



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/16526/81

Your ref:

23 November 1981

Bryan Jefferson

Bryan Jefferson wrote to me on 20 July, as Chairman of the Group of Eight, following the discussion at my meeting with the Group earlier that month. I am sorry it has taken some time to reply, but in the meantime I have been considering the Group's views, with those of my colleagues concerned.

Members of the Group argued in the course of the meeting, and subsequently via the Chairman's letter, that Ministers in spending Departments are taking decisions on their capital programmes on the basis of inadequate information. From the evidence available, however, I would not accept that there are serious weaknesses in the Government's information gathering system.

In the case of the NHS it was asserted that the DHSS has no adequate information on the extent and condition of the health service estate. The collection and maintenance of up-to-date detailed knowledge of the estates for which they are responsible is an essential part of the management responsibilities of all health authorities. Through its Advisory Group on Estate Management the Department encourages authorities to keep proper records of their estates, and in its Code of Estate Management has provided guidance on estate records. The Estate information, both at district and regional levels, which will be reflected in the strategic plans and capital programmes submitted to the Department, provides the necessary base upon which the Government can determine an appropriate level of capital investment in the NHS.

On roads the Department of Transport was criticised for reducing the trunk and motorway programme in the face of unexpected increases in heavy goods traffic. Traffic growth has in fact proved rather less rapid than was envisaged when some of the Department's earlier plans were made. For instance in 1970 a White Paper predicted 9 million extra cars by 1985, while now only another 6 million are expected. Earlier estimates of heavy goods traffic have also proved to be too high. At the most the mileage driven by heavy lorries is expected to increase by just 8% by the end of the century, and there could even be a fall.

concentration of heavy lorries on the main arteries and the increase in average weight have certainly been greater than expected but this means not that we need more roads, but that we need stronger roads, and, in a very few cases, wider ones. These developments are taken account of in the specification of new roads, in the much increased programme for the strengthening and renewal of older motorways, and in the schemes to widen the hard pressed sections of M1 and M5.

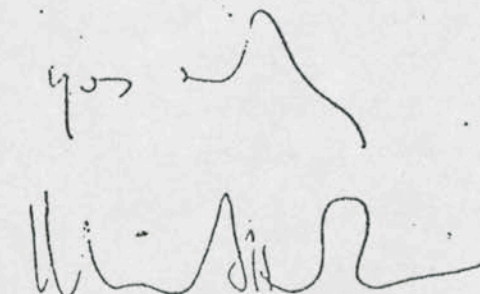
In the field of education the Group recognised that the level of investment in educational building has not been prejudiced by lack of information either about demand or the condition of the estate, which are well covered by demographic and survey data, and by contacts with the educational authorities. Economic circumstances have however so far prevented the Department of Education and Science from seizing to the best advantage the opportunities offered by falling school rolls for improving the building stock. But the Department has encouraged LEAs to get the most out of the limited improvement programme that we can afford by linking investment with rationalisation as school rolls fall.

On a matter within my own remit, namely water and sewerage, it was argued that there was no proper investigation of the rate of deterioration of the system. Each year however the Water Authorities in England make available to this Department their Annual Plans which include a prospective 5 year programme of capital investment based upon the needs of each region as perceived by the relevant authority. The level of investment planned takes account of the required level of charges to finance operations, as well as local priorities for investment.

All the water authorities are aware of the need to monitor the condition of their buried assets, and have mounted local surveys to establish the position. In addition the Water Research Centre is co-ordinating a research programme to develop new equipment and techniques to enable the more effective use of resources. So far there are no indications that the authorities in aggregate feel that any substantial increase is necessary in the level of investment needed in the short term. I am satisfied that in this way an adequate picture of the needs of the water industry in England is available to me.

As far as housing is concerned, apart from the very detailed information available to us from major surveys such as the House Condition Surveys and the National Dwelling and Household Survey, we also have the benefit of the extensive authority by authority information in local authorities' annual HIP returns.

I hope that this further background information is helpful but as I am sure you will appreciate decisions about capital expenditure must ultimately reflect the Government's view of economic policy as a whole.



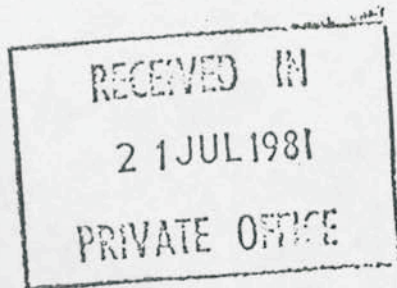
MICHAEL HESELTINE

cc Mr Stanley
Adv pl Mr Balls.

Royal Institute of British Architects 66 Portland Place London W1N 4AD ☎ 01-580 55

From the President's Office

20 July 1981



Dear Secretary of State,

I am writing on behalf of the Group of Eight about our meeting on 9 July.

My colleagues and I do not accept that because decisions by government as a whole and by the ministers of spending departments must in the last analysis be political decisions, the inadequacy of present assessment procedures can be justified.

It is not good enough that after 30 years DHSS still has inadequate information about the extent and condition of the NHS estate. It is not good enough that the so-called 'finite' trunk and motorway requirement of the country should have shrunk despite unforeseen growth in heavy goods traffic. It is not good enough that there is still no proper regime of investigation to determine the rate of deterioration, in some cases even the extent, of the water and sewerage system.

The industry has a right to expect of sponsorship that reliable assessment procedures should exist in Whitehall and that ministerial decisions should be taken in the light of the information they reveal. Only then is there a reasonable likelihood that the extravagantly volatile demands that have plagued the industry can be moderated. Only then can an excessive backlog of demand be prevented which inevitably creates inflationary pressures on the supply of labour and materials and damages the quality of professional services.

We value your undertaking on 9 July to discuss the findings of our official discussions with your colleagues and look forward to hearing the outcome.

As I also mentioned at our meeting the Group do not believe that the Government's medium term economic strategy can do anything but damage our industry still further. The Group will be meeting backbench Tory MPs tomorrow, 21 July, to develop these views, which they will wish to discuss further with ministers in the autumn.

Yours sincerely

Bryan Jefferson

BRYAN JEFFERSON
Immediate Past President

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



THE GROUP OF EIGHT AND PUBLIC INVESTMENT

The Group's main conclusions on public investment appraisal methods, arising from their meetings with Departmental officials are as follows:

(i) Health

The NHS has been in existence for over 30 years but the responsible department still has no minimum set of estate records from which to identify, programme and defend appropriate building allocations in the annual public expenditure round.

(ii) Education

Annual expenditure is running far below the level identified by DES as necessary to bring older schools (especially in the inner urban areas) up to acceptable standards or prevent further deterioration. DES are well-informed about the condition and requirements of the educational estate, but concerned at the way in which allocations have been affected by the overall vulnerability of construction programmes in government.

(iii) Transport

The trunk and motorway network is described as 'finite'; that is, the national requirement is said to be precise and discernible. Yet it is also conceded that it was not anticipated in the 60s and early 70s just how rapidly heavy freight traffic would build up, the extent to which it would cause deterioration of the road structure, or the seriousness of the disruption that would be caused by major reconstruction. (The extent and duration of this disruption is now receiving considerable publicity.) Yet the 'finite' trunk and motorway network was in the sixties and early seventies planned to be a great deal more extensive than is now the case. The real inadequacy of the existing network and the full impact of disruptive reconstruction is likely to occur at precisely the moment when the contribution of an efficient transport system to economic recovery is most needed.

(iv) Water and Sewerage

The means whereby capital expenditure in the water and sewerage system is financed by water authorities largely from revenue is resulting in inadequate investigation of the rate at which the system is deteriorating (massive leakage from the water distribution system; accelerating collapse of the sewerage system, especially in older urban areas). Expenditure bears no planned relationship to the extent and condition of the system but is elastic to assumptions about the resources that might be available.

(v) Housing

This was the one field in which no effective exchange was possible as ministers had instructed that officials should not enter into discussion of the criteria on which political decisions had been made about the level of public sector expenditure on housing. All informed observers, including the economic staff of the Group organisations, believe that the present administration has taken the political decision to achieve a high proportion of their cuts in public expenditure by cutting housing and that this has been done without regard to need, in terms either of social need or the condition of the housing stock. The consequences of these cuts for the capacity of the industry are exceedingly serious.