

16

PRIME MINISTER

LORD MacALPINE

In addition to an Honours question and Party finances, Lord MacAlpine wishes to raise a construction industry issue. He will probably suggest that he organises another lunch-time Reception at which you could meet members of the construction industry. You attended such a function in April last year.

There is no great advantage for you in this, and one possible difficulty. The industry will be pressing you for more ATP and ECGD help abroad and more Government expenditure on construction at home. On the latter, the White Paper shows that there has been a fall in Government capital expenditure on the construction in real terms in the last five years. But there is no reason for the Government to be too defensive. These figures ignore repair and maintenance expenditure, which added about 30% in the 1970s and now add about 50%. More fundamentally, however, with the completion of the basic motorway network, with little building needed in education, and with the emphasis on house-building by the private sector, it is far from clear that the Government financed construction should be increasing.

See attached table

The difficulty relates to the proposal to impose VAT on alterations and additions. In April or May, the Government could find itself in dispute with the industry, although the impact may be limited for the kind of company represented on Lord MacAlpine's group.

For these reasons you may want to decline or postpone such a meeting.

It might help if this issue and the Honours question were taken first. Robin will attend and then withdraw when you get on to Party finance.

AT

4.5 Capital expenditure on construction work

Table 4.5

£ million cash

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 estimated outturn	1984-85 plans
Direct public expenditure on new construction							
Housing—new dwellings and improvements	2,138	2,454	2,362	2,007	2,328	2,345	2,331
Other environmental services	572	720	888	828	929	943	966
Transport	900	1,113	1,266	1,368	1,661	1,547	1,698
Education and Science, Arts and Libraries	399	452	550	493	450	440	366
Health and personal social services	328	398	536	642	642	657	735
Other ⁽¹⁾	298	393	414	427	436	484	556
Total direct public expenditure on new construction	4,635	5,530	6,016	5,765	6,446	6,416	6,652
Grants and loans to housing associations and improvement grants	659	725	733	992	1,517	1,888	1,621
Expenditure on new construction identified within the planning total ⁽²⁾	5,294	6,255	6,749	6,757	7,963	8,304	8,273
Nationalised industries							
Electricity	186	227	284	316	426	348	294
Gas	162	202	304	263	630	768	683
Railways	200	146	155	143	104	132	163
Coal	165	221	324	346	358	319	340
Water authorities	534	589	673	666	687	733	732
Other ⁽³⁾	226	165	201	235	218	350	380
Total expenditure on construction by nationalised industries	1,473	1,550	1,941	1,969	2,423	2,650	2,592
Grand total	6,767	7,805	8,690	8,726	10,386	10,954	10,865

⁽¹⁾Defence; agriculture; industry, trade, energy and employment; law, order and protective services; office and general accommodation; some expenditure on new construction for military purposes is classified as current expenditure.

⁽²⁾See Table 4.4 for details of all capital expenditure within the planning total.

⁽³⁾Certain capital expenditure by the British National Oil Corporation and Enterprise Oil which is classified in the accounts as new buildings and works has been excluded from this table since little of the work is produced by the construction industry. The "nationalised industry" figure for 1984-85 includes planned spending on construction by British Telecom.

GDP deflator

61.5 71.9 85.3 93.8 100.0 105.0 110.0

Table 4.5 shows all capital expenditure by the public sector on new construction. As decisions have not yet been taken in all cases on allocations within the main programmes, it is not possible to extend this analysis into the later years.

The figures cover capital construction only and do not include repair and maintenance. At the beginning of the 1970's repair and maintenance work accounted for about 30 per cent of the work supplied to the construction industry by the public sector. Since then it has been steadily increasing to the point that it is estimated that in 1982 the public sector spent more than £5 billion on repair and maintenance. It now probably accounts for about 50 per cent of the work supplied to the construction industry by the public sector. The exclusion of public sector repair and maintenance—expenditure on which has increased as buildings have become older—should not be overlooked in interpreting the figures for capital construction shown in the table. Also excluded is some defence expenditure on construction (amounting to up to about £400 million a year recently) which is also classified as current expenditure.

The figures consequently understate the implications of public expenditure for the construction industry, but they also include small amounts of expenditure which is not on work done by the construction industry, for example, on the acquisition of land and existing buildings.

The figures cover the following types of expenditure:

- direct spending on new construction;
- capital grants and loans to housing associations and improvement grants: these go to finance construction work, except that the figures for housing associations also include finance for their expenditure on the acquisition of land and existing dwellings;
- the estimated amount of new construction in the nationalised industries' investment programme.

The first two items are included in the planning total, the last is financed by nationalised industries' internal as well as external resources and thus not included as such in the planning total.

78-79	79-80	80-81	81-82	82-83	83-84	84-85
11,003	10,855	10,188	9,303	10,386	10,432	9,877

Grand total
at 1982-83 prices