finance the investment by borrowings. If it is nevertheless decided to finance it on the more traditional basis of capital payments by member states then I would need additional net provision above baseline of £2m in 1990-91, £6m in 1991-92 and £6m in 1992-93.

44. The other point concerns EUROPESE. Formally I need to bid for the £0.2m difference between the Treasury's PES 1988 and PES 1989 calculated offsets so that the difference can be reinstated in my baseline for 1990-91 and 1991-92.

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Summary

45. My total bids are therefore:

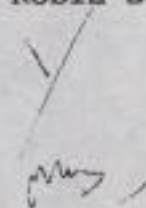
	£million		
	1990-91	1991-92	1992-93
National roads			
new construction-accelerated	325	560	665
programme			
-expanded programme	100	150	400
capital road maintenance	50	50	25
capital bridge maintenance	40	60	80
current maintenance	25	30	35
Local transport*	45	143	137
NDLB severance pay	7	3	-
London transportation survey	1	6	-
Running costs	31	40	62
Total bids	624	1,042	1,404

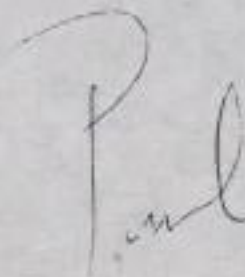
\*plus a transfer of £51m from credit approvals to grant in all three years

Contingent liabilities

46. I have, as requested, examined all my Department's outstanding contingent liabilities and those of the bodies which I sponsor. The only new or increased liabilities since we reported the position last year are new potential liabilities of up to £50m which we might incur as a result of arbitration on the dispute with the United States government over user charges at Heathrow and of up to perhaps £250,000 in the event of an unusually large compensation payment for industrial injury suffered by a trainee on the Merchant Navy Training scheme. I should say that we are vigorously defending our position in the Heathrow user charges dispute. A liability on the scale I have suggested would arise only if the US government's claim were accepted in full by the arbitration tribunal, other countries also successfully pursued claims and the UK government, rather than BAA, had to meet them.

47. I am sending copies of this letter to the Prime Minister, the Lord President, the Secretaries of State for the Environment, Scotland and Wales and to Sir Robin Butler.

  
PAUL CHANNON



Ecce Pd - PES Pr 41.

