

PREM 19/1357

Confidential filing

The Prime Minister's meeting with the Group of Eight
(members of the Construction Industry) on 15 October 1982

PRIME MINISTER

AUGUST 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
16-9-82							
30-9-82							
15-10-82							
25-10-82							
12-11-82							
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PREM 19/1357

Manchester
Society of
Architects



A Branch of the
Royal Institute of British Architects

The Right Honourable Margaret Thatcher MP
10 Downing Street
LONDON SW1

SBD/DD
30 November 1983

Dear Prime Minister,

I enclose for your information a copy of an article which appeared in the Manchester Evening News on Saturday 26 November 1983, together with a copy of my letter about it to that newspaper.

The circumstances upon which I comment are an example of the convincing point of view presented to you by Mr Owen Luder and the "Group of Eight" for the Construction Industry at your well publicised meeting of October 1982.

I have sent a copy of this letter and its enclosures to the Secretary of State for the Department of the Environment and Transport, Mr Owen Luder - the Past President of the Royal Institute of British Architects and to Mr Michael Manser the current President.

Yours sincerely,
Sydney Downs.

Immediate Past President
Manchester Society of Architects

Please reply to:
S B Downs Esq
Downs & Variava
8 Grange Lane
Didsbury
Manchester M20 0RW

GP
Ack for
6/12

see
over

LS
?

Manchester Society of Architects



A Branch of the
Royal Institute of British Architects

The Editor
The Manchester Evening News
Deansgate
Manchester

SBD/DD
30 November 1983

Sir

Your article "Builders Drop a £9m Brick" in the Manchester Evening News of Saturday, November 26 1983 illustrates clearly that the Construction Industry cannot be turned on and off like a tap in accordance with successive government policies and in reaction to immediate problems. That is a lesson that many have been trying to teach for a long time - not least the Construction Industry "Group of Eight" at national and local levels. It was the reason for a well published meeting between that Group and the Prime Minister in October 1982, when the President of the Royal Institute of British Architects was able to argue, with the full support of his Construction Industry colleagues, that, given more years of neglect, the building labour forces will simply not be there when they are needed.

Of course, there is a shortage of bricklayers! I imagine that the building employers may have been trying very hard indeed to find them. However, trained and experienced bricklayers cannot be produced out of thin air exactly when short notice demands. There is a similar shortage of other skilled tradesmen. Is it surprising that recruits do not come forward to an industry where, when they have finished their present building job, they face a strong possibility of the dole queue, whatever their ability and enterprise?

Manipulation of Construction is a tempting but short sighted palliative in times of national recession. It is too easy to run building down. The many consequences of that have to be faced now and in future. They could be situations of the kind you describe and very steeply rising prices in years ahead. How can we help government to look further ahead than the end of its nose?

Yours faithfully

Sydney B Downs
Immediate Past President
Manchester Society of Architects

Please reply to: Downs & Variava
8 Grange Lane
Didsbury
Manchester M20 0RW

Builders drop a £9m brick

By DAVID BAINTON

HUNDREDS of homes being built on council estates in Salford are months behind schedule because of a shortage of bricklayers.

Councillors on the city's housing committee were told that some builders were up to three months behind. Altogether nearly 400 homes in contracts worth £9m were hit.

It seems incredible with 3½m unemployed and the building industry crying out for work, that there has been difficulty in getting bricklayers any time this year," said Coun William Moores. "I wonder if the employers have been trying very hard?"

Chief architect Mr Derek Warburton commented: "In my opinion, the major reason for the delays is lack of adequate labour force. The contractor at Weaste in particular, has experienced difficulties in obtaining bricklayers this summer. This also applied on all five sites.

"Contributory factors were abnormal variations in brick sizes, Timber window frames and pre-cast concrete sills did not conform to specification and had to be replaced."

The estates are at Lower Broughton, Weaste and at Brunswick in Pendleton.

"Nevertheless, he has given me an assurance that he will be finished by the contract date of March 1984 — if not before."

Even though Salford's housing allocation for fresh buildings has been slashed by almost half over the past three years, they could end up with the embarrassing situation of being underspent by some millions of pounds. Unspent money cannot be carried over to the following year.

Housing chairman Coun David Lancaster said: "The Weaste contractor is well aware that he is about three months behind on our estimate.

PM. Aug 82
Camp of Eight



HL

Prime Minister

16 December 1982

The Prime Minister has asked me to thank you for your letter of 15 December and it is very kind of you once again to invite the Prime Minister to attend your annual dinner.

I very much regret that the Prime Minister will not be able to accept as she has a long-standing political engagement that evening. Could you kindly pass on this reluctant refusal to all your members.

With best wishes for Christmas and the New Year.

CAROLINE STEPHENS

G.M. Fordy, Esq.

500



FOUNDED 23rd JANUARY 1878

*The National Federation of
Building Trades Employers*

FROM THE PRESIDENT

82 NEW CAVENDISH STREET
LONDON W1M 8AD

01-580 5588

GMF/JRS/MAJ/748

15th December, 1982

The Rt. Hon. Margaret Thatcher MP.,
10 Downing Street,
London, S.W.1.

Dear Prime Minister,

We are holding our Annual Conference in London next year and I am writing to invite you to respond to the Toast to Her Majesty's Government at the Conference Dinner on the evening of Monday, 28th February, 1983. The Dinner will take place in the Mansion House and will also be attended by the Lord Mayor.

Since we met in October during your discussion with the 'Group of Eight' construction representatives, you have given a welcome boost to the Government's policy towards our industry. You recognise, I am sure, just how important a good year for construction investment would be for the domestic economy and employment in 1983.

The building industry must also take its own initiatives. In this spirit I have decided to devote our Conference, under the title "The Challenges of Change - Construction's Contribution", entirely to the potential of new markets and technological developments. The Conference always attracts many top builders who have the power to innovate and to implement new ideas. This positive approach will provide a responsive audience for your own message.

Sir Winston Churchill addressed our Federation in 1955. At that time we faced the challenge of post-war reconstruction. His recognition of the industry's role is still appreciated today, when we face the different challenge of overcoming a tough, prolonged recession. Your involvement in our Conference would provide an immense boost to morale throughout the industry. I do very much hope that you will be able to accept the invitation.

*Yours sincerely,
Richard Fordy*

G.M. Fordy

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2 in matter

CF file? PSG



10 DOWNING STREET

THE PRIME MINISTER

Pieces of Knight?

10 December 1982

No
114/12
OOE

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Dear Mr. Fordy,

Thank you for your letter of 18 November about our recent initiative to increase the level of capital expenditure this year.

I very much welcome the positive approach which your Federation has adopted. You will be glad to know that since local authorities were invited on 29 October to apply for additional capital allocations for 1982-83, extra allocations totalling some £190 million, including £110 million for housing, have been approved. In addition, authorities have been told that they may increase their expenditure on improvement grants this year without limit, and without the need to submit prior bids. The response to our initiative to reduce the prospective under-spend is therefore encouraging.

I am grateful too for the proposals in the paper enclosed with your letter, which I read with interest. I am of course keen to ensure that we do all we can to remove any unnecessary obstacles preventing authorities making full use of the capital resources at their disposal. I have asked Michael Heseltine to reply to you direct on the detailed proposals you make.

Yours sincerely
Margaret Thatcher

G. M. Fordy, Esq.

5

From: Illyd Harrington, J.P.
Deputy Leader of the Council
Greater London Council

MEMBERS' LOBBY
THE COUNTY HALL
LONDON SE1 7PB

The Rt. Hon Margaret Thatcher
The Prime Minister
10, Downing Street
London
S.W.1.

PM
Prime Minister

I suggest we allow this
correspondence, too, to rest.

25/11 November 1982 MCS 26/11

mt
D. M. Thuleto ✓

Thank you for your letter of 23 November.

I can only repeat that we shall make additional capital investments as the constraints placed upon us allow and which are practical.

Regretfully but firmly, I have to reject your expression of 'pessimism' of what can be achieved. It is not a question of either lack of will or competence on our part. It is simply a question of realism; a realism which is underlined by the fact that we still await agreement as to a level of capital expenditure which the Secretary of State for the Environment will support for 1983/4.

R26
Yours sincerely
Illyd Harrington



AMA

Association of Metropolitan Authorities
36 Old Queen Street Westminster London SW1H 9JE Telephone 01-930 9861

PCRM

From the Chairman

Sir Jack Smart CBE JP

24 November 1982

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

Prime Minister (2)

I suggest we allow

ms

this correspondence to rest.

Dear Prime Minister

MS 25/11

Thank you for your letter of 23 November 1982.

I am heartened by your "noting" our points about the system of capital controls. I know that the building industry has a great deal of sympathy with our views. John Stanley seems also to have noted our points and promised local authorities some indication of 1984-85 spending levels when he makes the announcement for 1983-84 housing capital programmes and I hope that this approach can be extended by your colleagues to other departments' programmes.

Yours sincerely

Jack Smart

Local Govt, Relations Pt 14

THE ASSOCIATION OF LOCAL GOVERNMENTS IN GREAT BRITAIN
100, BROADWAY, LONDON, E.C.4

FROM THE CHAIRMAN

DEAR SIR

Reference is made to your letter of 22nd October 1964.

Yours faithfully,
The Chairman

With regard to your letter of 22nd October 1964,

I am sorry to hear that you are having some difficulties in connection with the proposed changes in the way in which the public health authorities are to be financed. I know that the public health authorities have a great deal of experience with our views. I am sure that you will be able to find a way of dealing with the situation which will be satisfactory to all concerned. I hope that this approach will be successful.

RECEIVED
25 NOV 1964

Yours faithfully,
The Chairman



10 DOWNING STREET

From the Private Secretary

24 November 1982

GROUP OF EIGHT: COUNCILLOR SEWEL'S LETTER

Thank you for your letter of 22 November, in which you let me know that Mr. Younger recommended to the Prime Minister that no substantive reply should be sent to Councillor Sewel.

The Prime Minister accepts this advice.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office, H.M. Treasury).

M. C. SCHOLAR

Muir Russell, Esq.,
Scottish Office.

PR



10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

P.M.
JK MJ
DOE

Dear Councillor McCullum

Thank you for your letter of 8 November about local authority capital expenditure.

I am grateful for your promise to help promote additional capital investment this year. I recognise some of the difficulties to which you refer. They are not all capable of easy solutions, but Michael Heseltine will be looking further at the points which you raise. I believe that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.

Yours sincerely

Michael Heseltine

Councillor I.S. McCullum

B



Joe MS
c. JOE

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor Horrell,

Thank you for your letter of 4 November about local authority capital expenditure.

I am grateful to you for taking prompt action to notify your member authorities of the availability of extra allocations. I recognise that there may be some difficulties of the kind which you mention, but I nevertheless believe - as you clearly do - that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.

Yours sincerely
Raymond Stobart

Councillor J.R. Horrell, CBE, TD, DL.

B



*the MS
CBE*

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor Smart

Thank you for your letter of 5 November about local authority capital expenditure.

I note what you say about the capital control system. So long as resources for public expenditure are constrained local authorities like other public sector bodies, will face difficult decisions. But I believe that within the constraints of Michael Heseltine's current expenditure targets there is still much that authorities can do to promote extra capital investment this year, without creating problems for later years. Michael Heseltine's offer of extra allocations produced an encouraging response from many authorities.

I am grateful to you for drawing the contents of my earlier letter to the attention of your member authorities. I do not share your pessimism about the outcome.

*Yours sincerely
Margaret Thatcher*

Councillor Sir Jack Smart, CBE, JP.

B



10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Mr Councilor, Harrington

Thank you for your letter of 9 November about local authority capital expenditure.

I am glad to know that your Council is making efforts to achieve worthwhile capital investment, but sorry that you see so little scope for an accelerated programme this year. I recognise some of the difficulties to which you refer, and we shall be announcing allocations for next year as soon as possible. But I believe that within the constraints of Michael Heseltine's expenditure targets there is still much which authorities can do to promote extra capital investment this year, without creating problems for later years. The encouraging response from many authorities following Michael Heseltine's offer of extra allocations is evidence of this, and I do not share your pessimism about what can be achieved.

*Yours sincerely
Margaret Thatcher*

Councillor I Harrington, J.P.

5



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON

Prime Minister (1)

Agree no reply to

Councillor Sewel?

22 November 1982

MS 23/11

Dear Michael

Yes ms

GROUP OF EIGHT

In your letter of 10 November you asked for a draft reply to Councillor J B Sewel's letter to the Prime Minister of 12 November, if we judged it necessary to respond. My Secretary of State doubts the need.

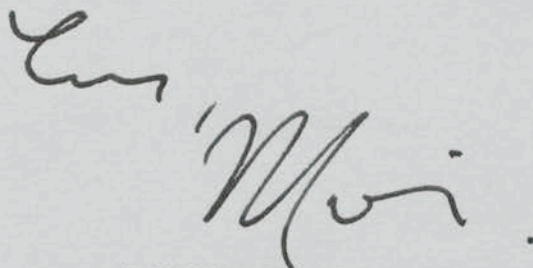
In his reply to the Prime Minister's letter of 2 November Councillor Sewel makes three complaints: first, that too little end-year flexibility is allowed to local authorities in Scotland on their capital allocations; secondly, that a major obstacle to capital expenditure is inadequate provision by central Government for the revenue expenditure consequences and thirdly, that the complex links in Housing programmes between capital resources, house-sales and rate-fund contributions make it difficult for authorities to plan ahead and often divert resources away from where they are needed.

End-year flexibility is the subject of frequent discussions with the Convention of Scottish Local Authorities. From the Scottish Office point of view more end-year flexibility at local level with the absence of any in the national cash limit increases the risk of a cash-limit breach. Until there is any change at national level, we judge the present carry-forward allowances to be the best compromise. The second point has some validity; the need for control over local authority current expenditure is not over-ridden by the desirability of increasing capital expenditure. On the other hand, Scottish local authorities' excess revenue expenditure is due even more to other factors. In addition, many areas of capital expenditure need not have substantial revenue consequences. On the third matter, Councillor Sewel is criticising a system which has operated for two years already, and is to be operated again, in an updated form, next year. We believe it will be preferable to restate the justification for the system in the context of next year's scheme when we are ready (shortly) to announce it.

The first matter does not merit the Prime Minister's intervention; no concession is possible on the second and third matters where respectively the need to limit current expenditure and the pursuit of the Government's housing policy are paramount.

Although the President of the Convention has publicised his reply to the Prime Minister, my Secretary of State thinks there is no advantage in promoting correspondence between the Prime Minister and Councillor Sewel on these subjects and recommends that the matter rest on your acknowledgement. Mr Younger and Mr Allan Stewart will undoubtedly deal with Councillor Sewel's points at the RSG and Housing grant settlement meetings in December.

I am copying this reply to John Gieve, Treasury.

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

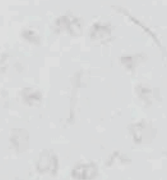
A MUIR RUSSELL
Private Secretary

Prime Minister

Group of eight

August 1982

1982





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.



CF

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: H/PSO/17751/82

Your ref:

19 November 1982

Dear Michael

Thank you for your letters of 8 and 10 November covering four replies from the leaders of the local authority associations to the prime Minister's letter of 2 November about capital under-spending this year.

The letters all make much the same points about difficulties facing authorities trying to plan capital investment. As you will have seen from the briefing we provided for Prime Minister's Question Time last week, these points can be answered. But if the Prime Minister were to deal with each letter point by point, this could lead to a prolonged and unfruitful correspondence. We have therefore provided fairly brief responses, trying in each case to respond to the tone of the leader concerned (including Councillor Horrell, pace the suggestion in your letter of 8 November).

Your own
D A Edmonds

D A EDMONDS
Private Secretary

PM: Grp. of Eight

8/82



UNIVERSITY OF MICHIGAN
LIBRARY CONTROL
SERIALS ACQUISITION
UNIVERSITY MICROFILMS
SERIALS ACQUISITION
UNIVERSITY MICROFILMS

COMMUNICATIONS

Councillor I Harrington JP
Deputy Leader
Greater London Council
Members Lobby
The County Hall
LONDON
SE1 7PB

GK
Pl type all these letters
for PM
MUS 22/11

Thank you for your letter of 9 November about local authority capital expenditure.

I am glad to know that your Council is making efforts to achieve worthwhile capital investment, but sorry that you see so little scope for an accelerated programme this year. I recognise some of the difficulties to which you refer, and we shall be announcing allocations for next year as soon as possible. But I believe that within the constraints of Michael Heseltine's expenditure targets there is still much which authorities can do to promote extra capital investment this year, without creating problems for later years. The encouraging response from many authorities following Michael Heseltine's offer of extra allocations is evidence of this, and I do not share your pessimism about what can be achieved.

Councillor J R Horrell CBE TD DL
Chairman
Association of County Councils
Eaton House
66a Eaton Square
London
SW1W 9BH

Thank you for your letter of 4 November about local authority capital expenditure.

I am grateful to you for taking prompt action to notify your member authorities of the availability of extra allocations. I recognise that there may be some difficulties of the kind which you mention, but I nevertheless believe - as you clearly do - that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.

Councillor Sir Jack Smart CBE
Chairman
Association of Metropolitan Authorities
36 Old Queen Street
LONDON
SW1H 9JE

Thank you for your letter of 5 November about local authority capital expenditure.

I note what you say about the capital control system. So long as resources for public expenditure are constrained local authorities like other public sector bodies, will face difficult decisions. But I believe that within the constraints of Michael Heseltine's current expenditure targets there is still much that authorities can do to promote extra capital investment this year, without creating problems for later years. Michael Heseltine's offer of extra allocations ^{produced} ~~proceed~~ an encouraging response from many authorities.

I am grateful to you for drawing the contents of my earlier letter to the attention of your member authorities. I do not share your pessimism about the outcome.

Councillor I S McCallum
Chairman
Association of District Councils,
9 Buckingham Gate,
London
SW1E 6LE

Thank you for your letter of 8 November about local authority capital expenditure.

I am grateful for your promise to help promote additional capital investment this year. I recognise some of the difficulties to which you refer. They are not all capable of easy solutions, but Michael Heseltine will be looking further at the points which you raise. I believe that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.



FOUNDED 23rd JANUARY 1878

*The National Federation of
Building Trades Employers*

FROM THE PRESIDENT

GMF/LP/593

82 NEW CAVENDISH STREET
LONDON W1M 8AD

01-580 5588

18 November 1982

R19

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

Jan Paine Minister,

My Federation has responded positively to your most welcome recent initiatives on capital underspend. We have put forward a four-point package that could contribute an extra £1 billion investment in this financial year.

The local authority associations have accepted that our package highlights some potential areas for encouraging extra construction activity. They have also pointed to several obstacles which stem largely from controls imposed by central Government and which, in their view, are likely to prevent a substantial proportion of the underspend actually being spent.

The NFBTE clearly does not have the necessary experience or direct involvement in public sector finance to examine these points critically and in detail. I am sure however, that you would wish to satisfy yourself, and the construction industry, that there are currently no unnecessary controls exercised by Treasury or DOE which are preventing the maximum possible take-up of underspend by local authorities. Even if you are unable to commit yourself now to permanent changes in the system, we believe that at the very minimum, special relaxations are required and justified to enable the capital underspend to be used sensibly and in full.

For this reason I am enclosing a short paper which sets out the main obstacles, and proposals for solving them, which we have discussed with the local authorities.

I hope that you can assure me of your determination to deal with these points, so that my members' commitment to making the Secretary of State's initiatives work will not be in vain.

I have deliberately taken pains to go into the details of this issue. For as a responsible Federation, we must look constructively into every opportunity for improving our industry's workload. The capital underspend issue is not, however, my prime concern but rather the most immediately available means towards achieving my principal objective, which is to help our industry to contribute more fully to a sustained, non-inflationary recovery of output, jobs and investment in the economy. I am concerned

.../

above all with relieving the still desperately low state of work, recruitment, training and employment in construction, whatever may have been the causes of that situation.

I am not myself releasing the contents of this letter, but I shall be sending a copy of it to the Chancellor of the Exchequer, since the Treasury has over-riding responsibility for most of the points discussed above, as well as to our sponsoring minister, the Secretary of State for the Environment, and to the two local authority associations with whom we have held detailed discussions, namely the Association of Metropolitan Authorities and the Association of District Councils.

Tom Sneyd
Andrew Lewis

G M Fordy

LOCAL AUTHORITY INVESTMENT & CENTRAL GOVERNMENT CONTROLS

Summary Note of Points on Which Central Government Assurance is Urgently Required

1. The local authorities have highlighted the following two areas where obstacles stemming largely from controls imposed by Central Government are likely to prevent a substantial proportion of this year's underspend actually being spent:-
 - (i) the project controls procedure exercised by DOE, although recently improved, can still delay the commencement of works considerably;
 - (ii) the prolonged time-scale of many building works, even in the repair and maintenance sector, means that projects started now will almost certainly not be completed during the current financial year. Under current Treasury rules, local authorities will accordingly have to finance the completion of these projects out of next year's HIP allocation, which is as yet unknown. Uncertainty over future financial resources will preclude local authorities from starting major capital projects which might in the long-term offer better value for money than short-term projects.

2. In addition, the authorities draw attention to the longer-term question of seeking to avoid the recurrence of such underspending in future years. The very short-term nature of information given to local authorities about their future capital allocations discourages them from developing long-term capital programmes which include full use of capital receipts.

3. The local authority associations are dealing separately with their own proposals for alleviating the underspend problem. Whilst some of these will undoubtedly relate to areas which are of no direct concern to NFBTE, we would strongly support the following proposals for minimising the specific problems outlined above:-
 - (i) a relaxation and speeding-up of project control procedures for the remainder of 1982/83. Where projects do require DOE confirmation, this should be available over the telephone within two working days;
 - (ii) the Government should be prepared to underwrite any capital expenditure incurred by local authorities in future years on projects which obtain project approval and which are started before the end of March 1983, for the purpose of taking up this financial year's underspend, without prejudice to future capital allocations.

.../

(iii) the Government should provide longer-term information on future overall capital programmes and individual local authorities should have an assurance that capital allocations would not be cut by more than 20% between consecutive financial years.

We remain committed to encouraging the maximum possible take-up of capital underspend during the present financial year and welcome the endorsement given by the Secretary of State for the Environment to the shared purchase element in our own proposals. We have strongly encouraged our members to enter into urgent discussions with local authorities to this end. Yet we would be much more confident of achieving the Secretary of State's objectives if some of the above apparent obstacles to progress were firmly and rapidly solved.

2 pps

g/c sv



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,

[Handwritten signature]
[Handwritten signature]

P.K. HARRISON
Secretary

Enc.

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 Government'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 Minister 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 wither 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 capital 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.

22 JULY 1982

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CC 080

HU
Prime Minister

10 DOWNING STREET

From the Private Secretary

16 November 1982

I enclose a copy of a letter which the Prime Minister has received from Mr. J.B. Sewel about capital underspend by Scottish local authorities.

I have acknowledged this letter. If you judge a reply necessary, I should be grateful if you could let me have a draft reply for the Prime Minister's signature by Tuesday 23 November.

81K
I am sending a copy of this letter and enclosure to John Gieve (Chief Secretary's Office, H.M. Treasury).

M. D. SCHOLAR

Muir Russell, Esq.,
Scottish Office,

HL

16 November 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 12 November which I will place before her at the earliest opportunity.

MICHAEL SCHOLAR

J.B. Sewel, Esq.

Convention of Scottish Local Authorities

Prime Minister (2)

CF

16 Moray Place
Edinburgh
EH3 6BL
Telephone No. 031-225 1626/7
Graham H. Speirs M.A. L.L.B.
Secretary & Treasurer

I have
acknowledged, and
asked for Mr

The Rt Hon Margaret Thatcher MP Younger's
Prime Minister
10 Downing Street
LONDON SW1

Contact:

Your Reference:

Our Reference: P/6/12

Date: 12th November 1982

advise on whether
you should reply.
Mrs 16/11

Dear Prime Minister

Thank you for your letter dated the 2nd instant requesting the assistance of the Convention in encouraging member authorities to make full use of the capital allocations granted to them. I may say that I share the concern of the Group of Eight at the low level of activity in the construction industry. Unemployment in Scotland is at a particularly high level and I share the Government's anxiety to ensure that employment opportunities are available in the construction industry and elsewhere.

In your letter you refer to 1981/82, 1982/83, and later years. It is true that in 1981/82 there was underspending by Scottish local authorities on capital account, not least because of the bad winter. The need to be able to plan capital expenditure with confidence over an extended period and to take account of disruptions caused by particularly bad weather makes it essential to modify the current arrangements for controlling capital expenditure, so as to increase the proportion of the allocation which can be carried over from one year to another. We have repeatedly made this point to the Secretary of State but he has, so far, felt unable to accept our advice.

In relation to 1982/83 you expressed the hope that Scottish local authorities will do all they can to avoid underspending. Last Friday Mr J Allan Stewart, the Minister for Home Affairs and the Environment in the Scottish Office, stated "...Unlike their English counterparts they have a good record of using up their existing capital allocations and, while they are not therefore incurring the substantial underspends being experienced south of the Border, I have been able to authorise some limited additional expenditure on the basis of present expenditure trends." Not only did Mr Stewart indicate that underspending was not a problem this year in Scottish authorities, but he went further and announced an increased allocation of £17M.

In relation to your reference to later years, I can assure you that there is no shortage of essential and highly desirable capital projects which local authorities would like to see proceed, but I must draw your attention to the very point to which you yourself have referred, the revenue consequences of capital expenditure. Capital expenditure projects /

projects initiated one financial year will have direct revenue consequences on future financial years. Scottish local authorities are presently making capital expenditure decisions within the context that in order to meet revenue expenditure guidelines a cut of 9.6% in real terms would have been made in 1983/84 compared with 1982/83. If downward pressure on revenue expenditure continues, this will inevitably affect the ability of local authorities over the longer term to maintain capital expenditure programmes.

I would specifically bring to your attention difficulties which have arisen in relation to housing capital expenditure. Indicative housing capital allocations are being modified by the Scottish Office in light of the individual authority's rent performance and in light of the capital receipts an authority obtains from the sale of Council houses. The inclusion of these new factors not only makes it more difficult for authorities to plan expenditure programmes but by eroding the link between housing need and the actual allocation received the total level of capital investment in housing is being unnecessarily depressed. The construction industry would benefit and local authorities experiencing severe housing problems would be helped if capital allocations more truly reflected the need of particular authorities to provide new housing or improve the existing housing stock.

In light of your request for assistance in encouraging local authorities to make full use of the resources made available to them, I am arranging for your letter to me and for this reply to be circulated to the member authorities of the Convention.

Yours sincerely

J. B. Sewel

President



10 DOWNING STREET

From the Private Secretary

10 November, 1982.

I attach copies of two more letters which the Prime Minister has received in answer to her letters on capital under-spending. These latest are from Councillor Illtyd Harrington and Councillor Ian McCallum.

I should be grateful if you would let me have draft replies for the Prime Minister's signature, to reach me by 17 November please.

I am copying this letter and its enclosures to John Gieve (Chief Secretary's Office, HM Treasury).

M. C. SCHOLAR

David Edmonds, Esq.,
Department of the Environment.

From: Iltyd Harrington, J.P.
Deputy Leader of the Council
Greater London Council

The Rt. Hon Margaret Thatcher
The Prime Minister
10, Downing Street
London
S.W.1.

Prime Minister (2)

I will let you have

a draft reply.

HS

MS 10/11

(20/11)

MS

cc Local Authority
Relating to D114
MEMBERS' LOBBY
THE COUNTY HALL
LONDON SE1 7PB

9th. November 1982

Dear Prime Minister

You wrote to me personally to encourage the Council to do what it can to increase its expenditure in the current financial year on capital investment projects, particularly on those of benefit to the construction industry and to employment in that industry.

Let me reply, at once, that the Council is doing, and will do, all it can to expend its authorised capital programmes this year. But there is precious little more it can do between the 3rd November 1982 and 31st March 1983 to increase capital investment to benefit the construction and other industries and their workers in the absence of increased commitment in 1983/4 and beyond.

The reasons why my Council, and many others, find themselves forced, in practice, by Government processes to 'underspend' on capital are so well known in its Central Departments and have been the subject of so many protests that I am frankly puzzled that the letter you sent to me should have been put before you for signature.

There is only one action which can now have any measurable effect in capital expenditure/investment terms in the few remaining weeks of this financial year and give substance to your intent. This is Government's agreement now to the increased level of capital expenditure/investment in 1983/4 which the Council has represented to the Department of the Environment.

Yours faithfully
Iltyd Harrington



10 DOWNING STREET

From the Private Secretary

8 November 1982

I enclose copies of replies to the Prime Minister's letters of 2 November about capital spending from Sir Jack Smart and Mr. Horrell. No doubt more will follow in due course.

B/H
I would be grateful if, in the usual way, you would let me have draft replies to these letters (some - like Mr. Horrell's as I see it - may not require a reply) by Tuesday 16 November. But I would be grateful, too, if you would let us have briefing material for Questions tomorrow on the points raised in Sir Jack Smart's letter.

I am sending a copy of this letter and of the enclosures to John Gieve (HM Treasury).

M. C. SCHOLAR

David Edmonds, Esq.,
Department of the Environment.

Prime Minister ②



ASSOCIATION OF DISTRICT COUNCILS

I will let
you have a
draft reply.

From the Chairman:
COUNCILLOR IAN S. McCALLUM

8 November 1982

MCS 10/11

Dear Prime Minister,

Thank you for your letter dated 2 November 1982.

I welcome the Government's initiative in encouraging local authorities to step up capital expenditure in the current year and I feel sure that many authorities will make the effort to respond positively. You may rest assured that I will do all I can to encourage our authorities to take up the challenge.

There are, however, one or two areas of difficulty which, if overcome, could help local authorities to make an even better response to your call. I have said publicly that the Government's initiative will provide an opportunity for some authorities to bring forward schemes presently scheduled for commencement in the next financial year. To be realistic, it will be difficult for any local authority to embark on major expenditure involving new construction without some much firmer assurances about the carry-over from this year. Personally, I am convinced that there are many substantial construction schemes which could get underway very quickly if the Government would respond with some help on the carry-over commitment.

A second area of deep concern to local authorities is the Government's proposal to restrict the use of capital receipts to supplement allocations next year to 50% of the total in hand. My soundings amongst district councils indicate that this proposal will have a very serious affect on the plans of many local authorities intending to embark on capital expenditure during the next twelve months, but you will understand that the present capital expenditure controls and the selling of council houses under the Housing Act 1980 provisions have only been in operation for a relatively short period of time. It is now that local authorities are feeling the benefits of the power to accumulate and use capital receipts and I know it is from here on that many councils were planning to finance substantial construction programmes by this means. A 50% limit will jeopardise capital programmes which have been drawn up to span the next two or three financial years. I hope that the Government will look again at this proposal, or at least ensure that local authorities in the position which I have described are awarded compensating additional capital allocations to enable them to proceed.

.../....

The third point I would invite you to consider is the possibility of the Government helping local authorities with commitments in capital expenditure which extend beyond one financial year. There are very few capital projects of any substance which do not span more than one year and most forward looking local authorities plan their capital programmes over a three or five year period. I believe that experience of the new capital expenditure control system highlights the difficulty of planning capital programmes on the basis of annual allocations. I would ask you to invite the Secretary of State for the Environment to look at this particular problem again.

May I say in conclusion that this Association and the local authorities it represents welcome any initiative by the Government to stimulate capital expenditure, but those authorities have to operate within the Government's statutory controls and within the constraints of revenue budgets for which substantial capital expenditure inevitably has implications. If you feel that it would be helpful to discuss the issues involved I shall be happy to respond.

Your sincerely

Jan S. Notallan

The Rt. Hon. Margaret Thatcher, MP.,
Prime Minister,
10 Downing Street,
London,
S.W.1.

AA27/2/ISM/PO



Association of Metropolitan Authorities
36 Old Queen Street Westminster London SW1H 9JE Telephone 01-222 8100

R8/11 ✓ PPS
Mee Sean
Lpp

From the Chairman Sir Jack Smart CBE

5 November 1982

cc Local Authority: Relations
PT 14

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

Dear Prime Minister

Thank you for your letter of 2 November 1982. I share your concern at the underspending on local authority capital expenditure; the AMA has been saying for some time that we need more public investment.

Your letter appears to begin to appreciate some of the problems faced by local authorities in achieving our common aim but I feel it does not go far enough. First, you say that local authorities "are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision". This is the nub. The Local Government, Planning and Land Act, 1980 changed the system of controlling capital expenditure. Before the Act our borrowing to finance projects was strictly controlled. Local government accepted this for our borrowing contributes to the PSBR. But when a Government Department gave borrowing approval it related, in most services, to a complete project. That made sense. A local authority could start a project with the reasonable certainty of having the borrowing approval to allow its completion. The present system controls how much local government spends in a year (no matter how it is financed), not a programme of "starts". We have yet to receive any indication of the level of capital allocations for 1983-84. And we were told only two weeks ago of a change in the rules for 1983-84 which could thwart many worthwhile projects. Is it any surprise that local authorities are reluctant to undertake projects, or that they store up capital receipts to iron out expected shortfalls in capital allocations? A good deal of the culpability for present capital underspending rests with the present system of capital controls.

I am also concerned at the implications of our being encouraged to spend only in the remaining five months of the year. It really does the image of government no good at all when local authorities - at the sharp end - attempt to explain to the public that we are trying to stimulate the construction industry, but only until 31 March 1983. Projects can be undertaken between now and then as a worthwhile investment of public funds, but the project must be completed by 31 March 1983 because we cannot guarantee the funds after that date. This is a nonsense.

Thirdly, my colleagues and I on the Consultative Council on Local Government Finance have searched hard for capital investment projects which do not generate increased revenue expenditure. We have asked your Ministers for examples. The truth of the matter is that they are few and far between and tend not to relate to the main areas of local government spending. You cannot expect a major increase in local authority investment if at the same time you penalise and castigate local government for "overspending" on the revenue account.

Finally, Prime Minister, I must put the record straight. In the House of Commons on 3 November 1982 (Column 21) you said that you were urging us to make full use of the sums that you had "allocated" to capital. That is just what local authorities have been doing. What they have not been doing is using their capital receipts to increase these allocations. They are planning to use them in future years but they have not done so yet. Michael Heseltine's plans for the use of capital receipts jeopardise that future use.

I shall, as you have asked, draw your letter to the attention of the Association's member authorities, but unless something is done about the problems I have outlined in this letter the results will be nugatory.

Yours sincerely

Jack Smeeth

PRIME MINISTER

Nationalised Industries' Chairmen's Group

Chairman
Norman J. Payne CBE

Prime Minister (2)

Hobart House
Grosvenor Place
London SW1X 7AE
01-235 2020

MUS 9/11

5th November, 1982

K8 CR
pps

The Rt. Hon. Margaret Thatcher, MP.,
The Prime Minister,
10, Downing Street,
London, S.W.1.

cc Nat Ind: Policy 117

Dear Prime Minister

Thank you for your letter of 2nd November about investment spending in nationalised industries.

I have passed this on to my colleagues and I shall reply as soon as I have had a chance to discuss the issue with them at a meeting already arranged for next week.

M

Yours sincerely

Norman J. Payne

PM ; PM's meeting with the Group of Eight: AUG 82

From: Mr J R Horrell CBE TD DL, Chairman of the Executive Council

ASSOCIATION OF COUNTY COUNCILS

EATON HOUSE, 66A, EATON SQUARE, LONDON, SW1W 9BH

MCS
seen

The Right Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
LONDON
SW1

cc to local Authorities
R. S. L. 14

4 November 1982

Dear Prime Minister

Thank you for your letter of 2 November.

Immediately after I met the Secretary of State for the Environment, the Association alerted all our members to the Government's offer and I am sure that our members will do all they can to respond and increase worthwhile investment in the present financial year. My colleagues and I share the views of the Government on the need for capital investment, not only to help the construction industry and the general employment situation, but also to maintain the fabric of our infrastructure and the needs of the services which local government provides.

I know that you understand the limited possibilities available in the present financial year and that the use of capital receipts is not the only factor. You recognise the difficulties in planning forward programmes when it is not possible for the Government to give firm indications of future levels of provision. Another factor is the requirement that additional projects for the present year must be such that any expenditure falling in 1983/84 or thereafter must be borne within the normal resources for those years and the revenue consequences must be borne without any amendment to GREs or targets.

Some of my colleagues are due to meet Michael Heseltine next week and I know they hope to explore with him positive proposals to enable local government to respond to the Government's objective of additional investment which we all share.

Yours Sincerely
John Horrell

cf Local Government:
Relations: Pt 14



file

cc DOE
CS, HMT
press

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councillor Horley.

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will agree that much investment is

/needed to

needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Raymond White

Local Government:
Relations: Pt 14



10 DOWNING STREET

file

HC
CDOE
CS, TMT
PRESS

THE PRIME MINISTER

2 November 1982

Dear Councillor Bowren,

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

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I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Raymond Bowness

Councillor P.S. Bowness, C.B.E.



file

ADOE
CS, HM
PRESS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councilor De Cullinan

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

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/will agree

will agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Raymond Shillington

of Local Government
Relations: PR14



file

JTR
ALCS, HKT
DOE
PRESS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councillor Hampton,

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

/Michael Heseltine

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I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Raymond Deakin

of Nationalised Industries
Policy: P1-7



10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

JTR
file
ccho
CS, HM
Boess

Dear Mr. Payne,

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry. They expressed concern about shortfall on nationalised industries' planned capital expenditure, and I suggested they should approach nationalised industries direct to persuade them of the need to spend their capital allocations. I also told the Group that I would write to nationalised industry Chairmen, setting out the Government's views.

As you will know, the investment plans put forward by the nationalised industries for 1982/83 and approved, were 26 per cent higher in cash terms than the estimated outturn achieved in 1981/82. This large increase has received a great deal of public attention. I recognise that events outside industries' direct control might cause investment plans to be revised downwards during the course of the year but I hope that every step is taken to ensure that this only happens after careful consideration. Where reductions in expenditure are needed to ensure that an industry stays within its External Financing Limit, I would hope that profitable investment is only reduced as a last resort.

The importance of maintaining investment programmes wherever possible has been brought to sponsor Ministers' attention. I would be grateful if you would let your fellow Chairmen know my views.

Yours sincerely
Norman Payne

Norman Payne, Esq.

Local Government:
Relations: Pt 14

~~HM~~ TMP



10 DOWNING STREET

file

CODE
CS, HMU
PMS

THE PRIME MINISTER

2 November 1982

Dear Sir Trade,

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

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/will agree

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I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Margaret Thatcher

Councillor Sir Jack Smart, C.B.E., J.P.

of Local Government
Relations: Pt 14



10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

HL
file
cc CS, HM
DOE
PMS

Dear Councillor Sewell,

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry. They expressed concern about the way in which local authority expenditure is falling below the Government's public expenditure provision. I told the Group that I would write to local authority associations, setting out the Government's views.

I fully understand that, with the strong emphasis we have placed on reducing current expenditure, some authorities may tend to be particularly cautious in planning their capital spending because of its current expenditure implications. Stringent control of current expenditure is of course essential; nevertheless, as you will appreciate, we have made every effort at a time of great difficulty to allocate as much as possible for capital programmes. It is therefore a great pity if so much of this goes unspent because of undershooting of targets; in 1981-82 there was a substantial underspend on the capital allocations made to local authorities in Scotland. The construction industry is obviously hit hard by this at a time when it is very short of work. I am therefore writing to express the hope that Scottish local authorities will do all they can to avoid underspending in 1982-83 and in later years.

I do understand that local authorities try hard to spend their annual allocations but can often be held back by circumstances beyond their control like last winter's severe weather. I am writing to reassure you however that we in Government will do what we can to help Scottish local authorities to utilise efficiently

/ all the

all the resources available to them. I know that the Secretary of State has in mind to issue whatever supplementary allocations may be available as early as possible and for next year to arrange for authorities to receive early intimation of their final allocations.

I very much hope that I may count on the assistance of the Convention in encouraging authorities to make full use of the resources made available to them.

Yours sincerely
Margaret Thatcher

Councillor John Sewel



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:
1 November 1982

Dear Michael

I enclose a revised version of the draft letter for the Prime Minister to send to Councillor Sir Jack Smart and others. This has been revised to take into account the announcement made by my Secretary of State last week.

I am copying this to John Gieve (Chief Secretary's Office).

John Gieve
D A Edmonds

D A EDMONDS
Private Secretary

Michael Scholar Esq
No 10

DRAFT LETTER FROM THE PRIME MINISTER TO CLLR SIR JACK SMART CBE

I am concerned to learn that after underspending on capital substantially in 1981/2 local authorities show every sign of doing the same in 1982/3 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

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The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's under-spend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.



Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
10 Downing Street
London SW1A 2AL

25 October 1982

Dear Michael

PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

Your letter of 15 October to David Edmonds asked for a draft letter for the Prime Minister to send to nationalised industry chairmen following her meeting with the Group of Eight. In our view the most suitable way to do this would be to write to Norman Payne, the present Chairman of the Nationalised Industries' Chairmen's Group. I attach a draft which has been cleared with sponsor departments.

I have seen a copy of David Edmonds' letter to you of 20 October attaching a draft for the PM to send to the local authority associations. We are generally content with the draft, however we would suggest the following slight amendment to the second paragraph:-

(A) "The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this ~~would be~~ desirable. For that reason local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations."

is highly

I am copying this letter to the Private Secretaries of other members of E(NI).

Yours sincerely

John Gieve

JOHN GIEVE
PRIVATE SECRETARY

DRAFT LETTER FROM THE PRIME MINISTER TO:

MR Norman Payne
Nationalised Industries' Chairmen's Group
Hobart House
Grosvenor Place
LONDON
SW1X 7AE

recently
I (met the Group of Eight, *the body which represents all sides and parts of the construction industry* recently to hear their views on the present state of the UK construction industry. They were expressed particularly concerned about shortfall on nationalised industries' planned capital expenditure, and I suggested they should approach nationalised industries direct to persuade them of the need to spend their capital allocations. *I also told the Group that I would write to nationalised industry Chairmen setting out the Government's views.*

2. As you will know the investment plans put forward by the nationalised industries for 1982-83 and approved were 26 per cent higher in cash terms than the estimated outturn achieved in 1981-82. This large increase has received a great deal of public attention. I recognise that events outside industries' direct control might cause investment plans to be revised downwards during the course of the year but I hope that every step is taken to ensure that this only happens after careful consideration. Where reductions in expenditure are needed to ensure that an industry stays within its External Financing Limit, I would hope that profitable investment is only reduced as a last resort.

3. The importance of maintaining investment programmes wherever possible has been brought to sponsor Ministers' attention. I would be grateful if you would let your fellow Chairmen know my views.



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26 OCT 1992

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25 OCT 1992



PM

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

From the President's Office

25 October 1982

OL/CAN

8/26

Prime Minister (2)

The Rt Hon. Margaret Thatcher, MP,
No 10 Downing Street,
London SW1.

MUS 26/10

Dear Prime Minister .

I am writing on behalf of the Group of Eight to thank you for seeing us on Friday 15 October 1982.

We have noted John Stanley's statement about housing underspend in answer to Nicholas Lyell's Parliamentary Question on 19 October. We will do all we can to make use of the information he revealed.

The whole industry will draw encouragement from the news that you are yourself considering writing to the local authority associations.

Meanwhile with my colleagues in the Group I will this week be discussing how further to advance the joint consideration of the issues on which you gave us a hearing and will propose to them that we seek an early meeting with the Chancellor.

Yours sincerely .

Owen Luder

OWEN LUDER
President

mt



✓

Treasury Chambers, Parliament Street, SW1P 3AG

Dr Jonathan Spencer
Principal Private Secretary to the
Secretary of State
Department of Industry
Ashdown House
123 Victoria Asteet
London SW1E 6RB

22 October 1982

Dear Tim. H.

PRIME MINISTER'S MEETING WITH GROUP OF EIGHT

Michael Scholar's letter of 15 October, to David Edmonds asked for a draft letter for the Prime Minister to send to nationalised industry Chairmen following her meeting with the Group of Eight. In our view the most suitable way to do this would be to write to Norman Payne, the present Chairman of the Nationalised Industries' ... Chairmen's Group. I attach a draft which I plan to send to the Prime Minister's office on Monday subject to any comments you or others may have.

I am sending copies to Michael Scholar for information and to the Private Secretaries of other members of E(NI) and David Edmonds.

Yours sincerely

J. A. Gieve

JOHN GIEVE

Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER TO:

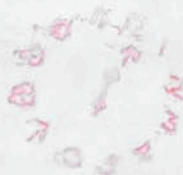
Mr Norman Payne
Nationalised Industries' Chairmen's Group
Hobart House
Grosvenor Place
LONDON
SW1X 7AE

I met the Group of Eight recently to hear their views on the present state of the UK construction industry. They were particularly concerned about shortfall on nationalised industries' planned capital expenditure, and I suggested they should approach nationalised industries direct to persuade them of the need to spend their capital allocations.

2. As you will know the investment plans put forward by the nationalised industries for 1982-83 and approved were 26 per cent higher in cash terms than the estimated outturn achieved in 1981-82. This large increase has received a great deal of public attention. I recognise that events outside industries' direct control might cause investment plans to be revised downwards during the course of the year but I hope that every step is taken to ensure that this only happens after careful consideration. Where reductions in expenditure are needed to ensure that an industry stays within its External Financing Limit, I would hope that profitable investment is only reduced as a last resort.

3. The importance of maintaining investment programmes wherever possible has been brought to sponsor Ministers' attention. I would be grateful if you would let your fellow Chairmen know my views.

2 OCT 1982





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

22 October 1982

Dear Michael,

PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

I refer to your letter of 15 October to David Edmonds. As discussed, I attach the draft of a letter approved by my Secretary of State for the Prime Minister to send to the President of the Convention of Scottish Local Authorities. I understand that it is intended to deal with the Nationalised Industries by means of a single letter to Mr Payne, and I have therefore not provided letters to the Electricity Boards in Scotland.

I am copying this letter only to David Edmonds and John Gieve.

A. Muir

A MUIR RUSSELL
Private Secretary

DRAFT LETTER FOR SIGNATURE BY PRIME MINISTER

Councillor John Sewel
President
Convention of Scottish Local Authorities
16 Moray Place
EDINBURGH
EH3 6BL

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry.

~~It has been drawn to my attention that in 1981-82 there was a substantial underspend on the capital allocations made to local authorities in Scotland.~~ I fully understand that, with the strong emphasis we have placed on reducing current expenditure, some authorities may tend to be particularly cautious in planning their capital spending because of its current expenditure implications. Stringent control of current expenditure is of course essential; nevertheless, as you will appreciate, we have made every effort at a time of great difficulty to allocate as much as possible for capital programmes. It is therefore a great pity if so much of this goes unspent because of undershooting of targets; The construction industry is obviously hit hard by this at a time when it is very short of work. I am therefore writing to express the hope that Scottish local authorities will do all that they can to avoid underspending in 1982-83 and in later years.

They expressed concern about the way in which local authority expenditure is falling below the Government's public expenditure position. I told the Group that I would write to local authority associations, setting out the Government's views.

I do understand that local authorities try hard to spend their annual allocations but can often be held back by circumstances beyond their control like last winter's severe weather. I am writing to reassure you however that we in Government will do what we can to help Scottish local authorities to utilise efficiently all the resources available to them. I know that the Secretary of State has in mind to issue whatever supplementary allocations may be available as early as possible and for next year to arrange for authorities to receive early intimation of their final allocations.

I very much hope that I may count on the assistance of the Convention in encouraging authorities to make full use of the resources made available to them.

in 1981-82 there was a substantial underspend on the capital allocations made to local authorities in Scotland.



GC JV.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

20 October 1982

Dear Michael

PRIME MINISTER'S MEETING WITH THE GROUP OF EIGHT

- / Thank you for your letter of 15 October. I attach a draft letter which the Prime Minister might like to consider sending to the
- / leaders of the local authority associations. I also attach a list of the names and addresses of the 5 people to whom the letters should be addressed.

I am copying this to John Gieve, Treasury, and to the Private Secretaries to the members of E(NI).

Yours sincerely
D A Edmonds

D A EDMONDS
Private Secretary

Michael Scholar Esq
PS/Prime Minister

Pl type

DRAFT LETTER FROM THE PRIME MINISTER TO THE LEADERS OF THE LOCAL
AUTHORITY ASSOCIATIONS

recently
Last week I met the members of the Group of Eight, the body which represents all sides and parts of the construction industry. The Group drew particular attention to the way in which local authority and nationalised industry capital investment is falling below the Government's public expenditure provision. I told the Group that I would write to local authority associations, and to the nationalised industries, setting out the Government's views.

The Government is very concerned to reverse the trend in recent years which has seen local authority capital investment falling steadily. It is not easy for the Government to provide for increased public borrowing for capital investment given the continuing need for public expenditure restraint. However, we have enabled local authorities to increase their overall capital expenditure by allowing them to supplement their capital allocations by the use of capital receipts.

(A)
attached

I have therefore been concerned to learn that after underspending on capital substantially in 1981/2 local authorities show every sign of doing the same in 1982/3 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs. I would ask you, therefore, to urge your members to do all they can to increase worthwhile capital investment in the present financial year.

ADDRESSES OF ASSOCIATION CHAIRMEN

Councillor Sir Jack Smart CBE JP
Association of Metropolitan Authorities
36 Old Queen Street
LONDON SW1

Councillor J R Horrell TD DL
Association of County Councils
Eaton House
66a Eaton Square
LONDON SW1

Councillor I S McCullum
Association of District Councils
9 Buckingham Gate
LONDON SW1

Councillor P S Bowness CBE
London Boroughs Association
Taberner House
Park Lane
CROYDON CR9 3JS

Greater London Council
The County Hall
LONDON SE1

Councillor Illyd Harrington JP



MFJ

cc Min for Housing
CO
DM
DN HMT, C.S.
DTRANS CSO
DOT
DOI
SO

10 DOWNING STREET

15 October 1982

From the Private Secretary

BF (x2)

Prime Minister's Meeting with the
Group of Eight

The Prime Minister met the Group of Eight, to hear their views about the condition of the construction industry, this morning. Mr. John Stanley, Minister for Housing and Construction, Department of the Environment, was also present. I attach a copy of Tim Flesher's record of this meeting.

You will see that the Prime Minister undertook to write to the Local Authority Association and to nationalised industries, to underline the need that they should spend within their total expenditure ceilings, the whole of their capital allocations.

1-2 || I would be grateful if you ^① and John ^② Gieve, to whom I am copying this letter, could let me have draft letters for the Prime Minister to send, by Friday 22 October.

I am also copying this letter to the Private Secretaries to other members of E(NI) and to John Henry (Office of the Minister for Housing and Construction, DOE).

M. C. SCHOLAR

David Edmonds Esq
Department of the Environment.

cc. Market etc.

SUBJECT.

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 |

* * * * *

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

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

/for

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.

Frederic

15 October 1982

G R O U P O F E I G H T

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

Cont/....

4. Cont/....
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

Cont/....

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

Cont/....

16. Cont/....

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

Cont/....

22. Cont/....

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.

Cont/.....

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.



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
B
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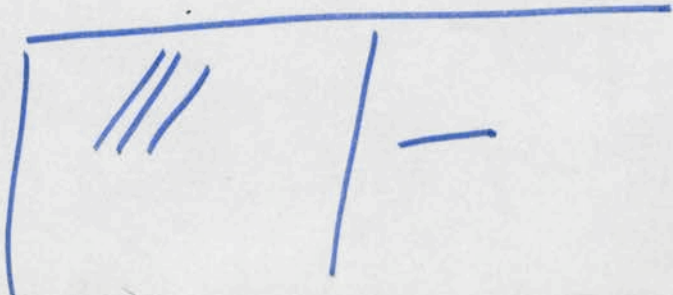
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292
L.F.L.
21



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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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

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

D



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

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.

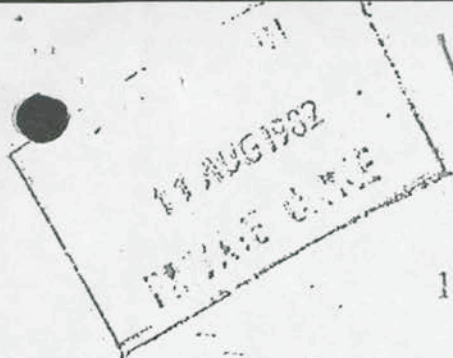
"So, while the steady reduction in inflation and recent falls in interest rates - although these remain unacceptably high - benefit my industry, I remain convinced that there is scope within public expenditure plans for a modest increase in construction capital investment programmes without the risk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

/of

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.

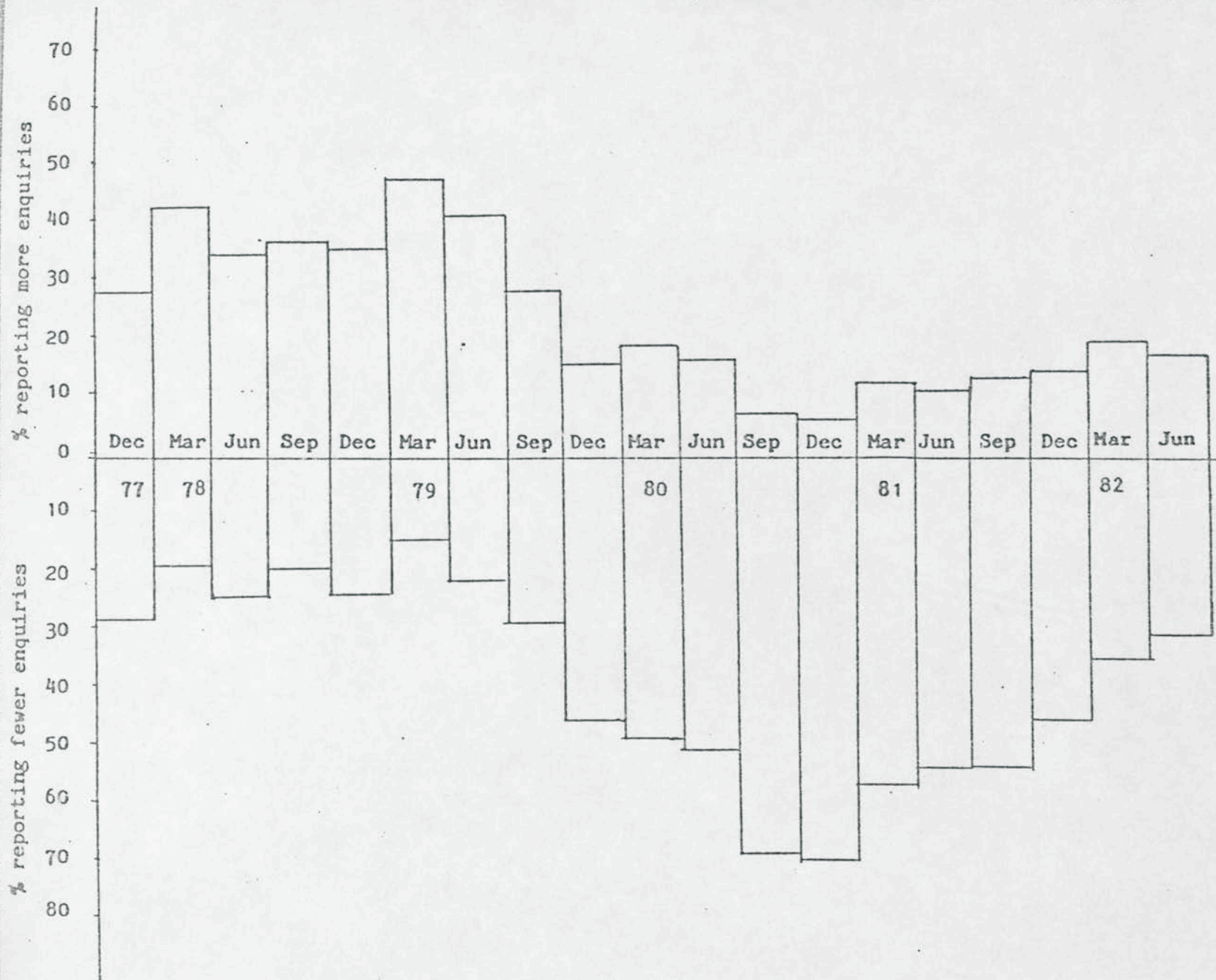
Volume of Work

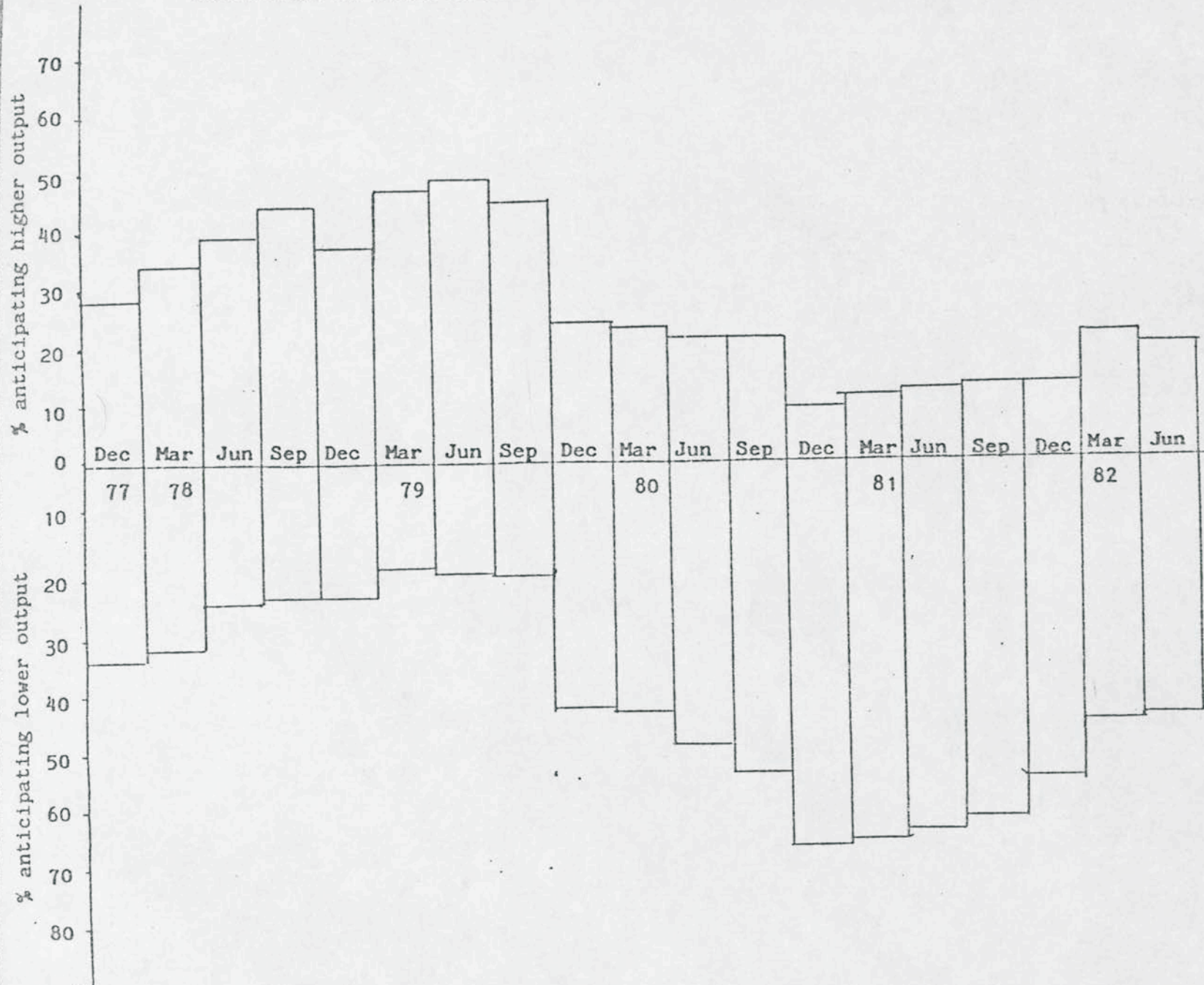
Expectations for output remain virtually unchanged since the previous Enquiry. 20% of contractors expect output to increase this year, whilst 44% expect output to fall. These results are once again better than those for 1981 when two-thirds of respondents expected output to fall, but they do not point 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

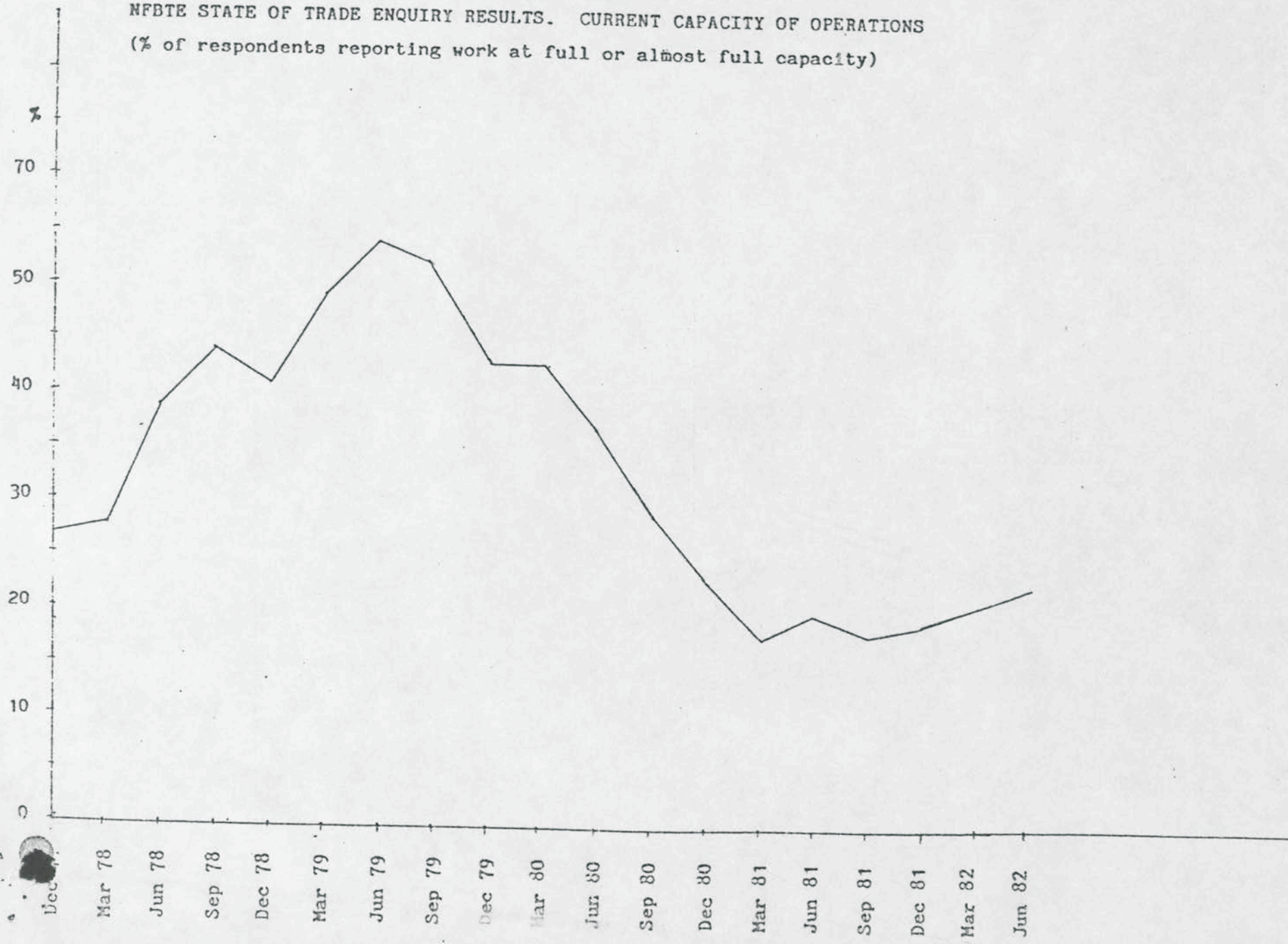
The number of contractors working at full or almost full capacity has risen slightly to 23%, exactly the same percentage as the number of contractors working at half or less than half capacity. However, this moderately optimistic picture is counterbalanced by some extremely gloomy regional results - 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.

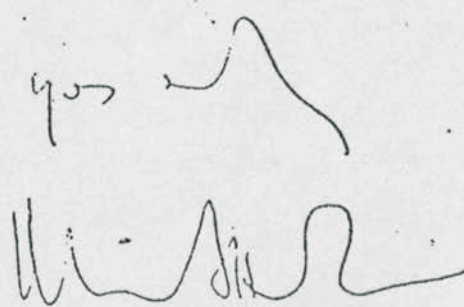
In the field of education the Group recognised that the level of investment in educational building has not been prejudiced by lack of information either about demand or the condition of the estate, which are well covered by demographic and survey data, and by contacts with the educational authorities.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



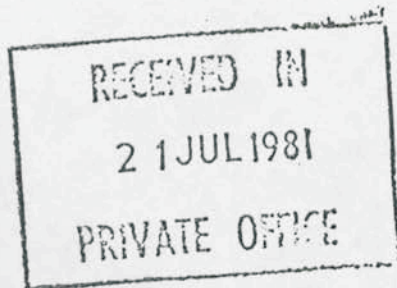
MICHAEL HESELTINE

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.

M

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?



28
a HNT

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

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

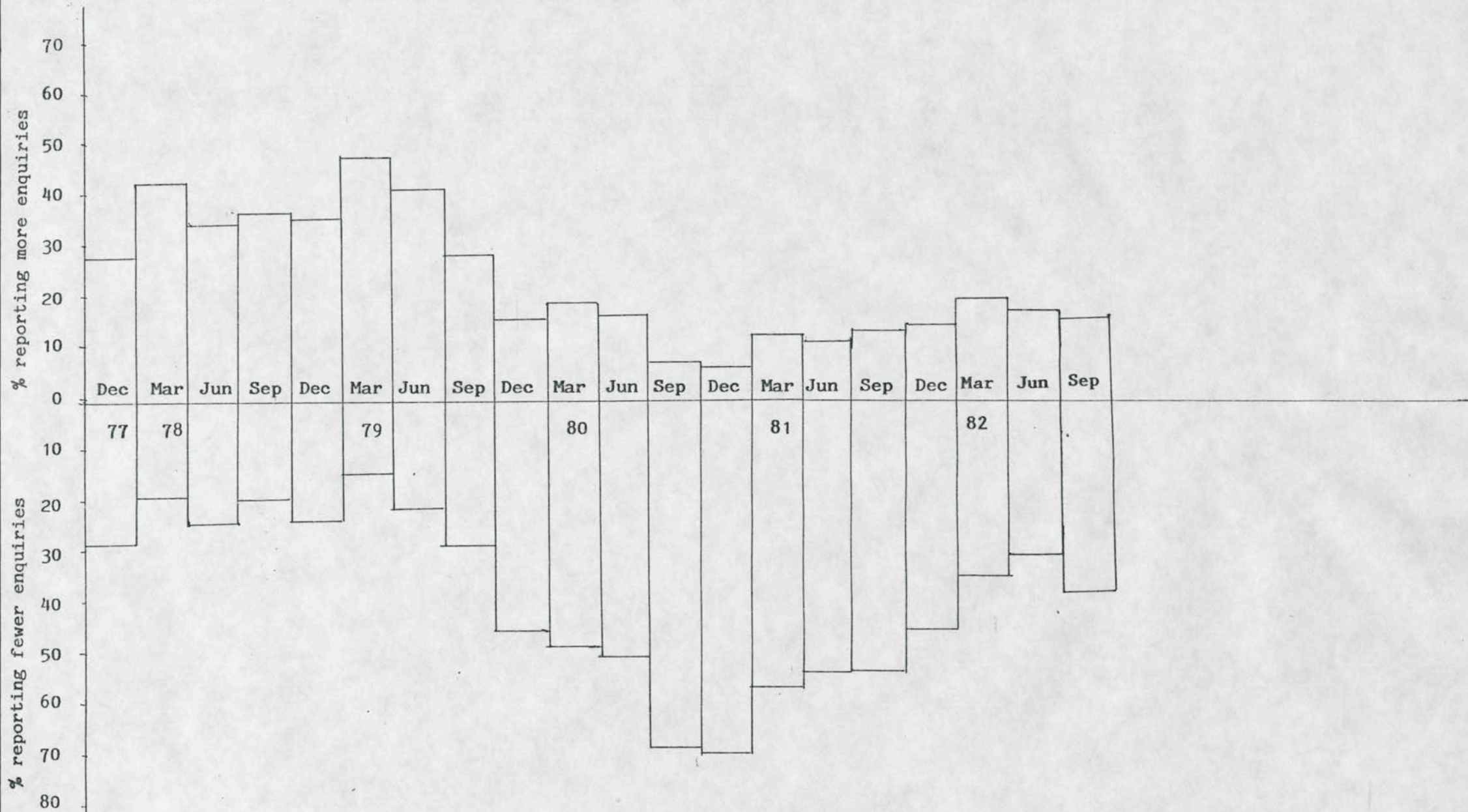
Again a modest deterioration. 22% of contractors are working at full or almost full capacity, compared with 25% working at half or less than half capacity (June figures 23% in each case). As with the previous Enquiry there are pronounced regional differences with fewer than 10% of contractors in the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

Labour and Materials Supply

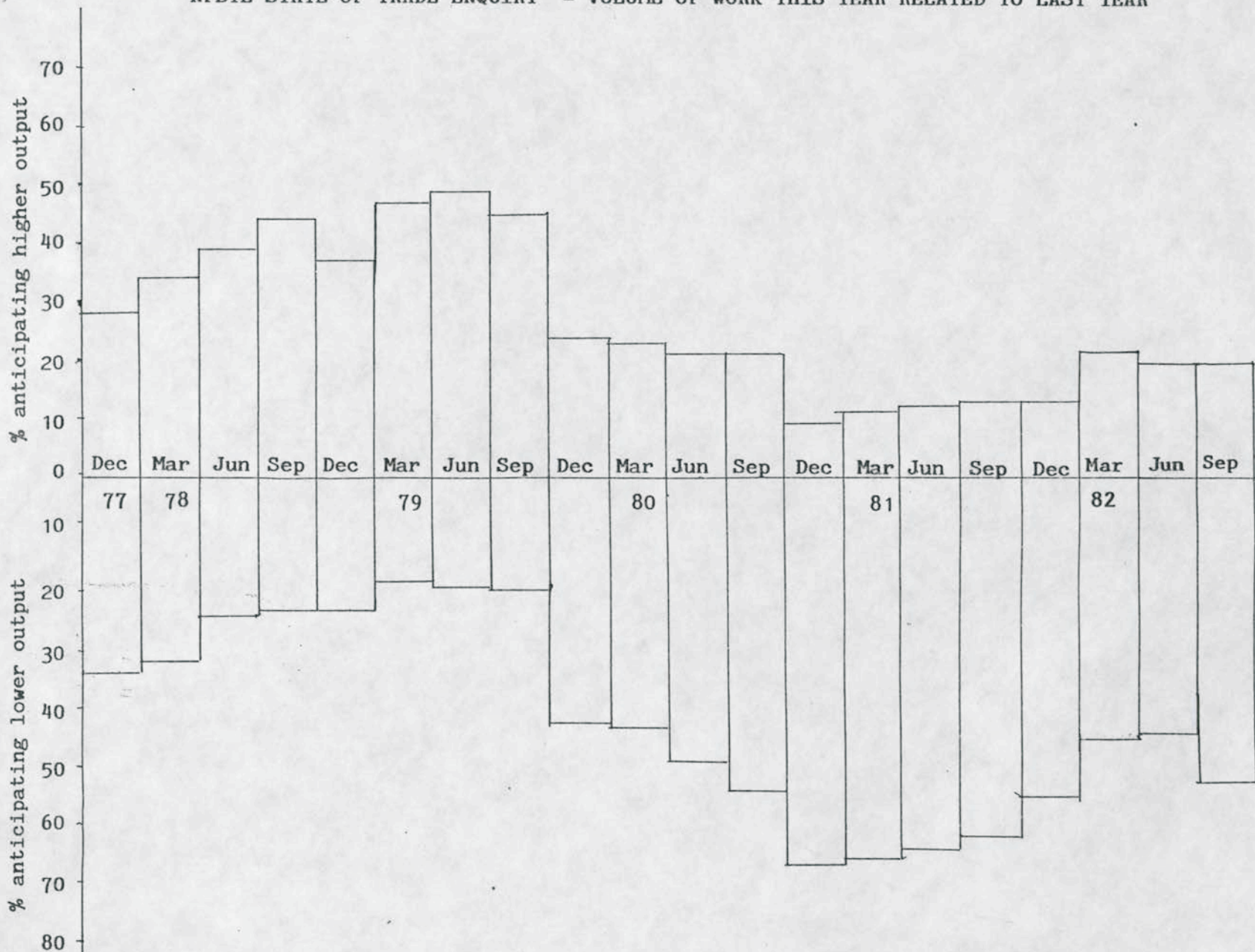
The State of Trade provides no evidence of any labour or material shortages and supply of labour has, if anything, eased somewhat.

KD/AC
October 1982

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

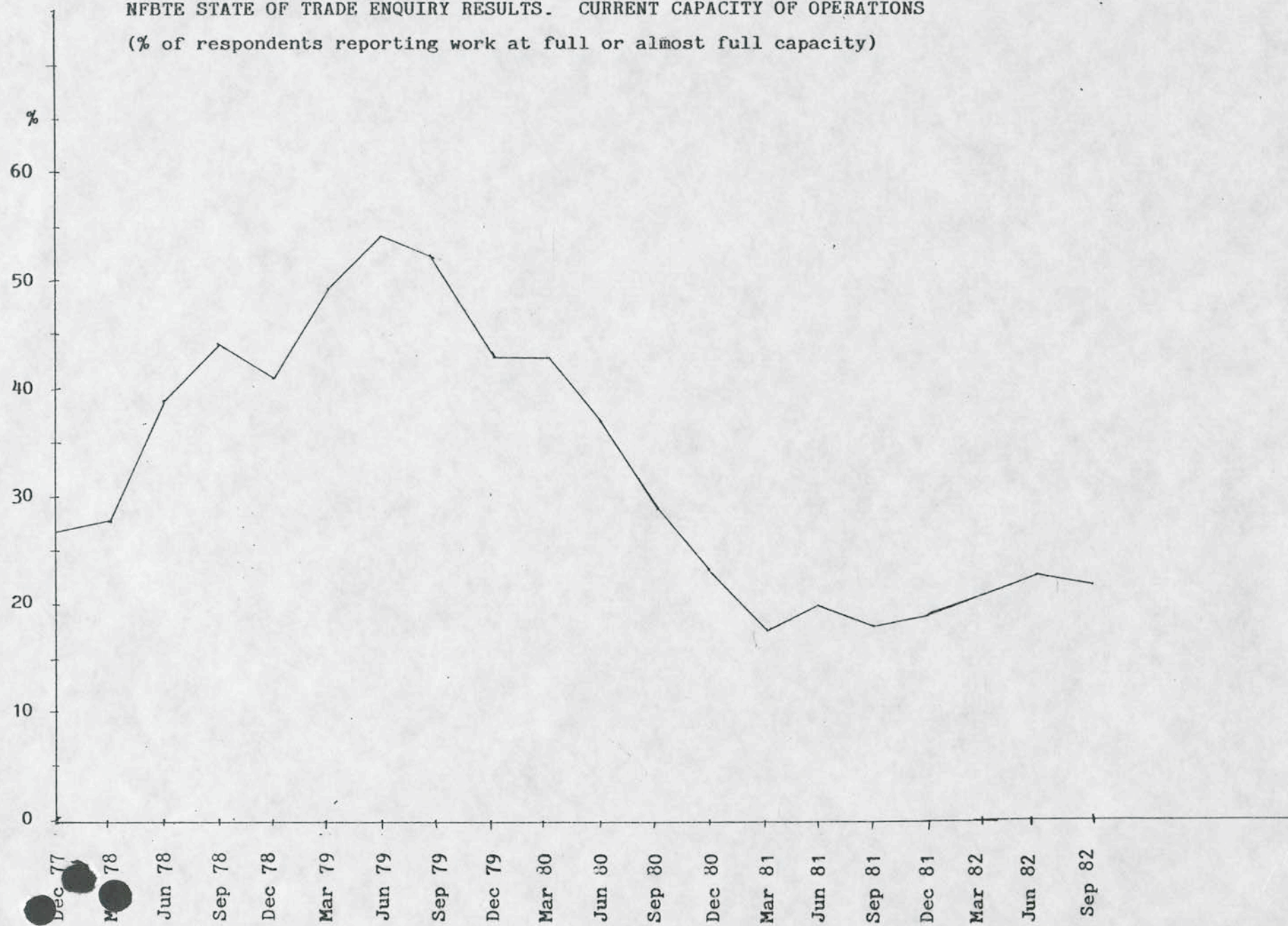


NFBTE STATE OF TRADE ENQUIRY - VOLUME OF WORK THIS YEAR RELATED TO LAST YEAR



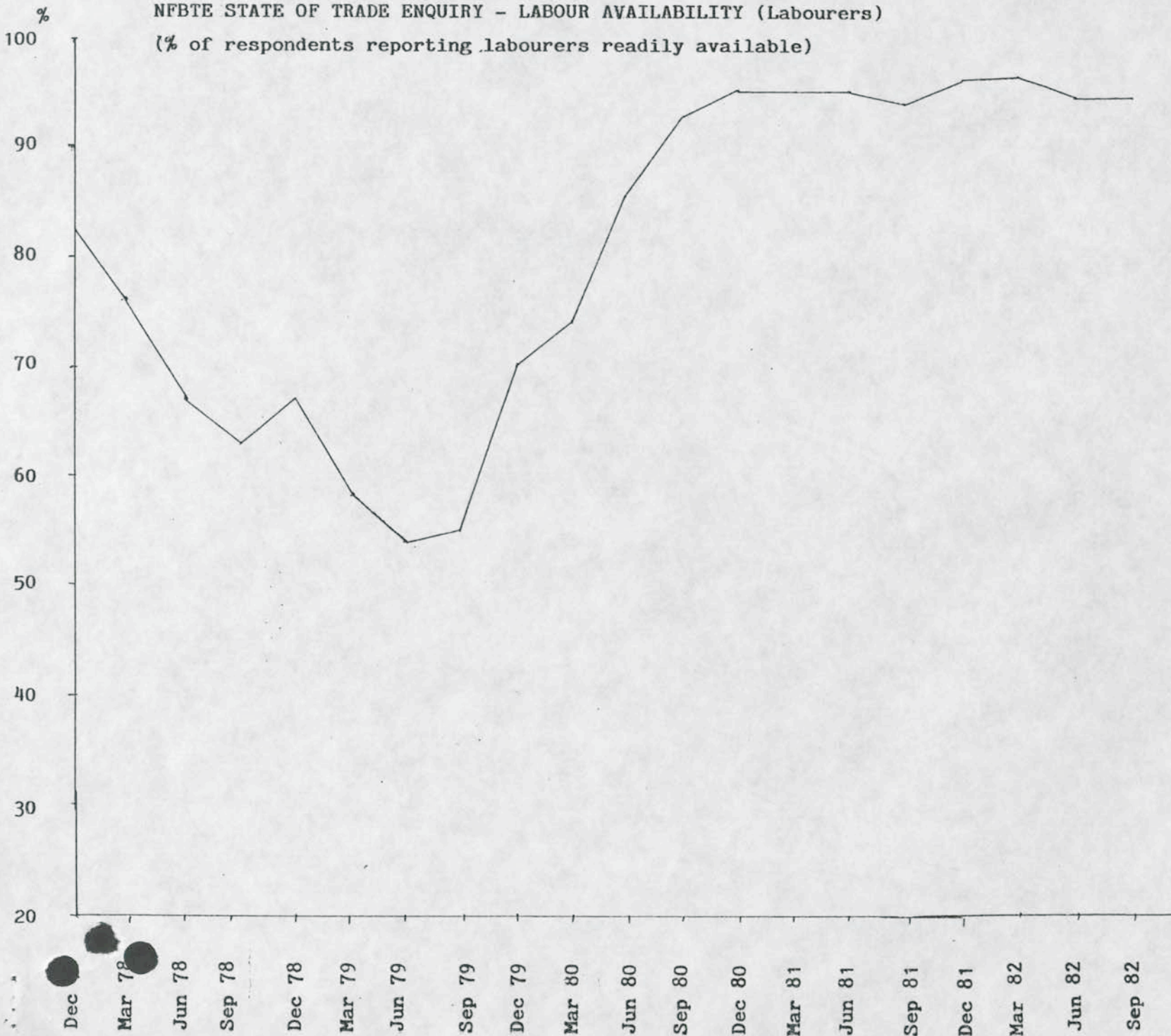
NFBTE STATE OF TRADE ENQUIRY RESULTS. CURRENT CAPACITY OF OPERATIONS

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



NFBTE STATE OF TRADE ENQUIRY - LABOUR AVAILABILITY (Labourers)

(% of respondents reporting labourers readily available)





Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

30 September 1982

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Dear Michael,

F J
signature
IT

I attach a draft reply for you to send to Mr Fordy, President of the National Federation of Building Trades Employers. The letter pre-dates the Prime Minister's decision to meet with the Group of Eight and Mr Fordy's letter has been interpreted here as an attempt to reinforce the need for that meeting. So we suggest that the best form of reply is for you to say that the points made in Mr Fordy's letter will be taken up at that meeting. I understand that DOE will be providing the briefing.

Copies of this letter go to Helen Ghosh at the Department of the Environment.

Yours sincerely,

Jill Rutter

JILL RUTTER
Private Secretary

DRAFT LETTER FROM PRIME MINISTER'S PRIVATE SECRETARY TO:

G M Fordy Esq
President
The National Federation of Building
Trades Employers
82 New Cavendish Street
LONDON W1M 8AD

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.

① ^{ex.} Carlane
To note
② CP to check met
Prime Minister
re. Press

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

From the Secretary's Office

30 September 1982

PKH/CAN

have requested briefing - met.
briefing requested by 8/10/82

Michael Scholar, Esq.,
Private Secretary to the Prime Minister,
10 Downing Street,
London SW1.

Mes 1/10

Dear Scholar

I am writing on behalf of the Group of Eight in reply to your letter of 16 September 1982 and in confirmation of my telephone conversation with Mr Flesher on 27 September to say that the Group will be able to meet the Prime Minister on Friday 15 October 1982 at 10.00 am.

The Group will comprise:

- Mr Philip Beck
- Mr Ian Campbell
- Mr Malcolm Fordy
- Mr George Henderson
- Mr Paul Hyde-Thomson
- Mr Owen Luder
- Mr Roy Swanston
- Mr Les Wood

and I will be in attendance on behalf of the Group's joint secretariat.

Yours truly
P K Harrison

P.K. Harrison
Secretary



£1 OCT 1982





he sw
pm

10 DOWNING STREET

From the Private Secretary

16 September, 1982

Meeting now confirmed
by Group of Eight
JH
27/9

Thank you for your letter of 10 September to Timothy Flesher about the proposal that the Prime Minister should meet the Group of Eight about the construction industry.

The Prime Minister has agreed to see them on Friday, 15 October and I should be grateful if you would let me have a brief for the meeting by close of business on Friday, 8 October.

I am sending a copy of this letter to Jill Rutter (Treasury).

M. C. SCHOLAR

Mrs. Helen Ghosh,
Department of the Environment



10 DOWNING STREET

From the Private Secretary

16 September, 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 25 August, in which you sought a meeting with her about the construction industry. The Prime Minister will be delighted to see you. I am afraid that the great pressures on her diary make it impossible that she should see you in September. May I suggest that the meeting be on Friday, 15 October at 1000 hours? I should be grateful if you would let me know whether that is convenient to you.

M. C. SCHOLAR

John Bartlett, Esq.
Malcolm Fordy, Esq.
George Henderson, Esq.
Paul Hyde-Thomson, Esq.
Owen Luder, Esq.
Leslie Sallabank, Esq.
Roy Swanston, Esq.
Les Wood, Esq.



→ GR/CF
4/10/99

10 DOWNING STREET

MUS 15/9

Michael R. Jones

10.00 - 11.00
on Friday 15
October. Can
you please
copy from
now on.

cf.

15/9.

K

①27/9

vb

G. M. FORDY
24/9

coming 27/9
chase on 27/9

chased again on 29/9
ringing back.

Coming tomorrow (30/9)

10 September 1982

I attach a copy of a further letter the Prime Minister has received from Mr. G.M. Fordy, President of the National Federation of Building Trades Employers.

I should be grateful if you could provide a draft reply for Private Secretary signature and if this could reach us by Friday 24 September.

I am sending a copy of this letter and the enclosure to Helen Ghosh (Department of the Environment).

(SGD) MICHAEL SCHOLAR

Miss Jill Rutter,
H.M. Treasury.

13

10 September 1982

I am writing on behalf of the Prime Minister to acknowledge your further letter to her of 8 September. This is receiving attention and a reply will be sent to you as soon as possible.

MCS

G.M. Fordy, Esq.

S



Continue when please?

Prime Minister (1)

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: H/PSO/16084/82
Your ref:

Will have to do one such meeting not

Are you prepared
to have a meeting with
these people?

10 September 82

MUS 14/9

Dear Tim

(2) I can manage it but not until mid-October. But how much will you get out of it? And it is likely to be awkward. cf.

CONSTRUCTION INDUSTRY: GROUP OF EIGHT

You asked in your letter of 26 August for advice on a reply to the request from the Group of Eight for a meeting with the Prime Minister. The Group of course represents the main channel of communication between the Government and the construction industry and includes all the major employer interests in the industry together with representatives of the two main unions concerned. The Group had one meeting during the last Parliament with the previous Prime Minister.

The Secretary of State's advice is if the Prime Minister is able to make the time available, it would be very helpful if she could give the Group of Eight one meeting during this Parliament. Construction is a large part of our industrial base (one-fifth of industrial production) and its leaders are, by and large, natural sympathisers with the Government's objectives. It also includes a great many firms and individuals that are amongst the most robust supporters of the Government's private enterprise and home-ownership policies. Though the two union members of the Group would be predictably critical of the Government the representatives of the employers' organisations would respond positively to a message from the Prime Minister that the economic strategy is yielding beneficial results.

Alternatively, if she is unable to make time available for a meeting, rather than turn down the request, she might wish to suggest that the Chancellor give them a second hearing. The Group have had one previous meeting with the Chancellor last December.

*Yours sincerely,
Helen Ghosh*

MRS H GHOSH
Private Secretary

Timothy Flesher Esq

CP/GR M. W. you look out for me

a letter from

MIKE (in absence of Tim)

I have had a call this morning from Jamie Stevenson, President's Office of Nat. Fed. Bldg. Trades Employers re: the report on page 14 of The Guardian today. The President is most concerned about this report "Builders Attack Thatcher" and the Guardian are incorrect in stating that a letter has been sent to the Prime Minister along these lines. (Apparently a PRIVATE letter was sent over yesterday but certainly not attacking...). Would you please give Jamie Stevenson a ring 580 5588 sometime today ?

Goj

9.9.82

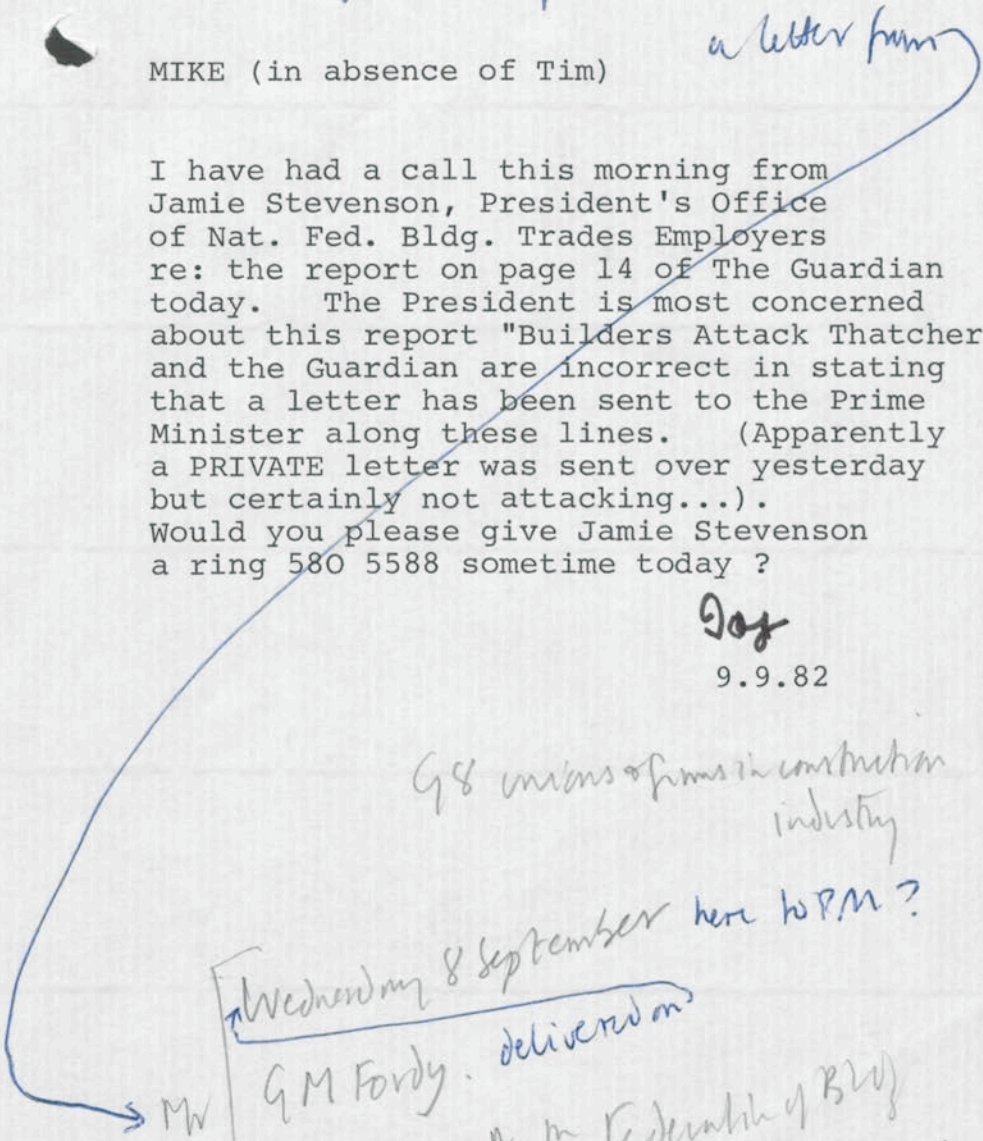
98 unions of firms in construction industry

Wednesday 8 September here to P.M. ?

G.M. Fordy. delivered on

Nat. Federation of Bldg Trades Employers

pl meet 98





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

82 NEW CAVENDISH STREET
LONDON W1M 8AD

01-580 5588

*R9/a
by hand*

PS

*APS/Tsy cc DoE
for pte secty reply*

8 September 1982 *MUS*

Joe Penn. Brewster

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 Lucas
Arthur Ford

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.

John BARTLETT

9/9



file

JD

10 DOWNING STREET

From the Private Secretary

26 August, 1982.

I enclose a copy of a letter addressed to the Prime Minister from Mr. John Bartlett of the Group of Eight, Royal Institute of British Architects.

I should be grateful if you would let me have the draft of a reply the Prime Minister might send to Mr. Bartlett by 9 September please.

A copy of this letter and enclosure go to David Saunders (Department of Industry).

Timothy Flesher

Mrs. Helen Ghosh,
Department of the Environment.

B/C

BD

File



10 DOWNING STREET

From the Private Secretary

26 August, 1982.

I write on behalf of the Prime Minister to thank you for your letter of 25 August.

This is receiving attention, and a reply will be sent to you as soon as possible.

Timothy Flesher

John Bartlett, Esq.

File



cc Press
Office

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

25 August 1982

226

HG(DOE)PM

CC DS(DOI)

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

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

JOHN BARTLETT
Senior Vice President
Institution of Civil Engineers

MALCOLM FORDY
President
National Federation of Building Trades Employers

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

PAUL HYDE-THOMSON
President
National Council of Building Material Producers

OWEN LUDER
President
Royal Institute of British Architects

LESLIE SALLABANK
Chairman
Federation of Civil Engineering Contractors

ROY SWANSTON
President QS Division
Royal Institution of Chartered Surveyors

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

file

cc HUT

da



DOE

Press Office

Michael Latham MP

10 DOWNING STREET

THE PRIME MINISTER

11 August 1982

Dear Mr Fordy,

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

/of

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

Yours sincerely
Raymond Stiller

G.M. Fordy, Esq.



da

10 DOWNING STREET

From the Private Secretary

11 August 1982

When the Prime Minister answered your Question on 30 July, she undertook to send you a copy of her reply to the letter she had received from the President of the National Federation of Building Trades Employers, and I enclose a copy of the reply.

The Prime Minister did not propose to make her reply public, though of course there is no reason why you should not do so should you so wish, and the National Federation agree.

Timothy Flesher

Michael Latham, Esq., M.P.

LW
1978

UNCLASSIFIED

FROM: D B ANDREN
DATE: 10 August 1982

- 1. MR GORDON
- 2. MCU

- cc Mr Robson
- Mr R I Allen
- Mr Hartley
- Mr Betenson
- Mr Godhar

✓ *10/8*

✓ *Mr Fisher - No. 10*

We spoke. I hope the attached meets your requirements.

Jim P...

LETTER FROM NFBTE TO PRIME MINISTER

For PM signature:
JF 10/8

I attach a draft reply from the Prime Minister to the President of the NFBTE's letter of 22 July. I apologise for not getting this forward earlier, but as explained already to MCU we have been waiting for the Minister for Housing and Construction Industries to comment on an earlier draft. ~~If any other copy recipients of this minute have any comments on the draft reply, perhaps they could let us know by close today.~~

D. B. Andren

D B ANDREN

cc N Sanders (DOE)

DRAFT LETTER FROM THE PRIME MINISTER

TO: G M Fordy Esq
President
National Federation of Building Trades Employers
82 New Cavendish Street
LONDON W1M 8AD

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

do very much
I ~~and my colleagues~~ fully 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 $1\frac{1}{2}$ per cent in the mortgage interest rate ~~provides a~~ ^{suggests} ~~clear indication~~ that the outlook for the construction industry is now ~~significantly~~ 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 per cent 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 per cent to 90 per cent 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. ~~It is not an easy~~ ^{It is not an easy} ~~I was grateful for your re-emphasis of~~ ^{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 increased in output and employment. ~~This is the main objective of our policies and we continue to believe that it is the one sure way of improving the prospects for all parts of British industry~~ ^{We remain convinced that} and that includes the construction industry.

Whatever it is,
it is not a
painless way of
stimulating the
economy.



Department of the Environment

2 Marsham Street London SW1P 3EB

Direct line 01-212 8566

Switchboard 01-212 3434

David Andren Esq
Rm 111, Ground Floor
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Your reference

Our reference

Date

9 August 1982

Dear Mr Andren

NFBTE LETTER TO THE PRIME MINISTER

I refer to Miss Stuart's letter of 29 July addressed to Robin Gray, from whom I have recently taken over, and to our subsequent telephone conversations.

Mr Stanley is generally content with your approach, but would like to see the encouraging statistics displayed. His points could be met by inserting, after the first sentence of your second paragraph:

" 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 improved or converted* with the aid of grant or subsidy in the first quarter of 1982 (the latest for which figures are available) were about one *third* up on the corresponding *quarter* 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.

Nevertheless, the construction industry"

Yours sincerely

N SANDERS
Construction Industries Division 1

UNCLASSIFIED

FROM: MISS C SMART

DATE: 29 July 1982

MR P RAYNER

The Prime Minister has received the attached letter from Mr G M Fordy, President of the National Federation of Building Trades Employers. IPl have been asked to provide a draft reply for the Prime Minister's signature.

2. I should be most grateful for any comments or alterations you wish to suggest to the attached first draft of a reply, to reach me, if possible, by close of play on Monday 2nd August.



MISS C SMART
IPl Division



Treasury Chambers
Parliament Street London SW1P 3AG

Telex 262405

Telephone Direct Line 01-233 } 7543
GTN 233 }
Switchboard 01-233 3000

Mr R Gray
Department of the Environment
Room 511/17
2 Marsham Street
LONDON
SW1

Your reference

Our reference

Date 29 July 1982

Dear Mr Gray,

We have been asked to provide a draft reply to a letter to the Prime Minister from Mr G M Fordy, President of the National Federation of Building Trades Employers, for the Prime Minister's signature (copy attached). I believe you already have a copy received by Mr Heseltine.

We would be grateful for any comments or alterations you wish to suggest to the attached first draft of a reply, to reach us, if possible, by close of play on Monday 2 August.

C. Smart

MISS C SMART

44817

M. Gordon
A.
27/7



Mr. [unclear]

64.

*Pl. prepare draft reply
in consultation with
DOS & GS.*

D. B. [unclear]

Treasury Chambers, Parliament Street, SW1P 3AG 27/7
01-233 3000

M. Gordon

Yours, I think

Mr. Chivers

26/7

NO.10 CASE

Ministerial Correspondence Unit
Room 74C/2
H.M. Treasury

26.7.82

... I attach a letter the Prime Minister's Office have received from *Mr C M Fordy*

I should be grateful if you could arrange for:

- a. A draft reply for the *Prime Minister's* signature to be sent to the Ministerial Correspondence Unit by *4 August 1982*
- b. A suitable reply to be sent on the Prime Minister's behalf, with a copy to the Ministerial Correspondence Unit, by

If you are not responsible for this matter, please inform the Ministerial Correspondence Unit as soon as possible.

R G Durrant

R G DURRANT
233 5697

30/7

G.M. FORDY

6/8

① 9/8

23 July 1982

I attach a copy of a letter the Prime Minister has received from Mr. G.M. Fordy, President of the National Federation of Building Trades Employers.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, and if this could be with me by Friday 6 August.

TIM FLESHER

Miss Jill Rutter,
H.M. Treasury.

W

23 July 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 22 July. This is receiving attention and a reply will be sent to you as soon as possible.

TIMOTHE FLESHER

G.M. Fordy, Esq.



FOUNDED 23rd JANUARY 1878

The National Federation of Building Trades Employers

FROM THE PRESIDENT

GMF/JRS/038

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

82 NEW CAVENDISH STREET
LONDON W1M 8AD

01-580 5588

We will give you a draft reply,

TF

23/7

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 -

.../

Key: Handl requested a reply to this
cc Press office 4

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,
G.M. 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 1:1 $\frac{2}{3}$ (18% to 30%) as compared with 1:1 $\frac{1}{2}$ (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.

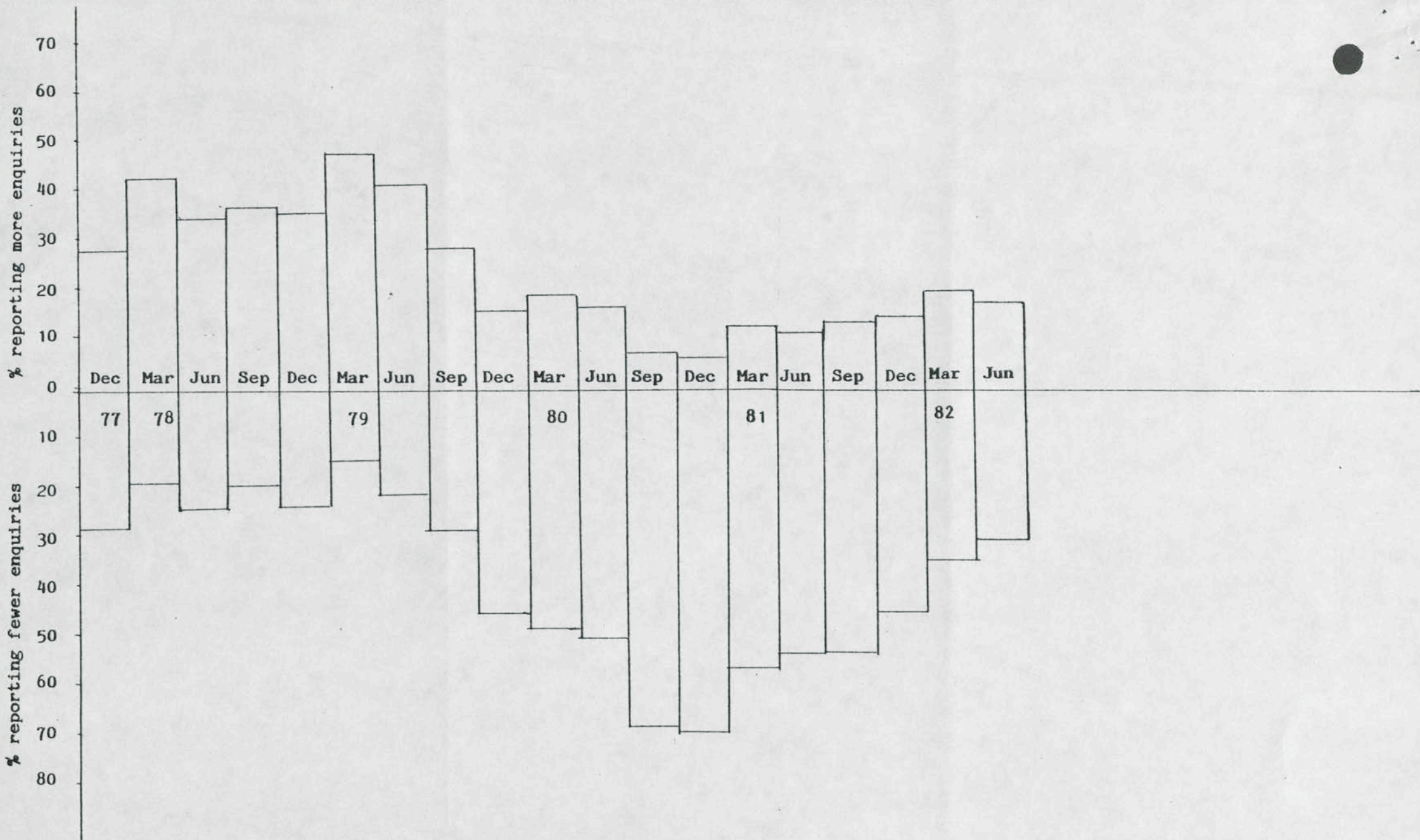
Volume of Work

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.

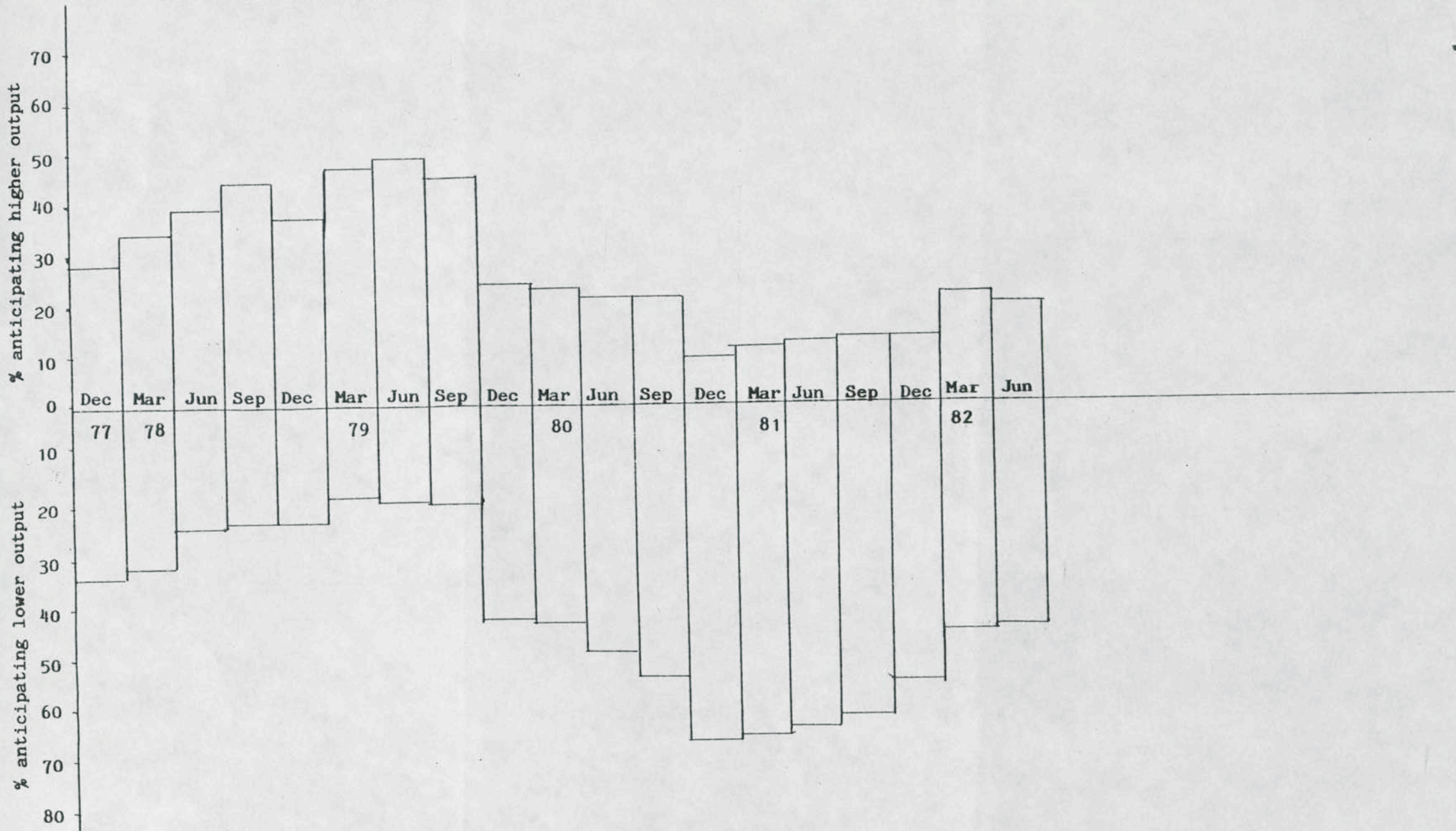
Capacity of Operations

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.

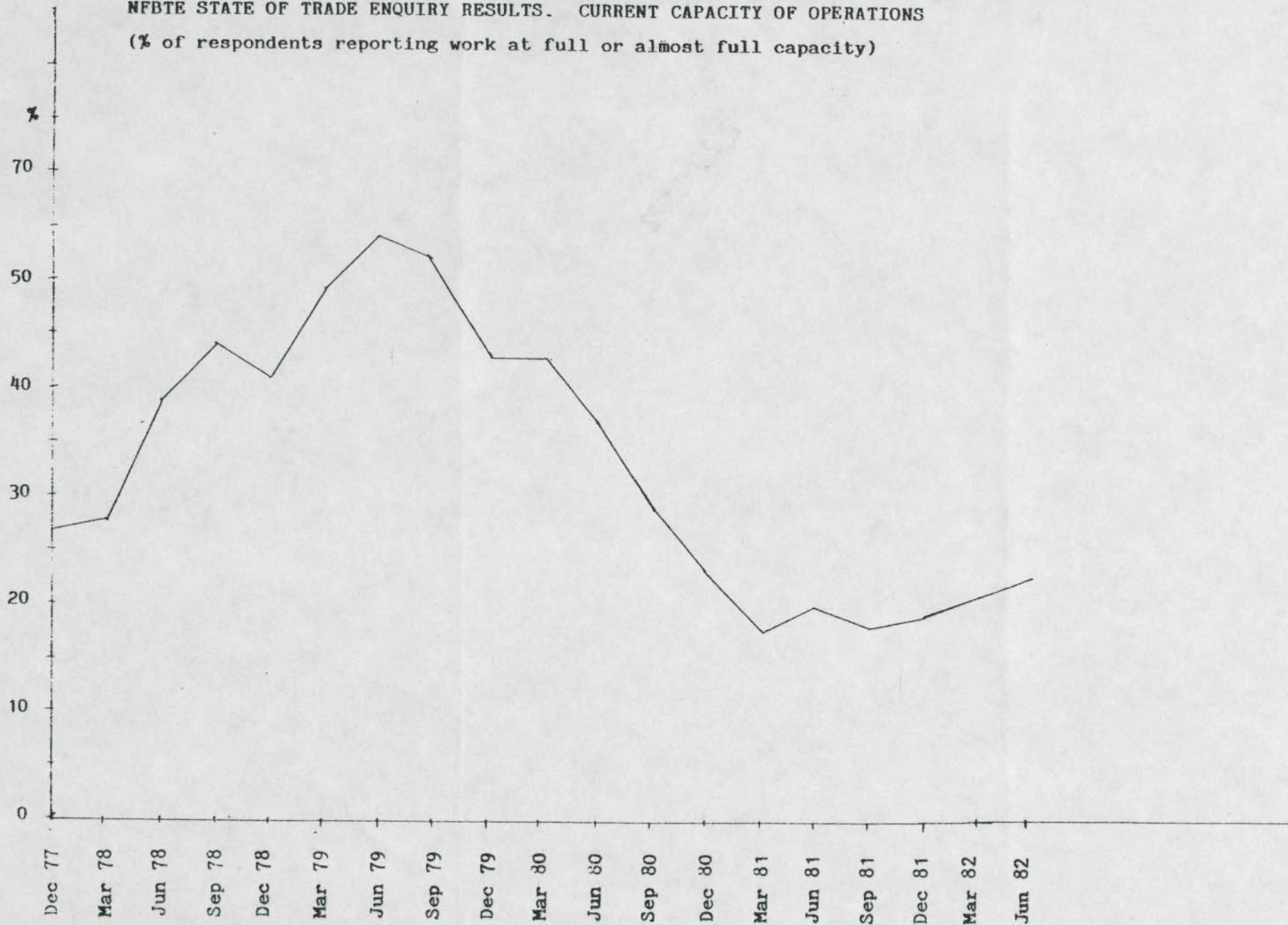
NFBTE STATE OF TRADE ENQUIRY - NEW ENQUIRIES FOR WORK RELATIVE TO PREVIOUS QUARTER

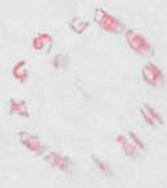


NFBTE STATE OF TRADE ENQUIRY - VOLUME OF WORK THIS YEAR RELATED TO LAST YEAR



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





2 JUL 1982

