



DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

mt

11 October 1982

Dear Prime Minister,

I attach a detailed brief that has been prepared for your meeting with the Group of Eight. It may be helpful if I bring out some key points.

The Group of Eight are our main channel of communication with the construction industry and comprise the Presidents of the 6 major employers and professional organisations in the industry and the Secretary Generals of the 2 major unions.

The fact that you have agreed to meet the Group is a major plus for the Government within the industry.

The Group can be expected to focus on their two familiar themes:

- the severity of the difficulties of the construction industry and industries
- the need for more public expenditure.

Though unemployment in the construction industry is undoubtedly severe (up from 160,000 in May 1979 to 366,000 in May this year - but the official figures exclude the self-employed), I suggest that a robust line can justifiably be taken against the Group's criticisms of Government policy. You may like to consider drawing on the following 8 points:

1. Economic Policy

Of the whole of British industry, the construction sector stands to be the biggest single beneficiary in the 1980s of the Government's success in reducing inflation. The runaway inflation of the 1970s, fuelled in particular by an explosion in public current expenditure, would have been fatal for the industry if continued into the 1980s.

*brief in
buff folder
attached to
the file.*

Housing

2. Public Expenditure

The main need at the moment is not to increase the provision for public expenditure on construction, but to use the existing provision fully.

£430
£150
£70
765

In 1981-82 there were significant underspends on housing (£430m), local authority capital other than housing (£150m) and water (£70m). Also nationalised industries underspent their capital provisions by £765m, although part of this may have been necessary to keep within external financing limits. The first indications are that there will be a significant underspend again this year.

We would welcome the Group of Eight's contribution to urging local authorities to spend the capital provision that the Government has already made available.

3. New Housebuilding

Private sector starts have risen substantially over the last 18 months. 1981 starts in Great Britain were 18% up on 1980, and starts in the first 8 months of 1982 are up a further 20% on the corresponding period of 1981.

Public sector starts have now recovered and in the first 8 months of 1982 were 56% up on the same period in 1981. (All the figures are seasonally adjusted).

4. Home Improvement

This is buoyant.

In the first 6 months of this year, the number of home improvement grants paid in England were the highest for 7 years (ie since 1975 when the home improvement boom of the last Conservative Government was still being felt).

I have also just announced the extension of the last Budget's 90% home improvement grant scheme from 31 December 1982 to 31 March 1984.

5. Nationalised Industry Investment

The provision for capital investment by the nationalised industries this year is 26% higher in cash terms than their 1981-2 outturn.

The Government has given the go-ahead to a number of major new investment projects in this sector with a large construction component - eg the development of the Morecambe gas field, the Rough offshore storage project, the Heysham 2 and Torness nuclear power stations.

6. Commercial Sector

In the private sector it is not only housing and home improvement that has recovered strongly. Despite the recession, the commercial sector (offices and shops) has been extraordinarily buoyant. New orders in the commercial sector last year were the highest in real terms since 1974.

7. Construction New Orders and Output Generally

Though public housing is historically at a low level and though industrial new building is weak, total new orders for construction in 1981 were 7% higher in real terms than in 1980 and have maintained this level so far this year.

Recovery in output will follow the recovery in new orders. Already the fall in construction output has stopped and output this year is at the same level as last.

8. Exports and Inward Investment

Government Ministers, not least yourself, have given unprecedented personal support to the British construction industry in the export market and to attracting inward construction investment to the UK from overseas.

Output of construction exports was 16% up in cash terms in 1981-2 compared to the previous year and the outlook for the future looks even better with new orders up in 1981-82 over one-third.

To encourage more inward construction investment from overseas we have produced in the Department the attached "Build in Britain" guide which I am launching at the end of October. It will be used in a variety of languages by our Embassies and Consular Offices all round the world.

I hope this is of some assistance.

John Stanley

JOHN STANLEY

700-800

BRIEFING FOR PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT : FRIDAY 15TH OCTOBER 1982

COVER NOTE

1. The Group of Eight requested the meeting in order to tell the Prime Minister "at first hand how the construction industry can contribute to the revival of confidence, to the stimulation of private investment, to the rapid relief of unemployment and to economic recovery" (their letter at A).

The Group of Eight

2. The Group was established in 1977 to lobby the then Government in the wake of the 1976 public expenditure cuts. Its present importance dates from May 1979, when a complex system of construction industry consultative councils and liaison groups was abolished. The Group met the Chancellor last December, and have of late met DOE Ministers two or three times a year. The union members have several times recently threatened to pull out, over what they see as the employers' reluctance to lobby the Government strongly enough. Despite these internal tensions, however, the Group represents an effective and relatively informal means for the Government to keep a finger on the construction industry's pulse. A list of the members is at B; all 8 are expected to be present.

The State of the Industry and the Group's main concerns

3. A note on the industry's significance and its current state is at C. The Group's main concern is with the industry's workload and they will press for an additional injection of public funds into construction work. The Prime Minister will recall her recent exchange of correspondence (at D) with Malcolm Fordy, President of the NFBTE and a member of the Group. Mr Fordy took the view that the fall in interest rates and encouraging statistics in some areas, such as private housebuilding, were not enough to offset what he saw as

"an acute crisis which can largely be attributed to the direct impact of capital expenditure cuts from the public programme".

4. The Group are likely to argue that public expenditure cuts have had a disproportionately heavy effect upon the construction industry, since they have been achieved by reducing capital expenditure. When they met the Chancellor last December, the Group argued that the construction industry was an essential and integral part of the economy, and that if activity were allowed to fall to too low a level, it would not be in a position to respond to signs of economic recovery.

Line to take

5. The Group have sought the meeting. The Prime Minister will want to listen to their case. Assuming that they do seek a shot in the arm for construction in the form of an increase in public sector capital programmes, the Prime Minister might take the following line.

"Recognise the importance of the construction industry to the economy, and the extent of its current difficulties. The Government do watch this carefully. A specific table has been included since 1979 in the annual public expenditure White Paper giving the projected public sector workload of the industry. Michael Heseltine and John Stanley meet the Group of Eight regularly, and attend meetings of the Building and Civil Engineering EDCs.

The industry's problems result partly from the world recession and partly from Britain's internal economic problems. The Government cannot isolate the industry from a world recession. The road to domestic economic recovery is not an easy one, but the results of several years of sustained effort are now beginning to show. Interest rates have dropped ~~5.1%~~ since last October. Mortgage rates have fallen from 15% at their peak to

12% now. Inflation is down to 8%. Reduction in the National Insurance Surcharge will benefit private sector employers by £640 million in 1982-3. Hope Chancellor of Exchequer will have freedom of manoeuvre for further benefits. But the important thing is not to jeopardise the strategy. No doubt increased investment in infrastructure is less harmful than some alternatives. But it still increases public borrowing and would tend to increase inflation.

The Government has taken many steps to help the construction industry. It was singled out for special treatment in two successive Budgets. Obstacles to development such as Office Development Permits and Industrial Development Certificates have been removed. Planning procedures have been streamlined. Land has been released for development through land registers and the sale of publicly owned land. Government has brought in the most extensive range of low-cost home ownership opportunities since the war.

Our prospects for the future depend on our wider strategy for economic recovery, and they must not be jeopardised. Britain must earn its living in the world, and the splendid performance of construction exports is setting a fine example. Cannot anticipate the Chancellor's Budget proposals, or make promises about specific help for the industry. However, the case has been heard and will be taken into account in discussions about public expenditure for the next financial year."

More detailed matters

6. Notes are attached as follows:
- E - economic briefing, including capital expenditure options;
 - F - more detailed list of Government measures assisting the construction industry;
 - G - more detailed appraisal of encouraging statistics;
 - H - allocations for public sector investment, and

underspending by public bodies;

- J - unemployment in the construction industry;
- K - new training initiatives;
- L - the Government's methods of assessing need for new construction;
- M - the hospital building programme.

ANNEXES TO BRIEF

- A : The Group's letter.
- B : The members.
- C : Construction: the Industry ^{and} ~~and~~ its present state.
- D : Exchange of correspondence with Malcolm Fordy.
- E : Economic Issues: Public Sector Capital Investment in Construction, possible Fiscal Measures, an increase in capital expenditure compared with other options.
- F : Measures to help the Construction Industry
- G : Signs of revival in the Industry's fortunes
- H : Allocations for Investment and Underspending by public bodies.
- J : Unemployment in Construction.
- K : New training initiatives.
- L : Government's method of assessing need for new construction.
- M : The hospital building programme.



A

Royal Institute of British Architects 66 Portland Place London W1N 4AD ☎ 01-530 5533

25 August 1982 ²²⁶

The Rt Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London SW1.

HE (POD) PM
CC DS (L01)

A

Dear Prime Minister,

We write as the Group of Eight, representing employers, operatives, professionals and manufacturers in the construction industry, asking you to meet us in September about the part in the economy our industry should be playing.

The Secretary of State for the Environment has made the Group his principal channel of contact with the industry at the strategic level. We meet him regularly and believe he understands our views. We met the Chancellor last December: from his Budget speech it is clear he recognises the importance of the construction industry to the economy and employment but the Budget itself did little to harness the under-used resources of the industry as a whole.

In September you will be considering with your Cabinet colleagues the extent and character of public expenditure for the next financial year. We think it vital you should hear from us at first hand how the construction industry can contribute to the revival of confidence, to the stimulation of private investment, to the rapid relief of unemployment and to economic recovery.

We hope you will agree to see us.

A copy of this letter goes to Michael Heseltine as our sponsoring minister.

Yours sincerely,

John V. Bartlett

John Bartlett

Owen Luder

Owen Luder

Malcolm Fordy

Malcolm Fordy

Leslie Sallabank

George Henderson

George Henderson

Roy Swanston

Roy Swanston

Paul Hyde-Thomson

Paul Hyde-Thomson

Les Wood

Les Wood

Les Wood

(— | — | — | —)
MEMBERS OF THE GROUP OF EIGHT

IAN CAMPBELL
President
Institution of Civil Engineers
Senior Partner Mott Hay & Anderson

MALCOLM FORDY
President
National Federation of Building Trades Employers
Chairman & Managing Director of small (£5m p.a turnover) family
business in Co Durham, Member of House Builders' Federation,
CBI and Construction Industry Training Board

GEORGE HENDERSON
National Secretary, Building Crafts Sector
Transport & General Workers Union

✓ PAUL HYDE-THOMSON
President
National Council of Building Material Producers
Chairman, Ibstock Johnson, brick manufacturers

→ ✓ OWEN LUDER
President
Royal Institute of British Architects
Runs his own practice, the Owen Luder Partnership

PHILIP BECK
Chairman
Federation of Civil Engineering Contractors
Chairman of John Mowlem Company plc

ROY SWANSTON
President QS Division
Royal Institution of Chartered Surveyors
Director Construction Services, Cheshire County Council

LES WOOD
General Secretary
Union of Construction, Allied Trades & Technicians

Secretary
PATRICK HARRISON
Secretary, Royal Institute of British Architects

Overseas

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Sweden
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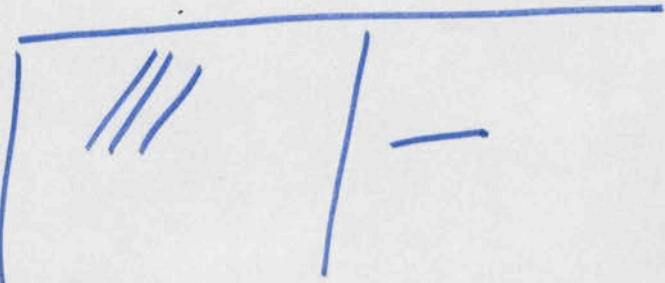
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L.F.L.
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MEMBERS OF THE GROUP OF EIGHT

IAN CAMPBELL

President
Institution of Civil Engineers
Senior Partner Mott Hay & Anderson

B
(cont)

MALCOLM FORDY

President
National Federation of Building Trades Employers
Chairman & Managing Director of small (£5m p.a turnover) family
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LES WOOD

General Secretary
Union of Construction, Allied Trades & Technicians

Secretary

PATRICK HARRISON

Secretary, Royal Institute of British Architects

PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

CONSTRUCTION: THE INDUSTRY AND ITS PRESENT CONDITION

Background

1. The construction industry accounts for 11% of GDP, and its output in 1981 was over £21 billion, split roughly equally between building and civil engineering. About half the industry's workload is provided by the public sector, but the proportion rises towards 90% for civil engineering. Including the manufacture of materials, the industry employs about $1\frac{3}{4}$ million people. The top 50 companies together account for about 15% of both employment and output, plus a significant proportion of the work of smaller firms through sub-contracting. Small firms predominate, however; there are about 110,000 firms in the industry, of which about 80% employ 7 people or less.

Output - Total

2. Construction output fell by 12% in 1981. This followed a drop of 4% in 1979 and a further 5% in 1980 - a cumulative fall of 20% since 1978. Output is expected to remain at around the 1981 level this year. In July the National Council of Building Material Producers forecast a further 1% fall for 1982, while NEDO's latest forecast (June) is for a 1% rise in output this year. Both predict a rise of about 3% next year.

3. Output in the first quarter of 1982 rose 1% on the previous quarter and remained static in the second quarter. However, output for the first 6 months was still 2% down on the first half of 1981.

New Orders

The latest revised figures show that orders for construction work in 1981 were up 7% on 1980. Excluding exceptional large public works orders such as the 4th terminal at Heathrow (there is no reason for doing so, but in arguments about workload it suits the industry to make much of the point that large orders turn into output only over many years) orders were still significantly higher.

5. Orders in the second quarter were down 3% on the same period of 1981, and 7% down on the previous quarter, as the latest figures have not sustained the higher levels reached in February and March, particularly in the housing and public works sectors. Nonetheless, public housing orders are still up 42% and private housing orders up 39%, on a year ago. Commercial orders are unchanged on the year. However, industrial orders are down by 11% on the same period of 1981, and public works orders have dropped by 26%. The latest provisional figures for July show much the same picture as for June in terms of total new orders. A slight fall in public housing and private commercial

orders was offset by a relatively high result for private sector industrial orders.

Housebuilding

6. Housing starts for 1981 were 1% down at 152,700 - the lowest total since the war. Within that total private starts were up 18% to 115,800 while public starts were down 34% to 36,900. Completions fell 15% to 198,200, with public housing declining slightly faster than private. The encouraging recovery in both public and private starts early this year has weakened somewhat, but figures are still well up on last year. In the 3 months May to July public starts were 27% down on the previous 3 months but 31% higher than a year earlier, while for private starts the respective figures are down 12% and up 15%.

(D)

82 NEW CAVENDISH STREET

LONDON W1M 8AD

01-580 5588

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FOUNDED 23rd JANUARY 1878

The National Federation of Building Trades Employers

FROM THE PRESIDENT

GMF/LP

Rt. Hon. Margaret Thatcher MP
10 Downing Street
London SW1

R9/a
by hand

EB

APS/Tsy u D&E
for pte security rating

8 September 1982 HJ

John Paul Austin

Thank you for your letter of 11 August in reply to my earlier letter about the depressed state of the industry. I greatly welcome your appreciation of the particular difficulties which we face in this recession, but I would like to see the Government turn this concern into some positive action.

Although we shall be releasing your letter with a short factual statement on the state of the industry, I think you would agree that any further public exchange of letters between us would not be helpful. I am therefore writing to you now in a strictly private and personal vein to convey, I hope, just how strongly so many of my members feel, not just about their own firms' undoubtedly tough prospects, but even more so about the large and almost irreparable decline in the employment opportunities, apprentice intakes and skilled labour capacity which our industry can now offer.

We are delighted that interest rates are falling, although our borrowing costs are still much too high. There have, as you say, been some encouraging statistics in certain areas, particularly private housebuilding in the first quarter of this year, but these frankly are the exceptions to what is generally a stagnant overall picture for new orders and enquiries throughout the majority of the industry.

When I look beyond these few selected statistics at what is actually happening amongst building firms throughout the country outside London, I do assure you that I see few, if any, signs whatsoever of the general recovery and confidence which you are expecting. I am not exaggerating when I say that the industry now faces an acute crisis which can largely be attributed to the direct impact of capital expenditure cuts from the public programme.

.../

Between 1979 and 1981 it was builders who primarily suffered from the concentration of the public expenditure cuts on capital programmes. Large numbers of permanent "real" jobs and skilled tradesmen were lost to the industry in that period. Our members then saw vast amounts of public resources being urgently pumped into short-term, current expenditure projects to create artificial jobs and keep down the headline unemployment figures which those original capital cuts had boosted. This is not the policy for investment, for enterprise and for small business which we supported in the last General Election.

The Government has encouraged new firms to start up, whilst at the same time effectively putting sound builders out of business through these capital cutbacks. Equally your efforts to promote youth employment are being nullified by the redundancies which the capital cuts have caused among young people already serving apprenticeships. I hope that this autumn you will look seriously again at your public expenditure priorities. Your Budget measures, although welcome, need to be substantially reinforced if a significant impact is to be made upon the bleak prospects facing many thousands of medium-sized and smaller building firms.

I do hope therefore that you will accede to the recent request from the "Group of Eight" for a meeting and give my colleagues and myself on the Group the opportunity of developing these points personally with you. As you know, the Group represents all construction interests and is recognised as the prime channel of communication between Government and the industry.

I have expressed my observations strongly and honestly in this letter, but from the standpoint of one who shares your fundamental aims of encouraging a free enterprise, energetic society geared to creating rather than squabbling over wealth and who actively supports the Conservative Party and the principles which it represents. I do not want our industry to be artificially insulated from the recession but I do think that you could be flexible in tilting the balance of public expenditure more towards capital expenditure on construction, without sacrificing your underlying objectives of squeezing out inflation and restoring incentives for enterprise.

Tom Jones
Michael Fordy

G.M. Fordy



National Federation of Building Trades Employers

News Release

Contact: Alan Hughes - 01-580 5588 (Home: Horsham [0403] 52485)
For publication: 00.01hrs, THURSDAY, SEPTEMBER 9

SCOPE FOR CONSTRUCTION INVESTMENT

The more optimistic trading prospect for the construction industry identified by the Prime Minister recently has not been borne out across the great bulk of the industry, Malcolm Fordy, President of the National Federation of Building Trades Employers says in a statement today (Thursday, September 9).

"NFBTE's view is that workload prospects for the construction industry have, at best, flattened out at their exceptionally low levels," Mr. Fordy says.

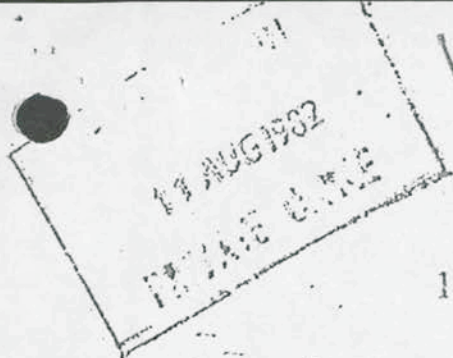
"So, while the steady reduction in inflation and recent falls in interest rates - although these remain unacceptably high - benefit my industry, I remain convinced that there is scope within public expenditure plans for a modest increase in construction capital investment programmes without the risk of reversing the downward trend in inflation.

"My Federation will therefore be continuing its representations to Government with this objective in view."



NOTE TO EDITORS:-

Mr. Fordy wrote an open letter to the Prime Minister at the time of the NFBTE's July State of Trade Enquiry and I am attaching a copy of this together with the Prime Minister's response, for your information.



10 DOWNING STREET

THE PRIME MINISTER

11 August 1982

Copies to Mr. Renth
Mr. Balls
Mr. Rayplaxen
Mr. Utson
J. 12.8.

Dear Mr. Fandy,

Thank you for your letter of 22 July about the problems facing the construction industry.

I do very much appreciate the difficulties which your industry has been facing during the present recession. However, I cannot accept that the picture is quite as gloomy as you suggest. Although, as you say, there are differences between regions and sectors, recent statistics do contain encouraging signs. On a seasonally adjusted basis, public sector housing starts in the first half of 1982 were 60% up on a year ago; private sector housing starts were 20% up on the same basis. The total number of dwellings renovated with the aid of grant or subsidy in the first quarter of 1982 (the latest for which figures are available) were about one quarter up on the corresponding period last year. Total output in the construction industry was 1% higher in the first quarter of this year than in the previous quarter, while in the last three months, total construction orders were 11% higher in real terms than a year ago. Commercial orders were 10% higher and so far this year have been at their highest level in real terms for any year since 1973.

More generally, the construction industry will benefit from our success in bringing down the rate of inflation and interest rates. The recent announcement by the Building Societies Association of a recommended reduction of 1½% in the mortgage interest rate also suggests that the outlook for the construction

/industry

industry is now better than it has been for some time.

Nevertheless, as I indicated above, I am conscious that the construction industry has faced more acute problems during the present recession than most other parts of British industry. This was one of the reasons why the Chancellor singled out the construction industry for special treatment in two successive Budgets. Taken together the measures in the 1981 and 1982 Budgets have gone some way towards helping the industry to meet the effects of the current recession although it is too early to judge their full impact. As you know, in his 1981 Budget the Chancellor increased the initial capital allowance for industrial buildings from 50% to 75% and made a number of concessions in the field of Development Land Tax. In his 1982 Budget, to encourage the take up of spare capacity in the industry in 1982-83, he announced that the value of grants for major repairs and for the provision of basic amenities would be raised from 75% to 90% of eligible cost for a limited period and that a total of some £100 million would be added to local authorities capital expenditure allocations for this purpose. In all, the cost of these and other measures announced in the 1982 Budget will be worth some £240 million to the construction industry in 1982-83.

No Government can insulate the construction or any other industry fully from the effects of a recession. Public expenditure on capital works, if financed by borrowing which the economy cannot sustain, only leads to higher inflation. If financed by taxation, it inhibits initiative and enterprise. Whatever it is, it is not a painless way of stimulating the economy.

I was pleased to see you reiterate your support for our goal of creating a climate which will secure a permanent reduction in inflation and lead to sustained increase in output and employment. We remain convinced that it is the one sure way

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of improving the prospects for British industry - and that includes the construction industry.

Yours sincerely
Raymond Stelter

G.M. Fordy, Esq.



FOUNDED 23rd JANUARY 1873

*The National Federation of
Building Trades Employers*

FROM THE PRESIDENT

GMF/JRS/038

Rt. Hon. Margaret Thatcher MP
10 Downing Street
London SW1

22 July 1982

Dear Prime Minister,

As Parliament approaches the summer recess, I wish that our remarkable national successes in the South Atlantic were being matched by reviving confidence from the construction industry. But if I pretended this were so I would be disloyal to my fellow-builders - especially to those who, like myself, operate the small-to-medium-sized family firms which are the backbone of our industry throughout the less prosperous regions outside the metropolis, and have probably been hit hardest, longest and most damagingly in this recession.

My Federation has just completed its latest Quarterly State of Trade Enquiry and I am enclosing a copy of the results. It shows that recession continues - a recession of unrelieved length and depth. Forward indicators of construction prospects first turned downwards in the middle of 1979 and then declined at an unprecedented rate during 1980 and early 1981. This rate of decline steadied during last year but showed no signs of ceasing, let alone being turned round. We looked hard for confidence-boosting signals when three months ago, in the wake of the excellent Budget publicity, our members seemed to show rather less pessimism and for the first time in three years some of our State of Trade measures improved a little - but things have remained stagnant since then and, as the enclosed graphs show, there are still many more builders who say that new enquiries and output are declining than those who report a pick-up.

The longer that this low and declining level of activity continues, the harder it becomes for even the best companies to operate efficiently, to plan ahead and to maintain an adequate investment in new trainees, skilled craftsmen and well-motivated management. In many areas away from the South East of England the prospect is particularly bleak - and that goes for other industries as well.

Our analysis of the Department of the Environment's new orders statistics shows that such growth as has occurred in the past twelve months has been particularly concentrated on office developments and -

.../

to a lesser extent - large transport projects in the South of England. By contrast, new orders for the wider range of regular medium and smaller size projects throughout the out-lying regions of England has remained thoroughly depressed. Even the much-heralded spring surge in private housing starts has not been reflected in builders' completions; actual sales have not matched the temporary increase in starts. Discounting month by month fluctuations the overall trend of new orders figures to the industry during the past 18 months has been 20% below the average from 1974 - 78 during which the industry was last in recession.

Between now and October, you and your Cabinet colleagues will be making the critical decisions on public expenditure plans for the next financial year 1983/4. I believe that the economic and employment-generating case for increased public capital expenditure upon construction has been persuasively made to your Government and has been fully recognised, not least by the Chancellor of the Exchequer in his last Budget Statement.

Surely the strong fiscal control you have established enables you without serious risk to the important battle against inflation, to launch a modest, steady and effective programme of investment which would give just that necessary sign of confidence to keep good firms, skilled resources and productive capacity in our industry. Unless tangible signs of a workload recovery in both the private and public sectors become clear very soon many more firms, even amongst the very best, will enter a new round of labour shedding and faster reduction of apprentice intakes - if indeed they can continue in business at all. But with such an initiative, the many firms who have up to now loyally supported the main thrust of your firm financial policies, will begin to reap the rewards of improved working methods gained in the past two years. That will be good for output, good for jobs and good for the nation as a whole.

Finally, because of the deep concern felt by our members at our industry's trading prospects I should say that I am intending to release the contents of this letter to the media.

Yours sincerely,
Gordon Fordy

G.M. Fordy

NFBTE STATE OF TRADE ENQUIRY

JUNE 1982

ECONOMIC ANALYSIS

Analysis of the June NFBTE State of Trade Enquiry, based on replies from 500 contractors, suggests that the hints of a strengthening recovery seen at the March State of Trade Enquiry have not been fulfilled. The enquiries and output indicators both suggest that although the position is not deteriorating as rapidly as in 1980 and 1981, the number of respondents reporting worsening market conditions still outweighs those experiencing market growth. Perhaps the most depressing factor is that no single sector of the industry is experiencing even moderate growth and the Enquiry confirms recent industry (BMP) forecasts of virtual stagnation this year.

New Enquiries

There has been very little change in the New Enquiries indicator this quarter. The ratio of contractors reporting increased enquiries for "all works" against those reporting falling enquiries now stands at 1:1½ (18% to 30%) as compared with 1:1½ (20% to 35%) at the previous Enquiry. This is a disappointing result after the modest improvement seen at the March Enquiry and suggests that the ratio has now stabilised.

As with the "all works" indicator, individual sectors of the industry have seen virtually no change in the enquiries ratio this quarter. The only exceptions are public housebuilding and housing repair and maintenance, in both of which there has been a very slight improvement in the ratio, although it remains negative in both cases. (Public housing 15:43, housing repair and maintenance 20:23). The private housing ratio, which improved dramatically at the last Enquiry, has remained virtually unchanged; suggesting that recovery in this sector has also faltered. Regional analysis suggests that overall figures conceal marked discrepancies between regions, with Yorkshire, North-Western, Liverpool and South Western regions, all worse-hit than the average for "all works" for the country as a whole would suggest.

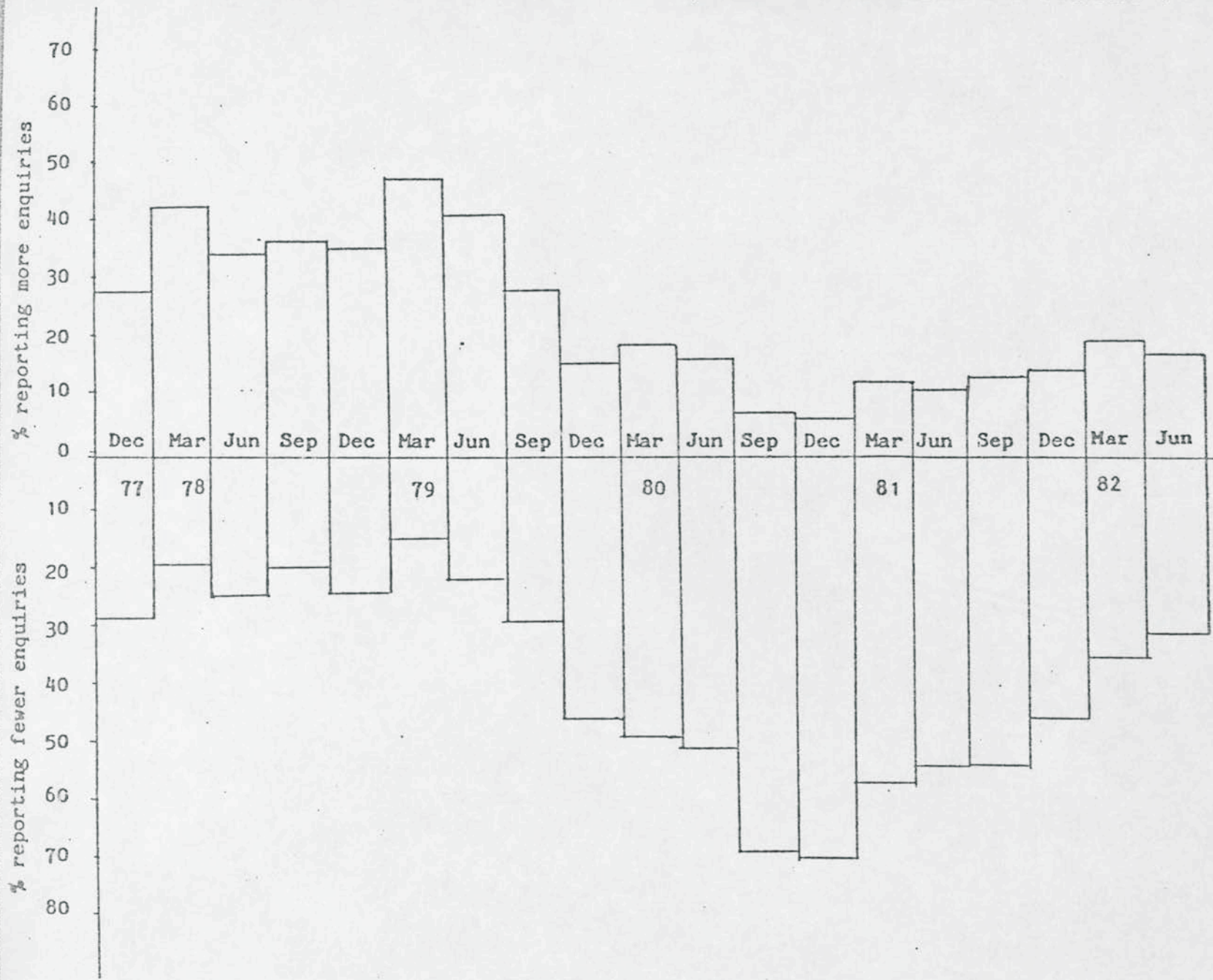
Volume of Work

Expectations for output remain virtually unchanged since the previous Enquiry. 20% of contractors expect output to increase this year, whilst 44% expect output to fall. These results are once again better than those for 1981 when two-thirds of respondents expected output to fall, but they do not point to an upturn in 1982. The results suggest that at best output should stabilise this year, whilst a further small drop in output cannot be ruled out.

Capacity of Operations

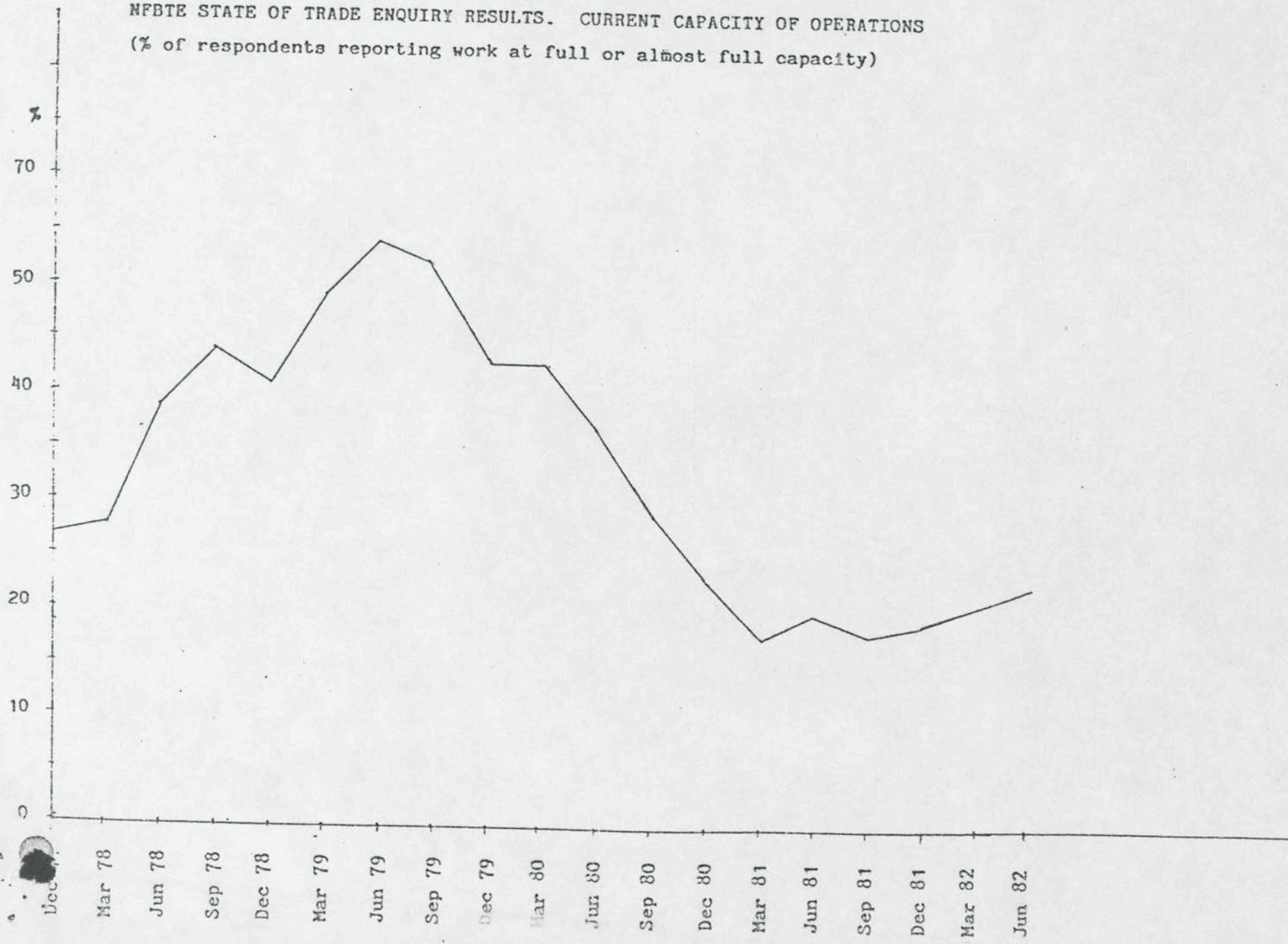
The number of contractors working at full or almost full capacity has risen slightly to 23%, exactly the same percentage as the number of contractors working at half or less than half capacity. However, this moderately optimistic picture is counterbalanced by some extremely gloomy regional results - worst-hit are Liverpool and Northern Regions. In Liverpool, only 4% of contractors are working at full or almost full capacity, whilst 52% of contractors are working at less than half capacity. Northern Region is similarly depressed, with only 6% of contractors working at full or almost full capacity and 50% of contractors working at less than half capacity.

NFBTE STATE OF TRADE ENQUIRY - NEW ENQUIRIES FOR WORK RELATIVE TO PREVIOUS QUARTER





NFBTE STATE OF TRADE ENQUIRY RESULTS. CURRENT CAPACITY OF OPERATIONS
(% of respondents reporting work at full or almost full capacity)



PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

Economic issues: Public Sector Capital Investment in Construction, possible Fiscal Measures, Etc

Factual

- (i) Gross domestic fixed capital formation totalled £39.3 billion in 1981 or 19 per cent of GDP. Within total GDFC, £27.8 billion (or 70 per cent) undertaken by private sector, £4,601 billion (or 11½ per cent) by general government and £6.9 billion (or 18.5 per cent) by public corporations.
- (ii) Expenditure on dwellings or other new buildings (which is of particular concern to construction industry) was £19.2 billion (or 49 per cent of GDFCF) in 1981. Of this £3.8 billion was undertaken by general government (20 per cent) and £2.9 billion by public corporations ie approximately 35 per cent of new construction was undertaken by public sector and almost 60 per cent of this was undertaken by general government. However, impact of government goes beyond this and includes indirect (and less easily quantifiable) effects produced by current expenditure on goods and services which may stimulate new construction elsewhere in economy. Thus, impact of public sector and of direct government expenditure on construction industry is undoubtedly sizeable.
- (iii) Capital expenditure on construction work by public sector from 1979-80 to 1982-83 estimated and planned as follows:

CAPITAL EXPENDITURE ON CONSTRUCTION WORK

	Public Sector - £ billion cash			
	1979-80 outturn	1980-81 outturn	1981-82 estimated outturn	1982-83 plans
Grand Total	8.2	9.1	9.0	10.3
:of which nationalised industries	1.0	1.3	1.4	1.4

With minor exceptions, figures relate to construction component of capital expenditure and exclude repair and maintenance work, which

accounts for 40 per cent of public sector expenditure on construction. The planned total for 1982-83 of £10.3 bn is an increase in spending of about 14 per cent on previous year.

(iv) Along with many sectors of manufacturing, construction is among those industries most affected by recession. Compared with 1979 H1 construction output is down 16 per cent and GDP is down 5 per cent. Index of industrial production indicates that construction activity in Q2 1982 barely above trough in Spring of 1981. Failure of construction activity to pick up after bad weather in Q1 1982 is particularly unhappy result. Construction industry employment fell by 248,000 since ~~May~~ 1979 to 992,000; unemployment is 25 per cent. Traditionally construction is one of ^{the} industries that suffers most during low points in economic cycle. It is (along with the defence industries) one of ^{the} most persistent lobbyists for more government work.

(v) In the 1981 Budget ^aspecial "construction industry" package ^{was} provided at low cost. Similar package in 1982 Budget worth £240 million. Sums small in this context but do indicate Government concern for hard pressed sector and suggest construction industry being given priority. (See Annex F)

(vi) Reduced rate National Insurance Surcharge operative from 1 August benefits private sector employers by £640 million in 1982-83 and eases position of labour intensive construction industry. Approximately one half of £640 million will benefit manufacturing and construction industries.

(vii) Construction should also benefit from the 5½ point reduction in interest rates since last October. Housebuilding and demand for housing both sensitive to interest rates and construction industry normally operates on considerable extended credit. No specific figures available on benefit of lower interest rates to construction industry but more general indication from the CBI and other outside analysis that a 1 per cent reduction in interest rates improves the company sectors financial position by about £250 million over full year. Inevitable the construction industrys' feelings must mixed:

more public expenditure/borrowing implies higher interest rates but also means new orders for a straitened industry.

- (viii) Several steps required to relate increased public sector construction to macro-strategy. For schools, health etc "needs" provide decision criterion; for nationalised industries test for extra investment is satisfactory return on capital. Also relevant that "general government" new construction under more direct control than nationalised industry investment which depends on proper pricing and resources generated. Generally seems reasonable to be favourably inclined if extra expenditure meets appropriate test and if public borrowing and monetary aggregates remain within MIFS guidelines. Otherwise undermines principal objective of reduced inflation by steady pressure on monetary variables and complementary fiscal policies.

Positive

Interest Rates - interest rates now ⁶~~5~~ points lower than last autumn. Reflects Government's firm monetary and fiscal policies. Should help construction industry; buildings demand and supply sensitive to interest levels. Undoubtedly helps cash flow and encourages new investment.

National Insurance Surcharge - reduced rate became operative on 1 August.

Approximately one half of the £640 million gain to private sector employers benefits manufacturing industry and, labour intensive, construction industry. Government's supply side policy is in part to make input prices reflect their factor costs.

Defensive

More capital investment? - The Government prepared to give priority to worthwhile capital projects whenever possible within overall spending totals if they meet appropriate criteria. Nationalised industries investment must be based on realistic pricing policies and "social programmes" must be based on genuine additional needs.

More public sector construction work? - Cash spending on new construction planned to increase by 14 per cent to £10.3 billion in 1982-83. Within this nationalised industry expenditure is planned to increase 23 per cent

to £1,671 million. Figures exclude 40 per cent of construction work on repairs and maintenance.

Why has general government construction expenditure fallen? - Level of economic activity

is hesitating generally but also reflects very high level of new construction in last 10-15 years. Has been a fall in council house new construction and a much smaller fall in roads programme but social and educational "needs" have declined (falling school rolls). No reason to assume future standards of provision or of public amenities and services will be jeopardised.

Low import content; ideal for fiscal boost? - True that construction industry has a low

import content but all options for increased fiscal expenditure must be considered on their merits. Construction cannot be considered in isolation; progress depends on maintaining responsible monetary policies and limiting public borrowing. This means keeping an eye on total effect on borrowing and interest rates.

PSBR undershooting, fiscal boost? - True PSBR undershot last year but

now getting benefit of tighter fiscal stance in lower interest rates. This year monetary indicators are within target range and (at this early stage) no reason to assume PSBR will depart from Budget forecast. Real answer is to continue policies which reduced inflation to 8 per cent in August and lowered interest rates 5½ points since October. Recovery and prospects for both higher rates of return on private investment and lasting jobs depends on this.

Lower National Insurance Surcharge (CBI proposal)?

Acknowledge desirability if possible of reducing this tax on jobs invented and imposed by previous Labour Government. Note 1 percentage point effective reduction given in the last Budget costing £640 million in 1982-83. Note also way employers have been shielded from increases in National Insurance Contribution rates for two successive years. However desirable, NIS reduction is expensive. A better and more direct way for industry to cut its labour costs is to restrain pay increases.

PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

ECONOMIC MODELLING: SIMULATIONS ON THE TREASURY MODEL OF CAPITAL EXPENDITURE ON CONSTRUCTION COMPARED WITH OTHER OPTIONS

Background

NEDC's meeting in April this year discussed a paper from the Chancellor which offered the results of 5 simulations on the Treasury model. 2 of the simulations were based on the assumptions made by research organisations in the course of studies carried out in 1981 on behalf of construction industry interests. The first, a Cambridge Econometric Study carried out for FCEC/NCBMP/NFBTE/RIBA/RICS (all of whom are represented on the Group of Eight), looked at the outcome of a £500m increase in public spending in 1981. The second, carried out by the Economist Intelligence Unit for FCEC, considered the effects of spending £2 billion on public sector investment in each of 1981, 1982 and 1983. The third simulation showed what would happen if interest rates were lower and the money supply greater.

The research studies had concluded that the injection of funds on this scale would boost output and employment, while the inflation rate would either not be affected (Cambridge) or increase by 2.5% over the base case (EIU). The Treasury model found, however, that these beneficial effects would be limited to the first 2 or 3 years only, but that the adverse effect on inflation and public sector borrowing would remain, into the future.

The Chancellor's fourth and fifth simulations were designed to show the effect of better pay performance, and of higher productivity with reduced import penetration. These simulations produced the best results - a lasting increase in activity and employment, without an adverse effect upon inflation.

Line to Take

If the Group raise the results of their own economic modelling, the Prime Minister will wish to refer to the NEDC discussions, and the Treasury model's findings about the limited time span of the effects of increased public spending upon output and employment, and its continuing effects upon the

rate of inflation. She will wish to say that present economic policies are designed to bring inflation down, and thus to help achieve the lasting improvements in industrial performance which will lead to sustained growth in the future.

PRIME MINISTER MEETING WITH THE GROUP OF EIGHT

MEASURES TO HELP THE CONSTRUCTION INDUSTRY

The industry has been singled out for special assistance in two successive budgets. Many steps have been taken to facilitate development and hence stimulate demand for construction work.

TAX CONCESSIONS

1. Industrial Buildings: Capital Allowances to clients

First year allowance against tax on the capital cost of industrial buildings raised from 50% to 75%. Workshop units up to 2,500 sq ft and those located in Enterprise Zones now receive 100% initial allowance.

2. Development Land Tax (DLT)

Rate of tax lowered to a single figure of 60% and initial exemption threshold raised from £10,000 to £50,000. Further exemptions include a complete one for firms located in Enterprise Zones.

3. Rates

50% ceiling on rating of empty buildings helps protect builders of advance factories.

4. Stock Relief

No profit restriction in claiming relief and no clawback of relief when a business reduces its stock holding.

STREAMLINING PLANNING PROCEDURES

5. Structure Plans speeded up. 42 approved since May 1979.

6. DOE Circular 22/80 urges local authorities to take a positive attitude to development and to handle planning applications promptly.

7. Local authorities and statutory bodies have agreed a voluntary 28 day time limit on consultations about planning applications.

8. Development control rationalised to remove overlap in functions between Counties and Districts.



9. From 1 April 1981, under revised General Development Order, small extensions no longer require planning permission.

10. In Planning Appeals, DOE has cut the average time to 17 weeks from 23 weeks in 1979. (Cases dealt with by written representations to Planning Inspectors).

11. Industrial Development Certificates abolished.

12. Office Development Permits abolished.

IMPROVING SUPPLY OF BUILDING LAND

13. Community Land Act repealed.

14. Local authority first option on Crown or public land abolished.

15. All but 3 of the English districts and London Boroughs now have District Registers of unused and underused land in public ownership. The Secretary of State may direct sale of land.

16. Local authorities asked to ensure (Circular 9/80), in co-operation with local housebuilders, that a 5 year supply of housing land is always available.

17. Over £650m has been realised in sales of land by New Towns, Water Authorities and Government Departments, in the 3 complete financial years since the Government took office.

HOUSING

The Government has brought in the most extensive range of low-cost home-ownership opportunities since the war:-

18. Local authorities encouraged to sell land to private developers for starter homes, or to build in partnership with them on local authority owned land.

19. Government grant is available to local authorities and Housing Associations to improve run-down dwellings for sale.

20. Homesteading scheme extended. The Secretary of State can allow an authority to waive interest payments on "homestead" mortgages for up to 5 years.

21. Local authorities can offer shared ownership (part owning/part renting) to those unable to buy outright. Building Societies are empowered to finance such schemes.

22. Local authorities and the Housing Corporation have been given mortgage guarantee powers to facilitate down market lending by building societies.

OTHER MEASURES TO ASSIST HOME OWNERSHIP

23. Threshold for stamp duty raised to £25,000.

24. The ceiling for local authority mortgages raised to £25,000.

25. Home improvement grant system reformed; now accessible to both public and private tenants. Grants for basic amenities and major repairs increased from 75% to 90%, and an additional £90m allocated to local authorities.

Additional £10m in 1982/3 for Home Insulation Scheme.

MEASURES TO ASSIST THE INDUSTRY GENERALLY

26. Proposals put forward for radical changes in building control.

27. Direct Labour Organisations now subject to competition from the private sector.

28. 11 Enterprise Zones designated. Intention is to designate a further 11.

29. Urban Development Corporations set up in London Docklands and on Merseyside.

PRIME MINISTER'S MEETING WITH GROUP OF EIGHT

RECENT SIGNS OF IMPROVEMENT IN THE CONSTRUCTION INDUSTRY'S FORTUNES

1. Public sector housing starts for the first 6 months of 1982 were up 60% on the first half of 1981 (seasonally adjusted figures).
2. Private sector housing starts were up 20% on the same basis.
3. The number of dwellings renovated with grant or subsidy in the first quarter of 1982 was about 25% up on the corresponding period last year.
4. Total construction industry output for both of the first 2 quarters of 1982 was 1% higher (seasonally adjusted) than in the last quarter of 1981.
5. Although new orders have fallen away a little from the level they reached earlier in the year, and orders are generally down on a year ago, public housing orders for the first half of 1982 were up 42%, and private sector housing orders up 39% on the first half of 1981.
6. The reduction in the rate of inflation to 8% and the general fall in interest rates should benefit the construction industry.
7. The mortgage rate is now at 12 $\frac{1}{2}$ %, and there appear to be good prospects that it will fall further.
8. A statistical survey by the Department of Industry's Small Firms Division estimates that "births" of construction firms exceeded "deaths" by 2,600 in 1980, and by 5,400 in 1981. [These figures are based on registration and de-registration for VAT purposes, and should be taken as evidence of a trend rather than as an exact indication of the number of firms in the sector.]

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PRIME MINISTER'S MEETING WITH GROUP OF EIGHT

ALLOCATIONS FOR INVESTMENT AND UNDERSPENDING BY PUBLIC BODIES

Background

The Government has sought as far as possible to protect capital investment from the effects of the cuts necessary to contain capital investment. The Union side has simply campaigned for more public expenditure and the RIBA has complained about the arbitrariness of the decisions (see annex L), but the employers have concentrated their discontent on underspending by local authorities of their allocations.

LINE TO TAKE

- (i) No sector can be immune from the sacrifices needed to restore our economy to health. But capital investment has been protected as far as possible. For example:
- on housing: gross provision for housing capital expenditure by local authorities this year is £2,554M and represent an increase of well over a third in cash on their actual expenditure last year. In addition to their allocations, authorities are also free to spend on account of both accumulated capital receipts and capital receipts generated this year. Authorities have been told that they can plan their programmes on the firm assumption that they will be able to spend at least an extra £593M in addition to their allocations on account of housing capital receipts generated this year alone.
 - on roads: the provision for capital expenditure on trunk roads has been held roughly constant in real terms since 1979, in contrast with significant cuts under the previous administration, and expenditure cuts on other programmes. The

allocation for 1982/83 is £702M. As regards local roads, County Councils spend over £500M per year, assisted by Government grants, on transport investment, most of which is on roads. The Government is also exploring with the industry and the city ways of tapping private capital markets to provide additional funds for road building.

- on water: water authorities investment has declined since 1974 but that reflects declining investment needs as much as Government policy. There is no point in investing for the sake of investing: That only leaves consumers with high charges for no benefit. In the last two years the volume of investment has stabilised and allocations for 1982/3 total £640M which on price forecasts should permit real growth of about 8% over 1981/82. The Government is considering the future public expenditure needs of the industry but the water authorities 1982 plans do not suggest that more than modest increases in investment are required. Although expenditure on renovation and renewal of underground assets is rising, the water authorities do not appear to share the view of the scale of the problem expressed by the National Water Council in the "Water Industry Review 1982".
- on education building programmes are necessarily linked with demographic trends, and falling school populations are reflected in falling provisions for capital investment (£532m in 1981/82, £466m in 1982/83).
- on health Government strategy includes a steady capital investment in the HNS at constant prices. The previously planned level of capital investment has been maintained. (See also Annex M).

(ii) On underspending:

- on housing, the Group is quite right to stress the importance of local authorities spending their allocations and using their capital receipts. The Government is doing its utmost to persuade local authorities to do so and looks to the Group of Eight to assist its efforts. John Stanley reports regularly to the House on the position.

- on roads: during this administration's first two years virtually all cash available for trunk roads was spent. Last year spending was about 8% (or £50M) below the cash limit, mainly the result of price inflation in the construction industry being lower than allowed for when the Estimates were prepared. This applied both to cost increases allowable under existing contracts and especially to tender prices. The Department did all it could to take advantage of the keen prices. Every scheme that could be ready to start was brought forward, including some from the 1982 programme, and spending on the motorway reconstruction programme was increased. But despite the underspend, more work was actually done than had been expected. More schemes started than had been anticipated, and contractors made faster progress than planned. With hindsight, it would have been useful to have had more schemes ready to start to take advantage of the lower prices. Both the main programme and reserve lists are now significantly larger which should enable an adequate reserve shelf to be created.

The construction industry allege that DTp has underspent in all but 3 of the last 22 years. This is misleading. Since cash limits were applied to trunk road spending, outturn has

been between 3% under and 1% over limits in every year except 1981/2 (discussed above). Before cash limits, supplementary estimates adjusted funds during the year to expected changes in spending in the light of changing costs. It is therefore not surprising that in most years the funds available at least covered outturn spending.

As to 1982/83, four-fifths of spending on major schemes was already committed at the start of the year - mainly on contracts let at favourable prices. Since April contracts worth £110M have been let, with a further £220M expected by the year end. This is in addition to a substantial maintenance programme, which has been increased by £15M transferred from new construction in order to take advantage of continuing low prices. The Government is also doing everything it can to encourage County Councils in keeping up the momentum of the local roads programme.

- on water: water authorities underspent by about £70 million in 1981/82. This was mainly due to lower contract prices than expected so that the volume of work undertaken was close to target. The underspending was concentrated in a few authorities including the North West, where the need for higher investment is most pressing. In 1982/83 the authorities are over-programming to try to ensure full utilisation of the available funds.
- on education local authority expenditure in 1981/82 exceeded allocations by some 6%.
- on health, also, there is no evidence of underspend- and, indeed, there was overspending in 1980/81.

UNEMPLOYMENT IN THE CONSTRUCTION INDUSTRY (GB)

GENERAL

Unemployment in the industry is approaching 25% of the workforce. The industry frequently quotes a figure of 400,000 unemployed, but the table below indicates that this is a slight exaggeration.

	May 1978	May 1979	May 1980	May 1981	May 1982
Employment (000)	1,221	1,240	1,226	1,110	992
Unemployment* (000)	186	160	190	357	366

* People on the unemployed register whose last occupation was in the construction industry. Source: DE Gazette

Line to take

Unemployment is obviously a very serious problem but the only real cure is a more efficient and competitive British industry. Our policies of getting down inflation and restoring incentives are helping to bring this about. There is still a long way to go but we are on the right road. Meantime, however, we do sympathize with those who are affected by unemployment and recognise the hardship and damage it causes. This is why we are spending £1.5b this year on our programme of special employment and training measures to help unemployed people especially the young people and the longer-term unemployed. These measures are already keeping 315,000 people off the unemployment register. Next year the programme will be expanded to include the Youth Training Scheme, the Community Programme Scheme and a completely new scheme to encourage employers to open up more part-time job opportunities for the unemployed.

CONSTRUCTION INVESTMENT VERSUS SPECIAL EMPLOYMENT MEASURES

It is sometimes argued that, rather than putting money into special employment measures, the money should be spent on construction, thus creating real jobs.

LINE TO TAKE

Special employment measures are likely to be more cost effective as a means of creating employment opportunities than investment in the construction industry because:

1. Construction can have heavy material costs - which is not the case with eg Job Release or Young Workers;
2. Special measures can be devised to minimise deadweight (expenditure on projects which would have occurred anyway) - whereas investment in construction could have very high deadweight;
3. Special measures can be targetted at specific groups - eg the young or the long-term unemployed.

PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

THE YOUTH TRAINING SCHEME AND CONSTRUCTION INDUSTRY

The "Group of 8" may argue that because the Construction Industry is currently suffering so badly from the recession it will be impossible for it to take on the extra burden of the Youth Training Scheme.

LINE TO TAKE

If the topic is raised the Prime Minister may wish to say that she recognises the difficulties but:

- (1) Employers will receive financial help for their normal trainee intake where they also provide training for other young people who would be otherwise unemployed. This should provide a considerable financial incentive to employers.
- (2) Trainees will obviously make some contribution to output/productivity during their periods of work experience.
- (3) There is therefore scope to **turn** the situation to the advantage of all parties.

Background Note

1. With the exception of one or two of the largest construction companies, such as Wimpey's, the industry's employers do not play a major part in the Youth Opportunities Programme. The Construction Industry Industrial Training Board has played a key role in the development of Work Skills courses which will eventually be converted to courses under the Youth Training Scheme. However, these courses take place largely in colleges of further education and other training establishments, not in employers establishments. Under the new scheme these courses will be funded wholly by the Manpower Services Commission at around £3,000 a place.

2. The MSC envisage problems in developing schemes with Construction Employers under YTS because the Industry is generally not recruiting so that the financial incentives are not attractive.

3. If too much emphasis is placed on the contribution that trainees can make to productivity, the accusation that trainees would be substituting for normal employees could be levelled at YTS as it has been at YOP. It is hoped that the high standard of training which the MSC will insist upon in YTS will minimise the attraction of substitution to employers.

PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

ASSESSMENT OF NEEDS FOR NEW CONSTRUCTION BY GOVERNMENT DEPARTMENTS

The Group contend that the Ministers lack a proper information base on which to reach informed decisions about their need for capital expenditure, and, as a result, that insufficient funds are allocated to construction. Their particular targets are the health programme, maintenance or restoration of older school buildings, the motorway and trunk road programme, maintenance of the water and sewerage systems, and housing programme. A note describing their criticisms in more detail is attached, together with correspondence between the Group and the Secretary of State for the Environment.

Line to Take

The Prime Minister will wish to say that she does not accept that there are serious weaknesses in the Government's information gathering system. The means exist for Departmental Ministers to ensure that they have an adequate picture of the need for capital expenditure within the programmes which they are responsible. However, decisions about major spending programmes must also depend upon a wider consideration of the Government's economic policies. **U**ltimately they will depend upon the Government's view of what the nation can afford, irrespective of the method of assessing capital needs.

The Prime Minister may wish, however, to invite the Group to discuss with Departmental Ministers any constructive ideas which they may have for improving procedures.



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.

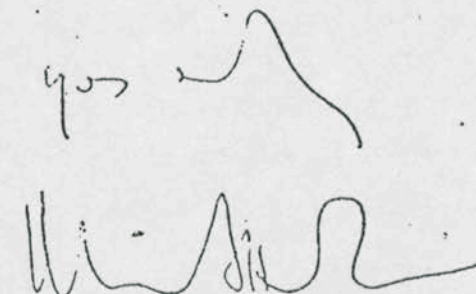
In the field of education the Group recognised that the level of investment in educational building has not been prejudiced by lack of information either about demand or the condition of the estate, which are well covered by demographic and survey data, and by contacts with the educational authorities. 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.



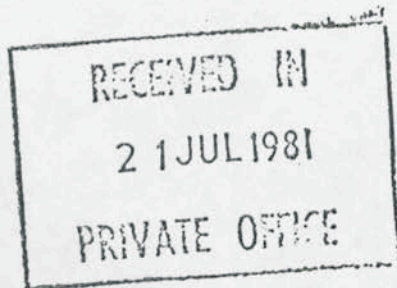
MICHAEL HESELTINE

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.

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PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT
THE HOSPITAL BUILDING PROGRAMME

The DHSS has recently informed health authorities that for the time being they should not enter into contracts for new buildings which, when brought into use, will cost more to run than those they replace. This may mean that some larger schemes being planned will have to be shelved. The Group of Eight may have heard about and been alarmed by this news.

LINE TO TAKE

Government strategy includes a steady capital investment in the NHS at constant prices. The previously planned level of capital spending has been maintained by the present Government. The recent letter makes no reduction in the total resources available for capital investment. But there has been concern in recent years about the building of hospital facilities which health authorities could not afford to bring into use, and it must be accepted that it makes no sense to tie up taxpayers' money in such schemes. There could be a short time lag in letting major contracts while health authorities reconsider their priorities. But as there will be no overall reduction in the resources available for capital investment, any gap should be filled by smaller and medium sized schemes of upgrading and rehabilitation designed to improve the efficiency of existing premises, plant and equipment. Health authorities have a serious backlog of renovation schemes.

M



Alan.
CF - how you?



including
awaited from DOE - see pps. 1/4/10
10 DOWNING STREET

ca HMT

From the Private Secretary

1 October 1982

I have been asked to thank you for your letter of 8 September to the Prime Minister and to reply on her behalf.

As you know the Prime Minister has agreed to meet the Group of Eight on 15 October. The Prime Minister looks forward to discussing with you and your colleagues the points which you raised in your letter.

T. FLESHER

G.M. Fordy, Esq.

16

NFBTE STATE OF TRADE ENQUIRY

- SEPTEMBER 1982 -

- ECONOMIC ANALYSIS -

The September State of Trade Enquiry, based on replies from 500 contractors, points to a further deterioration in construction workload across all sectors of the industry and to a weakening of contractors' confidence. An increased majority of contractors report stable or falling enquiries, and anticipate a further drop in output this year. Contractors working at half or less than half capacity outnumber those working at full or almost full capacity and there are no signs of any constraints on the supply-side, with both labour and materials remaining readily available.

New Enquiries

The ratio of contractors reporting falling enquiries for all works against those reporting increased enquiries has once again deteriorated and now stands at 1 : 2.2 (17% of respondents report increased enquiries against 37% reporting falling enquiries). This result continues the modest deterioration observed at the time of the June Enquiry.

The deterioration has been spread across all sectors of the industry. Worst hit are public housing (13% of contractors report increased enquiries and 50% falling enquiries), and public works (10% report increasing enquiries against 46% reporting falling enquiries), which had previously shown signs of improvement, but which are now turning downwards once more. Results for all sectors of the industry remain negative.

Weighted analysis suggests that although major contractors are faring slightly better than average in terms of new enquiries received; they have also seen an across-the-board deterioration in the ratio of contractors reporting increased enquiries against those reporting fewer enquiries and this ratio remains negative for all types of work.

Output in 1982

As with new enquiries, the volume of work indicator shows a deterioration this quarter. 20% of contractors expect to increase output this year (the same as at the previous Enquiry) whilst 52% of contractors expect their output to fall (previous Enquiry 44%). This result is the worst since contractors were first asked about their expectations for 1982 back in December 1981 and the unusual volatility of this year's results highlights the uncertainty about future prospects felt by contractors.

Capacity of Operations

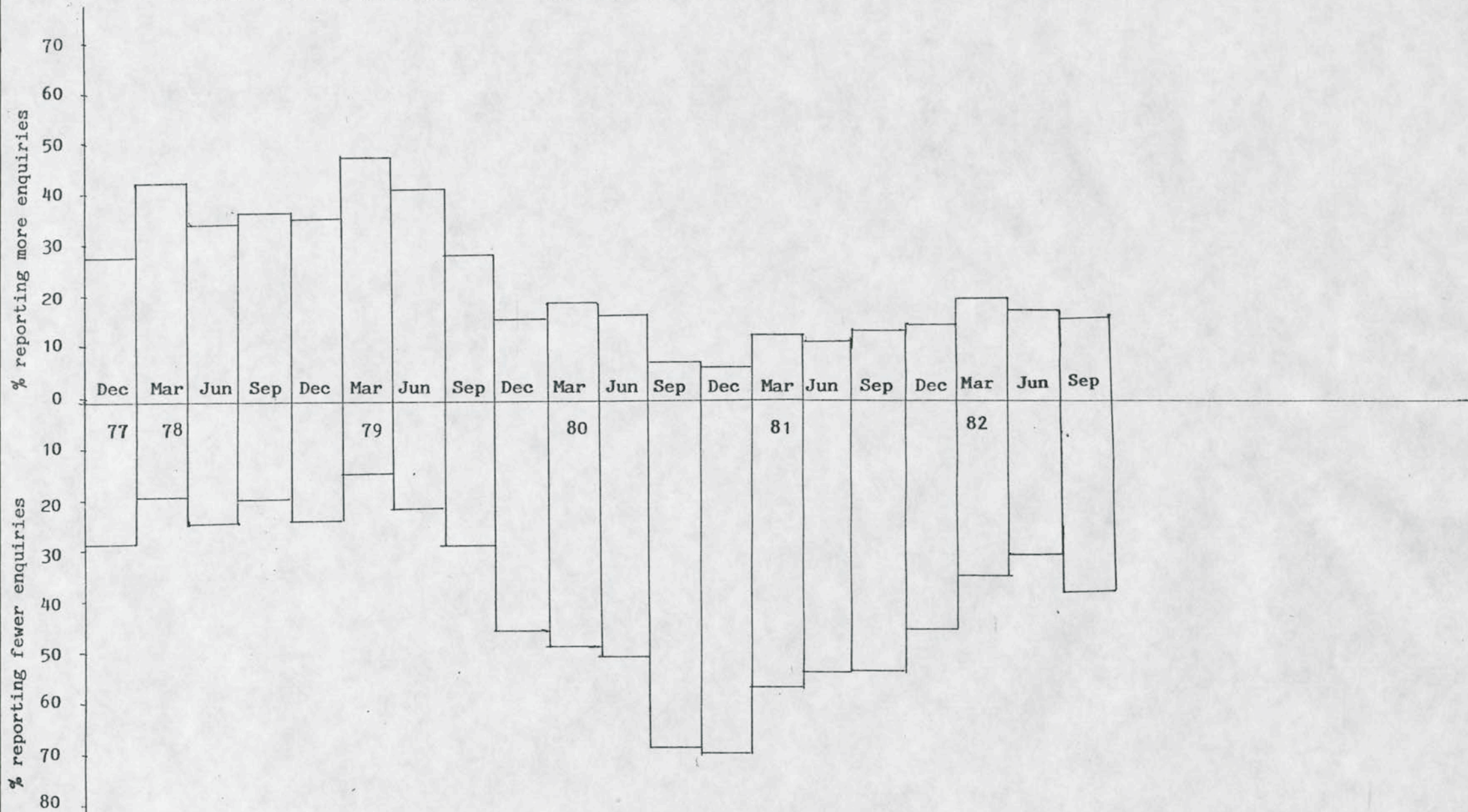
Again a modest deterioration. 22% of contractors are working at full or almost full capacity, compared with 25% working at half or less than half capacity (June figures 23% in each case). As with the previous Enquiry there are pronounced regional differences with fewer than 10% of contractors in the Northern, North-Western and Liverpool regions working at full or almost full capacity.

Labour and Materials Supply

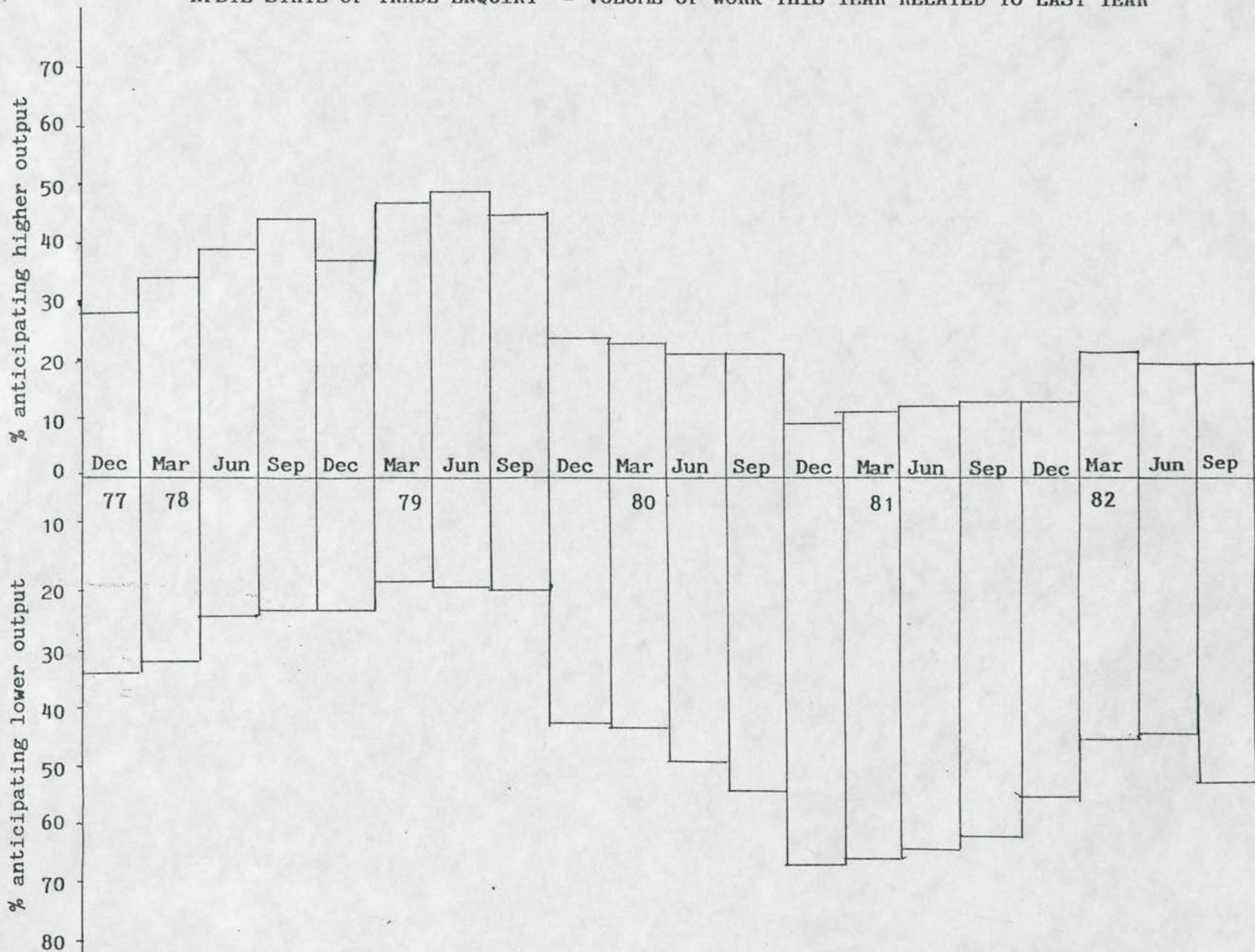
The State of Trade provides no evidence of any labour or material shortages and supply of labour has, if anything, eased somewhat.

KD/AC
October 1982

NFBTE STATE OF TRADE ENQUIRY - NEW ENQUIRIES FOR WORK RELATIVE TO PREVIOUS QUARTER

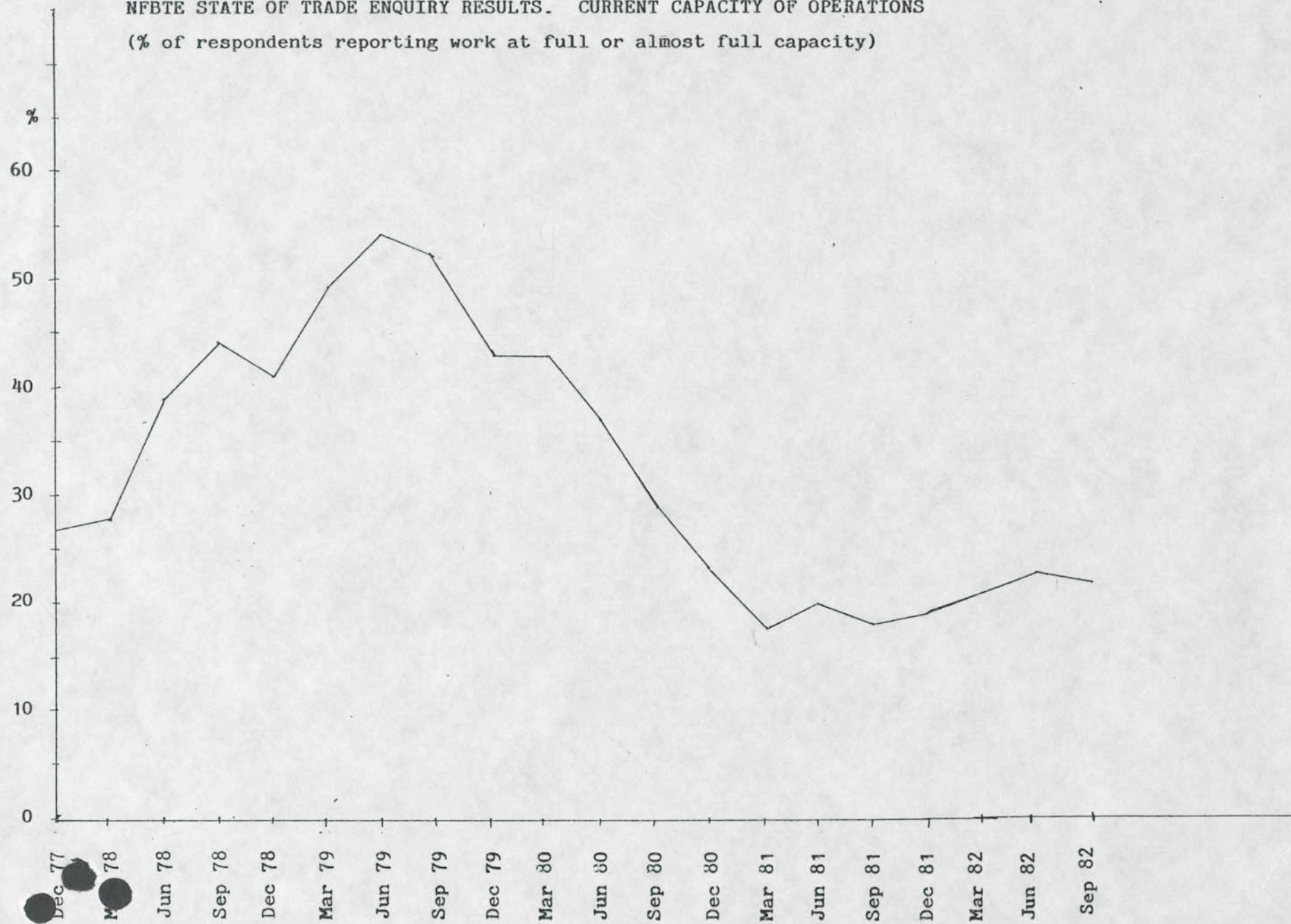


NFBTE STATE OF TRADE ENQUIRY - VOLUME OF WORK THIS YEAR RELATED TO LAST YEAR

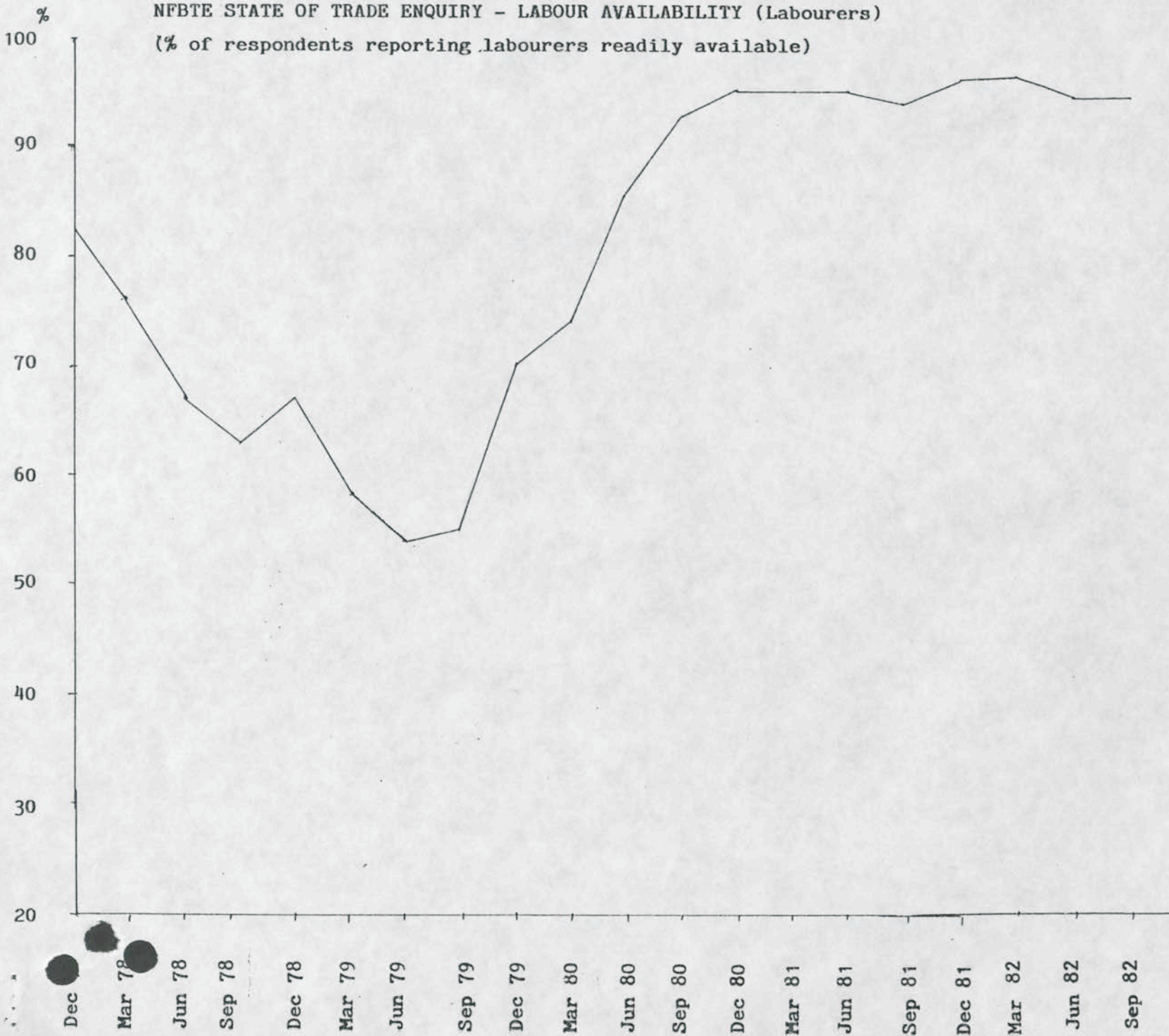


NFBTE STATE OF TRADE ENQUIRY RESULTS. CURRENT CAPACITY OF OPERATIONS

(% of respondents reporting work at full or almost full capacity)



NFBTE STATE OF TRADE ENQUIRY - LABOUR AVAILABILITY (Labourers)
(% of respondents reporting labourers readily available)



GROUP OF EIGHT

CONSTRUCTION, EMPLOYMENT AND ECONOMIC RECOVERY

Brief for Meeting with the Prime Minister on Friday 15 October 1982

Group of Eight
13 October 1982

GROUP OF EIGHT

Meeting with the Prime Minister, 15 October 1982

I CONSTRUCTION, EMPLOYMENT AND ECONOMIC RECOVERY

The Group's Case

1. The construction industry can make a uniquely valuable contribution to economic revival, the stimulation of private investment and a rapid and substantial reduction in unemployment. It cannot do so without Government action.

The Role of Construction in the Relief of Unemployment and Economic Recovery

2. Because of its size, nationwide distribution and high employment potential, construction is uniquely valuable as a stimulant to economic recovery. Even in its current depressed state it accounts for over 10% of the nation's GDP and creates employment for around 1,370,000 operatives. The health of the economy as a whole is thus inextricably linked to the state of the construction sector. At present a fifth of all unemployed men last worked in the construction industry and for a major economic revival to occur many of these men must find work. Any growth of new industries and improved competitiveness among existing ones cannot alone provide enough employment or generate a knock-on effect sufficient to clear 450,000 workers in construction and related industries off the unemployment registers. Conversely, higher activity in construction is a prerequisite for much private sector investment.
3. Construction must therefore revive before significant general economic recovery can take place.

Construction and the Economy

4. It can be asked whether a construction-led recovery would have harmful side effects. In order to analyse this question and assess the overall economic implications of increased construction expenditure and compare it with other possibilities, members have contributed to three research reports

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during the past year (published by the TUC, the Economist Intelligence Unit and Cambridge Econometrics). These highlighted the advantages of increased public investment in construction but also examined unfavourable factors.
5. These reports confirmed that construction is labour-intensive. They also show that there is a significant multiplier effect. Most significantly, in the light of recent trade figures, spending on construction was shown not to lead to the surge in imports which result from stimulants such as tax cuts.
6. Much of the original cost to the PSBR will be recovered through the reduction in the number of welfare benefit claimants, by increased Government revenues and the improved trading position of nationalised industries such as steel. The increase in demand causes prices to rise but the scale of increase is slight: a greater threat to the Government's counter inflationary intentions is the continuing and permanent loss of skilled construction workers and reduced supply capacity of material producers, which in an eventual recovery could lead to localised shortages and increased distribution costs.

The Need for More Construction Work

7. There is an established need for a higher level of construction work than is now taking place, both in new work and in repair and maintenance.
8. The condition of the nation's housing stock is steadily deteriorating as a result of the low rate of starts and reduced maintenance work. The warning signs appeared when the 1976 House Condition Survey showed a growing number of houses in serious disrepair. Since 1976, this deterioration has almost certainly accelerated: the industry expects results of the new English House Condition Survey to confirm this. A national housing stock of the scale existing in the UK requires substantially greater expenditure on maintenance, rehabilitation, replacement and specialised addition than it is now getting. Money spent now will save money later and prevent a costly and inefficient scramble to deal with the backlog.
9. The water distribution and sewerage systems are deteriorating more rapidly than they are being repaired and replaced, particularly in the older urban areas. The financial structure of the water industry does not permit

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9. Cont/....

adequate resources to be devoted to this work or an adequate regime of investigation to determine the rate of deterioration to be undertaken

10. The introduction of heavier lorries will require more road investment, particularly in bypasses, not least because of public attitudes to the growth of heavy traffic on inadequate roads.
11. The inadequate extent and condition of much basic infrastructure imposes constraints on private investment.
12. Other fields in which expenditure has fallen below the continuing national requirement include hospitals, the refurbishment of old schools in urban areas, and provision for the elderly. Maintenance of the public estate of buildings and infrastructure works has been slipping badly and there is scope for positive development in railway electrification.

II

BACKGROUND: WHAT HAS BEEN HAPPENING TO THE CONSTRUCTION INDUSTRY

Decline in the Construction Industry Since 1979

13. Construction activity has declined sharply over the last three years. Output has decreased by 18% in real terms between the second quarter of 1982 and the second quarter of 1979. This follows continuous and altogether disproportionate reduction in construction activity for some years. New orders have decreased by 17% in real terms over the same period. By contrast the Gross National Product as a whole decreased by only 4% in real terms between 1979 and 1981.
14. Private architects' new commissions are an early indicator of future construction activity. They have declined by 19% between the first half of 1979 and the first half of 1982 in real terms.
15. The capacity of the building materials industry has been considerably reduced. A survey carried out by the National Council of Building Material Producers earlier this year shows a decline in capacity of over 14% since 1979.
16. Employment in building and civil engineering has fallen 20% from 1,717,000

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in May 1979 to 1,378,000 in April 1982. Construction unemployment has reached 389,000 in the UK, about a fifth of total male unemployment in the UK. Unemployment in the building materials and associated industries brings the UK figure to over 450,000.

17. The training of operatives has been seriously affected. Apprentice registrations recorded by the National Joint Council for Building Industries (NJCBI) fell by some 20% between 1980 and 1981, from 14,000 to 11,400. This will create skill shortages as operatives leave the industry as a result of high craft unemployment and will place constraints on a return to more appropriate levels of construction activity. The longer that the present downturn is allowed to continue, the more depleted will the industry's skilled reserves become and the more likely it will be that bottlenecks and inflationary pressures will arise in the event of a late and sharp upturn in demand.

The Current State of the Industry and Immediate Prospects

18. Construction activity is not picking up.
19. DoE statistics of orders received by the construction industry show no clear trend and in the period April - July 1982 were 2% lower in real terms than a year earlier.
20. The latest State of Trade Survey by the NFBTE shows that the number of building firms receiving fewer enquiries exceeds the number that are receiving more by a factor of about 2½ to 1. Less than a quarter of contractors are working at more than 75% capacity.
21. The latest FCEC Workload Survey shows that the decline in the civil engineering industry has once more begun to quicken, after a period of relative stability albeit at a very low level. Larger firms are particularly badly affected.
22. Reports from building material producers indicate that although deliveries are at or slightly above the levels of 1981 there is no evidence of sustained forward growth, and no depth to order books. There have been more than the

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usual seasonal fluctuations in some sectors, notably for road repairs, but these are falling back with the approach of winter. Sales of materials used for housebuilding have been affected by the smaller average size of houses now being built.

23. The RIBA survey of private architects' new commissions in September indicated a small upturn in the second quarter but this followed a decline throughout the three previous quarters and there is no sign of sustained recovery yet. If there were to be a significant recovery in building work next year it would have been preceded by a marked upturn in the level of architects' work by now. These results are confirmed by the Quantity Surveyors' Workload Survey which showed no signs of improvement in workload in the second quarter.

24. Figures for housing starts at the beginning of this year, at first glance encouraging, require critical examination. All the latest indicators from both public sector housing approvals and private housebuilders' sales suggest that the total new housing output this year and next will be little better than the levels for the previous two years, which were a record post-war low. In volume terms, new housebuilding activity is still stuck at bottom.

25. Forecasts made in the early summer by the Building and Civil Engineering Economic Development Committees and the National Council of Building Material Producers (BMP) predicted that the industry's output would increase in both 1983 and 1984. These forecasts were based on the assumption that the Gross Domestic Product would increase in these years, and in 1983 by over 2%. Recent economic forecasts have suggested that recovery in the economy next year will be less than this. Private sector construction demand is sensitive to the rate of growth in the economy and the prospects for construction now looks less attractive. There has to be confidence that economic growth is returning. This confidence is lacking. The fall in interest rates is welcome but there are indications that householders, for example, are less responsive to interest rates than to job security, levels of real income and the expectation of income when considering expenditure on repairs and improvements or committing themselves to buying a home.

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III

CONCLUSION

27. Among the major industries of the nation for which there will be a permanent need, the construction industry is unusual in that it will continue to be relatively labour intensive. Increased competitiveness for most industries means the replacement of labour by capital. This makes construction progressively more significant as a major employer of male labour. In this and in its nationwide distribution consists the special value of increased construction activity for the relief of unemployment. Rehabilitation and maintenance work are particularly labour intensive and can be mobilised quickly. The resources of the industry, though running down fast, are still there.

28. The Group has considered with ministers the significance for increased activity of public sector underspend, the constraints imposed by the planning system and the conventions governing what is and what is not the proper field for public expenditure and so increasing private investment. These things can help, but they are incidental to the main issue which is this: current prospects for the industry show that recovery, much of which can only come from the public sector, will not happen without political will and action on the part of Government as a whole to re-establish programmes that bear a closer relationship to the needs of the economy.

29. More investment is needed in housing, water and sewerage, and roads. It would engage the underused resources of the industry with minimum inflationary side effects. The industry believe that construction should play a positive and conspicuous part in the Government's recovery policy and they wish to convince the Prime Minister on 15 October that this makes sense.