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Dear John

I am sorry it has taken some time to reply to your letters of 25 October and 9 November 1984. This is largely because my colleagues who are responsible for policy on the BTS and CBLA have been heavily engaged with the AIDS problem.

Before I come onto the substance of your letters I should record that there is a positive side to the way this project has developed. There has been a range of public and political concern over the plight of haemophiliacs in the face of the evidence of the spread of AIDS through imported blood products. The need to achieve self sufficiency as soon as possible has been given added urgency and Ministers have stressed the need to complete the BPL scheme swiftly. The scheme is on schedule for completion early next year. This timescale could not have been achieved without using the "fast track" method.

Use of the fast track method has also enabled CBLA to reflect changes in the technology of fractionation rather than have these excluded by the design having been frozen at a much earlier stage. For example provision has been made to enable BPL to use genetic engineering methods when the necessary technology can be scaled up to produce in bulk. This flexibility should prevent the BPL investment becoming too rapidly obsolete. If the scheme had proceeded on conventional lines, design changes to reflect new technology and efforts to accelerate its completion (in response to the AIDS problem) could well have cost us more. The outcome being achieved is thus that we are getting the shape of project which is most appropriate to current circumstances, in a timely fashion, and probably as cheaply as could be managed.

However this does not mean we are happy with the way in which the present state of affairs has been reached. We expect our health authorities to show strict adherence to financial disciplines; including the disciplines of control over capital schemes. Arrangements for monitoring this project were established but in the event they proved inadequate to cope with the case of a health authority which did not have the usual degree of joint commitment to financial discipline. In short we took too much on trust and unusually were let down.

We are now taking firm action. Chris France, Deputy Secretary of our Policy Group, has interviewed the acting Chairman of the CBLA who was also called to account for the Authority's failings before the Minister for Health. Kenneth Clarke took a tough line with the Authority. He left them in no doubt that failure to keep to budgets will not be tolerated. He then set them a strict cash limit of £35 million (less than they sought) to complete the main production facility. They will have to meet any other requirements by improvisation. It is just possible that they will not be able to absorb all unavoidable labour and materials

increases within this total. However they will be required to take all possible steps to do so and any bid for additional funding will be subject to the closest scrutiny.

We are also arranging much closer monitoring of the remainder of this project. An experienced quantity surveyor from our Works Group is being put full-time onto the task of identifying the systems used for control, and in particular for the letting of subcontracts, and will be required to form a view within the next two months or so whether these are adequate to ensure effective cost control and to identify quickly if the cash limit is in danger. Thereafter we would either need to consider immediate remedial action if the systems appeared inadequate, or if the systems were themselves adequate we could proceed to monitor the remaining stages of the project at a greater distance.

I will if I may write to you again when we have a clearer idea of how the new arrangements are working. In the meantime I hope you will agree that, while there are undoubtedly lessons to be learnt from the experience to date on this project we might best concentrate our efforts on the control of the remainder rather than post-mortems in the past.

Yours Sincerely

GRO-C

JOHN H JAMES