

B.P.  
②  
PRIME MINISTER

14 January 1985

ST 141,  
PUBLIC SECTOR INFRASTRUCTURE

The NEDO Report on this subject concluded that:

- i. Public sector spending authorities do not have comprehensive information on their assets, do not employ appropriate spending criteria systems, and as a consequence, fail to deliver the best value for money.
- ii. A large backlog of maintenance and repair work has developed: eg £2 billion in hospital maintenance.

The Report is a mixture of probable exaggeration and the genuinely useful. It is misleading in that NEDO have asked, or cited, those whose views about the "need" for more spending are predictably disposed towards more spending - HMI Inspectors, County Surveyors, water engineers, architects. NEDO have not consulted independent authorities, nor have they attempted to look for themselves at the public sector infrastructure. Despite this bias, some of the six sectors studied came through pretty well. For example, the Report on the NHS Estate stated that:

"There was unanimity among those with whom discussions were held that for a number of years, until recently, the condition of the NHS Estate, in general and in

NHS is one of the largest holders of surplus land, why not accelerate sale to release resources for better maintenance of the rest?

particular, had received less attention than was warranted, and had deteriorated" (paragraph 29);

AT

but that:

"There was also a strong feeling among those interviewed that the climate had now changed, and with this went a commitment to working, as responsible managers, with the new systems as outlined in Health Circular HC(83)22 ..." (paragraph 31)."

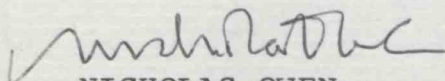
The Report could find little wrong with the trunk road and motorway programme, or in the "extensive" information held by DTp about its condition.

Other Reports tended to over-dramatise the problem. The Sewage and Water Report cited evidence of one significant sewer collapse in the North West for every 43 kilometres in 1982/83 (paragraph 43); and that the £59 million spent by the North West Water Authority in 1983/84 repaired "only 0.5 per cent of the total length" of the system.

Yet this selective approach is precisely what is recommended by the Water Research Council in its own manual, namely, intensive surveys of critical sections of the system, with the remainder to be treated on a reactive basis, ie mending faults as they occur.

Another general comment to make about the Report, in the context of the capital versus current expenditure debate, is that the expenditure on repair and maintenance which it calls for is current expenditure. One implication of this, which the capital expenditure lobby has not noticed, is that better maintenance of what we already have may make better sense than new investment.

The positive and constructive side of the Report is that it calls for better management of public sector assets - better information about their purpose, their value, their condition, and on the returns from maintaining them more intensively. Unless public sector managers know the market value of their assets, as many do not, they cannot make proper decisions about whether to dispose of some assets and to use the proceeds to renovate the remainder. NEDO could be applauded for this constructive approach, which ties in well with FMI initiatives and efforts to identify surplus land in the public sector.

  
NICHOLAS OWEN

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FROM: P W McDONALD  
DATE: 8 March 1985LEADS OF EXPENDITURE DIVISIONS  
EXPENDITURE PRINCIPALScc With attachmentPPS  
PS/CST  
PS/FST  
PS/EST  
PS/MST  
Sir P Middleton  
Mr Bailey  
Mr Anson  
Mr Monck  
Mr Battishill  
Miss Brown  
Mr Scholar  
Mr Culpin  
Mr Folger  
Mr Gray  
Mr Williams  
Mr Pratt  
Mr Segal  
Mr Vernon  
Mr A Turnbull No.10cc Without attachment

Heads of Expenditure Groups

UPDATED CAPITAL/INFRASTRUCTURE SPENDING STOCK BRIEF

I attach an updated version of our Stock Brief.

2. This edition (No 3) takes account of the 1985 public expenditure White Paper figures, and also reflects other developments on capital/infrastructure spending since Edition No 2, which was circulated in December 1984. Changes from, and additions to, Edition No 2 are sidelined. In addition, there are two new annexes: the first (Annex F) responds to the increased interest in the "infrastructure spending vs tax cuts" argument in relation to job creation, while Annex G comments on the recent NEDO paper on public built infrastructure and also covers some other recent papers and submissions. We expect this edition to remain relevant for some time.

3. I hope that the Stock Brief is proving useful to Expenditure Divisions and EB Division, especially in cases where a 'line to take' is required for inclusion in briefing, ministerial replies and the like, and, also to Private Offices and Information Division. In this context it would be helpful if you (and some copy recipients) could complete the attached questionnaire. This should give GEP some useful feedback on how you see the Stock Brief's role in relation to your own work and also how useful you find it. I should be grateful for your comments by close on Friday 15 March please.

4. Additional copies of Edition No 3 can be obtained from Mr K Kelly, room 98/3, extension 3072.

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GEP 2

CAPITAL/INFRASTRUCTURE SPENDING

STOCK BRIEF

EDITION NO 3:  
MARCH 1985

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## CAPITAL INFRASTRUCTURE SPENDING: STOCK BRIEF

### EDITION No 3: MARCH 1985

(Changes from/additions to Edition No 2 indicated by vertical line in margin. Annexes F and G are new additions)

#### Introduction

Users of this brief should note:

1. This edition of the stock brief should remain relevant for some time.
2. The brief has no specific target group and the points made must depend on the source and form of the request or criticism.
3. Capital expenditure and expenditure on infrastructure should not be used interchangeably; in particular repair and maintenance (R&M) of infrastructure is recorded as current expenditure.

#### The Government's Policy

1. Substantial amounts continue to be spent on infrastructure. But there is no "target" or "right" level of public sector capital spending - or for any other sub-aggregate or sector within total public expenditure.
2. Expenditure must be justified on its merits, on a case-by-case basis and taking into account wide economic and social benefits. Government acknowledges the need to find room for worthwhile capital projects within overall spending total.
3. In some areas proper to cut back public sector investment to make room for private sector (eg privatised corporations, council house sales). In other areas Government recognises importance of public sector provision of infrastructure; and its decisions take proper account of economic and social benefits.

#### Positive

1. Government stands by its record on capital expenditure. Believe it sits positively with its broad policies which are clearly leading to a sustained recovery in the economy.

2. Path to better infrastructure spending in future is through a more vigorous and enterprising economy. In turn requires a falling burden of taxation, interest rates, and inflation, to provide framework for sustained growth. Jeopardising this objective now (by higher expenditure, or wasting resources with non cost-effective expenditure) would be more damaging in long run (see Annex D for more on relationship between PSBR and capital expenditure).

3. The Government has not neglected infrastructure or ignored capital projects.

- i. Total public sector capital spending still running at substantial level - over £22 billion in 1984-85; maintained in real value more or less - up to 1984-85.
- ii. Capital spending on goods and services (ie excluding capital grants to private sector) is clearly rising in cash terms.
- iii. Capital figures in PEWP take little or no account of benefit to infrastructure from public sector spending on repairs and maintenance - which might add approaching £5 billion to the figures in Table 1.13. Moreover, much expenditure classified as current (eg industrial training, R&D, education) also represents essential investment in nation's infrastructure.
- iv. Little evidence to support widely held view that worthwhile projects, particularly in the nationalised industries, not going ahead for lack of public sector funds. This is not the case, as the nationalised industries have themselves made clear in the CBI report "The Fabric of the Nation", published in June '84.

[Note: Additional statistical material at Annex A.]

4. Public sector investment not notably successful in the past (eg, Concorde, Kielder Dam). Also see Annex C for experience of nationalised industries). Must bring market disciplines to bear; hence privatisation policy.

5. Important thing is investment in the economy as a whole - particularly now that major enterprises such as BT have been/are being privatised. Total fixed investment in economy in 1984 expected to be all time record (over £55 billion in current prices) and forecast to grow even further in 1985. These trends reflect Government's policy of shifting economic activity and ownership back into private sector; a more vigorous and enterprising economy is best route to improved infrastructure.

#### Defensive: General

1. Capital "good", current "bad": Statistical dividing line misleading (see Annex A). Much



"current" is of a capital nature (eg, repair and maintenance, industrial training, R&D, education).

2. Capital spending by public corporations lower than in previous plans? Capital spending by public corporations lower than hitherto because capital investment by those nationalised industries that have been, or will be, privatised no longer included in public sector.
3. State of infrastructure: Much alarmist talk. Consider cost-effectiveness of expenditure. Need may be for current not capital (eg, repair and maintenance) or better management (eg, more intensive use of education facilities). Decline in public sector capital stock in certain areas not unexpected as society's needs change over time. Figures for backlogs often unsubstantiated or based on arbitrary standards (see also Annex G).
4. Role as pump primer/seedcorn: No objection to capital expenditure where it is cost effective. Accept that it can have role in bringing down industrial costs. But way forward is to reduce unit labour costs and remove obstacles to free functioning of markets. Non-cost effective expenditure would waste resources, harm employment and growth in longer run.
5. Higher PSBR justified if increase finances investment: PSBR path reflects Government's objective over the medium-term to continue to reduce inflation and interest rates to provide framework for sustained growth. Exceeding expenditure or PSBR plans would jeopardise that objective. (See Annex D for defensive elaboration.)
6. Increase in capital spending to promote employment: Do not deny higher capital spending can boost employment in short term - although, even here, employment and training measures have bigger and more direct impact per £ of expenditure. Job creation by increased demand soon dissipated as inflation/interest rates rise. Tax cuts have advantage over increased expenditure in stimulating enterprise and initiative, and encourage pay moderation; best route to lasting jobs. (See Annex F for more details on job creation argument.)
7. Expenditure cuts only on capital? Not true. Many areas of current spending also reflect reductions. Some reductions in capital - particularly by local authorities - necessary after overspend in 1983-84 and 1984-85. Also, must take into account Government's privatisation programme for nationalised industries and aim of reducing role of public sector where appropriate.
8. Reduce current to make way for capital expenditure: Government already has a programme for holding down current expenditure. Energetically seeking better value for money, (eg key aim of FMI). Intends to have a Civil Service only as large as necessary to undertake efficiently essential work. Civil Service numbers fallen by 15% since last Parliament; over half the reduction from productivity savings. (But outside forecasts of achievable savings, eg CBI's £6 billion, often too optimistic).

9. No figures for capital consumption in 1985 PEWP: [TCSC recommended in their report on 1984 White Paper that information on capital consumption should be included in next PEWP]. Government do not consider it would be helpful to include estimates of capital consumption in PEWP. Very great uncertainties attach to these estimates which depend on wide range of assumptions about asset lives and other factors. More relevant to look at such information in context of decisions on individual capital projects. But important to note that public sector making considerable net contribution to capital formation, ie after allowing for capital consumption. This is running at about £3 billion a year, after adjusting for council house sales. (See table 11.6 of the 1984 Blue Book.) (Defensive briefing on adequacy of database in Annex A.)

10. Encourage (eg with guarantees) private sector capital projects: No genuinely viable project should need guarantees; they would only serve to undermine market disciplines. Such schemes often tantamount to higher public expenditure, with same potentially damaging impact on wider objectives, and private sector. (Additional briefing in Annex E.)

11. Receipts from asset sales should finance capital expenditure: We do this to an extent for some programmes. But do not accept that we should earmark receipts from existing assets as finance for new capital projects. Balance between capital and current spending - and decisions on aggregate levels of public spending and taxation - should not be linked to developments in particular type of receipts.

12. Representations: Many vocal lobbyists over past 12 months, CBI, TUC, FCEC, BRF, ABCC, BMP, BACMI etc). Much pressure special pleading (see Annex G for Government's response to recent NEDO Paper on Built Infrastructure and CBI and TUC memoranda; and also allegations of backlogs).

13. Expenditure constraints hit capital disproportionately: No. Expenditure totals set in light of MTFs and wider objectives for reduced inflation and higher growth. Departments organise programmes in light of priorities, balancing needs of future with needs of present. No objection to capital expenditure, provided projects show an adequate return and cannot better be done in private sector. [If pressed in-year cuts inevitably affect capital spending; emphasises importance of sticking to expenditure plans.]

#### Defensive: Specific

1. Outlook for construction industry: Construction industry output for first three quarters of 1984 encouraging - up 4½% on same period of 1983; private industrial activity strong. Industry will benefit from marked rise in investment now taking place. Health of construction industry tied to condition of economy, particularly interest rates.

2. Capital spending on construction work: Table 2.10 of 1985 PEWP shows figures for capital expenditure on construction work. Expenditure increased between 1979-80 and 1983-84 but shows slight reduction in 1984-85 and 1985-86. But aggregate figures substantially underestimate implications of public expenditure for the construction industry. For example, they exclude most expenditure on R&M. DOE estimates for R and M - which are not readily comparable with White Paper definitions - show an increase from about £4 billion in 1979 to almost £6 billion in 1983.
  
3. Public expenditure needed on construction, particularly in relation to housing: Government's deliberate policy of restraining public spending on housing has created climate in which private sector housing can flourish. Investment in private dwellings reached record peak in 1983, and 1984 figure likely to exceed it.
  
4. Roads: Capital spending on national roads in 1985-86 planned to be 22% above 1978-79 in real terms. National road system about 6000 miles of key motorways and trunk roads - over 470 miles opened since April 1979. (see Annex B, part 1, for more detail on roads.)
  
5. Water and Sewerage: Agree these services are important part of infrastructure. Large and increasing investment programme planned: in UK nearly £1 billion public sector investment planned for 1985-86. In England and Wales the water industry is increasing its investment in water services by 9½% from £744m in 1984-85 to of £815m in 1985-86. Rising proportion for repair and restoration of underground assets, and improvement of services. Important not to overstate problem; system is in no danger of collapse. For sewerage, where needs for urgent action obvious (eg North West), Government has sought to cater for this in its public expenditure decisions. (See Annex B, part 6, for more details.)
  
6. Other capital programmes refer to Annex B, relevant expenditure division, or GEP2.
  
7. Cuts in local authority capital spending in both 1984-85 and 1985-86? No moratorium or cut in plan for 1984-85 - LAs been asked to restrain spending and maximise receipts, to get closer to plans. Plans for 1985-86 imply a reduction from 1984 PEWP of about £600 m, to take account of 1983-84 overspend and of increased receipts. [Note: construction industry will have had benefit of overspending on plans in 1983-84 and 1984-85.] DOE announcements about reduction in proportion of receipts which can be spent by LAs each year - not a cut, but to deliver spending in line with Government plans. No cash or spending power taken from LAs - just spread out over time.
  
8. Government accounting rules (esp annuality) squeeze capital expenditure: Under end year flexibility schemes, introduced 1983, central government and local authorities can roll forward up to 5% of their capital provision into following year. [Following review of schemes in late 1984 LAs limit raised from 2% to 5%.] Helps management of programmes and avoids wasteful expenditure (eg removing end year "surges" of expenditure on less worthwhile projects).

STATISTICSThe Facts

- i. 1985 PEWP - Cmnd 9428 (Table 1.13 - attached) shows total public sector capital spending still running at substantial level - over £22 billion in 1984-85; maintained in real value - more or less - up to 1984-85;
- ii. Capital spending on goods and services (ic, excluding capital grants to private sector) is clearly rising in cash terms, from £17.0 billion in 1982-83 to a planned level of £19.4 billion in 1987-88.
- iii. Table 1.13 excludes most R&M expenditure. DOE estimate total R&M at almost £6 billion in 1983 (allowing for some overlap adds approaching £5 billion to Table 1.13 figures). Moreover, expenditure classified as current (cg, industrial training, research and development, education) also represent essential investment in nation's future.
- iv. Net capital stock, as well as investment, is important: on latest figures (end 1983) net capital stock of general government relative to GDP is higher than during 1950s and 1960s. (This is true both in terms of current replacement cost and also at 1980 prices, ic, after taking out the relative price effect.) Average ratio end 80-end 83 higher than average of previous 4 years at 1980 replacement cost. [Note: Not true at current replacement cost unless council house sales are added back in. These figures depend on questionable data on depreciation.]
- v. Public sector is making a considerable net contribution to capital formation, ic after allowing for capital consumption. This is running at about £3 billion a year, after adjusting for council house sales. (See Table 11.6 of the 1984 Blue Book.) [Note: figures have been declining in recent years, see also qualifications to (iii) above].
- vi. Much current expenditure provides an indirect contribution to capital formation. For example, expenditure on education is currently running at about £13 billion a year and will be contributing to higher levels of investment.

Defensive (particularly related to figures in 1985 PEWP)

- i. Capital spending falling as proportion of total public expenditure? Public sector capital spending still running at a substantial level - over £22 billion in 1984-85

[Note: this figure is on different basis from £55 billion mentioned on page 2, paragraph 5.] Proper to cut back public sector investment in some areas to make room for private sector (eg, privatised corporations). In other areas, recognise importance of public sector provision of infrastructure. But no "target" or "right" level of public sector capital spending in total. Expenditure must be justified on its merits, on a case-by-case basis and taking into account wider economic and social benefits. Government acknowledge the need to find room for worthwhile capital projects within overall spending total.

- ii. What is happening to capital spending on construction work? Table 2.10 of 1985 PEWP (attached) shows figures for capital expenditure on construction work. Expenditure increased between 1979-80 and 1983-84, but shows slight reduction in 1984-85 and 1985-86. However, aggregate figures substantially underestimate implications of public expenditure for the construction industry. For example, they exclude most expenditure on R&M. DOE estimates for R&M - which are not readily comparable with White Paper definitions - show an increase from about £4 billion in 1979 to almost £6 billion in 1983.
- iii. Why the reduction in capital spending for 1984-85 in 1985 PEWP compared to plan in last year's PEWP? Reduction results mainly from exclusion of those nationalised industries which have been, or will be, privatised.
- iv. Why now exclude figures (in Table 1.13 of 1985 PEWP) for nationalised industries not yet privatised? More realistic to show trend for those industries that extend over whole period. Overall trend would be distorted by including industries crossing over to private sector.
- v. Inadequate database for judging level of capital spending needed: Agree that information on existing stock is important; and we endorse NEDO report's conclusions about need for responsible authorities to improve information systems. Departments concerned are taking a fresh look at relevant parts of public estate. Do not need figures on aggregate stock to make sensible aggregate plans for capital expenditure. Decision - making properly dispersed, not dependent on central information. For new capital proposals, up to departments/authorities to make rational and considered case, using supporting data as necessary.

Table 1.13 Public sector capital spending

	£ billion					
	1982-83 outturn	1983-84 outturn	1984-85 estimated outturn	1985-86 plans	1986-87 plans	1987-88 plans
<b>Goods and services</b>						
<b>General government<sup>(1)</sup></b>						
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
<b>Defence expenditure<sup>(2)</sup></b>						
Construction	0.4	0.5	0.6			
Equipment	3.8	4.2	4.9	5.7	5.9	6.0
<b>Total general government goods and services</b>	<b>11.9</b>	<b>12.7</b>	<b>13.6</b>	<b>13.5</b>	<b>14.0</b>	<b>14.3</b>
<i>Real terms (base year 1983-84)<sup>(3)</sup></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>
<b>Public corporations including nationalised industries<sup>(4)</sup><sup>(5)</sup><sup>(6)</sup></b>						
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
<b>Total goods and services</b>	<b>17.0</b>	<b>18.4</b>	<b>18.8</b>	<b>19.0</b>	<b>19.2</b>	<b>19.4</b>
<b>Capital grants to the private sector</b>						
General government	2.6	3.4	3.3	2.6	2.6	2.4
Public corporations						
<b>Total capital grants to the private sector</b>	<b>2.6</b>	<b>3.5</b>	<b>3.3</b>	<b>2.6</b>	<b>2.6</b>	<b>2.4</b>
<b>Total goods and services plus capital grants to the private sector</b>						
<i>Real terms (base year 1983-84)<sup>(3)</sup></i>	<i>19.6</i>	<i>21.8</i>	<i>22.1</i>	<i>21.6</i>	<i>21.8</i>	<i>21.8</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>

<sup>(1)</sup>Including List III public corporations.

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

<sup>(3)</sup>See footnote on page 5.

<sup>(4)</sup>Nationalised industries figures are not included in the planning total.

<sup>(5)</sup>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.

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

Table 2.10 Capital expenditure on construction work

	£ million						
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans
<b>Expenditure inside the planning total</b>							
<b>Direct public expenditure on new construction</b>							
Housing—new dwellings and improvements	2,454	2,362	2,009	2,385	2,585	2,419	2,300
Other environmental services	720	888	827	939	979	1,048	965
Transport	1,113	1,266	1,370	1,658	1,596	1,699	1,630
Education and science, arts and libraries	434	538	487	497	447	366	380
Health and personal social services	483	630	765	782	770	881	930
Other <sup>(1)</sup>	402	424	411	431	468	539	591
<b>Total direct public expenditure on new construction</b>	<b>5,606</b>	<b>6,108</b>	<b>5,869</b>	<b>6,692</b>	<b>6,845</b>	<b>6,952</b>	<b>6,796</b>
Grants and loans to housing associations and improvement grants	814	938	1,029	1,574	2,208	1,925	1,431
<b>Expenditure on new construction identified within the planning total<sup>(2)</sup></b>	<b>6,420</b>	<b>7,046</b>	<b>6,898</b>	<b>8,266</b>	<b>9,053</b>	<b>8,877</b>	<b>8,227</b>
<b>Expenditure outside the planning total</b>							
<b>Nationalised industries<sup>(3)</sup></b>							
Electricity	227	284	277	426	476	309	226
Gas <sup>(4)</sup>	202	304	263	207	329	278	209
Railways	146	155	143	104	108	128	172
Coal <sup>(5)</sup>	221	324	346	358	272	127	
Water authorities	589	675	666	687	773	745	801
Other	112	120	135	155	224	305	624
<b>Total expenditure on construction by nationalised industries</b>	<b>1,497</b>	<b>1,862</b>	<b>1,830</b>	<b>1,937</b>	<b>2,182</b>	<b>1,892</b>	<b>2,032</b>
<b>Total construction</b>	<b>7,917</b>	<b>8,908</b>	<b>8,728</b>	<b>10,203</b>	<b>11,235</b>	<b>10,769</b>	<b>10,259</b>

(<sup>1</sup>)Some expenditure on new construction for military purposes is classified as current expenditure.

(<sup>2</sup>)See Table 2.9 for details of all capital expenditure within the planning total.

(<sup>3</sup>)Excludes those nationalised industries which have been, or are being, privatised. The total figures for the industries involved in the years 1979-80 to 1984-85 are £85 million, £101 million, £100 million, £60 million, £30 million and £35 million respectively.

(<sup>4</sup>)Certain capital spending by British Gas, 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.

(<sup>5</sup>)Notional figures are included for the National Coal Board in the 'Other' line for 1985-86. See note (7) on Table 5.5.

EXAMPLES OF MAJOR CAPITAL PROJECTS/PROGRAMMES

[General note: these points should be used with care. Some of the examples are deliberately taken out of context (eg, of falling aggregate capital spending in a particular programme).]

1. Roads

- i. Since 1979-80 capital spending on motorway and trunk roads has increased almost a quarter in real terms. Such spending has been preserved in 1985-86 and will show increase of £24 million over 1984-85. Considerable progress has been made on road construction since 1979; eg 174 miles of new motorway in England, much of the M25 London Orbital at a cost of over £350 million and the M54 linking Telford New Town to the motorway system. At present 61 major schemes are under construction - 90 miles of motorway and over 100 miles of trunk road - at estimated cost of £883 million in November 1982 prices. In addition, 273 schemes - 113 miles of motorway and over 800 miles of trunk road - are in early stages of preparation. Estimated cost of completing these projects around £3184 million in November 1982 prices.
- ii. Expenditure on repair and maintenance has increased dramatically; eg expenditure on major motorway repairs rose by 50 % in real terms between 1979-80 and in 1983-84.

2. Rail

- i. The Serpell Committee examined the BR Board's contention that investment was badly behind due to lack of funds and concluded that this was not the case.
- ii. In the three years from 1985-86 BR are planning to spend some £1,477 million (at 1984-85 prices) in revenue and capital investment. The major components of the programme are: £432 million on passenger rolling stock, £292 million on track and signalling and £192 million on passenger terminal facilities. The investment will also cover some £98 million expenditure on East Coast Main Line electrification (for which the Government in 1984 gave the go ahead at a total cost of over £300m).



### 3. Electricity

- i. Capital expenditure by the industry was £1389 million in 1983-84. Dinorwig pumped storage facility, now in full operation, was built at a cost of £400 million. Expected to pay for itself in eight years.
- ii. The 2 gigawatt Cross Channel Link with France is expected to be completed by 1985-86 at an estimated cost of some £325 million.

### 4. Gas

- i. 1977 King inquiry into gas leaks recommended that those parts of the transmission system which were at risk from ground movement should be replaced by 1984. Estimated that this work will be completed on schedule at a cost of around £400 million. In addition, estimated 12,000 km of mains will be replaced in the next five years. The effectiveness of BGC's maintenance programme is demonstrated by the declining trend in the number of leaks reported.
- ii. Two other examples of substantial projects are development of Morecambe Bay gas field at estimated cost, by 1988-89, of over £1450 million (September '83 prices) and the conversion of the depleted Rough field to a seasonal offshore gas store at an estimated cost, by 1986-87, of over £690 million. (September '83 prices).

### 5. Telecommunications

- i. In the six years to September 1984 BT spent about £9 billion on capital investment. This expenditure included the extension of System X digital exchanges and fibre optic trunk lines. Both are providing enhanced and improvement telecommunications services.
- ii. The privatisation of BT in November 1984 and the Government's policy of liberalising telecommunications will transform the quality of telecommunications services. Mercury Communications are laying down an entirely new digital trunk network for business users servicing the major cities. Cable television and cellular radio are being introduced and will become an important part of the telecommunications infrastructure.

### 6. Sewerage, Water

- i. Nearly £1 billion UK public investment in 1985-86: in England and Wales 9½% increase

- to £815 million - in planned water services investment, with further real increases planned in later years.

- ii. The present system is generally working satisfactorily and is in no danger of collapse. Large and increasing investment programme planned, to increase spending on repair and restoration of underground assets, improve services, increase work to improve on environment.
- iii. Specific examples of infrastructure expenditure on canals include £16 million which was spent on the Sheffield and South Yorkshire navigation canal between 1979 and 1983 to enable the waterway to take larger capacity boats, and the provision of £4.5 million set aside for 1984-85 to allow repairs to the Blisworth Tunnel on the Grand Union Canal.
- iv. Government has so far provided over £500 million of the £728 million which will have been spent on the Thames Tidal Flood Protection Scheme by the time it is finally completed, including £315 million for the construction of the Thames Barrier, which cost a total of £450 million.

## 7. Hospitals

- i. The increased provision for capital on new health buildings and the improvement of existing ones provided for growth in real terms of 16 % in the six years to 1984-85.
- ii. Looking at England, the increased provision for capital spending on new health buildings and the improvement of existing ones, provided for growth in cost terms of around 16% in the six years to 1984-85. 35 major hospital schemes have been completed in the five years 1980-84, each scheme over £5 million in value, in addition to numerous smaller projects. The plans for later years are expected to sustain the programme at about the 1984-85 level.
- iii. The total estimate (in 1985-86 prices) for the 21 major capital schemes in progress at 31 March 1985 was £446 million. It was estimated that £168 million of this had been spent to that date with a estimated provision of £120 million for 1985-86 and the balance of £158 million to be expended thereafter - on current progress, by no later than 1988-89.

- iv. Chief among these projects are the construction of phase 1 of the Stainlaiffe DGH at a total cost of about £27 million and phase 1B of St Mary's Hospital at a total cost of £29 million. Both are expected to be completed in 1988-89. In addition, 14 schemes are proposed to commence in 1985-86 totalling an estimated £239 million (in 1985-86 prices). Included among these is Phase 1 of the Hastings DGH expected to be completed by 1990-91 at an estimated total cost of over £34 million.

#### 8. Education

- i. There will be 13 major university building projects in progress, or starting, during 1985-86 which are expected to cost in total about £35 million (in 1985-86 prices). There will also be seven major computer projects expected to cost (over the period of installation) about £10 million. In addition, the Government will provide an extra £18 million over the next three years, starting in 1985-86, for modernising and re-equipping university laboratories. In the Research Councils, funds will be provided for 17 major capital projects at an expected cost (again over the period of construction and in 1985-86 prices) of about £100 million.
- ii. The rapid and continuing fall in school rolls has greatly reduced the need for new school building. It has however provided local education authorities with an opportunity to rationalise their provision by removing surplus school places and, in the process, to eliminate their least satisfactory accommodation. The Government's expenditure plans make allowance for this.

#### 9. Housing

- i. Proportion of local authority housing expenditures spent on capital has increased from 60% in 1979-80 to an estimated 74% in 1984-85. Total public expenditure on housing repair and improvement (including that financed from rents) is estimated to be £3 billion in 1984-85. Capital expenditure on housing repair and improvement has increased significantly over last five years from £859 million in 1979-80 to £1796 million in 1984-85. This represents a 37½% increase in real terms
- ii. In their October 1984 State of Trade Enquiry, the House-Builders Federation say that starts in 1984 will remain at a high level compared with recent years. A balance of +22 (+43 v-21)% of respondents expected to increase their level of starts in the next 12 months. A similar balance expect to employ more site labour.

#### 10. Defence

- i. Total capital expenditure on major equipment procurement and construction works

(NATO definition - see Table 1.13) expected to be almost £6 billion in 1985-86 compared with £1.8 billion in 1978-79. Within this, major construction works expenditure is currently well over £500 million pa compared with under £200 million in 1979.

- ii. Since 1979, expenditure on all defence equipment (defined as all MOD procurement expenditure with Industry) has grown by over 40% in real terms and is currently of the order of £8 billion pa. Within that, UK share of production and development into 1990s of nearly 400 Tornado aircraft, estimated at total cost of around £10 billion (1984-85 prices). Expenditure in 1985-86 on ships hulls and machinery planned to be over £500 million.

#### 11. Prisons and Courts

- i. The Home Office prison building programme aims to end the prison overcrowding in England and Wales by the end of the decade, by which time the number of inmates is estimated to have risen to over 47,000. The building programme also aims to improve the overall condition of the prison estate and to provide better facilities for staff and prisoners.
- ii. In addition to the programme of 14 new prisons in England and Wales, costing some £335 million, the Home Secretary has announced that funds will be made available for the design of two prisons during the survey period. Of these 16 new prisons, two will be ready during 1984 (Wayland: 484 inmates, £21 million and Stocken Hall: 300 inmates, £13 million). The largest will be that at Woolwich (800 inmates, £50 million) which is scheduled for completion by 1990-91. In Northern Ireland some £47 million has been spent on new prisons since 1975.
- iii. There are also substantial programmes of capital works at existing establishments. The largest of these is at Wormwood Scrubs, where a rolling programme of refurbishment is in hand. By its completion in 1994-95 this project will cost about £32 million at current prices.
- iv. In England and Wales, the current magistrates courts building programme includes six major starts in 1984-85. 14 more are due in 1985-86 and a projected eight in 1986-87. The total cost of the programme for the years 1985-86 to 1987-88 is estimated at £91 million.

- v. In relation to the other courts, 25 new courtrooms, of which 10 are additional, will be brought into operation during 1984-85 under the higher courts building programme with 96 more (32 additional) scheduled for use by 1987-88. The total cost of the programme is estimated to be £112 million.

12. Other

- i. OAL received additional funding last year for the new British Library building in Euston Road. The first construction stage, due for completion by 1991, will cost some £92 million; a review of what further work will be needed thereafter is now underway.
- ii. The Urban Development Corporations (UDCs) are due to undertake about £66 million in capital investment in 1985-86. A substantial proportion of this is for infrastructure work. The largest project is the construction of the London docklands light railway with planned expenditure of almost £15 million.

NATIONALISED INDUSTRIES

- i. One part of the public sector where the rate of return on investment can be measured is the nationalised industries. For all of them taken together the aggregate rate of return in real terms is still close to zero. Even the utilities are making less overall than the 5% required rate of return (for new investment - contained in the Labour Government's 1978 White Paper), let alone the higher returns being achieved by the private sector. Current (1984-85) financial targets for electricity and water are for returns of 1.4% and 1% respectively on current costs assets. [If pressed: the 4% target for gas reflects the benefit of cheap PRT-exempt gas from the southern basin]. The present Government intends that nationalised industry investment programmes should earn an adequate economic return comparable to that achieved in the private sector.
  
- ii. There may be some individual cases where nationalised industry projects have to be cut as a result of financial pressures which parallel those in the private sector. But overall the history is one of excess capacity (eg, steel, electricity), not a shortage. The CBI paper "The Fabric of the Nation" (June 1984) did not contain any evidence of substantial nationalised industry projects with a high rate of return which have been frustrated. It commented:

"For the present, they ["the public sector corporations"] take the view that, having pushed up their aggregate capital outlays by more than a half in the past five years, from £4,463 million in 1979-80 to £6,757 million in 1983-84, their present levels and patterns of investment spending are broadly consonant with the proper development of their businesses. Only the water authorities currently see need for higher investment authorisations to achieve their first-priority objectives ...."
  
- iii. Since publication of the CBI report, water service investment plans for 1985-86, as shown in the 1985 PEWP, have been increased by 9% over 1984-85 plans.

RELATIONSHIP BETWEEN THE PSBR AND CAPITAL EXPENDITURE

- i. The MTFS sets out a path for the PSBR which is designed to be consistent with falling inflation and provide a framework for sustained growth. Higher borrowing would jeopardise this objective.
- ii. Higher productive public investment could in principle be used to justify a higher PSBR. But Government policies are aimed at reducing the role of the public sector in the economy, which requires limits on the scale of public investment as well as the PSBR.
- iii. In the past much public investment has in any case not been productive, in the sense of yielding acceptable social or economic returns. (see eg, Annex C on nationalised industries). Little evidence of a significant queue of worthwhile public sector projects which are not going ahead for lack of finance.
- iv. There is no mechanistic relationship between the PSBR and capital expenditure as currently defined in the statistics. Difficulties of defining "capital"; have to net off depreciation, for which data are questionable. Much "investment" represents R&M; much current expenditure (eg, in education) is really investment.

PRIVATE FINANCE FOR CAPITAL PROJECTS AND THE AVAILABILITY OF GOVERNMENT GUARANTEES

1. Use of Private Finance: Third best option. Where appropriate, full privatisation favoured - only by breaking all links with public sector can full discipline of market be imposed. Second best option is contracting out, although not always scope - where possible, experience has shown that there can be significant cost savings. Private finance must not be seen as a device to circumvent the Government's public expenditure plans and controls (too often so in past). Rather, must be seen as a way of introducing greater degree of initiative and management into such schemes. This condition very difficult to meet for public service investments like roads or sewage farms - despite efforts over a longer period to find infrastructure projects which might be suitable, very few identified (see paragraphs 5 and 6 below) - but easier to meet in the joint public and private financing of facilities, such as urban amenities, which can be planned and managed by the private sector.

2. Private Finance helpful because it means lower PSBR: Injection of private capital into public sector projects can mean lower PSBR than otherwise. But this would do nothing to reduce inflation and the overall demand for money in economy: would probably either (a) directly lead to increased bank lending or (b) in the case of finance raised from the capital markets, tend to displace gilt sales. Hence, would do very little, if anything, to help Government achieve its macroeconomic objectives of lower inflation and monetary growth at acceptable interest rates, or make room for reductions in taxation. Indeed, to extent that private finance generates paper "savings" in public expenditure that are deemed to allow room for new spending, it increases inflation and the demand for money; thus, unless offsetting action is taken elsewhere, private finance hinders progress towards macroeconomic objectives. In some cases there may still be a benefit to Government's microeconomic or other objectives from private sector participation in management of the public sector projects and activity. Any such benefit will need to be set against cost to the public sector, in particular any difference between implied cost of finance and cost of the public sector itself financing the activity, ie, the cost of borrowing in the gilts market. If the macroeconomic benefits are sufficient to justify projects going ahead with private sector participation and finance, PSBR should be reduced accordingly.

3. Criteria for private sector finance for nationalised industries: Government has accepted criteria devised by NEDC working party in September 1981 (ie, the "Ryrie Rules"): any scheme must not offer investors a degree of security significantly greater than that available on private sector projects; and such a scheme should yield benefits in terms of improved efficiency and profit from the additional investment commensurate with the cost



[Joint Ventures classified to the private sector are free from public sector borrowing controls - see also paragraph 9 below.]

4. Private finance would at least help increase NI investment: No evidence of substantial nationalised industry projects with an adequate rate of return which are being frustrated. Government always willing to consider new projects that are commercially justified.
  
5. Private finance for roads: There has been repeated pressure to build roads using finance raised privately by consortia of merchant banks and construction companies. The only schemes suggested so far have been where central or local government would then pay a shadow toll for the expected number of vehicles using the road. These payments would be set so as to cover interest and repayment of principal on the "private finance". None of the proposals for such schemes have yet indicated cost savings sufficient to offset the high financing charges. On 1 August 1984, the Secretary of State for Transport announced his decision to stop pursuing the possibility of involvement of this kind of private capital in the road programme.
  
6. Private finance for sewerage projects: water authorities take a pragmatic view: private sector finance proposals are not considered unless they work out cheaper than public finance (and no projects have yet satisfied the authorities on this ground). On 7 February, Ian Gow (Minister of State for the Environment) announced to the House that the Government would be examining the possibility of a measure of privatisation in the water industry.
  
7. Use grants to encourage the private sector to provide infrastructure: In general, unless such a grant encouraged the private sector to do things in future without public support, it would amount to little more than spending more public money on infrastructure. But UDGs can help to stimulate private investment in some areas, see 8 below, and are framed accordingly.
  
8. Partnership approach and urban development: [PSI Report Rebuilding the Infrastructure (October 1984) raised, among other changes (see also paragraph 14 below), the topic of possible partnership between different levels of government and the private sector as a "way forward" in enhancing infrastructure investment.] If this means the public sector providing public money and organisational support to provide sufficient infrastructure to attract private sector, then a very expensive approach. However, Urban Development Grants (selective grants, no more than 50% to private sector just sufficient to encourage development activities) help to stimulate larger private sector investment in declining urban areas. [NB: PSI Report misleading about US UDAG scheme which is not dissimilar to UK's UDGs]
  
9. Joint ventures involving formation of private sector company: One form of privatisation: always welcomed. Several such joint ventures already established by BSC (eg, Seamless Tubes Ltd, Allied Steel and Wire). No Government support or guarantees involved.

10. Government involvement necessary for relatively large projects: May be justified in some cases on the grounds that capital markets are over-cautious in an area of importance to industrial policy. Launch aid (which is classified as public expenditure) provides a partial sharing of risk (ie, a return is paid to Government only if the investment proves successful on the basis of agreed criteria.)

11. Effect of government guarantees on economic activity: Most schemes of this kind are really circumventing public expenditure controls. Unless there are offsetting reductions in public expenditure, increasing expenditure on construction projects through the use of government guarantees is likely to lead to higher interest rates and offsetting reductions in private sector investment elsewhere.

12. Monetary consequences of guarantees: Guaranteeing bonds would mean that the taxpayer bears the risk of default; in effect would mean borrowing on the Government's credit, impeding the Government's funding programme. Guaranteed bank lending would mean more gilt sales to offset monetary impact. Either way higher interest rates squeeze out private sector. A viable project should be able to sustain the cost of interest at commercial rates.

13. Channel fixed link: The British and French Governments have made it clear that a project would have to be financed without support from public funds or government financial guarantees. This means that whether or not it goes ahead it depends on its satisfying the market as a viable project.

14. Capitalising of leases for local authorities: LAs are required to capitalise leasing (ie, score the full value of the asset as capital expenditure in year 1) because that reflects the actual demand on resources generated by the LA. Otherwise, there would be an incentive to finance capital expenditure by in effect borrowing from lessors - the rent being the equivalent of debt servicing - rather than by borrowing from other sources. But provided that the leasing deal as a whole is favourable, on operational or cost grounds, this should not be deterring LAs from leasing. [There have been proposals for private finance for construction work, eg car parks, with finished building leased to LA. Usually aimed at circumventing public expenditure controls, but leasing rules close that loophole.]

15. Relax rules on LA leasing transaction in the case of revenue-generating projects: No. This would mean relaxing the control on LA capital expenditure. To meet our objectives for lower public sector borrowing, and hence lower interest rates and inflation, crucial to control public expenditure in total, including capital. If control is to be effective, all capital expenditure including LA capital must come within system. Priority for particular acquisitions should be determined on their merits by LAs within overall limits. Economic impact of leasing equipment no different from direct purchase; hence rules on capitalising leases.

INFRASTRUCTURE SPENDING VERSUS TAX CUTS: THE JOB CREATION ARGUMENTLine to take

1. Policies to improve "supply side" performance essential. Privatisation and removing obstacles to free functioning of markets encourage vigorous, enterprising economy, higher output and more jobs. Reduction and simplification of taxes reduces distortions and improves incentives.
2. Effects on supply performance of the economy are what really matter in choosing between tax cuts and increases in public investment. Tax cuts have overwhelming advantage in that they stimulate enterprise and initiative, and encourage moderation in pay settlements. Therefore help supply performance of economy. Demand not a problem. We already have plenty of demand.
3. Experience both here and abroad suggests that low-tax economy works better and generates more growth and job opportunities than high-tax economy. The major countries which have been most successful in creating jobs are Japan and America. Both have a far lower tax burden than the UK and Europe.
4. In the short term, tax cuts may well generate fewer jobs than additional public spending. But this is outweighed in longer term as effects on incentives work themselves through.
5. Misleading to look at tax and expenditure decisions solely in terms of their relative import content. What matters is whether tax or expenditure decisions will contribute towards improved economic performance.
6. Lower taxes can encourage lower wage settlements. This a powerful way of creating more jobs. As a rough guide, if new pay settlements were to slow down to leave real wage costs 1% lower than otherwise, could expect eventual 110,000 to 220,000 new jobs.
7. Economic models which purport to show public spending on construction creates more jobs than tax cuts usually ignore the impact on jobs of the cost and incentives effects of tax cuts and consider only short term impact of construction demand which usually wears off after a few years.
8. Models which do take cost and incentives effects into account agree that tax cuts create more jobs than public investment (eg, the Liverpool and Warwick University Studies).

9. Published estimates suggest that the number of people in work in the UK has been rising last General Election in contrast to France and Germany where the number in work has been falling.

#### Defensive

1. Should increase capital spending to promote employment: Do not deny higher capital spending can boost employment in short term - although, even here, employment and training measures have bigger and more direct impact per £ of expenditure. Job creation by increased demand soon dissipated as inflation/interest rates rise. Tax cuts have advantage over increased expenditure in stimulating enterprise and initiative, and encourage pay moderation; best route to lasting jobs.
2. Spending would give bigger, quicker boost to demand: Demand not the problem. We have plenty of demand - over whole period since 1981 trough of recession, real demand expected to have risen by more than 3% a year. What we need to improve is supply. Tax cuts better for the supply side: they increase incentives, encourage pay moderation and improve efficiency. They let people take more decisions for themselves.
3. Government sacrificing vital investment: Total fixed investment in economy in 1984 expected to be all time record, and is forecast to grow even further in 1985. Proper to cut back public sector investment in some areas in light of changing circumstances. But in other areas, recognise importance of public sector provisions of infrastructure. But no "right" or "target" level of public sector capital spending in total. Expenditure must be justified on its merits.
4. Should use Treasury model to give precise estimates: Model-based estimates would depend on the assumptions made about fiscal and monetary policy, and would be subject to large margins of error. More importantly, Treasury model - along with other main UK macro-economic models - does not allow for incentive effects of income tax reductions on enterprise and effort, which are difficult by nature to quantify.

COMMENTARY ON RECENT PAPERS ON CAPITAL/INFRASTRUCTURE SPENDING

1. Outcome of 9 January NEDC meeting: Major item on agenda was Investment in Public Built Infrastructure. Memoranda by NEDO, CBI and TUC were considered. It was a lengthy and useful discussion of difficult problems. Ministers responsible for expenditure in relevant areas will be considering position and responding to Council in six months time. Believe also that senior officials of NEDO, CBI, TUC and Treasury will consider the prospects for more collaboration by way of fact-finding.
  
2. NEDO Paper on Investment in the Built Infrastructure
  - i. NEDO paper is valuable attempt to tackle problems of how best to manage public sector infrastructure. Endorse conclusions about need for authorities concerned to improve information and assessment systems to provide more efficient management of capital assets and hence more effective use of available resources. Fully agree with emphasis on proper appraisal and value-for-money in infrastructure projects.
  
  - ii. Figures for backlogs in NEDO Paper unsubstantiated - in some cases based on survey information grossed-up eg, Association of Municipal Authorities' figures on housing assume all dwellings in a defined category will require repair whereas many may not. The size of the problem depends on standard aimed at, which could be arbitrary or bear no relation to value for money.
  
  - iii. Would not be surprised at evidence of some deterioration of stock as priorities change. But absurd to imply that all infrastructure should be kept in new condition. Absurdly uneconomic. No private sector concern (or eg, householder) operates on such a basis; new expenditure must be judged in terms of the costs and benefits of going ahead or not.
  
  - iv. Decisions on replacement or maintenance - and in timing - must depend on value for money considerations. On too many occasions in past, resources have been wasted. Acknowledge need to find room for worthwhile projects within overall spending totals; but where there are black spots need may be for better management of resources - that was the message of the NEDO report.
  
  - v. Must not be overlooked that public sector capital spending has been and remains substantial. But cannot all be left to the public sector. Government policy of shifting economic activity and ownership back to private sector is helping to create a more vigorous and enterprising economy. That is the best route to improved infrastructure.

3. CBI Memorandum: [This is a general summary of the CBI paper "The Fabric of the Nation" published in June 1984]. Agree there is no self-evidently correct level of capital spending: case must be made on a project-by-project basis. However, doubt that their proposals for additional savings in current public expenditure - in order to finance infrastructure projects - are actually very feasible.

4. TUC Memorandum: Not sensible to embark on massive reflationary package of infrastructure spending. Within scope provided by MTFs, tax cuts preferable to expenditure increases: demand side-effects short lived while income tax cuts will improve incentives and exert moderating influence on wages.

5. TUC Budget submission

- i. Proposals on infrastructure attached to the TUC budget submission are those set out in its 1984 Economic Review published in July 1984. TUC argue for growth in public investment at a rate considerably faster than growth in the economy as a whole on the grounds that "it makes sound economic sense to employ unemployed construction workers to rebuild our crumbling economic infrastructure and housing stock". Proposals relate to the whole of the UK and cover sewers, roads, schools, hospitals, housing, power stations, telecommunications and rail electrification. Total cost estimated by TUC at around £30 billion spread over a five year period (with about £15 billion for housing).
- ii. Proposals will be carefully considered by Ministers. But not sensible to embark on massive reflationary package of infrastructure spending. To do so would run counter to Government's economic policies and lead to upsurge in inflation, interest rates and the PSBR. Within scope provided by MTFs, tax cuts preferable to expenditure increases: demand side-effects short lived while income tax cuts will improve incentives and exert moderating influence on wages, thereby allowing the economy to turn rising demand into sustained growth of home output and jobs. Examples are Japan and US which have far lower tax burdens than this country.
- iii. Specific

On roads proposals: DOT currently conducting thorough review of roads programme. TUC (and CBI) roads proposals welcome and timely and will be considered as part of review.

On housing proposals: Government's deliberate policy of restraining public spending on housing created climate in which private sector housing can develop. Latest figures proof that private sector housing bouyant: 1984 saw largest number of completions since 1978. 1984 starts in England bettered only once in last 10 years.

On rail proposals: TUC propose number of regional investment projects. Largest of these ECML electrification. Government has in fact already approved ECML at total cost of over £300 million (£98 million of which in three years from 1985-86). TUC mention ECML in proposals for Yorkshire and Humberside, but line runs from London to Edinburgh so Scotland, North, East Midlands, East Anglia and South East also benefit. Some of other TUC proposals have also been approved.

#### 6. IOD Budget Submission

- i. The IOD argues against "non-commercial" capital expenditure and states that where capital spending yields a commercial return, privatisation, rather than government financing, is the most appropriate way to proceed. Privatisation has been key element of Government's fiscal strategy. Manifesto set out Government's intentions. Results to date speak for themselves (eg, Telecom). For future, exact shape of programme will be determined by business and economic criteria and by commonsense: BA scheduled for this year, all BS warship yards by end March 1986. But, in some areas recognise importance of public sector provision of infrastructure. In these areas decisions take proper account of economic and social benefits. Agree with IOD that projects should yield commercial return. For example, 90% of public capital spending on roads has positive economic benefit. [For the remainder there are considerable environmental gains.]

1985

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