SUBJECT.

cc. Master set.

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND THE GROUP OF EIGHT AT 10 DOWNING STREET ON 15 OCTOBER AT 1000 HOURS

Present:

Prime Minister	Mr. Ian Campbell
Mr. John Stanley	Mr. Malcolm Fordy
Mr. M.C. Scholar	Mr. George Henderson
Mr. T. Flesher	Mr. Paul Hyde-Thomson
	Mr. Owen Luder
	Mr. Philip Beck
	Mr. Roy Swanston
	Mr. Les Wood
	Mr Patrick Harrison

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Mr. Luder said that the delegation had asked for a meeting with the Prime Minister in order to press the claims of the construction industry for greater assistance from the Government. The industry welcomed the fall in inflation and interest rates but in themselves they were not sufficient to improve confidence. What was needed was a Government lead in the form of increased investment. Such an increase would not only be desirable in itself in improving the infra-structure; it would also, because most of the construction industry was labour-intensive, have a more than proportionate effect on unemployment. Indeed, unemployment in the construction industry was about 400,000. At present much of the industry was in decline with the result that it would be in a poor position to respond to an eventual expansion; in addition the domestic base necessary for an expansion of exports was under threat.

Other members of the delegation went on to argue that the necessary injection of investment could be provided by remedying the chronic underspend on the capital allocations by local authorities and nationalised industries. In 1981/82 this had amounted to some £1400 million which would have made a substantial difference to employment in the industry. The Government should take steps to ensure that local authorities and nationalised industries increased capital spending. Another particularly sensitive area was that of

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home improvement grants. An increase in such grants would have a significant effect on the smaller end of the building market, even though much of the expenditure was absorbed by householders' own efforts and by the black economy.

The Prime Minister said that she very much appreciated the importance of the construction industry and the contribution which it could make to reducing unemployment. The key to improving confidence was the restoration of competitiveness to which the recent falls in inflation and interest rates would make a very substantial contribution. The Government had however given a very high priority to the construction industry. For example, the provision for capital investment by the nationalised industries in 1982/83 was 26% higher in cash terms than their 1981/82 outturn. As the delegation had pointed out however, the most important thing at the moment was not to increase the provision for public expenditure on construction, but to ensure that it was fully used. In this context the considerable underspend by local authorities on their capital allocations had taken place notwithstanding their overspend on current expenditure, the main element of which was excessive pay increases. There could be no more dramatic demonstration that excessive pay increases deprived industry of additional investment and hence extra jobs. The same applied to the nationalised industries who had of course to keep within their external finance limits. The Government could not intervene to dictate how elected local authorities and the nationalised industries ordered their affairs, although they had made it absolutely clear that the imbalance between current and capital expenditure was highly undesirable.

The Prime Minister went on to say that it was for the Group themselves to approach local authorities and nationalised industries to persuade them of the need to spend their capital allocations; she would however write to the local authority associations and the nationalised industries to remind them of the Government's view on the matter.

On the question of home improvement grants the Prime Minister noted that the number of such grants paid in England was the highest

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for seven years which should benefit both the building and materials industry considerably. Moreover, despite the delegation's fears, the commercial sector seemed to be extremely buoyant. Nevertheless, the Prime Minister shared the delegation's concern about unemployment. There could however only be a lasting improvement in the situation when the competitiveness which had been lost as a result of years of earnings increasing faster than those of our competitors and faster than could be justified by productivity, had been restored. Construction like the rest of industry would benefit from the new industrial environment which had been created by the lowest inflation figure for ten years and the rapid fall in interest rates.

15 October 1982

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10 DOWNING STREET

From the Private Secretary 22 November 1982

Many thanks for your letter of 18 November. It was kind of you to send me your record of the meeting between the Group of Eight and the Prime Minister on 15 October. You will have seen that the discussion has borne fruit in a number of ways - most recently, and notably, in the Prime Minister's speech in the Debate on the Address in the House of Commons several weeks ago.

With best wishes,

P.K. Harrison, Esq.

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c/c JV

Royal Institute of British Architects 66 Portland Place London W1N 4AD ☎ 01-580 5533

From the Secretary's Office

18 November 1982

PKH/CAN

M.C. Scholar, Esq.,
Private Secretary to the Prime Minister,
No 10 Downing Street,
London SW1.

Dear Scholar

I enclose a copy of the confidential note I have prepared of the meeting between the Group of Eight and the Prime Minister on Friday 15 October 1982. I checked a draft with Don Routh at the Department of the Environment who took the view of the Minister who felt it was a not unreasonable account of what happened. I hope you will feel the same!

The note is for the internal use of the eight organisations involved in the Group of Eight and will not receive any public circulation. However, you will appreciate that it is important for those closely involved in the eight bodies to receive some sense of how their leaders performed.

With kind regards,

Yours sincerely

Peter Harrison

P.K. HARRISON
Secretary

Enc.

CONFIDENTIAL

GROUP OF EIGHT

NOTE OF A MEETING WITH THE PRIME MINISTER AT NO 10 DOWNING STREET,

15 OCTOBER 1982 AT 10.00 AM

PRESENT: The Rt Hon Margaret Thatcher, MP, Prime Minister (in the Chair)

The Rt Hon John Stanley, MP, Minister for Housing and Construction, Department of the Environment

Mr M C Scholar, Private Secretary (Home Affairs)

Mr T Flesher, Assistant Private Secretary (Home Affairs)

The Group of Eight

Mr Philip Beck, Chairman, Federation of Civil Engineering Contractors

Mr Ian Campbell, President, Institution of Civil Engineers

Mr Malcolm Fordy, President, National Federation of Building Trades Employers

Mr George Henderson, National Secretary, Building Construction and Civil Engineering Group, Transport & General Workers Union

Mr Paul Hyde-Thomson, President, National Council of Building Materials Producers

Mr Owen Luder, President, Royal Institute of British Architects

Mr Roy Swanston, President, QS Division, Royal Institution of Chartered Surveyors

Mr P K Harrison, Secretary, Royal Institute of British Architects

1. The Prime Minister welcomed the Group and aked Owen Luder to open the meeting. He explained that the Group represented not only their own organisations but spoke for the industry as a whole which was aware of the meeting and attached a lot of importance to it. The Group had met John Stanley and the Secretary of State regularly. There was not always agreement, but both had listened to the Group attentively and been helpful when they could. But they had to operate within the agreed policies of Government as a whole. The Group did not believe Government policy gave a sufficiently strategic place to construction, hence their wish to see the Prime Minister herself. She might argue "look at inflation: our policies are working, your fortunes will rise." To that the Group would reply: "It won't happen in construction without a lead from Government." Mr Luder then asked Paul Hyde-Thomson to say how they saw the role of construction in relation to some of the problems the country faced.

2. Mr Paul Hyde-Thomson introduced himself as a brickmaker representing, as

Chairman BMP, a large and diverse range of manufacturing and production interests serving the whole construction industry. Construction had a central position within the economy and a potential contribution to economic recovery. The Group had come to argue that construction should have a strategic place in the Govenment's economic thinking. Appreciation of such a role for construction and of its potential for stimulating commercial confidence did not appear to exist in present Government policy. Government dealt only in the end products of the industry which trickled out of various spending departments and public authorities as houses, roads, harbours, urban redevelopment or home improvement grants like so many separate beads. These needed stringing together so that they could be handled in a positive and coherent way which had more regard to the nature of the industry and to the essential underpinning its product provided for the economy and employment and to its lead role in creating the confidence to bring us out of recession.

3. Mr Malcom Fordy, a builder from the North of England and President NFBTE, said he wished the Prime Minster to understand the low level of activity to which the building industry had been reduced. The Federation's latest State of Trade Inquiry, on which Mr Fordy tabled a note, showed the position to be very serious: any encouragement that could have been drawn earlier in the year from the level of housing starts had petered out.

4. Mr Philip Beck then spoke on behalf of the civil engineering contractors. The civil engineering side of the industry had suffered severely for a very long period despite the fact that the national stock of civil engineering works - sewers, the water distribution system and roads - was inadequate and deteriorating. The large firms he represented had been particularly severely hit. He drew attention to the serious extent of underspend in civil engineering and went on to point out the importance of a substantial home base for effective overseas work: the civil engineering industry, both on the consultancy and contracting sides, had been very successful overseas but it depended on a sound home base, not least to provide necessary training for professionals and managers.

5. Mr Les Wood, General Secretary UCATT, told the Prime Minister that he had worked closely with the Secretary of State for Employment, Mr Tebbit, on the Youth Training Scheme which he sincerely hoped would come to fruition. Nevertheless he greatly feared that after their period of training many of the youths involved would face unemployment. The Prime Minister should not underestimate the bitterness and hopelessness of the unemployed who could see around them so much work urgently requiring to be done by the construction industry. Such people were drawing many millions of pounds in social security payments which were an unproductive drain on PSBR. Within the industry the inadequate level of activity and high level of unemployment had seriously damaged the continuity of training.

6. Mr George Henderson, National Secretary TGWU Construction Group, then spoke about the state of the nation's infrastructure including the need for by-pass roads to take dangerous loads away from densely populated areas and the rebuilding of the deteriorating sewerage system, all of which involved the operatives for which he was responsible. He also spoke about the value of increased construction activity within the economy by reason of its low import requirements. He drew attention to the very low level of construction expenditure in the UK compared with a number of competitors including France and West Germany mentioning also the jobs that could be created by increased investment in energy conservation and the multiplier effect for ancillary industries. He referred critically to the decision to carry out a large contract in the Falklands with the use of Swedish timber. This could perfectly well have been done using British materials.

7. The Prime Minister replied that the construction industry had received a very fair deal from the Government: planned expenditure was up 23% for 82/83 over 81/82. The time limit for 90% grants for housing improvement had been extended and activity was now running at the highest level for seven years. A programme of by-passes had been announced by Mr Howell. If there was a shortfall in expenditure this was no fault of the Government's: local authorities were responsible democratically elected bodies and the nationalised industries operated under statute. Neither could be subjected to compulsion. Local authorities and the nationalised industries had chosen to underspend capital allocations but they were overspent in total, local authorities considerably so. (This point was confirmed by Mr Scholar.) The situation was symptomatic of the problems of the economy as a whole. The public sector had been making wage settlements in the region of 7%. We should consider what our competitors were doing: in Japan there had been no increase in comparable payments this year and in West Germany they were at only 2%. The story was the same wherever one looked. The 58% penetration of the British automobile market by overseas competition reflected not only the uncompetitiveness of the car manufacturers but of British component manufacturers and the steel industry as well.

8. Mr Luder intervened to point out that the level at which present construction activity was running was extremely low: the increases of which the Prime Minister had spoken must be seen against this; and he asked whether the capital spending necessary for essential investment in the country's buildings and infrastructure did not require protection. It was important that the Prime Minister should understand exactly what was happening and he asked Mr Roy Swanston, as head of the construction services department in a major public authority to explain. Mr Swanston told the Prime Minister that there was another aspect to underspend: it was impossible to plan capital programmes on a year-by-year basis. The Government were giving only a few months' notice of annual allocations and it was simply not practicable to spend efficiently in this way. The Prime Minister declared that she was familiar with the excellent programming arrangements of the Department of Education and Science where she had been the Secretary of State. It went without saying that major civil engineering projects such as Torness which lasted for many years had to be planned on a more than annual basis. Mr Swanston replied that as a result of the low level to which spending had been cut and the short notice now given of annual allocations, the rolling programmes with which the Prime Minister had been familiar in the Department of Education and Science had now been abandoned. The stability given by such rolling programmes was very necessary and projects much more modest than Torness still had lead times which required more planning than was permitted by the hand-to-mouth expediency to which local authorities were now reduced. This was no less responsible for underspend than difficulties in controlling current expenditure. He also reminded the Prime Minister that current expenditure contained much important and necessary repair and maintenance work. Capital receipts which ministers were urging local authorities to spend were in many cases one-off and did not make a satisfactory basis for capital programmes. The Prime Minister replied that in the housing field the Government had agreed to underwrite estimated capital receipts from the sale of council houses for the following year and the Minister pointed out that in addition to the receipts from the sale of council houses, which would not necessarily hold their present level, were receipts on mortgage repayments which were a continuing source of income. Mr Swanston said he appreciated this, but felt that in the absence of adequate and assured capital allocations it must be expected that local authorities would reserve capital receipts to give them a buffer in future years. The public sector requirements for construction were in large measure predictable, and this should allow assured three year rolling programmes to be announced within which it would then be possible to operate smoothly and efficiently.

9. Mr Fordy asked whether it were not inconsistent for what was in effect a moratorium to be placed on contracts financed by the Housing Corporation while local authorities were so seriously underspent. The Minister considered that it was incorrect to describe what had happened as a moratorium: the Housing Corporation were simply overspending. He went on to refer to the fairly optimistic statistics of monthly sales from the Building Merchants Federation (BMF), suggesting these showed the Group were painting too gloomy a picture. Mr Fordy considered the terminology describing the Housing Corporation situation as academic: the fact remains that while local authorities were having great difficulty in spending, the Corporation, that was able to spend, was prevented from doing so. This made no sense at all. As for the BMF figures, false encouragement should not be drawn from them. They included a large proportion of DIY sales and sales through the black economy. The unanimity of view around the table from professions, contractors, suppliers and unions about the real state of affairs in the industry should not be disregarded. He added that the Government should not make over-optimistic claims for its land sales policy. The NFBTE had just completed some research into the effectiveness of the new land registers. The proportion of land actually available for early development was much smaller than the Government had been assuming and he left an advance copy of the first of the Federation's land register studies to demonstrate the validity of his contention.

10. The Prime Minister then referred to the situation in nationalised industries whereby the balance between current and capital expenditure had been tipped excessively in favour of current to the detriment of capital. Mr Ian Campbell, President ICE and Vice Chairman British Rail, said that although British Rail's borrowing limit for capital expenditure had been set at 400 million it had only been possible to spend somewhat less than £300 million. The Prime Minister considered that this was because British Rail was overmanned. Mr Campbell replied that British Rail had taken enormous strides in reducing levels of manning, but the Board had a requirement to operate a given network which had definable capital requirements. This was a point not confined to British Rail but one which applied to other national undertakings with a substantial estate of works and buildings. These required a certain level of capital investment for renewal and improvement. They were not getting it. The Prime Minister saw this situation as a further symptom of the nation's inability to control its appetite for consumption, so allowing the basic capital structure on which earning power was based to whither away. She had been brought up in a small self-employed business where what they spent was determined by what they earned. This was a precept that had to be followed by the nation as a whole.

11. Mr Henderson was aware of this as a general principle but pointed to the way in which the nation was being held to ransom by ever increasing oil prices by OPEC. These increases affected everybody. The Government should be consistent and not unreasonably lay all the blame upon the workers who had to ask for wage increases to support their families and pay their bills, including increasing rent and gas charges. The Government were directly responsible for increases such as gas. Prices had been increased by 12% from April 1982 with a further increase of 10% in October. The governments and banks of other countries provided assistance including cheap money, which resulted in the dumping of commodities in the UK and unfair competition for UK employers who had to take unnecessary risks in trying to win overseas contracts. Increases in suicides and mental illness were a direct consequence of the ever increasing unemployment. He stated it was not necessary to be very clever to bring down inflation with 4 million people unemployed. During the Thirties the Bank rate was 2% and inflation was below zero, with construction and other industries in the doldrums; the Prime Minister appeared to many as a modern Nero, fiddling while the country was being ruined. The Prime Minister

said she deplored the monopoly exercised by the oil companies: she hated all monopoly but accepted that we lived in a world where some monopolies existed with which accommodation had to be made. This was unfortunate, but she considered competition the only real protection and wished to introduce it wherever possible, not least to the nationalised industries. For example the nation could not afford to go on paying out the enormous sums of money annually to support the steel industry. Mr Fordy pointed out that if the level of construction activity could be brought back to the level required by the country this would have an immediate and dramatic effect on the viability of the steel industry for which construction was a very important market. The Prime Minister noted this point.

12. Mr Swanston followed by adding that the industry was looking for a balanced increase quickly to help restore construction activity to a more appropriate level. It need not be a huge increase but it should be a significant and a continuing one. The Prime Minister should understand the damage that had been inflicted on the industry by the disproportionate cuts it had suffered as a result of the vulnerability of captial programmes. A modest and sustained increase now would prevent the inflationary effects of greater demand hitting a further deteriorated industry in future with all the accompanying implications for quality and efficiency. The Prime Minister reiterated her view that the Government had acted reasonably by the industry and she pointed again to the value of the continued improvement grant programme which was a labour intensive activity. The introduction of heavier lorries, so long opposed by the environmental lobby, but so essential to the British manufacturers of heavy lorries, had now led to the announcement of the by-pass programme. Asked whether the schemes were likely to be commissioned - which was of critical interest to the industry - the Prime Minister said this was not yet decided.

13. Mr Hyde-Thomson said the Group believed the Government should as a national responsibility take a strategic view of the level of construction activity appropriate to the national investment in works and buildings. The essence of the Group's case was that this view was not being taken and that the significance of construction to the economy generally and its influence on employment was being underestimated. They were trying to suggest that the Government could use the construction industry to take a very positive role in economic recovery.

14. Mr Luder in concluding went on to say that the Group therefore believed that it was a job for Government to give some protection to appropriate levels of investment in construction work. The Prime Minister should realise just how vulnerable these programmes had been over the last decade. The present underspend was just a symptom of this. The industry had been brought very low and was virtually powerless to influence the matter. However, the Prime Minister and her Government could do so. It was not only a matter of underspend but of allocating sensible levels of investment and seeing that they were carried out. The industry would do whatever they could to influence public authorities to spend their capital allocation and the Group itself would consider meeting the local authority associations. They would also do everything possible to promote construction work in the private sector, but there was a great deal of unlet accommodation. Developers were influenced by more than interest rates when deciding whether or not to build. An injection of public expenditure into construction work would do a great deal to give the private sector the confidence to turn the corner. Only the Government could do this which was why the Group had sought this meeting with the Prime Minister herself.

15. The Prime Minister thanked the Group for coming. She hoped they would meet the local authority associations and would consider approaching them herself about underspend. She asked the Minister to examine ways, including a possible television appearance, by which underspend could be more effectively dealt with, and to consider other points raised by the Group.

GROUP OF EIGHT
OCTOBER 1982