THE DIRECTOR OF
CENTRAL INTELLIGENCE

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[redacted]

Here's a piece on public investment in the UK that might interest you.

Sincerely,

Henry

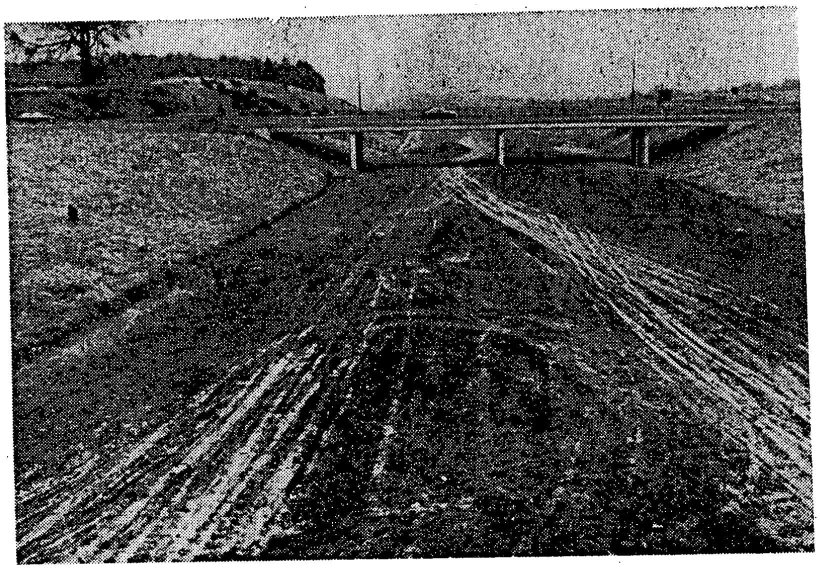
Henry S. Rowen
Chairman

Attachment

BRITAIN'S AGEING FABRIC

The case of the mis

By Robin Pauley



'Many projects like motorways would have bee
if the money available had been spen

IS Britain slowly falling to bits? There is plenty of evidence on the surface to suggest that it may be—patched and pot-holed urban roads, peeling paint and boarded windows on dilapidated council estates, motorways with cracked bridges and miles of lanes closed for repairs.

There is more evidence beneath the surface in the hundreds of thousands of miles of water pipes and sewers, some more than 100 years old, which are crumbling at a growing pace. This goes largely unnoticed until the damage is so great that the road collapses into caverns sometimes large enough to accommodate one or more double decker buses.

All these problems get steadily worse the longer they are left. But this is not immediately apparent, which makes cuts easy to justify in times of financial hardship for both central and local government. Lack of maintenance of council homes has no effect in the first year, for example, but by about the fifth year the level of disrepair is so great that restoration costs several times what regular maintenance would have cost in each of the preceding four years.

Britain, like most of the world, has been going through a severe recession and since its election in 1979 the Government has been trying to control public expenditure very tightly. However, in the last two years these controls have proved tighter than even the Government wanted and the Public Sector Borrowing Requirement (PSBR) has fallen short of its already tight targets. Central and local expenditure on wages

Restoration costs could be greater than maintenance

and salaries has soared, but the casualty has been capital expenditure on the infrastructure—the fabric of the nation.

In the past—particularly in the 1930s—recessions have proved an ideal time for improving roads, schools, hospitals, reservoirs and upgrading—or building—houses for the future. But cash limits for spending on these items have been consistently undershot year after year. Only last autumn did Mrs Thatcher realise the extent of the opportunities for capital investment which were being lost because at the end of each financial year most money unspent is gone for good. She immediately embarked on a campaign exhorting the public sector to spend, spend, spend.

The undershoots, year after year except for a £400m capital spending overshoot of councils in 1980-81 (for which they were roundly criticised) have covered all sectors, but most particularly housing and roads.

The £2bn earmarked for capital projects but not spent since 1979-80 could have:

- Enhanced spending to stop the rate of sewer replacement falling behind (£100m).
- Replaced an extra 10 per cent of the worst sewers (£300m).
- Replaced the worst 10 per cent of water mains and pipes and improved technological detection of leakages (£350m).
- Built the A1-M1 motorway link to provide industry in the West Midlands with its first motorway link to the East coast ports (£80m).
- Built 100 miles of planned motorway including the much delayed M20 and incomplete M25 round London (£500m).
- Built at least 50 of the 120 planned but unstarted by-passes, each costing less than £3m (£120m).
- Modernised 100,000 pre-1945 council homes (£300m).
- Accelerated improvements in some school buildings to enable more very old schools to be closed down more quickly (£100m but with a net saving in running costs).
- Built 10,000 new homes by private builders for shared ownership by housing associations or some councils (£250m).
- Created around 100,000 jobs directly plus another 40,000 or so indirectly—from new jobs resulting from increased output—according to a detailed study by Cambridge Econometrics prepared last year for the construction industry.

None of this would have disturbed the Government's economic strategy; it would have reduced unemployment and social security costs and the effect of spending up to the limit on the labour-intensive projects involved would not have added directly to imports.

The reason that underspending has been so persistent include (a) the climate created by the Government against all public spending; (b) very high interest rates for borrowing which has discouraged local authorities; (c) uncertainty from year to year about what local authorities will be allowed to do, greatly worsened by the sudden six-month moratorium on capital housing projects in 1981; and (d) severe penalties for councils which overspend on current account. Borrowing for capital projects is serviced through these accounts so most of them have revenue implications which lead to higher penalties.

In addition because many capital projects have long lead-in and completion times the year-to-year uncertainty encouraged councils not to start at all.

Since Victorian times, Britain has invested more heavily than many countries in its public infrastructure. Only the Netherlands, for example, rivals Britain's record of getting clean water to—and dirty water away from—99 per cent of the population. The municipal housing sector is one of the world's largest. The roads in the towns and the cities may be pot-holed but look (and feel) much better than those in New York or Paris. London's underground network is the world's most extensive.

This all means both that maintaining and improving the capital infrastructure is very expensive, but also that it has to deteriorate a long way before it becomes poor enough to be compared with that in many other countries. So the fact that capital investment in real terms in the key sectors of water, housing and roads is all well below half that of the last Conservative government in the early 1970s is only slowly beginning to show.

- **Housing.** Houses being built today will have to last around 800 years at the present rate of slum clearance, property repair and replacement according to Mr John Mills, chairman of the Association of Metropolitan Authorities housing committee.

The number of houses built in 1982 was about 25 per cent higher than the 150,000 in 1981; this is still far short of the 300,000 a year estimated as necessary in the 1977 Housing Policy Review Green Paper produced by the then Labour Government.

The rate of clearing Britain's remaining slums (some of which are only 20 years old because of bad design and faulty materials in the 1960s) is slowing down. A third of Britain's housing stock is pre-1919 and in the last four years councils have skimped on upkeep and maintenance which is becoming particularly obvious in apartment blocks.

The Government has repeatedly cut the provision for housing investment. Councils have tended not only to underspend, but also not to re-invest receipts from the sale of council houses and land in new capital projects. Between £1bn and £2bn of capital receipts is now estimated to be squirrelled away in reserves and not to have been spent. There are signs that councils, exasperated at being criticised both for overspending and underspending, are now going to overspend on capital in 1983-84.

Since April 1980 about £1bn — half the figure quoted above — has been underspent on housing plans. If that figure were to be made up, it would provide firstly 1,300 new homes from private builders for shared purchase schemes of the type already introduced by some

...bute to the memory of William with the finest detail.

Financial Times Thursday March 10 1983

ing £2bn

Roger Taylor

completed

uncils and housing associa-
ons and, secondly, 100,000
uncil house modernisations —
wiring, central heating,
odern kitchens and bathrooms
· among the 10m pre-1945
omes, plus 165,000 extra hous-
g improvement grants among
e 1m properties which need
: least £7,000 spending on
em to get them into a reason-
ble state of repair.

Cambridge Econometrics esti-
iated that £500m spent on
ousing — two-thirds on new
omes and one-third on rehabi-
tation — would create about
8,000 jobs directly, plus
nother 16,000 indirectly. Some
0 per cent of the cost of hous-
ng work goes on labour.

● Water and sewers. "There
re no votes in sewers" is a
olitical adage as old as
Britain's intricate and partly
unmapped sewer system, much
of it completed more than 100
years ago by cheap Victorian
abour and a least-favoured
option for capital investment
ever since because the benefits
cannot be appreciated by the
electorate.

As a result there are now
3,500 major collapses requiring
excavations a year and 1,500
major blockages from partial
collapse. This costs £100m to
repair, but the indirect costs
are often much greater—a
major collapse in Richmond
cost £2.2m to repair but the
indirect costs of the disruption
were estimated in a recent
House of Lords report on the
water industry at £6.5m.

To replace Britain's sewers
would cost around £31bn and
just to maintain the 210,000 km
of sewers in their present par-
lous state, the water industry
should be spending £310m a
year compared with an actual
level of £205m.

Capital spending in real terms is about half the 1973-74 level.

Potentially, there is an equally serious problem with water. Some 25 per cent of all water collected, stored and purified is lost by leakage before it gets to consumers. In England and Wales there are 282,000 km of water mains and 18m service pipes with a total length of another 242,000 km. Half of this is more than 40 years old and some are more than 100 years old. Leaks are difficult to find but the benefits of doing so are considerable. Bristol Waterworks Company for example reckons that an annual expenditure of £600,000 on leakage control may be saving them £200,000 in energy and treatment costs and £750,000 of cumulative capital charges.

● Roads. Actual capital spending on roads in 1982-83 of £330m represents a fall of 1½ per cent on 1981-82 and 40 per cent below target. Local authorities underspent by £139m. There are no grounds to believe that the 60 per cent rise forecast for spending on local roads (an extra £198m) in 1983-84 will result in anything more than another undershoot. Thus the planned rise of £960m in total public sector construction is likely to fall short once more.

Yet there are some 350 major road schemes worth about £4bn still outstanding—of the 120 by-passes due to start in 1982, 1983 or 1984, ninety have been suspended or relegated to reserve lists and hardly any of the others have been started.

Since 1979 spending on new roads construction and improvement has fallen in real terms by 60 per cent. Within this,

Some 350 major road schemes still outstanding

spending on trunk roads and motorways is a third down and on local roads is 97 per cent down. The total underspent in England alone since 1979 on all roads is £365m.

While the Chancellor in his Budget speech on Tuesday is likely to make general comments about help for the construction industry, there is no chance of a major revision to reintroduce unspent money from previous years. If that had been going to happen it would have appeared in the public expenditure white paper published this year in February rather than on Budget Day.

In any case many projects such as motorways take a long time to get under way — so there is always the risk that they get into gear when the economy is anyway into an upswing and needs the stimulus less.

But whatever happens to the economy, the problems of the £2bn underspending since 1979 (and £10bn since 1975) and the huge backlog of undone capital work and renovation are not going to go away. And when they are finally tackled they will be much more expensive to solve than they might have been.