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THE PRIME MINISTER

2 October 1986

Dear Mr. Stevens,

Thank you for your letter of 3 September.

Since you wrote the Government has announced the go ahead for a new privately financed road bridge at Dartford. I hope that this decision will allay any worries about the Government's attitude to schemes involving the private sector in developing the infrastructure.

The criteria applied to specific proposals are straightforward. The Government are looking to secure the benefits that the private sector can bring in terms of enterprise, and management efficiency. For these benefits to be realised the companies involved must be operating in a competitive or well regulated monopoly environment; at the same time, the interests of the taxpayer or final user of the service mean that it only makes sense to bring in the private sector if the prospective benefits outweigh any extra costs. This is the approach embodied in the "Ryrie Rules". Although drawn up in 1981, they have been re-examined since and the principles underlying them have been tested against a number of proposals.

The way the criteria are applied of course depends on the circumstances of individual cases. The Channel Tunnel is an undertaking which offers great scope for private sector freedom and initiative. As you say it is a self-standing

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project and the Government has left to the private sector in a competitive environment the decision whether or not to proceed, and the associated commercial decisions. The imaginative involvement of the private sector in design and finance of the new Dartford crossing opens up the prospect of benefits to the motorist. As for the Flag Fen sewage works, the decision by the Anglian Water Authority to drop the private sector proposal clearly reflected a wide range of factors, not least the complexity of the financial arrangements that the private sector proposal involved.

You also asked for guidance about whether the projects should fall outside expenditure control rules. This may reflect a misconception. The object is not to find schemes outside the definition of public expenditure, but to find ways of providing better value for money for taxpayers or customers. Where private sector involvement does this, the project should go ahead. But that of course has to be taken into account by the Government in deciding its own expenditure in the same area and as against other priorities. In the case of Dartford the importance that we attach both to the new crossing and to schemes already in the roads programme led us to decide that the expenditure should be additional. Similarly, had the Anglian Water Authority decided to pursue the Flag Fen scheme, we would have taken their decision into account, with other considerations, when reviewing the public expenditure position of the water industry as a whole and its desirable level of investment. The acceptability of any scheme will depend on its own merits in terms of value for money, not on the sector to which it is classified, or how it might affect control totals. This surely is the main point for potential investors, and what they should be aiming for.

I will continue to explore ways of bringing to bear the management and efficiency skills that the private sector can offer in these areas.

Yours sincerely
David Stevens