

Prime Minister (2)

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This note comes at an appropriate time as I suspect the capital spending figures will be the most controversial aspect of the PEWP. The shift from £24 billion (old definition) to £22 billion (new definition) can be handled easily; it is the fall in real terms which though Treasury has provided a robust line.

It would be helpful to circulate this more widely eg Lords Young & Gonne. I will ensure this.

18 January 1985

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
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Note
Richard Broadbent will circulate this note to members of Cabinet after publication of PEWP.

cc TF
SS
BI

Dear Andrew

AT
18/1

CAPITAL EXPENDITURE

I am writing, at the Chief Secretary's suggestion, to draw your attention to a change of emphasis in the presentation of the government's case in the capital/infrastructure spending debate. This change is necessitated by the publication of new figures for capital spending in the Public Expenditure White Paper on 22 January (Table 1.13 copy attached); and as we discussed this morning it will be reflected in the background note for MPs being circulated by Bernard Ingham.

The capital expenditure table in last year's White Paper showed total capital spending broadly constant in real terms from 1978-79 to 1984-85, at around £24 billion. This year's White Paper shows capital spending in cash terms remaining broadly constant from 1984-85 onwards at about £22 billion but falling in real terms. The cash figure is different from that published in last year's White Paper largely because this year's table excludes capital spending by those nationalised industries which have been, or are being privatised (without such an exclusion the trend over the period would be more unfavourable). This year's White Paper will also show that the 1984-85 outturn, on last year's basis, is likely to be £23.4 billion.

£23.7b
rounded up

The upshot of this is that it is that it can no longer be argued that capital spending is constant in real terms. Although it is true that capital spending has so far been maintained in real value, more or less, up to 1984-85, the plans are for a real reduction in 1985-85 and thereafter. In the Chief Secretary's view, the main lines of the government's case should hence forward be:-

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- (i) total fixed investment in the economy in 1984 is expected to be an all-time record in real terms (over £55 billion in current prices); and it is forcast to grow more in 1985;
- (ii) these trends reflect the success of the government's policy of shifting economic activity and ownership back into the private sector; a more vigorous and enterprising economy is the best route to improved infrastructure;
- (iii) public sector capital spending is still running at a substantial level - over £22 billion in 1984-85 (although note that this figure is on a different basis from £55 billion above). Central and local government capital spending on goods and services in 1985-86 will be little changed from the 1984-85 level. Capital spending by public corporations is lower than hitherto because the capital investment of the privatised corporations is no longer included in the public sector;
- (iv) these figures take no account of the benefit to the infrastructure from public sector spending on repairs and maintenance - which might add approaching £5 billion to these figures;
- (v) there is no 'right' or 'target' level of public sector capital spending. Expenditure must be justified on its merits, on a case-by-case basis and taking into account wide economic and social benefits; we acknowledge the need to find room for worthwhile capital projects within overall spending total

I am sending copies of this letter to Janet Lewis Jones (Lord President's Office), John Ballard (Secretary of State for the Environment's Office) and David Morris (Lord Privy Seal's office).

Yours ever
Richard

R J BROADBENT
Private Secretary

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Table 1.13 Public sector capital spending

	1982-83 outturn	1983-84 outturn	1984-85 estimated outturn	1985-86 plans	1986-87 plans	1987-88 plans
£ billion						
Goods and services						
General government ⁽¹⁾						
Expenditure on dwellings	2.3	2.5	2.3	2.2	2.3	2.4
New construction other than dwellings	4.4	4.3	4.6	4.5	4.6	4.7
Purchases (net) of vehicles, plant and machinery	1.1	1.2	1.2	1.1	1.1	1.1
Defence expenditure ⁽²⁾						
Construction	0.4	0.5	0.6	5.7	5.9	6.0
Equipment	3.8	4.2	4.9			
Total general government goods and services	11.9	12.7	13.6	13.5	14.0	14.3
<i>Real terms (base year 1983-84)⁽³⁾</i>	<i>12.5</i>	<i>12.7</i>	<i>12.9</i>	<i>12.4</i>	<i>12.3</i>	<i>12.1</i>
Public corporations including nationalised industries ⁽⁴⁾⁽⁵⁾⁽⁶⁾						
Expenditure on dwellings						
New construction other than dwellings	2.2	2.4	2.1	2.3	2.2	2.3
Purchases (net) of vehicles, plant and machinery	2.9	3.3	3.1	3.2	3.0	2.9
Total goods and services	17.0	18.4	18.8	19.0	19.2	19.4
Capital grants to the private sector						
General government	2.6	3.4	3.3	2.6	2.6	2.4
Public corporations						
Total capital grants to the private sector	2.6	3.5	3.3	2.6	2.6	2.4
Total goods and services plus capital grants to the private sector	19.6	21.8	22.1	21.6	21.8	21.8
<i>Real terms (base year 1983-84)⁽³⁾</i>	<i>20.5</i>	<i>21.8</i>	<i>21.1</i>	<i>19.7</i>	<i>19.1</i>	<i>18.5</i>

(¹) Including List III public corporations.

(²) NATO definition of defence capital expenditure. The figures for 1985-86 and subsequent years are provisional.

(³) See footnote on page 5.

(⁴) Nationalised industries figures are not included in the planning total.

(⁵) Excludes those nationalised industries that have been, or are being, privatised. The total figures for the industries involved in the years 1982-83 to 1984-85 are £1.8 billion, £1.8 billion and £1.3 billion respectively. However the figures do include expenditure by London Regional Transport from 1985-86 onwards.

(⁶) Notional figures are included for the National Coal Board from 1985-86 to 1987-88. See footnote 7 to Table 5.5

61. Planned capital spending in 1985-86 by central and local government ('general government') is little changed from 1984-85 at £13.5 billion and rises to over £14 billion in 1987-88. In real terms this implies a small reduction over the period.

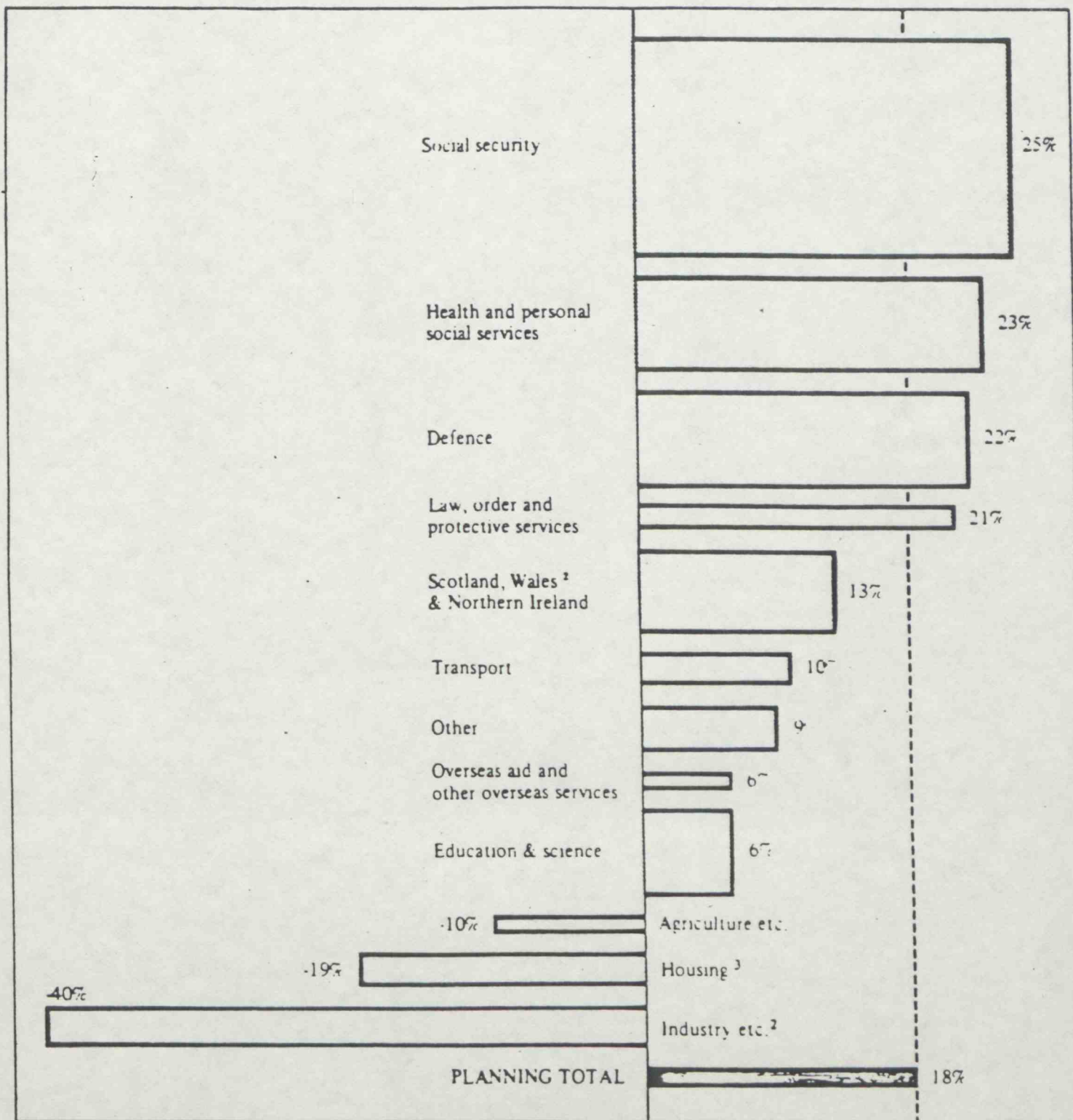
62. Capital spending by public corporations (excluding those nationalised industries that have been or are being privatised) is expected to increase in cash terms in 1985-86, returning broadly to the 1984-85 level thereafter. Continuing large investment programmes can be financed from rising internal funds. Projects include the east coast rail electrification, the Docklands Light Railway and Terminal 4 at Heathrow Airport.

63. Capital grants to the private sector have been much higher than planned in both 1983-84 and 1984-85, mainly reflecting the effects of temporarily higher rates of home improvement grants. Expenditure is now planned in 1985-86 to return to 1982-83 levels.

Pay

64. £40 billion (30 per cent) is planned to be spent in 1985-86 on pay and other employment costs for central and local government employees. For the central government groups, mainly the Civil Service, National Health Service and Armed Forces, the 1985-86 provision in the spending plans reflects the assumption that rates of pay and allowances will increase on average by 3 per cent from due settlement dates. If pay settlements cost more than this there will be less money available for other purposes, whether investment, employment or other services.

Chart 1.5: PERCENTAGE CHANGE IN PROGRAMMES¹ BETWEEN 1983-84 and 1987-88 (in cash terms)



1. The width of each bar on the vertical axis is proportional to the expenditure on the programme in 1983-84
2. Regional Development Grant (RDG) expenditure throughout Great Britain is included on this chart in the Industry programme. Figures elsewhere in the White Paper allocate RDG expenditure in Scotland & Wales to those territorial programmes from 29 November 1984 onwards. This is a consequence of the transfer of responsibility for it to the Secretaries of State for Scotland & Wales from that date.
3. Housing programme gross of receipts.