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NBPM AT 30/1

Treasury Chambers, Parliament Street, SW1P 3AG

Lord Cockfield
Cabinet Office
Whitehall
London SW1A 2AS

30 January 1984

Dear Lord Cockfield,

PUBLIC EXPENDITURE WHITE PAPER - PART 1, TABLE 1.13

Thank you for your letter of 13 January about points arising from the new Table 1.13 in this year's White Paper. I have also received comments on this from Patrick Jenkin.

On your first point, I think it is important that we should hold firmly to the main aim of Table 1.13. This is to show far more clearly then hitherto what the public sector has spent on all new construction and capital goods in each year since 1978-79. We are no longer confining the table to construction, because information on public sector capital spending is of interest to a much wider range of industries. I accept, as Patrick says, that the table will not satisfy the construction interests, but it will present a much more balanced picture of total capital outlays. It would be inconsistent with that objective to reduce the total by the amount of receipts from asset sales, since they bear no direct relationship to the value of work placed with these industries.

We have made this clear at three points in the White Paper - in the last "main point" at the beginning, in paragraph 29 (where there is a fairly full explanation) and again in the text accompanying the Table itself, in particular sub-paragraph (b) which deals with the point about asset sales. (I could not, incidentally, accept that the commentary is "meagre": it already runs to 1/8th of the text of Part 1!). On the whole, I would rather not add to this by trying to pre-empt the point

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made by Jack Diamond, which seems to me rather a different one related to the accounting treatment of the capital stock. To do so might appear unduly defensive and it would, I think, detract from the main message of the table.

Rather, I should like to say in my Press Conference presenting the White Paper that our object is the simple one of showing gross what the public sector is putting into all capital expenditure. There is no reason why we should set against that figure the receipts from the sale of assets (including council houses) since the capital purchases in question are, self-evidently, not so reduced.

On your second point, I agree that there is an argument to be had about whether or not our gross capital expenditure is sufficient overall to maintain our capital stock. (The Director General of the CBI has recently made the same point.) As you suggest, the factual information is limited (the CSO produce some figures but I understand they are not very reliable). There are also a number of conceptual problems about whether there is a "right" level of capital expenditure. Even if there is, I believe we shall not establish it by looking at these overall statistical totals. The need is a practical one - as Patrick suggests - to consider individual proposals for improvement and establish as clearly as we can whether such an investment will earn an adequate return. If I may put it another way, the case for more spending on the sewers lies under the ground, not in the CSO's figures for capital consuption.

I am copying this letter to Cabinet colleagues.

yours sincerely

PJR

ff PETER REES
(approved by the Chief Secretary and signed in his absence).

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