



Prime Minister ②

Advance warning of Mr
Jenkins' intervention at
Cabinet on capital / current.

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My ref:

Your ref:

3 February 1984

Dear Nigel

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We are to discuss trends in capital and current public expenditure in Cabinet next week and I would like to put a proposal to you which might be considered at that meeting.

My proposal concerns the need for a longer term examination of the extent and need for capital, maintenance and repair expenditure running across all the major programmes. (I first put this forward during my bilaterals with Peter Rees last autumn, and mentioned it again in my letter of 18 January about the Public Expenditure White Paper which I copied to colleagues.)

The case for such a study is that unless we begin to consider now what action is needed for the cost-effective modernisation, maintenance and replacement of the public services capital stock on a regular and systematic basis, the process of squeezing expenditure on such work is bound to lead to public dissatisfaction and eventually to rushed and wasteful expenditure of a "catching-up" nature.

There is growing evidence of concern on this subject. The House of Lords debate on 18 January showed this. The PSA Advisory Board under Nigel Mobbs has expressed anxiety about the maintenance of the civil estate. There is widespread criticism in the construction industry that we are simply letting public buildings decay.

The NEDO Council meeting last July authorised the Director General to discuss the form of future work on the criteria for public sector investment, in the context of maintaining and improving the quality of the built infrastructure. The NEDO study is now under way, aiming at a report in August, and, with Treasury agreement, an inter-departmental group of officials has been nominated to shadow its work.

The NEDC study is to concentrate on the criteria used to justify and authorise expenditure, and seems unlikely to come up with the answer to what I see as the main question: just what is the state of our built infrastructure? I think we need a study to draw together details of the age and condition of the public stock; to set out current policies and levels of expenditure on repair and maintenance; to attempt

some assessments of future life and needs; and to set out the options in terms of action or inaction (including options for drawing in more private investment where this is feasible), with the emphasis on their cost-effectiveness and value-for-money. If there prove to be implications for the way options are presented each year in PESC, I think we should ask for them to be drawn out.

My proposal is that the inter-departmental group mentioned above, in addition to keeping an eye on the NEDO study, should be given terms of reference which require it to "examine the state of the publicly owned civil capital stock of housing and roads, water and sewerage, hospitals and education buildings, the Government civil estate and the capital stock of universities, to evaluate such evidence as is readily available of its present and likely future condition and fitness for its purposes and its needs for maintenance, repair and replacement; to consider means of assessing the position and keeping it under review as a basis for cost-effective decisions on public expenditure and investment; and to make recommendations". These terms would exclude the Defence estate and the nationalised industries, mainly in order to keep the study manageable.

I see cost-effectiveness, and better financial management and planning of spending and of assets as the key concepts. In applying them, I hope we can get behind the economists' concepts of capital and current spending, and the rather stale arguments they generate, to the real state of affairs. This focus should prevent us from treating the study just as potential cover for a variety of PESC bids, or simply as an exercise in promoting the construction industry. I see it as giving us a firm basis for a considered, realistic judgement about what stock of assets we wish to see five or ten years hence; and for selecting a pattern of spending that will get us there. We may well find areas in which provision for replacement, repair and maintenance is adequate, or even more than adequate; as well as areas in which it appears to be falling short. I would be very surprised if we did not find areas in which spending could be better directed.

I am convinced that such a study is now urgently needed, and I hope you and colleagues will agree to it. I very much agree with the comment Peter Rees makes in his letter of 30 January to Arthur Cockfield that the need for the study is a practical one, and that it can only be done by assembling the evidence programme by programme. I think we do also however need to draw the evidence together in order to give ourselves a collective overview of the condition of the capital stock and the need for repair, maintenance and modernisation. The inter-departmental group mentioned above could take this study on board, but in view of the importance of the subject and the PESC implications I would propose that Treasury should take over the chair and that the group should be asked for an initial report by May or June in time for it to be taken into account in the next PESC round.

/ I am sending a copy of this letter to the Prime Minister
and Cabinet colleagues.

You are
Pat

PATRICK JENKIN