

PREM 19/1922

Part 7

MT

SECRET

Confidential Filing.

Review of Regional Policy.
Creation of Enterprise Zones.

REGIONAL
POLICY.

Part 1: May 1979

Part 7: October 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2.10.84		8.1.86					
8.10.84		6.2.86					
15.10.84		7.2.86					
26.10.84		7.2.86					
19.11.84		20.2.86					
22.11.84		27.2.86					
23.11.84		12.3.86					
24.11.84		10.4.86					
27.11.84		18.4.86					
29.11.84		22.5.86					
3.12.84		9.6.86					
6.12.84		29.7.86					
15.1.85		8.12.86					
1.2.85		22.12.86					
11.2.85							
27.2.85		PT 7					
8.3.85		ENDS					
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4.10.85							
25.10.85							
28.10.85							
8.11.85							
28.11.85							

PREM 19/1922

~~Abstract to south~~
~~to help for~~
~~strategy group to~~
~~see the paper~~

CE W. Fittall
(Home)

PRIME MINISTER

22 December 1986

THE NORTH/SOUTH ISSUE

~~circled Jonsson on~~
~~just reached after the news~~

Also. Brian -
could be sent. Preface
a special job - one or two
where?

The myth of a North/South divide in the UK is now becoming firmly entrenched in media comment and political debate. Indeed the perception is now so widely held that we must regard it as a political priority to defuse the issue.

Myth and Reality

The myth arises from the common simplistic mistake of looking only at aggregate data - in this case on regional income and employment levels. Even at this level the true distinction is between the South East and East Anglia and the rest of the country - North and West.

UNEMPLOYMENT RATES 13 NOVEMBER 1986

South East	8.3%	West Midlands	13.4%
East Anglia	8.7%	Wales	13.6%
South West	9.9%	North West	13.7%
East Midlands	10.9%	Scotland	13.8%
Yorkshire &		North (East)	16.1%
Humberside	13.1%		

Nevertheless, looking at numbers rather than percentages, the South East and East Anglia still contain roughly one quarter of the unemployed throughout the country. Furthermore, if one looks beyond these numbers to the ease with which the unemployed can find jobs, the notion of Northerners trapped in an economy where local unemployment is unavailable is rapidly dispelled. 57% of the unemployed find a new job within six months of joining the register in the Northern region, North West, Yorkshire and Humberside - only marginally less than the 63% recorded in the South East. And roughly 80% of the unemployed find a new job

4

57
→

within one year in every region. There is no evidence that it is significantly harder for a motivated and qualified person to find employment in the North than it is in the South.

AVERAGE PERCENTAGE OF THOSE BECOMING UNEMPLOYED
WHO FIND JOBS WITHIN

	<u>6 Months</u>	<u>1 Year</u>
Great Britain	66%	79%
South East	63	82
East Anglia	64	83
South West	63	83
West Midlands	55	75
East Midlands	59	80
Yorks & Humberside	57	78
North West	57	77
North	57	77
Wales	59	79
Scotland	59	79

Similarly regional wage variations mask significant differences in the costs of living - particularly in housing - which makes it difficult to conclude that people in similar jobs are "better off" in any meaningful way in the South East.

Yet, it is when one looks beneath the aggregates that the North/South simplification really starts to unravel. In reality the severe problem areas are highly localised pockets of industrialised and urban decay scattered all over the country. Even in the North, areas of high unemployment - such as Liverpool or Tyneside - jostle side by side with areas such as Macclesfield, Pickering or Harrogate where

unemployment is as low as in most of the South East. (See attached map).

These facts taken together suggest that areas of high unemployment - whether in the North or the South - are not simply the result of a shortage of jobs. The challenge is to train and motivate the long term unemployed to get them back to the point where they can take those jobs which do exist. Furthermore, in dealing with mobility as a barrier, it may be more important to find ways of encouraging unemployed Merseysiders to take a job in Cheshire than to find ways to accommodate them in the South East.

And going a stage further to look at unemployment variations within these smaller areas is even more revealing.

Unemployment rates at 'ward' level can only be roughly estimated, but DOE analysis suggests that variations in unemployment in quite short distances can be larger than any variations across the country. In Manchester, for example, the Hulme ward has an estimated unemployment level of 50% while nearby Didsbury has a below average rate of 10.4%. In Liverpool, Granby ward at 43% unemployment contrasts with Walton where unemployment is only 9.9%.

The same is equally true in the South East. The labelling of Greater London as a single 'travel to work' area hides a patchwork of contrasts. In Hackney, for example, Queensbridge ward has 37% unemployment while Moorfield is closer to the national average at 15%. The contrast in Brent is even more striking - with 4.4% unemployment in Kenton in the North of the borough as against 23% in Carlton ward in the South.*

* These rates are calculated by taking current unemployment against the economically active population in the 1981 Census - the figures should not be quoted publicly without checking back with DOE on the reliability of the data.

The Micro-Problem

Clearly what this exposes is that high unemployment is not primarily a North/South issue, but rather a problem of dealing with many localised pockets where high unemployment has become a way of life.

Most are either Inner City areas and/or areas where there has been a sudden decline in a major local industry - e.g. shipbuilding, steel or coal. Many have high ethnic populations as well as generally low levels of skill/educational qualifications - which makes it more difficult to obtain those jobs that do exist outside their own area. And many also contain a high level of public housing - with unemployment levels in individual estates sometimes rising to 60-70% or more.

Those areas where the key factor has been a rapid and recent decline in local employment are in some ways the easiest to tackle - at least the workforce will be used to employment, with - at minimum - some rudimentary skills. The departing employer may also provide considerable help to ease the adjustment - as with the NCB or BSC. The real challenge is to tackle those areas where unemployment has become endemic - with second generation unemployed who understand and expect no other life. Long term unemployment (over 1 year) is 45% of all unemployed in travel to work areas with unemployment rates above 20% - as against 31% in areas where unemployment is below 10%. Here we are faced with a cultural as well as an economic problem to tackle.

Even so, there are some hopeful signs. The MSC programme of Job Clubs aims to pull the long term unemployed into an environment where they are encouraged by peer group pressure as well as Job Centre staff to take an active approach to seeking employment. Recent figures for Job Clubs in Manchester and Liverpool show a higher rate of success in

Liverpool (with average unemployment 20%) than in Manchester (with average unemployment 13.1%).

than finding jobs
SUCCESS AS % OF THROUGHPUT (SINCE BEGINNING JULY 1986)

	% FINDING JOBS (EXCLUDING CP/ TRAINING)	% FINDING JOBS OR TAKING CP/ TRAINING PLACE
MANCHESTER		
AYTOWN STREET		
- CLUB 1	45%	52%
- CLUB 2	46%	54%
LIVERPOOL		
- WILLIAMSON SQUARE	59%	80%
- LORD STREET	50%	72%

And the high success rate of all these clubs shows that schemes to tackle the motivation problem can be successful for at least some of the long term unemployed. Existing government programmes for urban areas should provide further help in changing the culture by removing and replacing the worst 'tower block' council estates and providing funds to improve the inner city environment.

The Task of Government

Yet there is a limit to what central government can and should do on its own. To be effective any initiatives must build on the enthusiasm and commitment of key figures in the local community.

Local self-help, based on the initiative and commitment of local business and civil leaders, is already a potent force in the regeneration of Birmingham, Newcastle and Manchester - attracting private investment back into rebuilding the

city centres and supporting local enterprise. Additional government policies are most likely to succeed if, working with the local community, they focus on specific micro-problems in a particular area and help promote a cultural as well as an economic adjustment.

A blanket increase in expenditure at regional level is clearly not the solution. However, there may be a number of other ways in which the Government can work with the market.

1. Variations in wage levels around the country could be an important mechanism for encouraging more industry to locate outside of the South East. Yet, at present, local variations are fairly limited. For example, roughly 80% of collective agreements for non-manual workers are determined at national level - covering over half of all non manual workers. The Government could take the lead by establishing greater local variation in wage levels in the public sector - but it will be difficult to achieve the kind of variations within Regions that would be justified by local labour market conditions. In addition, unless benefits are also adjusted, lower wages in Liverpool (for example) could worsen work incentives.
2. Encouraging mobility is also important, even if only over relatively short distances, to match individuals against suitable vacancies. A revival of the rented sector through deregulation is, of course, essential. But there may also be opportunities to provide facilities specifically tailored to the needs of the unemployed. Hostels could provide temporary accommodation for those moving to an area to take up new jobs. It may also be possible to encourage an increase in the supply of traditional 'digs' by using a Chamber of Commerce or other local agency to screen potential tenants and act as guarantors for nervous landlords.

Both hostel places and digs could be advertised through Job Centres to those moving to an area to take up vacancies.

3. Better targetting of government programmes Given the effectiveness of the MSC job clubs in motivating the long term unemployed back into work, there may be many opportunities to tackle the cultural issues at a very localised level - e.g. on a specific council estate - through a combination of approaches. One could imagine, for example, siting a temporary Job Centre in the middle of an estate to undertake Restart interviews and feed people into jobs, training or Community Programmes. The CP programmes might then be locally based activities to do with upgrading the appearance and facilities of the estate - helping to generate community pride. Starter factory units might also be provided in some converted property on the estate.

Developing and managing such an initiative requires good local management of the various Government agencies involved. The CATs experiments have already been useful in bringing together the local offices of the DOE, DTI and MSC to help ensure that their various programmes and priorities are consistent. The effectiveness of these Departments in playing a catalytic role in local initiatives could be enhanced by:

1. giving them greater discretion over a (small) proportion of their budget.
2. replacing some of the weaker directors by more entrepreneurial figures.

We do not recommend going down the route of creating regional development agencies in England along the lines of the WDA or SDA. It is clear from the earlier

analysis that such bodies would have too high a level of perspective to be useful and - in England, at least - would tend to act as a barrier between Central Government programmes and local initiatives. We should be looking for ways to support local initiatives rather than to supplement them. There is also a danger that such agencies, apart from increasing administrative costs, would provide an unwelcome focus for regional lobbying efforts aimed at getting more Government hand-outs. Those who advocate them also tend to see their main role as providing a stronger organisation for marketing the region to attract inward investment - rather than the more important task of stimulating local entrepreneurial development.

4. Encouragement of Local Venture Capital. The difficulty of obtaining start-up capital for new businesses outside of the South East is frequently raised. Although money should theoretically seek out the best opportunities, research has shown that 50% of venture fund investments are made within 1 hour of the manager's office and 80% within 2 hours. Since most BES and investment funds are based in London, this market imperfection could be a significant barrier in many provincial cities.

One solution would be to provide fiscal incentives for equity investment funds to develop at local level. These would be similar to BES schemes, but could be tailored to local market needs by limiting individual investment to much smaller levels (e.g. typically under £100,000). Cost effective identification and screening of potential investment opportunities on this scale could only be achieved with the participation of local agencies such as the Chamber of Commerce. The Department of Employment have proposed that such local "Enterprise Companies" might form part of the next budget.

*None
regulations - none
will answer*

5. Deregulation of infrastructure services can also play a role in removing inhibitions on growth.

(i) Airports - like Manchester - which form the hub of a growing number of international routes are a considerable stimulus to economic activity. Yet, when it comes to the licensing of new international services there is still a tendency to limit access to protect the commercial interests of UK airlines. If we want to encourage development outside the South East, we should allow Newcastle, Manchester and other local airports to attract as many airlines as they can.

That has happened elsewhere in other countries - otherwise we are merely giving away passengers to other airlines

(ii) Telecommunications could also be deregulated further and faster in areas such as the North East which will otherwise be neglected by Mercury and BT. Allowing early opportunities for resale would enable a few large companies to get together to build their own modern spur linking into BT or Mercury's network, reselling spare capacity to other businesses in the area. General approval for resale is expected in 1989, but the government has given no commitment as yet. A specific commitment to go ahead with resale in at least a few limited areas would allow companies to plan and build facilities now.

6. Promotion of Manchester as an economic counterweight to London and the South East. In the same way as London acts as a cultural and economic dynamo for the south, Manchester is already beginning to build its position as the leading Northern City - with the busiest airport, extensive motorway connections, and its own local financial markets and professional services.

Little encouragement may be needed to what is a natural process, but the government might find some symbolic ways to enhance the status of Manchester by, for example, moving some areas of government to the city - for example, DTI. Why not also locate the UK end of EEC Commission activities there, and use the city as an alternative to London for international government meetings?

*with Manchester
L.A. ?*

*Because the
Commission
couldn't do it. Used
to go to Manchester.*

Presentation and Politics.

The solutions for regenerating industrial and inner city decay may be complex, but the perception amongst the electorate of a major North/South divide is a reality that the Conservative party will have to deal with. Against the barrage of media reports focussing on deserted shipyards and idle factories, the public is unlikely to believe us if we simply dismiss their concerns.

Equally it would be a mistake to pander to the calls for "regional policy" by publicly raising the priority given to regional issues in government - e.g. putting a senior minister in charge of regional policy initiatives. This would play into the hands of the Opposition by appearing to accept their model.

The best way to both create a more balanced perspective and put across Conservative policies is to highlight some success stories. As one way of achieving this, it could be helpful to plan an intensive programme of visits by yourself and other senior ministers to publicise enterprise schemes, job clubs and urban renewal projects - with a common theme in comments and speeches, emphasising the availability of opportunities all over the country. Similarly, you might take soundings through the Party to identify cities where the local host could be relied upon to give a positive and

*Have
just been*

enthusiastic message about local initiative - rather than the dismal pleading you suffered in Manchester.

The way forward

Given the political importance of this topic, we suggest that you convene an ad hoc discussion in a small group of ministers to review the government's analysis of the problems, identify any potential new policy initiatives and agree the best way of handling presentation. The government must speak with one voice to counterbalance the weight of public comment conjuring up the false and poisonous imagery of a North/South divide.

Agree?

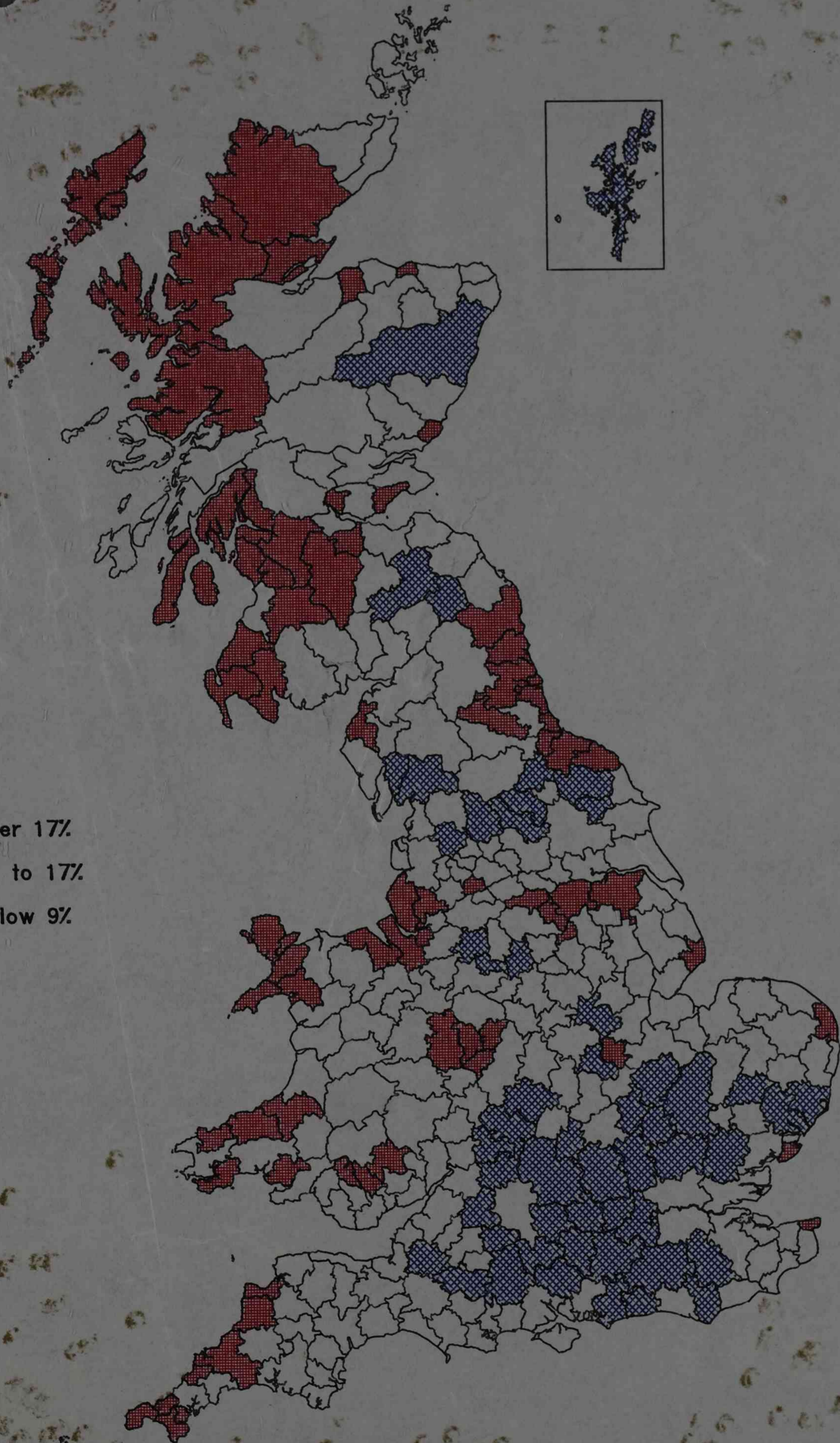
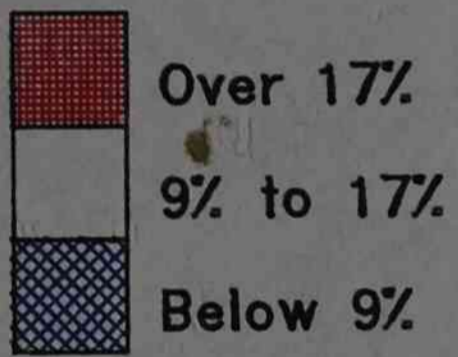
SMS
Employment
DTE
DOL
Home Office
Treasury
Richard Hill MB

Norman Blackwell

NORMAN BLACKWELL

Unemployment Rate – October 1986

Legend





54

DA
9

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 December 1986

Dear Nick

Many thanks for your letter of today's date. I am grateful to you and your colleagues for looking into the point we discussed on the telephone last week. It seems clear from what you say that the lack of regional price indices means that no firm conclusions about alleged gap in standard of living between North and South, and its variation over time, can be reached, by anyone.

I think we should let the matter rest there for now. There seems in fact to have been a crossed wire between us on Friday; I certainly did not intend to ask you to set in hand work on producing standard of living indices for the regions. My concern was simply to know whether we were in a position to draw any conclusions about relative standards of living in different regions on the basis of the figures published in the FES. That, as we agreed, was what lay behind the claims about a widening North/South gap.

Y
L
er

Mark Addison

(Mark Addison)

Nick Baxter, Esq.,
Department of Employment

BTC



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460.....

Switchboard 01-213 3000 GTN Code 213

Facsimile 01-213 5465 Telex 915564

8 December 1986

Mark Addison Esq
Private Secretary to
the Prime Minister
10 Downing Street
London
SW1A 2AA

Dear Mark

REGIONAL STANDARD OF LIVING INDICES

When we spoke on Friday, you asked the Department to set in hand work on producing "standard of living indices" for the regions, to enable the Government to deal with claims that the North is getting poorer in relation to the South East.

Our statisticians have looked at this problem. They report that this sort of index cannot be compiled from current data, because there is no information on regional variations in the cost of living. Official regional price indices have not been compiled by successive governments because they were thought likely to have an inflationary impact on wage bargaining. The RPI Advisory Committee decided in 1971 that regional indices were feasible but not at that stage advisable.

Production of regional cost (and standard) of living information would require a major reallocation of statistical resources within the Department and it would take some time to generate the necessary data. Perhaps you could let me know whether you wish to take this further or if you require any further information.

Yours sincerely
Nick Baxter

NICK BAXTER
Private Secretary

PS. I attach a copy of our Statisticians' note.

CONFIDENTIAL

Reference.....

MR BAXTER

cc Mr Dworkin
Mr Reid
Mr Turner
Mr Sellwood

REGIONAL STANDARD OF LIVING INDICES

Your minute of 8 December refers.

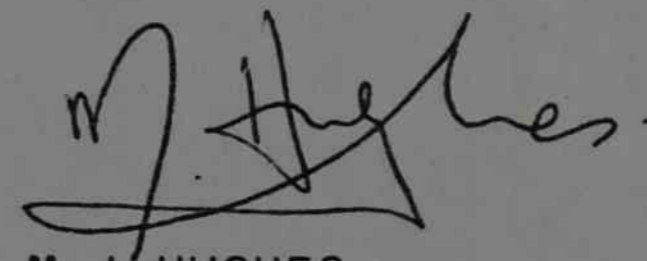
2. Notwithstanding the conceptual problems in formulating a 'standard of living index', for which there is no generally accepted definition, the remit from No 10 is not possible at present given the non-existence of regional 'cost of living' indices. These could only be produced with significant staff resources and computing costs and would need a major reassessment of work priorities within the Statistical Division. It would also take some time to generate the necessary data.

3. Official regional price indices have not been compiled by successive governments because they were thought likely to have an inflationary effect on wage-bargaining. The Retail Prices Index Advisory Committee considered the compilation of regional price indices in 1971. They concluded that it was possible to construct such indices but were not agreed on the advisability of doing so. They highlighted the "very great difficulties in producing inter-regional comparisons of housing costs". We are not aware of any other nation that produces regional prices indices.

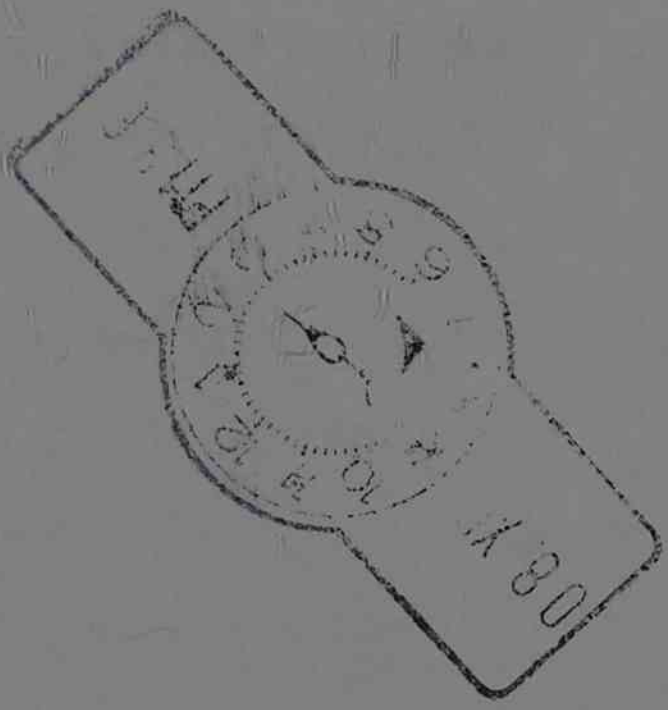
4. Reward Regional Surveys, a private research company established in August 1972, produce comparative costs of living for different parts of the country. Their surveys provide some useful information but are relatively small scale and are not comprehensive. Furthermore, their comparisons do not conform to the methods considered by the Advisory Committee. Don Sellwood in Stats D takes the lead in this area and you should contact him if you have further enquiries on this subject.

Stats A

8 December 1986


M J HUGHES

CONFIDENTIAL



SECRET

16



10 DOWNING STREET

From the Principal Private Secretary

29 July 1986

Jen Till

TERRITORIAL EXPENDITURE

The Prime Minister has now studied your letter of 23 July to which were attached notes by the Scottish Office and Treasury on how to achieve in practice a substantial real terms cut in Scottish provision, and how any such change could be presented so as to minimise adverse political reaction.

The Prime Minister does not think it worthwhile now for Ministers to consider these papers collectively. But she would like these papers re-submitted for consideration in the PES exercise in relation to other pressures and priorities. Although she has not come to any firm conclusions, she does think, on the basis of these papers, that there is a case for reductions in the Scottish provision.

I am sending a copy of this letter to Joan MacNaughton (Lord President's Office), Robert Gordon (Scottish Office), David Morris (Lord Privy Seal's Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Robin Young (Department of the Environment) and to Michael Stark and Brian Unwin (Cabinet Office).

*Yours truly
Nigel Wicks*

N. L. WICKS

Miss Jill Rutter,
Chief Secretary's Office.

423/7.

Prime Minister

CCDG

Yes

- Agree ii in §4 below?

15

Yes

SECRET

- Shall I add the gloss in §6? ~~YES~~

From: J B UNWIN

25 July 1986

P 02199

cc

Mr Stark

PS/Lord President

MR WICKS - No 10

Therbyson

TERRITORIAL EXPENDITURE

(Letter of 23 July from the Chief Secretary's Office)

N. L. U.

25.7

At the Prime Minister's meeting on 22 May the Secretary of State for Scotland and the Chief Secretary were asked to prepare a note on how to achieve a substantial real terms cut in the Scottish provision through amendment of the baseline to reflect changes in population. The Cabinet Office study from which this proposal derived estimated that this would produce savings of £133 and £163 million in 1987-88 and 1988-89 respectively. The two Departments were also asked to consider how any such change could be presented so as to minimise adverse political reaction.

Below.

2. The result of this remit is the paper attached to Miss Rutter's letter to you of 23 July. As I have previously indicated to you, the paper has only been produced after lengthy bickering between Treasury and Scottish Office officials, with the latter in particular tenaciously defending their corner.

3. Although the paper has been approved by the Chief Secretary and the Scottish Secretary it is in no real sense a joint paper. It represents a dialogue of the deaf, with each assertion met with a counter assertion. For example, Annex A lists a number of areas in which in principle cuts could be made to deliver the required savings. But in each case reasons are adduced as to why such cuts would be undesirable. Annex B counters this by stating why, in the Treasury's view, the cuts would be feasible. Again, Annex C contains a suggested line by the Treasury for presenting the cuts in public. Annex D sets out a lengthy rebuttal of this by the Scottish Office.

Next Steps

4. I fear, therefore, that this paper does little to progress matters. The question for decision is how to take the issue forward. It seems to me that there are two broad options:-

SECRET

(i) for the Prime Minister to hold another small meeting and to seek to rule one way or the other;

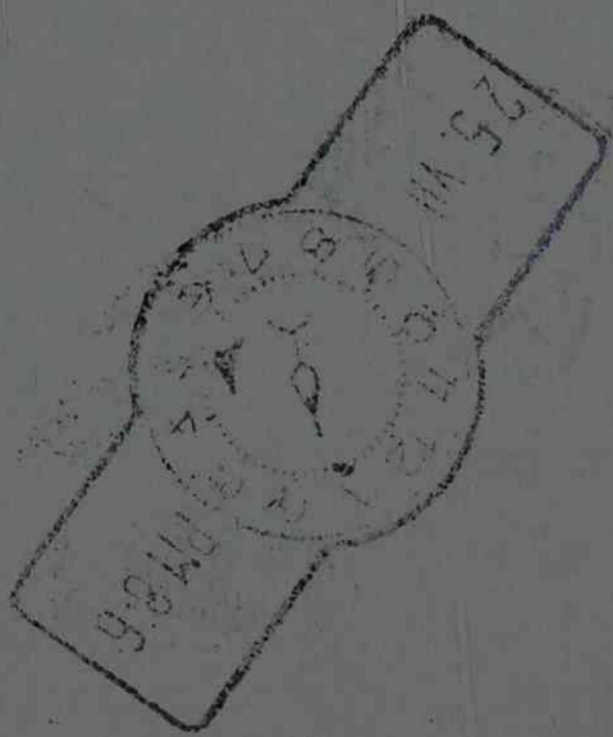
(ii) to remit the paper for consideration in the PES exercise in relation to other pressures and priorities (ie in effect in the last resort into the Star Chamber).

5. Unless the Prime Minister felt that she could rule decisively against the Scottish Secretary, I do not think (i) would be worthwhile. The last meeting created a very strong presumption that the only question now should be "how" rather "whether", but this has not prevented the Scottish Office from fighting their case as if from the very start. I am sure that this would happen again unless a decisive ruling were now made.

6. Remitting the issue to PES would, of course, resolve nothing, and the Scottish Secretary would still maintain his ground. But if in remitting it the Prime Minister were to make it clear that, on the basis of this paper, she thought that there was a case for reductions, this would at least strengthen the hand of the Chief Secretary and the Lord President when the final PES decisions came to be taken. There may well, for example, be circumstances in which it might be necessary to ask the Scottish Secretary either to forego provision (eg to deny himself the Scottish consequentials of decisions affecting England and Wales) or to be willing, as in other cases over the past year, to contribute from the Scottish Block to other items of expenditure.



J B UNWIN



SECRET



Treasury Chambers, Parliament Street, SW1P 3AG

Nigel Wicks Esq
Principal Private Secretary
10 Downing Street
London
SW1

23 July 1986

Dear Nigel,

TERRITORIAL EXPENDITURE

Your letter of 22 May recorded that the Secretary of State for Scotland and the Chief Secretary were invited at the Prime Minister's meeting held on that day to prepare a note on how to achieve in practice a substantial real terms cut in Scottish provision, and how any such change could be presented so as to minimise adverse political reaction.

... I attach a note by Scottish Office and Treasury officials, which has been approved by the Chief Secretary and the Secretary of State for Scotland.

I am copying this letter to Robert Gordon (Scottish Office) and to Joan MacNaughton (Lord President's Office), David Morris (Lord Privy Seal's Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Robin Young (Department of the Environment) and to Michael Stark and Brian Unwin (Cabinet Office).

Yours sincerely,

JILL RUTTER
Private Secretary

SECRET

TERRITORIAL EXPENDITURE**(Note by Scottish Office and Treasury Officials)**

At the informal meeting on 22 May, Ministers noted the conclusion of the Cabinet Office study that, since the territorial block budgets were established, their size has moved roughly in line with the corresponding programmes in England. In order to evaluate further possibilities, the Secretary of State for Scotland and the Chief Secretary were asked by the Prime Minister to prepare a note on:-

- (a) how to achieve in practice a substantial real terms cut in Scottish provision through amendment of the baseline to reflect changes in the population; and
- (b) how any such change could be presented so as to minimise adverse political reaction.

The Prime Minister stressed that no such decision had been taken; and asked that the note should be prepared on the basis of expenditure savings which produced figures at, and somewhat below, the levels shown in Table VIII of the Cabinet Office study.

2. The Secretary of State for Scotland had offered, at that meeting, to change the population-based formula as canvassed in paragraph 18-20 of the Cabinet Office study; but it was considered preferable to look beyond that to amendment of the baseline to reflect population change since the inception of the block and

formula system, as in paragraphs 21-22 and 27(ii) of the Cabinet Office study.

(a) How to achieve a cut in baseline provision to reflect population change

3. The Scottish block total is fixed by automatic formulae, designed to keep the overall trend of expenditure in line with that of comparable English expenditure. Within that total, the Secretary of State for Scotland has discretion in allocating resources to local needs, subject to certain specified grounds (eg wider repercussions) on which the Chief Secretary has a right to be consulted. The Secretary of State therefore has to live within a predetermined block total: how he does so is, in the first place anyway, entirely for him to decide.

4. On that basis, Annex A illustrates how, in the view of the Scottish Office, the cut in baseline provision, at any level up to that of Table VIII of the Cabinet Office study, might be apportioned between services; Annex B offers a Treasury comment on that. The cuts would be applied not to existing baselines, but to adjusted baselines - ie adjusted by Scotland's formula consequentials of any changes to comparable English programmes agreed in the Survey. Very few block services can be held to be directly affected by small changes in total population. So if sizeable cuts were made, they would have to be applied across all, or most of, the services set out at Annex A.

(b) How to minimise adverse political reaction

5. In the view of the Scottish Office, any substantial reduction

in the Scottish block baseline which is not reflected in parallel changes in provision for England, Wales and Northern Ireland would have to be justified publicly on the basis of changes in absolute, not relative, need in Scotland alone. It would have to be argued that Scotland's needs have changed in recent years because of the change (approximately 0.8% in the last 8 years) in the size of the Scottish population: the Scottish public would neither understand nor accept that population increases in England should mean public expenditure reductions in Scotland. (The argument could not be confined to Scotland: the populations of Northern Ireland and Wales have also altered since 1978.) Cuts could only conceivably be justified on these grounds in those elements of public expenditure in Scotland where need is directly proportional to the size of the total population and where population-based reductions have not already been made.

6. The Scottish Office also consider that the adverse publicity, which changes of the order being examined will attract, particularly when no comparable changes were being made to English programmes or those of the other territories, would be likely to intensify public and expert scrutiny of the Scottish block and increase the risk of detection of the non-formula reductions which have already been made since 1980. The effect of these secret reductions has been to reduce the Scottish block baseline by about £70m in each of the next 3 years ie by percentage amounts greater than the percentage fall in Scotland's population, although less than the change in relative population would indicate. If, as seems not unlikely, this comes to light it would be extremely difficult to explain not only why the earlier changes had not been

announced but also why Scotland was being penalised for its fall in population twice over. We have been unable to identify convincing arguments which could be used publicly to justify the earlier cuts.

7. A draft prepared by the Treasury of the line for the Secretary of State to take in public is at Annex C. The Scottish Office do not consider that it addresses adequately the nature of the adverse political reaction which it is supposed to be trying to minimise and have recorded their reservations at Annex D.

ANNEX A

SOURCES OF ANY CUTSNote by the Scottish Office

THIS IS THE
SCOTTISH OFFICE
CASE WHY CUTS ARE
IMPOSSIBLE

In order to appreciate fully the perspective in which any cuts would be made, and to ascertain how far cuts in Scottish block programmes would be difficult to achieve, some key points should first be noted:-

- hospital waiting lists in Scotland are 12% longer than in England;
- morbidity and mortality rates are much higher in Scotland - Glasgow has the highest incidence of lung cancer in the world;
- 27% of Scottish children leave school with no qualifications against 10% in England;
- pupil-teacher ratios in nursery schools are 25% lower in Scotland than England;
- Scotland's land area is 60% of that in England, resulting in much higher requirements (based on relative population sizes) for roads, police, general medical practitioners etc;
- Scotland's housing - both public and private - is generally older than England's; there is a large backlog of improvement grant claims approved but unpaid.

The sources of any cuts in practice would have to be as follows:-

Local authority current expenditure accounts for £3bn or just under half the Scottish Block. It covers the services most directly related to population (eg half goes on education). Given that local authorities have consistently spent more than their

White Paper provision, it would be difficult to reduce that provision.

Roads and Transport This expenditure is for basic infrastructure services which are partly directed to the needs of industry and commerce and to the improvement of urban environment (eg bypasses) and are affected only in a limited way by small changes in population. Despite differences in land area, expenditure on roads in Scotland in 1985-86 was only 17.5% of that in England. Car ownership in Scotland is significantly lower than in England. Hence the need for higher expenditure on public transport. A moratorium on new starts in 1987-88 on motorways and trunk roads would require deferment of 14 schemes already announced costing more than £1m (most of which have already been the subject of statutory consultation procedures) plus a number of smaller schemes, mainly in Grampian, East Fife, Highlands, Borders and Dumfries and Galloway: in total these schemes cost about £70m over the Survey period. A one year moratorium on new local authority road schemes would defer at least £30m worth of activity also already publicly known including upgrading of roads in areas of major forestry activity as preparation for large scale extraction of timber.

Housing The bulk of housing capital expenditure is for rehabilitation of public sector stock and improvement grants to the private sector. New build (which has fallen in cash terms from £185m in 1980-81 to £130m in 1985-86) is for population movement rather than growth and to meet the special needs of the elderly and handicapped, and cannot be directly offset by savings where population has declined. A moratorium on new starts beyond existing approvals would defer at least £160m worth of housing activity in 1987-88 represented by 1,200 new public sector houses, overwhelmingly sheltered housing on housing for the disabled, and about 10,500 public sector houses which would not be improved or modernised. (Savings on renovation would be offset by about £3m extra repair/maintenance costs) Savings in private sector repair grants could be achieved by further deferment of payments to owner-occupiers (who in Glasgow and Edinburgh are already waiting

up to 3 years); £10m could be saved for each 2,500 grants (10% of the total) for which applicants would have to wait an extra year.

Other Environmental Services Expenditure by local authorities on water and sewerage is now directed predominantly to renewal and to major maintenance of existing essential infrastructure to meet the needs of industry and EC requirements for drinking water standards. A one year moratorium on new schemes would defer £20m worth of activity falling on provision of services for new industrial/commercial and private housing developments and major public sector schemes, unless consumers' contributions were increased correspondingly; but this could only be done through primary legislation. OES also contains the urban programme which is specifically directed to reversing population decline in areas of acute social and economic deprivation.

Law, Order and other Protective Services where the Government has manifesto commitments and where the pressures on prisons and courts are rising and unrelated to population changes. A moratorium on new capital starts in 1987-88 would produce savings of about £5.5m, £10.5m and £13m in the survey years requiring postponement of High Court projects in Parliament House and in Glasgow, Sheriff Courts at Airdrie, Falkirk, Dumfries and Edinburgh. the new Peterhead Prison (long announced) and major upgrading at Barlinnie and Perth. As for police and fire services, the much larger relative area that has to be covered in Scotland inevitably demands a higher level of resources.

Education where the central Government element is predominantly for higher education (students' awards and grant-aided bodies) and determined in the first place by student numbers (for which a slight fall has already been allowed over the PES period though numbers seem likely to rise again if unemployment remains high) rather than by total population. Differences in legislation and in structure, eg denominational schools, generate higher costs. A cut of £10m could be made by reducing entry to teacher training (matched by reducing local authority current provision) and rationalising Colleges of Education; staff/student ratios are already planned to-worsen rapidly over the next three years.

Additionally, £8m could be achieved by a one year moratorium on all new school starts (more if a longer moratorium); savings are also possible on Central Institutions by rationalising courses or by slowing down the "switch". Cuts on local authority capital would affect "spend to save" rationalisation in response to falling pupil numbers.

Health accounts for a further 30% of the block, and the Government has repeatedly committed itself to maintaining the level of services while still meeting new demand, including the cost of relevant population growth in Scotland (11% in live births, 8% in over 75s by 1991) and new technology. There is a disparity in total beds per thousand population between Scotland and England due to long-stay provision, where a much higher proportion of beds is provided in Scotland by the NHS than by the local authority and voluntary sectors. Each £25m reduction in the Hospitals and Community Health programme could reduce hospital capacity by around 2.5%, which in total could represent the loss of hospital facilities for 23,000 in-patients pa, 220,000 out-patients, 50,000 accident and emergency patients and 16,000 day patients. Corresponding staff reductions would be 180 hospital doctors and dentists, 1,000 nursing staff, 150 professional and technical, and about 750 other staff. Rather than close a single hospital of the size this figure would represent, wards could be closed around the country and a freeze imposed on recruitment. Additionally, there could be a moratorium on new capital starts in 1987-88. This would save sums of about £12m, £17m and £25m over the survey period if applied to all projects on which contracts had not yet been let. It would have to include 7 major projects already announced as approved in principle, including 2 new hospitals in Ayr, the Edinburgh Dental Hospital and a new district hospital in Oban.

Further savings on the local authority capital element of these programmes could be achieved if section 94 consent letters were withdrawn and capital spending in future years ceased altogether. Any savings on capital programmes (of both central and local government) would be offset by consequent job losses in the construction industry in Scotland which is highly dependent on public sector contracts.

ANNEX B

COMMENT ON ANNEX A
(SOURCE OF ANY CUTS)

THIS IS THE
TREASURY REBUTTAL

Note by the Treasury OF THE SCOTTISH
OFFICE CASE

In the Treasury view, Annex A while not factually incorrect is misleading in the impression it gives that cuts in Scottish block programmes would be inequitable and difficult to achieve. The following puts it in perspective.

Local authority current expenditure. The Treasury takes the view that cuts in this area would be difficult to deliver.

Roads and Transport. As the proportion of motorway or trunk roads in the Scottish system is some 60% greater than in England, a deferment of new starts in 1987-88 would still leave Scotland with a high relative standard of provision.

Housing. Scottish expenditure on grants per private sector dwelling in 1985-86 was more than two-and-a-half times the level in England. A reduction of as much as £75m in expenditure on improvement grants could be justified, as bringing the rate of spend down to the level per private sector dwelling that is provided for in plans for England for 1987-88: such a large cut might be difficult politically, but a £25m reduction would be perfectly feasible.

Law Order and Protective Services. The pressure on prisons at least is less than in England, where overcrowding is appreciably worse (even though there is insufficient capacity in Scottish prisons for the current inmate numbers, and overcrowding among long-term prisoners is worse than in England).

Education. On the latest figures, unit costs for teacher training in Scotland are £3,711 pa as against £3,000 pa in

England, while the staff/student ratio is 8.5: 1 as against 11: 1 in England.

Health. Scotland already has 11.1 available hospital beds per 1,000 population as against 7.3 in England. There are 12.8 hospital doctors and dentists and 121 nurses and midwives per 100,000 population in Scotland, as against 8.8 and 86 respectively in England.

THIS IS THE CASE WHICH THE
TREASURY SUGGEST

ANNEX C

LINE TO TAKE IN PUBLIC COULD BE PUT FORWARD IN
PUBLIC FOR REDUCTIONS

(a) The present system. Most Scottish expenditure programmes - the main exceptions are industry and agriculture - are grouped within a block budget, which has been running for a number of years on the basis of a purely automatic formula. That is to say, Scotland gets a proportionate share of all changes in comparable English programmes, so that Scottish block and related English expenditure, overall, move broadly in line.

(b) The adjustment proposed. The system is fair so long as the underlying relativities do not change. But these things do change over time: and it is only right to take some account of that. Population change is clearly an important factor of this kind. Since 1979, Scotland's population has declined while England's has increased - and both these things are relevant. The Scottish block baselines have been adjusted by amounts that reflect the best available data about the change in population levels: that is to say, the percentage changes in population ratios since 1979 have been applied to the block budget baselines for the years covered by the Government's expenditure plans. Provision has been adjusted by £[133]m in 1987-88, £[163]m in 1988-89, and £[190]m in 1989-90.

(c) Comment. The purpose of this adjustment is to bring provision back into line with the real situation on the ground. It is a tiny adjustment in relation to a block budget of £7 billion but a fair one. The block total is still growing annually in cash terms. Scotland has for a long time enjoyed a substantially higher level of per capita spending on public services than England or Wales: this has allowed Scotland to maintain notably high standards in many public services, as compared to the rest of Great Britain. This will remain the position. The population adjustment will allow those high standards to be maintained, even if it means some lessening of the advantage that Scotland enjoys over the rest of the country.

THIS IS WHY THE SCOTTISH
OFFICE BELIEVE THE TREASURY'S
ANNEX D
NOTE OF SCOTTISH OFFICE RESERVATIONS ON ANNEX C PUBLIC PRESENTATION
TO BE FLAWED

The Treasury's draft will not minimise the adverse political reaction given the grounds on which that reaction will be based and the form it will take. The arguments based solely on population change could not be sustained in public debate and the highly technical presentation will not be convincing to the Government's own supporters let alone its opponents. Specific points are as follows:

"Population change is clearly an important factor"

Needs Assessment Survey
But on the evidence in the previous NAS, there are no grounds for claiming that marginal changes in total population are a significant determinant of need in most block services.

"Since 1979, Scotland's population has declined while England's has increased and both these things are relevant".

But there are other important changes in population relativities between parts of the UK. For example the South East of England has seen a significant growth in population. Is it Government policy to increase public expenditure there at the expense of (say) the North East of England to reflect that change? If not, the Government policy would appear to be to impose totally unjustified public expenditure cuts on one territory alone, Scotland.

"The Scottish block baselines have been adjusted by amounts that reflect the best available data about the change in population levels"

a. This will be seen to be totally misleading. It is the formula which is used to adjust the level of provision for the block in a Survey not the baseline, hence any adjustment should be and would be expected to be in terms of the formula. By reducing the baseline instead, the Government is introducing a totally new principle to justify arbitrary cuts. Would Scotland's share of the national cake have been reduced on account of England's increase in population even if there had been no change in Scotland's population? Under the "logic" of this proposal, yes.

b. Not only is a totally new principle being applied but it is being applied retrospectively. All at once Scotland is being penalised for accumulated population changes - including those in England - over a period of 8 years.

c. The cut is being applied to all programmes in the Scottish block when it is abundantly clear that expenditure on many of these programmes is not dependent on marginal changes in total population which make no difference at all to "the real situation on the ground". Expenditure on roads, for example, depends on the size of the country not on small changes in population density. Expenditure on health depends on the number of people requiring treatment and waiting lists in Scotland are longer than in England.

d. The principle that areas suffering a loss of population ought to be further penalised by a reduction in public expenditure is a total reversal of regional and inner cities policies. To offer such a justification for cuts in Scotland would be a banana skin for Ministers.

"It is a tiny adjustment in relation to a block budget of £7 billion but a fair one"

£140m would be 2% of the whole block, well beyond the effect of the cuts in cash limits in July 1983 which evoked a considerable outcry and were not confined to Scotland alone. In fact, since local authority current expenditure is dealt with separately, £140m means about 4% on the rest of the block.

"This [higher level of per capita spending] has allowed Scotland to maintain notably high standards in many public services as compared to the rest of Great Britain"

But the public perception is that standards have fallen in many block programmes (such as education because of falling rolls) and that they are already under-resourced. On two major basic services - health and education - Scotland suffers from longer hospital waiting lists and lower educational achievement. Comparisons with "the rest of the country" will invite examination of population changes outwith Scotland where, to be consistent, there would also have to be evidence of similar treatment ie cuts from the North of England where population has also declined and increases for Northern Ireland and the South East of England where it has gone up.

REGIONAL POLICY ; Review PE7



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

NBPM

7 July 1986

Dear Paul,

REGIONAL ASSISTANCE

WILL REQUEST IF REQUIRED

I have seen Malcolm Rifkind's letter to you of 27 May and your reply of 6 June. I have also seen Nicholas Edwards' letters of 9 and 19 June.

As suggested in your letter of 6 June, officials of our Departments have met to discuss forecasting methodologies and to clarify the figures. On the forecasting techniques, I understand that our officials have agreed on the need to remove inconsistencies in some of the key, underlying assumptions. Important differences, however, remain over the adjustments to the models required to predict territorial spend under the new regional assistance map accurately. This is something which is only likely to be settled by experience in running the models.

Nonetheless, I must underline my great concern at the figures emerging as a result of the meeting. They present a serious threat to our ability to control expenditure on regional assistance. Against the current expenditure background for both this year and the Survey period, I must stress that I can offer no prospect of increasing the provision for regional assistance for 1986-87 or beyond unless deliverable off-setting savings are offered up on the cash limited provisions of the Departments concerned.

The possible scale of projected overspends underlines the need for effective monitoring and control mechanisms for these programmes. Apart from the possibility of raising thresholds of eligibility for assistance or extending moratoria, I think there are three areas which need addressing. First,

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we need to be sure that RSA cases are scrutinised with equal rigour and consistency in the three countries. I attach importance to this being investigated thoroughly and the results reported to Ministers. This suggests that it should be part of the review of the administration of regional policy, which the three Departments will be conducting in the next few weeks. I would wish my officials to be fully involved in the work.

Second, I would also wish to improve control and monitoring mechanisms; this means pursuing commitment limiting for RSA, on which our officials did some work last year, and developing commitment monitoring for RDG.

Third, it appears that effective control under the new territorial administration of regional assistance will remain elusive while the notion of a common pool persists. We must either have one Department responsible for the overall provision in all three countries, or, subject to a review of the distribution of the current provision (see below), totally separate funds for the three Departments.

In his letter to you Malcolm presses for a review of the division of the existing provision as a basis for seeking agreement for redistribution between the three Departments. I understand that you and Nicholas accept that there should be a review, though differences remain between the three Departments on the appropriate timing. As I said in my letter to you of 27 March, I have been prepared to contemplate inter-departmental transfers, subject to a firm undertaking that the Department transferring out regional assistance provision would be able to offset any overspending in other areas by savings elsewhere in its programme. I would be prepared to agree to a review, provided the outcome was accepted as binding by all three Departments; there was no increase in the overall provision; and there was no question of further redistribution thereafter. It would be for you to agree on the timing of the review between yourselves. From my point of view, I would see merit in this taking place soon as to remove uncertainty. Any resulting transfer would ideally need to be effected in the context of the appropriate Survey to avoid compromising in-year control totals. Until, however, a review takes place and any changes are agreed, my position on redistribution remains as set out in my letter of 27 March.

Finally, I note what you and Nick Edwards have to say about postponing the moratorium on RDG2 payments. I do not see how we can set aside a decision agreed only last October in the Survey discussions, particularly in the light of the very difficult expenditure prospects. Whatever the political considerations, I could only begin to contemplate a postponement if I was satisfied that the costs (for all three Departments) could be absorbed within the existing baselines for each of the three departments.

I am sending copies of this letter to Malcolm Rifkind and Nicholas Edwards.



Yours ever,
JH

JOHN MacGREGOR

CONFIDENTIAL



W. Nanyrae

H M Treasury
Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233

c. Mr Wicks
No 10

G W Watson
Under Secretary

Mr Roberts

9.6

*It is in the Treasury's
interest to press the Scots to get
on with it, if they want something
out of this for this year PES.*

J B Unwin Esq
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

9 June 1986

JW
10/6/86

Dear Brian,

TERRITORIAL EXPENDITURE

Thank you very much for your letter of 2 June about the paper for the forthcoming Ministerial meeting.

Kenneth Mackenzie has undertaken to produce a first draft and he hopes to let us have it in the middle of this week. So it looks as if we are unlikely to let you have anything until at least the middle of the week beginning 16 June. I hope this is not too late.

If however Kenneth Mackenzie can advance his timetable at all I am sure he will. But inevitably it will take a day or two to agree the text.

I am copying this letter to Kenneth Mackenzie at the Scottish Office.

G W Watson

G W WATSON

SUBJECT
CC MASTER

SECRET

FILE

~~12~~

DSC

bcc David Willetts

(13)



10 DOWNING STREET

From the Principal Private Secretary

22 May 1986

Dear Tom,

TERRITORIAL EXPENDITURE

The Prime Minister held an informal meeting of Ministers today to consider the report on territorial expenditure which was attached to Mr. Unwin's minute of 16 April. The Lord President, Lord Privy Seal, Chancellor of the Duchy of Lancaster, Chief Secretary, Secretaries of State for Scotland, Wales, Northern Ireland and Environment, Sir Robert Armstrong and Mr. Unwin were present.

The Chief Secretary said that the Cabinet Office study was unable to say whether territorial expenditure was properly related to needs. But the study did show that there was a strong case for adjusting the base line of Scottish block expenditure on the basis of population movements relative to those in the rest of the kingdom. He did not believe much could be gained by transferring further expenditure into the Scottish block, for which legislation might, in some instances, be required. It was quite inappropriate for a Conservative Government to continue to allocate expenditure on the basis of a formula settled by their predecessors in the late 1970s without strong justification that the formula was the right one. There was therefore a case for another needs study, though its timing was unclear. In his view, the best approach for the time being was for there to be a one-off change in the base line to reflect the change in population ratio since 1979, as recommended in paragraph 21 of the paper.

The Secretary of State for Scotland said that the Cabinet Office study had demonstrated that Scottish territorial expenditure had moved roughly in line with corresponding programmes in England. Their paper also showed that economic circumstances had not changed for the better in Scotland in the last few years relative to England; for example, the gap in GDP per capita between England and Scotland was larger in 1984 than in 1976. The same was true for personal disposable income and the percentage of those unemployed had increased in absolute terms in Scotland compared to England. Moreover, the paper did not suggest any acceptable basis for reducing Scottish block expenditure. It was not politically tenable in Scotland to argue that Scottish block expenditure should be reduced because Scottish population had declined by 30,000 between 1979 and 1985.

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Such an approach would overturn arrangements which could be traced back to the last century. He was, however, prepared to agree to a needs study if colleagues so wished.

The following points were made in discussion:

- (i) The Cabinet Office study, it was argued, demonstrated that the formula arrangement worked satisfactorily. The difficulty arose because of over-provision in the base line. This supported the case for adjusting the base line in the light of the increase in population on England and fall in Scotland.
- (ii) The Government could try to make a virtue of a needs assessment as a means of assessing whether there was over-provision. But more likely, such a study would cause great political difficulty. Its announcement would stoke up suspicions in Scotland; there was no guarantee that it would be any easier to adjust levels of territorial expenditure in the light of the findings of the study; and a finding of over-provision in Scotland would produce considerable pressure for compensating expenditure south of the border, especially in the North and West Midlands.
- (iii) Any needs study would need to compare expenditure in the different English regions with Scotland. It did not follow that, for example, Glasgow and Edinburgh should receive higher provision than counties in England with similar problems.
- (iv) It was suggested that the possible expenditure saving of £163 million in 1988-89, shown in Table VIII of the paper (derived from applying projected population ratios since 1979 to the base line in the planned year) ought to be achievable without enormous disruption in a Scottish budget of £7 billion, even though not all this sum was within the direct control of the Scottish Office. The savings might be achieved by adjusting expenditures between local authority capital and current when there had been overspending. Savings of the order of £163 million ought not to lead to an absolute reduction in expenditure, but a slower rate of increase.
- (v) It did not follow that higher provision for Scotland needed to be sustained over a period, since, it was argued, the higher needs would have been met by the effects of the over-provision implicit in the base line. Against this, it was argued that no evidence had been produced that Scotland had received public expenditure provision which was not fully justified on the merits of the Scottish position. In any event, redistribution on the scale advocated would make the political difficulties produced by the hospital RAWP process look small.

Summing up the discussion, the Prime Minister said that the group were not ready to come to any conclusion on the

options set out in the Cabinet Office study. In order to evaluate further possibilities, the Secretary of State for Scotland and the Chief Secretary should prepare a note on how to achieve in practice a substantial real terms cut in the Scottish provision through amendment of the base line to reflect changes in the population (i.e. the option referred to in paragraph 27(ii) of the Cabinet Office study). The two Departments should also consider how any such change - and the Prime Minister stressed that no such decision had been taken - could be presented so as to minimise adverse political reaction. The Departments' note should be prepared on the basis of expenditure savings which produced figures at, and somewhat below, the levels shown in Table VIII of the Cabinet Office paper. It should be ready for further discussion by Ministers in the second half of June. Other Departments should be consulted as necessary.

I am copying this letter to David Morris (Lord Privy Seal's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Jill Rutter (Chief Secretary's Office), Robert Gordon (Scottish Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Robin Young (Department of the Environment), and to Michael Stark and Brian Unwin (Cabinet Office).

Yours sincerely

Nigel Wicks.

(N. L. WICKS)

Miss Joan MacNaughton,
Lord President's Office.

TERRITORIAL EXPENDITURE

You said in your speech at Perth last week:

"When it comes to spending taxpayers' money, we spend £450 more per person in Scotland than in England; on education, £108 more per person; on health, £92 more. I had better not go on: English constituencies might notice!"

The Treasury have noticed. Even the electorate in the North of England have noticed. The attached letter to the Daily Telegraph last week argued that one of the reasons for the defeat at Ryedale was the disparity between expenditure in Scotland and the North of England.

The Treasury have come up with two proposals for saving money in Scotland:

- i. A new study of the relative expenditure needs of the various countries.
- ii. Immediate action in the PESC round to cut the Scottish block by adjusting it for population changes since 1979.

A needs assessment study

The savings from a needs assessment study are distant and speculative. The last one, in 1976, took 2 years. There is no guarantee that it would come up with the right result.

Even if it did show that Scottish expenditure was excessive, it would still leave the real problem of actually delivering cuts. There would also be an immediate cost, as any announcement would probably cause a row.

The Treasury argue that we cannot carry on indefinitely with maybe £800m of Scottish over-provision. They believe we could get with a low-key announcement of a review a decade after the previous one, reporting after the Election. I remain wary and reluctantly recommend against a study.

But for tactical reasons, we should not rule out a needs assessment study right at the beginning of the meeting. Instead, the threat of one should be used to get the Scots to concede population-linked cuts now.

Adjusting for population now

The Scottish population will have fallen from 11.1% of the total population of the UK in 1979 to 10.8% by 1990. Table III of the Cabinet Office Report shows that if we cut the Scottish block to reflect this, we would save £133m in 1987-88 and £163m in 1988-89. That is a useful contribution to the next PESC round. Moreover, the population adjustment is comprehensible and explicable. I recommend that you go for this option. But there will be two objections.

First, what is the Secretary of State actually supposed to cut? Out of the £7bn in his block in 1987-88, approximately

£ 167,000
£ 137,000

£3bn consists of local authority current expenditure, where any cuts he promised might not materialise. That still leaves £4bn under the Secretary of State's control, broken down roughly as follows:

	<u>LA Capital</u>	<u>Scottish Office</u>	£m
Health	20	2,180	
Housing	370	240	
Transport	160	140	
Education	70	250	
(Polytechnics, Teacher-training)			
Other Programmes	<u>180</u>	<u>390</u>	
	<u>£800m</u>	<u>£3,200m</u>	

Especially with inflation falling more than expected, the Secretary of State should be able to find savings here.

The other objection is that the population formula gives Northern Ireland about £35m more. But this problem only arises if we are too tidy-minded. Tom King's objective at the meeting tomorrow will surely be to avoid an unpleasant needs assessment study showing that Northern Ireland is over-provided relative to England. He will not be coming along to demand another £35m of public expenditure. So we can escape having to apply the Scottish population adjustment to Northern Ireland.

David Willetts

DAVID WILLETTS

ern for children's best way.

Caribbean and Asian their children should be later to achieve in the most of them now their on the English language and language in the schools parents of this island have hing is based on our own on. They are not called religions of Islam and

This does not aim to our own. The Jews, who the turn of the century Upbringing at home, were preserved. They own children should

for educationalists. For nents have determined -racial society. The acial harmony. Cultural

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opportunities
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ideality
INTERNATIONAL
BY MAKE MONEY

machines. There is less pride to be affronted when one of the Liberals' by-election wizards descends from London to take over the local organisation Meetings need organising? Leaflets need writing? Canvass cards need preparing? No bother, say the Londoners, we've done it all before.

By-election campaigns seem to be the highest form of political life to Alliance members. For a Labour party activist, paradise is ridding Britain of cruise missiles. For Conservative loyalists, it is privatising the nation's water supplies. But for any self regarding Liberal activist, there is nothing—absolutely nothing—half so much worth doing as simply messing about in by-election committee rooms

By election skills, however, cannot

Demoralisation at the Tory roots

SIR—You reported recently that Mrs Thatcher had visited Conservative Central Office following last week's electoral disasters and that the Office and particularly Mr Tebbit might be blamed for the reverses.

The Conservative Central Office is for most of us an irrelevance, the only tangible sign of its existence being a publication remarkable for what it does not say

What the Prime Minister should be visiting are branches and Conservative council groups in the country, listening to what they are saying and accepting their criticisms.

They will not be attacking the policies past or present of the Government, they are simply numbed and demoralised by the continuing "own goals" which this administration produces with such consistency and style.

We all make mistakes, the sensible and the humble acknowledge their errors and use the lessons learned to good effect. The hallmark of this government is, sadly, to deny the actual ability to err and to label those who protest as disloyal.

The achievements of this government are enormous and undoubtedly have saved the country from disaster but they are forgotten by the electorate in a stream of nonsenses such as Westland, Austin Rover, Sunday opening, the incredible bungling of the rate support grant and the attempt to slash (but not in the end) the list of National Health Service approved drugs, to name but a few.

This has enabled the opposition, particularly the Alliance, to dispense with such niceties as policies and solutions to problems; all they have to do is sit back and capitalise on the latest government *faux pas*.

What Conservative workers want are competent Ministers who behave like human beings and are not continually surrounded by an aura of smug self-satisfaction. It is their arrogance

to be the most swiftly dismissed as a temporary aberration, but should not be. Liberal and SDP candidates usually attract a substantial number of Tory protest votes from people wishing to fire a mid-term warning shot over Mrs Thatcher's bow, safe in the knowledge that her majority in Parliament remains secure.

This might be considered as a second kind of "tactical" vote. Both kinds of people have in common an underlying wish to see "their" party — Labour or Conservative — form the next government. But for the moment both find reason to put their cross against the name of the Alliance candidate.

Thus unilateral nuclear disarmers make common cause with enthusiasts for Trident: and fans of Arthur

and "we're always right" attitude which has so damaged the morale of the party.

The real Conservatives of this land are those who do the work which is so soon forgotten after every General Election. The Government must listen and heed, for to ignore the warning bells that are ringing could lead our country into a catastrophe from which we might never recover

K. J. PEERS
County Councillor,
Bewdley, Worcs.

Unwise choice

SIR—As one who lived for 40 years in the North Yorkshire area I offer the Conservative party three reasons for the loss of Ryedale.

First it was inept to choose a merchant banker and Euro-MP as candidate. No Yorkshireman likes an "incomer" and to offer North country farmers someone from the EEC was unwise. This was an area which needed a "knight from the shires."

Secondly Northerners feel that the affluent south and the Conservatives will only help the vociferous Scots and Irish and don't bother about the North of England.

Thirdly, although many parents are annoyed with the teachers, they are even more annoyed with the Tories sitting back and playing politics for the future, rather than doing something for their children now.

DOROTHY FOX
Newbold Verdon, Leics.

Male pregnancy

Sir—The reports you have published on speculations about induction of male pregnancy have emphasised once again the need for urgent legislation to enable proper research to take place in the field of human in vitro fertilisation, and to prevent all abuses.

The two "experts" you quoted are both relative newcomers to IVF with limited experience, both of whom in their own submissions to the Voluntary Licensing Authority are not engaged in pre-embryo research.

only the vaguest public image terms of what they stand for or what if by some miracle they were chosen as the country's government, they would do with power.

A Harris Poll in London shortly before last week's borough election found that a clear majority of Alliance supporters agreed that "It is hard to say what the policies of the Liberal/SDP Alliance really are". Other polls in other places at other times have reached similar conclusions.

From this it is but a short step to the assertion that the Alliance really does have no common political purpose or fully worked-out policies. This is unfair. The Gang of Four are prolific writers.

As for policies, Jo Grimond used to remark that the Liberals' problem

LETTERS TO THE EDITOR

Any attempts to induce pregnancy in a man would not only be dangerous to the poor fellow, but also entirely lacking in proper medical motivation, and contrary to the Hippocratic principle of "doing no harm." It is to be hoped that no woman will allow her body to be invaded by any person for the recovery of eggs from her for such a witless purpose. I hope that no medical practitioner in this country will be allowed to carry out such an invasion nor would he or she ever agree to do so.

Women who donate eggs for any purpose should be satisfied that they are only to be used for the treatment of infertility, for improvements in such treatment, for research to enable reductions and preventions of handicaps, and the development of new treatments of sick people.

Legislation on these lines is needed not only to encourage advances in medicine but also to reassure a concerned public.

PATRICK STEPTOE
FRCOG
Cambridge.

Library economies

SIR—I would like to reassure Professor Wells (May 10) that when he visits the British Library in London he will almost certainly be able to refer to the books and journals he requests.

A real decline in Government funding has forced the British Library Board to look at every possible economy, and choose those which are least damaging to the integrity of our collections. One of these is to take fewer duplicate copies.

I agree that this means some material—mainly foreign serials and monographs—will do joint duty for

Daily Telegraph 14 May 80

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P 02073

PRIME MINISTER

TERRITORIAL EXPENDITURE

[Ad Hoc Meeting, Noon Thursday 22 May]

[Cabinet Office Report submitted with my Minute
of 16 April to Mr Wicks]

MAIN ISSUES

1. The main issues for decision are:

1. Should there be a new study of the relative expenditure needs of the various territories? If so, what practical arrangements should be made, and on what time-scale?

2. Should any immediate action be taken (ie in the current PES round) to reduce the size of the Scottish block? If so, should the consequential changes be applied to Wales and Northern Ireland?

BACKGROUND

2. You chaired an informal meeting on 20 February to consider whether there should be a fresh study of the arrangements used to determine the amount of certain public expenditure in Scotland, Wales and Northern Ireland. You asked the Cabinet Office to arrange, in strict secrecy, for a study of the recent pattern of public expenditure provision in each territory, and also of what flexibility there might be in the next PES round for taking any remedial action that might be agreed. This study would form the basis for Ministers to resume their discussion on the possibility of commissioning a new needs study.

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The Case for a Needs Study

3. The Cabinet Office study was carried out under my Chairmanship and, after considerable argumentation, contains an agreed analysis. It concludes that since the "block and formula" arrangements were established in 1978 to 1980, the aggregate territorial expenditure blocks have moved roughly in line with the corresponding programmes in England. This is as one would have expected. It was not within our remit to assess how relative needs have changed, and this remains a matter of dispute. The Treasury argue that there is evidence to show that relative needs in Scotland have declined since the last systematic study, which was based on 1976-77 expenditure patterns, and even more so since the Scottish block was established in 1979. They have produced various statistics in support of this argument, but the Scottish Office have been able to produce, with no less obvious conviction, statistics to demonstrate the contrary, and the case seems infinitely arguable. My own conclusion is that there is simply not enough evidence to justify the Treasury assertion. Indeed, if the per capital GDP figure is regarded as a rough and ready proxy for relative needs, the Scots could argue that their position has slightly worsened between 1976 and 1984 (see Figure 1 attached to the report).

4. A full-scale needs study might throw further light on these issues and the intellectual case for it therefore remains strong. In practice, however, I have a good deal of doubt as to whether such a study would be helpful. It would take time and resources, and obviously risk stirring up political controversy. Further, it seems most unlikely that an unambiguous result predicated action would emerge; even if the methodology were agreed, it is difficult to believe that the analysis and conclusions would not be hotly disputed (as in the last study) to the bitter end. I doubt, therefore, whether it would actually produce any greater release of spare resources than could be achieved now by a readjustment of the baseline to reflect shifts in population (described in paragraph 8 below).

Practicalities of a Needs Study

5. If the meeting does, however, decide to commission a study, you will wish to consider how this can best be organised. A key issue will be time-scale. It would not now be possible to produce results in time for the current PES, and one year might be regarded as the minimum time (the Scots will argue for two or three). Alternatively, the study might proceed at a slower pace, with a view to implementing any changes in the first PES of a new Parliament. Or, if the case for a study is agreed in principle but it is judged inopportune to launch it at present, it could be agreed that the study itself should commence with the new Parliament.

6. As to the study itself, it could be carried out either by officials or by engaging an outside consultant. I see some advantage in using a consultant, if only because an independent outsider is likely to be more acceptable to the parties concerned than to try and construct a representative team of officials from the Treasury and the Territorial Departments. It might be sensible for him, however, to be under the supervision of an interdepartmental Steering Group, perhaps chaired by the Cabinet Office. The Treasury or Cabinet Office could be instructed if necessary to bring forward detailed proposals for consideration later.

7. If a study were launched, it would also be necessary to consider whether it should be publicly announced or acknowledged. Since it is likely that the fact of the study would emerge, it might be better to be prepared to acknowledge its existence if asked. Indeed, it would be easier to defend politically if it were represented as a low-key good housekeeping measure to re-examine the relative needs, which have not been looked at for a decade. Strict secrecy would imply that a judgement had already been reached that Scotland is over provided.

The Scope for Remedial Action

8. We were asked to identify the scope for any remedial action which could be justified without a new needs study. The report suggests, in paragraph 21, the possibility of adjusting the Scottish baseline to

reflect shifts in population since it was established in 1979. As table VIII shows, this would produce savings in the Scottish block of £133 m and £163 m in 1987-88 and 1988-89 respectively. I think this is by far the most promising starter. Although the Scottish Secretary will strongly oppose it, common perception of a linkage between population and expenditure should make it possible to justify such a change. Even after this reduction, total identifiable public expenditure per head in Scotland would still be higher than in England and no actual cash reduction in the Scottish block planning totals would be likely to be involved (the "cuts" would take the form of a lower rate of increase).

9. The Scottish Secretary has discretion to allocate his block resources as he sees fit, and it would not be appropriate for the meeting to take a view on where in detail he might make cuts. That is his job, in the light of his own judgement of priorities. But Treasury Ministers would not be happy with a reduction in local authority current expenditure unless it were clear that it would be delivered. The risk is that any reduction in provision would be offset by an equivalent overspend, and no advantage would be gained. The spending controlled directly by the Secretary of State accounts for only about £2 billion out of the £6 billion in the block, and the Scottish Secretary would have to find the savings from this. The bulk of that expenditure is on the health service.

10. Clearly it might not be easy to make cuts of this magnitude in a single year. A fall back would be to agree a 3 or 4 year transition, beginning with, say, £50 million in the first year.

11. If it is decided to proceed on this basis, the question arises of whether an early announcement should be made. Otherwise the change would not formally be apparent until the Autumn Statement. You will want to take the Scottish Secretary's views on this. He may need a public announcement in order to enable the Scottish Office to apportion the reductions between programmes and plan the changes. As a matter of internal PES procedures, the reductions would be brought to book, along with other reductions in increases, and the Chief

Secretary's report in the autumn .

12. The Scottish Secretary may, of course, resist very strongly and insist on putting the proposals to the Cabinet, in the context of the wider public expenditure scene, before being willing to accept any changes. If so, you will wish to consider whether it would be appropriate to do this at the July Cabinet, or to leave it until the autumn. The latter may be better, provided this meeting establishes at least a very strong presumption that savings of this kind should be made. The Chief Secretary could then advance the proposals in a context which made it clear that it was one of the few realistic options for substantial expenditure savings.

Implications for Wales and Northern Ireland

13. If a change is made in the Scottish baseline, it is for consideration whether the Welsh and Northern Irish provisions should be changed also. The change for Wales (a cut of about £10 million a year) could be argued to be marginal. The increase for Northern Ireland is, however, more significant at about £34 million a year. The level of public expenditure per head is higher for Northern Ireland already, and although they have special needs, they are probably already significantly over provided. I understand, however, that the Treasury would probably be prepared to agree to Northern Ireland receiving the consequential increase if this made it easier to achieve the reductions in Scotland.

Transferring Items to the Scottish Block

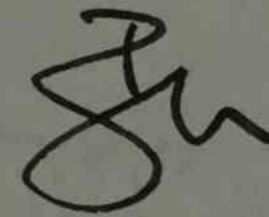
14. Paragraphs 24 to 26 of the report discuss the possibility of asking the Scottish Secretary to fund extra responsibilities out of his block without a corresponding increase in provision. Annex C lists a number of possibilities which (for reasons of security) we did not discuss with the lead Departments concerned. You may wish to seek views on these. I doubt, however, whether there is much mileage in them. I suspect that in almost all cases there would be strong departmental opposition to what is proposed; and there could be

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genuine difficulties from conflict between managerial control and financial responsibility. But we could certainly arrange more detailed study of any of the options if the meeting wished.

HANDLING

15. You may wish to ask the Chief Secretary to begin discussion of the report, and present the argument for a needs study. The Secretary of State for Scotland will wish to argue against. All other Ministers will wish to contribute. In inviting discussion you will no doubt wish to remind those present of the very difficult prospect for the forthcoming public expenditure round and the need to look very rigorously at all possible savings options, not least this one.



J B UNWIN

Cabinet Office
20 May 1986

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REVIEW

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MR. WICKS

18 April 1986

TERRITORIAL EXPENDITURE

The Cabinet Office paper makes clear that a new needs assessment would provide endless scope for inter-departmental wrangling and little certainty about the outcome if indeed, as seems unlikely, an agreed answer could result.

Changes in the items covered by the blocks would be likely to have a similar unproductive effect.

We would therefore support the conclusion in Brian Unwin's personal note to you that, if Ministers wish to move towards cuts in the Scottish provision, they should argue for adjustments on population grounds, since a number of items of expenditure are or should be affected by this factor.

At least this provides a single issue to be argued, rather than a mass of minor details. It might well be appropriate for such cuts to be phased over a period.

David Hobson

DAVID HOBSON

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Regional fol.

Prime Minister's 10

P 02006

MR WICKS

TERRITORIAL EXPENDITURE

Yes
meets suggested by
R. Urwin of interested
ministers? W.C.W 18.3

I attach separately a formal minute to you covering a report on the Territorial Formula that the Cabinet Office were instructed by the Prime Minister to prepare at the informal meeting of Ministers on 20 February (your letter of 20 February to Miss MacNaughton refers).

at top

2. I think, however, that it would be helpful if I supplemented that minute with the following personal comments.

3. The report is, as instructed, largely confined to what has happened on public expenditure. The picture there is very clear. Contrary to Treasury claims, there has been no significant divergence between expenditure in Scotland and in England as a whole since the expenditure blocks were established. This is illustrated most clearly in Table IV of the report, which shows that block expenditure in Scotland as a percentage of corresponding English programmes is the same now as in 1980-81; and Table V also shows that relative per capita public expenditure in Scotland (both in the Scottish block and on a wider definition) has actually slightly decreased.

4. So on grounds of public expenditure treatment alone, there is no obvious justification for the Treasury case.

5. This leaves, of course, the question of needs. The Treasury argue that there is evidence to show that relative needs in Scotland have declined since the 1979 study (based on 1976-77 data) and that Scotland is as a result substantially over provided. They have adduced in support of this argument a number of selective economic statistics. It would, of course, require a full needs study to establish the validity or otherwise of this argument. I have, however, with the help of CSO expertise, examined it critically in so far as

has been possible in the time available and looked at a wide range of economic and social statistics. My firm conclusion is that there is simply not enough evidence to justify the Treasury assertion. I regard the GDP per capita statistics as a good rough and ready proxy for relative needs. You will see from Figure 1 attached to the report that between 1976 and 1984 the relative position of Scotland has not changed very much (in fact it has slightly worsened). As for other more detailed indicators, for every statistic the Treasury have produced to support their case, the Scottish Office have been able to produce, with no less obvious conviction, a statistic to demonstrate the contrary. The subject is infinitely arguable,

6. I had hoped to include the flavour of the above paragraph in the report. I have simply not, however, been able to obtain the agreement of the Departments concerned to do so.

7. Where does this leave us? I sense that the wish of the Prime Minister and other senior Ministers is to find a means of justifying a substantial reduction in the Scottish provision. My own conclusion, not least in the light of the wrangling round the table that it has been necessary to go through even to produce this modest report, is that a fresh full scale needs study would serve no useful purpose. Apart from the politics of it, and the time and resources it would take, it would offer little prospect of achieving the above objective (a cut in Scottish provision) unless agreement could be reached beforehand on how the study should be conducted; and at least broad agreement also in advance on the conclusions to be drawn from its findings (ie in crude terms, reductions in Scottish expenditure if the study did show that Scottish relative needs had declined).

8. I frankly see no chance of meeting either of these conditions. My conclusion, therefore, is that if Ministers still wish to move in the coming Survey to cuts in the Scottish provision, by far the best immediate course is to go boldly for the option in paragraph 21 of the report, namely to adjust the Scottish baseline once-off to reflect the change in population since 1979. As Table VIII shows, this could justify reductions of some £130 million and £160 million in 1987-88 and 1988-89 respectively.

*But NB it would justify extra
for N. Ireland!*

SECRET & PERSONAL

9. For completeness we have listed also (at Annex C) potential candidates for transfer to the Scottish block. For reasons of security, however, I have not discussed these with Departments responsible for the services concerned. I suspect, however, that there would be some pretty violent departmental objections; and there are genuine difficulties (eg the conflict between managerial control and financial responsibility) which are discussed in paragraphs 24 and 25 of the report. However, we could certainly arrange detailed study of some or all of these options if Ministers so wished.



J B UNWIN

Cabinet Office

16 April 1986

SECRET & PERSONAL



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MR WICKS

TERRITORIAL EXPENDITURE

At the informal meeting of Ministers held on 20 February to consider whether there should be a fresh study of the formula for determining the amount of certain public expenditure in Scotland, Wales and Northern Ireland, the Prime Minister instructed the Cabinet Office to arrange, in strict secrecy, for a study of the recent pattern of public expenditure provision in each territory and also of what flexibility there might be in the next Public Expenditure Survey for taking any remedial action which might be agreed. This would form the basis for Ministers to resume their discussion on the possibility of commissioning a new needs study.

2. I attach a report prepared under my chairmanship and agreed with officials of the Treasury, Scottish Office, Welsh Office, Northern Ireland Office and Department of the Environment. This reviews public expenditure developments since the territorial blocks were established; and examines possible options for justifying in public a real terms cut in the Scottish provision should Ministers decide to do so. It does not, in accordance with the remit, tackle the question of need.

3. The main conclusions of the report are:-

(i) since they were established, the size of the territorial public expenditure blocks has moved roughly in line with the corresponding programmes in England;

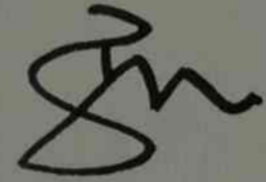
(ii) one possible way of making a substantial real terms cut in the Scottish provision might well be to amend the base line to reflect changes in population since it was established;

(iii) there are a number of potential options for achieving real terms reductions by transferring items of expenditure into the Scottish block, but if Ministers wished to pursue any of these consultation would need to be extended to the Departments with primary responsibility for the items concerned.

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4. The Prime Minister will presumably now wish to arrange a further meeting of the Ministers concerned to consider the implications of this report. ✓

5. I am sending copies of this minute and of the report to the Private Secretaries to the Lord President, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Wales, Northern Ireland, the Environment, and Scotland, the Chief Secretary, Treasury, and to Sir Robert Armstrong.



J B UNWIN

Cabinet Office

16 April 1986

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COMPTROLLER

TERRITORIAL EXPENDITURE

1. One of the conclusions of the 1985 Star Chamber was that public service provision in Scotland was now generally too high in relation to comparable provision in England and Wales, and that corrective action was needed. The Prime Minister held a meeting with the Ministers concerned in February, and asked the Cabinet Office to arrange a study of the recent pattern of Public Expenditure provision in each territory and also of what flexibility there might be in the next Public Expenditure Survey (PES) for taking any remedial action which might be agreed. This would form the basis for Ministers to resume their discussion on the possibility of commissioning a new assessment of relative expenditure needs, to serve as the basis for the allocation of public service provision as between England, Scotland, Wales and Northern Ireland.

PART I: THE RECENT PATTERN OF PUBLIC EXPENDITURE PROVISION

BACKGROUND: the Block and Formula System

2. The block system and the formula were introduced for Scotland in 1978 to eliminate the need for annual negotiation between the Treasury and the Secretary of State across all his programmes. Originally a temporary measure, it was extended to Northern Ireland in 1979 and to Wales in 1980, and has become the established mechanism for determining public expenditure allocations.

3. The programmes covered by the block vary between territories, but in all cases roads and transport, housing, other environmental services, education, arts and libraries, health and personal social services, tourism and other public services are included. Annex A shows in detail the coverage of the block for each territory.

4. The size of the block each year is adjusted by amounts calculated using a population based formula applied to changes in the corresponding English programmes: for example, if the English housing programme is increased or decreased by £85 million, there is a change of £10 million in the Scottish block. This formula (whose numbers differ for each territory) operates entirely automatically, and there is no scrutiny by Treasury Ministers. Within the block totals so determined, the Territorial Secretaries of State have discretion to allocate resources between block programmes according to local priorities, subject to a ring fence restricting transfers into or out of local authority current expenditure; to collective Ministerial policy decisions; and to the Treasury's right to be consulted on repercussions, etc. The relativities between the different territories were therefore largely fixed on the date on which the block was first established. Two issues arise: First, are the baselines fair, taking account of any changes in each territory since the 1970s; and second are the ratios applied to marginal changes still appropriate?

5. An interdepartmental study of relative public expenditure needs was completed in 1979. The intention was not to determine the absolute levels of public expenditure required according to 'need', but to assess relativities. By examining objective economic and social statistical data relevant to each of the programmes covered in the study, a figure of relative need was derived. This was compared with the pattern of expenditure in 1976-77. The departments concerned agreed that the methods of assessment used were a long way from providing wholly definitive measures of relative expenditure needs, and that there is therefore no 'right' answer. But in summary the outcome of the study was as follows:

TABLE 1

	<u>Relative Need</u>	<u>Relative Expenditure</u>
England	100	100
Scotland	116	122
Wales	109	106
Northern Ireland	131	135

Figures are per capita, for 1976-1977

Source: Needs Assessment Study 1979.

6. However, whatever the correct interpretation of this study, it is relevant to note that no change to the block/formula arrangements was made as a result of it. The Treasury has nonetheless used figures based on the study to secure cumulative non-formula reductions of £233 million from the Scottish block since 1980. These reductions relate to block resources totalling £56.2 billion over the period 1980-81 to 1988-89. The knock-on effect of this is that the block baseline for Scotland in 1989-90 will be some £90 million lower than it would otherwise have been.

7. Short of a full updating of the 1979 study, it is not possible to give an assessment of how relative needs have changed, except in one important respect: the population of Scotland has fallen, while that of Northern Ireland and England has increased. Other changing factors of need relate largely to individual services and require detailed study. We have, nonetheless, in figures 1-3, drawn together some statistics on GDP per head, personal disposable incomes, and unemployment for the four territories between 1976 and 1984 or 1985. The changes in population or economic circumstances could provide a basis for defending in public a further reduction in the Scottish block: this is developed in Part II of the report.

Public Expenditure Developments

8. In comparing the provision for the different territories, three comparisons can be made:

- (i) on the basis of expenditure on programmes covered by the block and formula;
- (ii) on the total expenditure within the control of the relevant Secretary of State. Except in Northern Ireland, this comprises the block programmes plus other programmes outside the blocks and not subject to the formula (principally agriculture, industry and employment, and nationalised industry EFLs)*, and
- (iii) on 'total identifiable public expenditure' which includes both the block and non-block programmes under the Secretary of State's control plus spending by other departments operating on a UK or GB basis which can be allocated by territory. This includes, for example, Social Security in Scotland and Wales. (Expenditure on defence and foreign affairs is, however, excluded.)

* In Northern Ireland, agriculture, trade/industry/energy, and social security are included in the block, and comparison with other blocks is therefore difficult. However, in this paper social security (which is demand led and not covered by the comparability formula) has been excluded from the data to provide a more accurate comparison for the four territories.

9. This paper is mainly concerned with trends in block expenditure, but in considering whether the distribution of resources is equitable it is important to bear in mind that this accounts for only about half to two thirds of total identifiable public expenditure. The following table shows the relative importance of each of these totals for 1984-85, the most recent year for which full information is available.

	Block Expenditure	Secretary of State's Expenditure	£ billion Total identifiable Expenditure
England	-	-	82.7
Scotland	6.3	7.0	11.4
Wales	2.4	2.6	5.4
Northern Ireland	2.8	2.8	4.2
(including Social Security	4.0	4.0	4.2)

10. The following tables show the trends in block expenditure over the last five years and plans for the next three for each territory compared with corresponding total of English programmes (which is of course different for each territory), first in cash terms and then as percentages. (Fuller information including data for individual programmes is given in Annex B, both in cash and in constant prices.)

TABLE III

Trends in Block Expenditure for each territory compared
with the corresponding English Programme

	1980-81 outturn	1985-86 plan estimated outturn	£ billion 1988-89 plan
Scotland	5.0	6.6	7.1
English Programmes	34.8	45.7	48.6
Wales	1.9	2.5	2.8
English Programmes	30.2	38.5	40.9
Northern Ireland	2.2	3.0	3.3
English Programmes	40.7	53.1	55.2
Total Public Expenditure	92.6	134.2	148.7

Note: Northern Ireland Figures exclude Social Security
Source: Cabinet Office, derived from PEWP

TABLE IV

Territorial Expenditure as a Percentage of corresponding English Programmes

	1980-81	1985-86	1988-89
Scotland	14.4	14.4	14.6
Wales	6.4	6.5	6.8
Northern Ireland	5.4	5.6	6.0

11. When the changes in block expenditure are expressed in per capita terms, the following pattern emerges:

TABLE V

	Relative Block expenditure per capita		Relative total identifiable expenditure per head	
	1980-81	1984-85	1980-81	1984-85
England	100	100	100	100
Scotland	130	128	127	126
Wales	107	106	110	109
Northern Ireland	160	160	151	152

12. The changes in population or economic circumstances could provide a basis for defencing in public a further reduction in the Scottish block: this is developed in Part II of this report.

Conclusion

13. While these figures for expenditure naturally conceal a number of movements and changes within individual programmes reflecting the discretion of the Secretaries of State to make switches, the broad conclusion must be that since the block and formula arrangements were established the aggregate territorial expenditure blocks have moved roughly in line with the corresponding programmes in England, as one would have expected.

PART II: SCOPE FOR REMEDIAL ACTION

14. The Prime Minister's Meeting asked for a Report on what flexibility there might be in the next PES round for taking any remedial action which might be agreed. Ministers had in mind that any excess provision in Scotland could be eliminated over time by real term cuts even if cash cuts were not acceptable.

15. There are two ways of reducing or eliminating any imbalance in provision. The real resources devoted to the blocks can be reduced either outright or, alternatively, by financing additional services out of the blocks with no compensating increase in provision. The problem is both presentational and practical: the operation of the block and formula system is closely scrutinised by Parliament and outside commentators, and the relevant Secretary of State would need to be able to provide an adequate justification for the change; he would also have to work out how to make reductions in services already within the block or moved into it if real term cuts were to be achieved.

16. The scope for 'invisible' reductions in the Scottish block has been extensively examined in the 1984 and 1985 PES. The upper limit was shown to be only £5-10 million a year, and was expected to decline over time. So while the baseline has effectively been ratcheted down by this means (as indicated in paragraph 6), by about £50 million between 1980 and 1986, there is little further scope for changing the balance of expenditure by invisible savings.

Changes to reflect shifts in population

17. One possible way of making a real terms cut in the Scottish provision might well be to up date either the formula or the base line to take account of changes in population since 1979, although it should be noted that population was not taken into account when the original base lines were established and not all services in the blocks are directly dependent on population.

1976-7

(i) Changes in the formula

18. There are two ways in which the comparability formula might be amended. First, the ratios used to determine the marginal changes to the territorial blocks could be adjusted on the basis of the existing formula in line with the change in population since 1979. If this had been in force in the 1985 PES it would have altered the figures by approximately the following amounts:

TABLE VI

Effect of a change in the existing formula on the block provision

	1986-87	1987-88	£ million 1988-89
Scotland	- 2	- 2	- 2
Wales	0	0	0
Northern Ireland	0	0	0

Note This table shows what the change in formula consequential would have been in the 1985 PES round had the formula constants changed from their 1979 values (10/85, 5/85, 2.75 per cent) by the same percentage as the population ratios are projected to change.

19. An alternative would be to adopt a new formula, constructed to represent the actual relative populations as of now. Had this been in force, it would have altered the figures by approximately the following amounts:

TABLE VII

Effect of adopting a new formula on the block provision

	1986-87	1987-88	£ million 1988-89
Scotland	- 9	- 7	- 6
Wales	+ 1	+ 1	+ 1
Northern Ireland	+ 2	+ 1	+ 1

Note This table shows what the change in formula consequentials would have been in the 1985 PES round had the formula constants been replaced by the projected population ratios for each year.

20. It should be noted however, that the formula applies equally to marginal increases and decreases in provision, so that updating the formula for population changes may therefore be broadly neutral over time: indeed over the whole period since 1979 comparability increases and decreases for all three territories have largely cancelled out.

(ii) Change in the baseline

21. A more radical option would be to adjust the base line once-off to reflect the change in population ratios since 1979. This would give the following results:

TABLE VIII

Effect of changing the baseline to reflect current populations

	1986-87	1987-88	£ million 1988-89
Scotland	- 109	- 133	- 163
Wales	- 8	- 8	- 8
Northern Ireland	+ 34	+ 34	+ 35

Note: This table shows the affect of applying the percentage changes in projected population ratios since 1979 to the baselines in the plan year.

22. If Ministers wished to use this option to justify any reduction in provision for Scotland, it would, of course, be necessary to decide whether it could be done in isolation or whether consequential adjustments would also need to be made in respect of Northern Ireland and Wales.

Changes to reflect economic circumstances

23. It would be possible also to adjust either the baseline or the formula to reflect changes in economic circumstances since they were first established. But since the data shown in Figures 1, 2, and 3 do not point to any clear of sustained divergence in the fortunes of the territories since the blocks were established it would be hard to use them to justify any specific changes.

Transfers to the Scottish block

24. The alternative approach is to ask the Secretary of State for Scotland to take on extra responsibilities to be funded out of the block without a corresponding increase in provision, so that there could be a net saving to the Exchequer. We have identified a number of candidates which are listed and briefly discussed in Annex C. It must be stressed, however, that they are put

forward without any commitment by the Scottish Office or the Treasury, and because of the sensitivity of this exercise they have not been discussed with the departments which currently have responsibility for the activities concerned. In most cases we would expect current sponsor Departments to argue against transfer, and in considering them Ministers will wish to bear in mind the following considerations:

- a. the extent to which a transfer could be confined to Scotland alone, leaving the same responsibilities for other territories with the GB or UK Minister;
- b. the extent to which comparability could be established so that the Scottish block would in future receive formula consequences in respect of the transferred programmes;
- c. the extent to which it is judged necessary to maintain uniformity of policy throughout GB or UK and control by a single Minister;
- d. whether legislation would be necessary and the timetable for its enactment;
- e. wider political considerations.

25. More generally most of the proposals put forward would raise the fundamental issue of managerial control: if the Secretary of State for Scotland is to take financial responsibility then he should generally also exercise policy and managerial supervision responsibility for the activities concerned. This might create a risk of either divided responsibilities between the English and Scottish departments for common activities, or alternatively different policy objectives, priorities, and levels of service north and south of the border.

26. If Ministers wished to pursue further any of these possibilities, detailed study in conjunction with the department currently carrying responsibility would be necessary.

CONCLUSIONS

27. This brief study has shown that:

(i) Since they were established, the size of the territorial blocks has moved roughly in line with the corresponding programmes in England;

(ii) One possible way of making a substantial real terms cut in the Scottish provision might well be to amend the baseline to reflect changes in population since it was established. Changes to the formula would produce much smaller reductions.

(iii) there are a number of options for achieving real terms reductions by transferring items of expenditure into the Scottish block, but these would give rise to complex issues, which would need to be considered further with the Departments with primary responsibility for the items concerned.

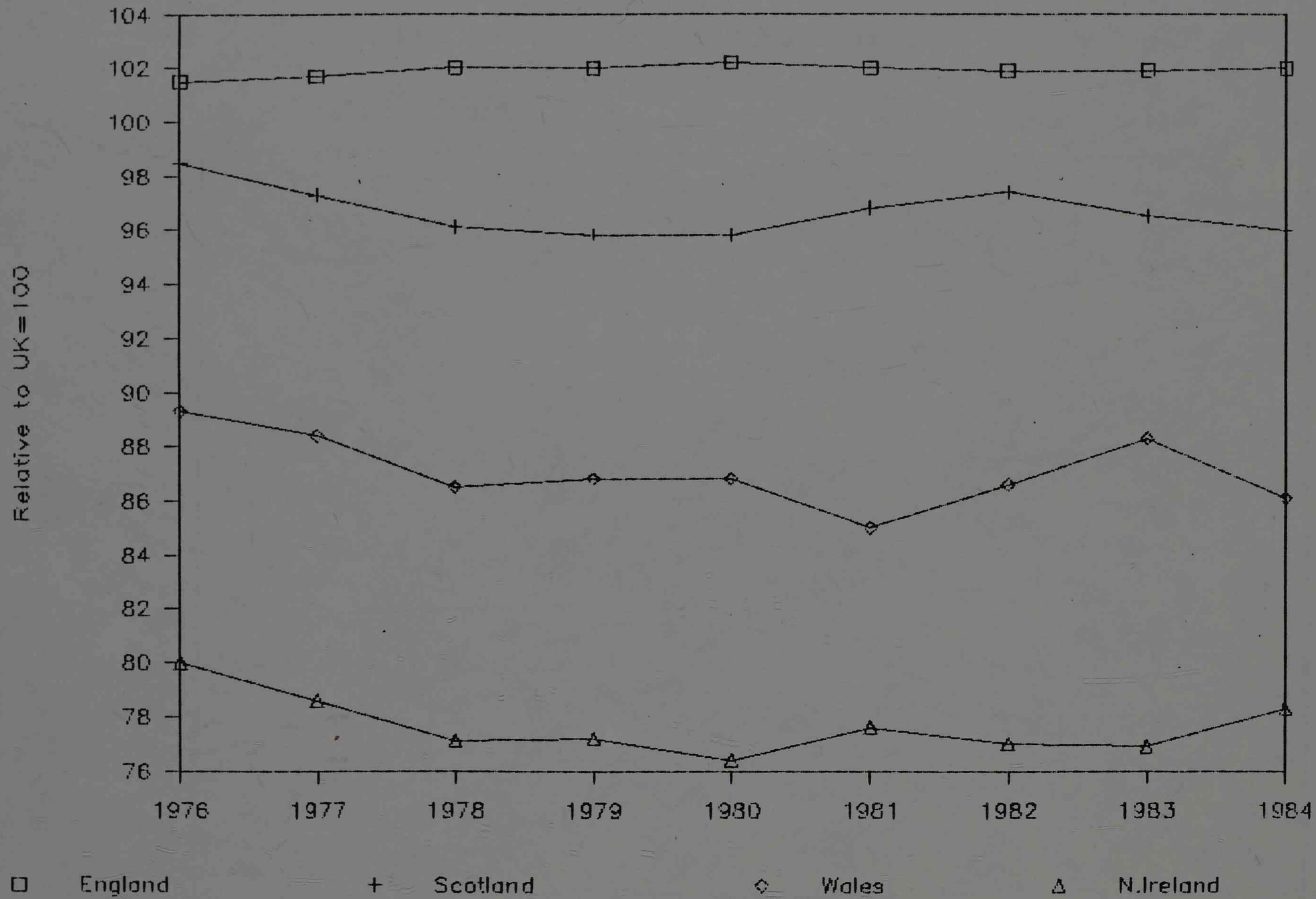
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16 April 1986

Gross Domestic Product Per Capita

Fig 1

At Factor Cost



Personal Disposable Income

Fig 2

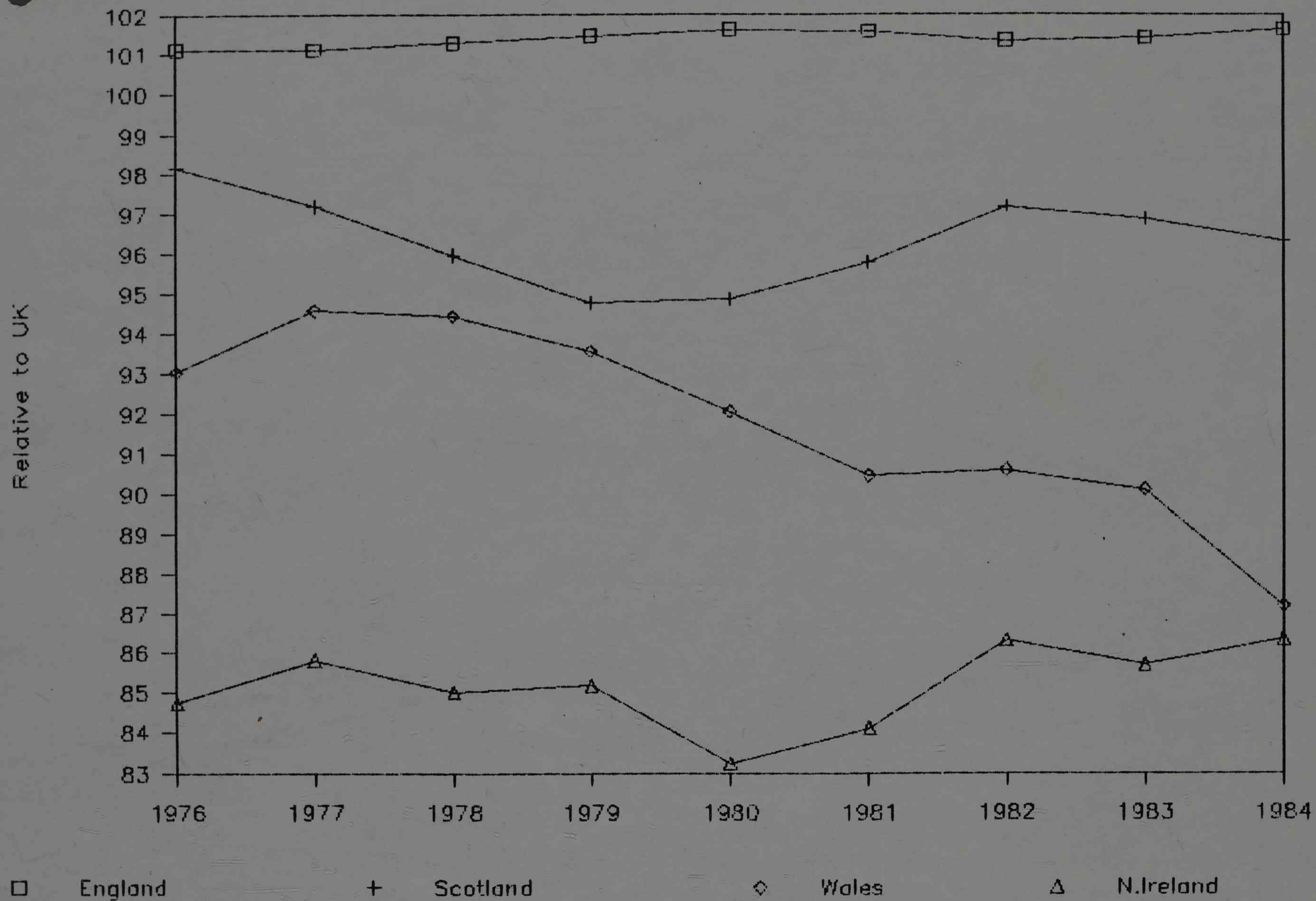
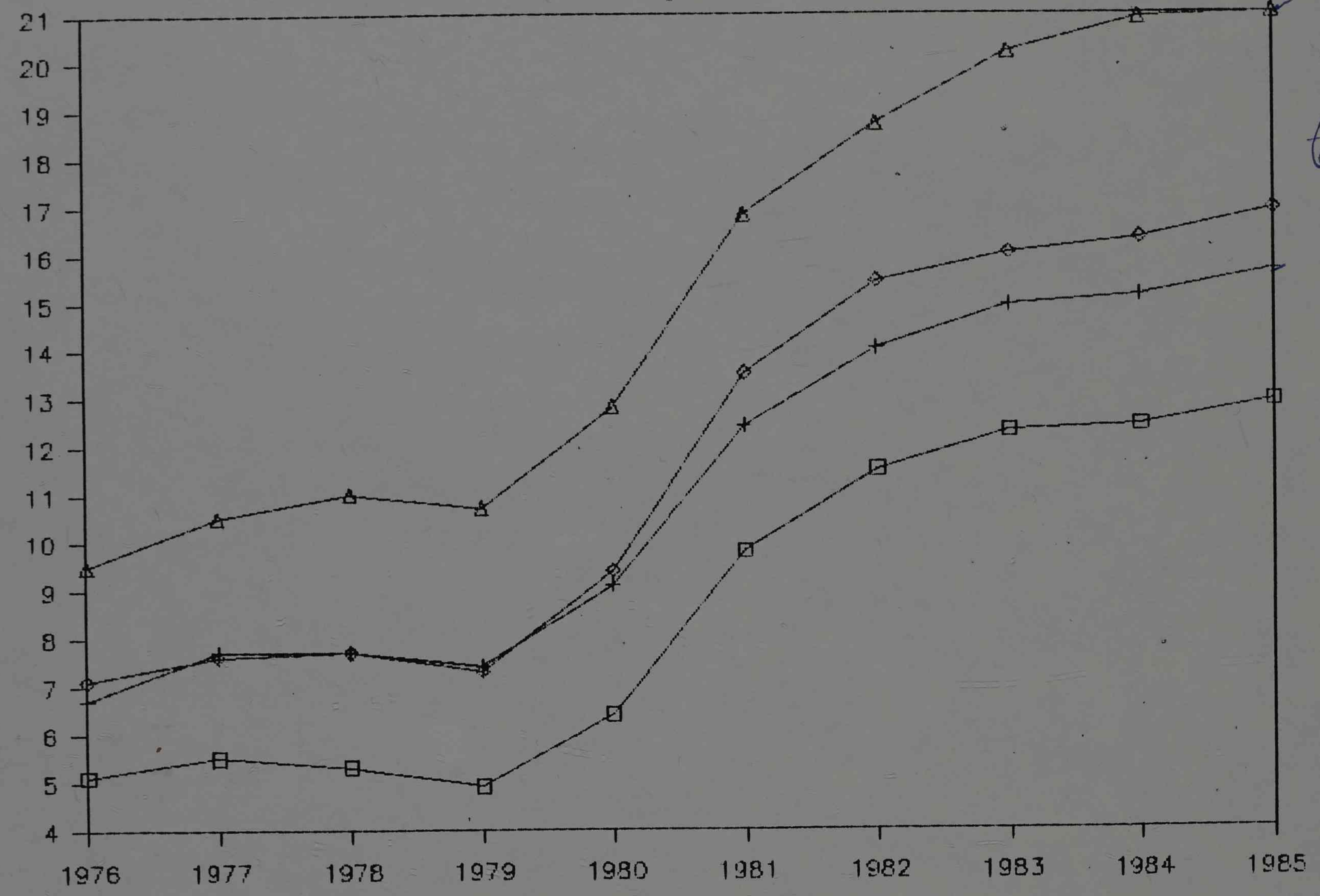


Fig 3

Unemployment Rates

Percentages



5.1 12.4
6.7 15.2

□ England

+ Scotland

◇ Wales

△ N.Ireland

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Annex A

	Scotland	Wales	Northern Ireland
Agriculture, Food and Fisheries			x
Industry, Energy, Trade, Employment (except Tourism)			x
Tourism	x	x	x
Roads and Transport	x	x	x
Housing	x	x	x
Other Environmental Services	x	x	x
Law, order and protective services	x		x
Education	x	x	x
Arts and Libraries	x	x	x
Health and Personal Social Services	x	x	x
Other public services	x	x	x
Social Security			x

Note In Northern Ireland an element of agriculture expenditure comes within the Block a major portion is also borne on MAFF votes.

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Annex B.

Table 1

EXPENDITURE BY TERRITORY

	SCOTLAND									
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Estimated		£ million		1988/89
						Outturn 1985/86	Plans 1986/87	1987/88		
Industry, energy trade, emp (tourism)	8	9	11	11	13	12	13	13	13	13
Roads/Transport	389	449	481	493	498	555	587	599	598	598
Housing	781	720	689	717	646	619	645	673	700	700
Oth Environ Svc	441	466	497	520	536	586	588	596	604	604
Law, Order etc	307	357	398	446	480	518	570	580	583	583
Education	1386	1556	1636	1716	1749	1821	1792	1796	1801	1801
Arts/Libraries	55	62	63	64	69	73	75	75	75	75
Health and PSS	1558	1769	1911	2036	2181	2311	2443	2534	2621	2621
Other PS	74	79	77	96	97	104	110	113	115	115
LA na to S							19	19	19	19
Total Block	5000	5468	5765	6100	6269	6600	6841	6997	7129	7129
Ag. fish. food	154	151	151	163	184	209	190	185	189	189
Ind. En etc	121	125	158	160	203	296	302	232	239	239
EFL's	109	95	159	277	376	253	239	1	-124	-124
Total non-block	384	371	468	600	763	758	731	418	303	303
Total for SoS	5393	5839	6234	6700	7032	7358	7573	7413	7433	7433

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Table 2

EXPENDITURE BY TERRITORY

£ million

	WALES					Estimated			
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Outturn 1985/86	Plans 1986/87	1987/88	1988/89
Industry, energy trade, emp (tourism)	4	5	5	5	6	7	8	8	8
Roads/Transport	224	258	280	311	263	276	300	319	325
Housing	205	121	125	195	139	127	140	140	144
Oth Environ Svs	220	230	258	268	254	277	293	287	297
Education	546	594	641	679	696	710	730	732	734
Arts/Libraries	22	24	26	28	29	30	31	31	31
Health and PSS	693	782	859	916	986	1042	1115	1156	1206
Other PS	22	23	24	31	31	35	37	37	39
Total Block	1936	2038	2219	2431	2404	2504	2655	2711	2770
Ag. fish. food	60	54	62	79	79	106	77	78	80
Ind, En etc	83	94	80	74	108	146	157	135	132
EFL's	27	30	29	25	31	27	16	12	13
Total non-block	170	178	171	178	218	279	250	225	225
Total for SoS	2105	2216	2389	2609	2622	2783	2904	2937	2997

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Table 3

EXPENDITURE BY TERRITORY

£ million

NI DEPTS	N. IRELAND					Estimated			
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Outturn 1985/86	Plans 1986/87	1987/88	1988/89
Ag. fish. food	53	56	68	76	78	79	82	86	87
Ind. En. Emp. etc	338	359	347	357	403	417	465	458	464
Roads/Transport	120	125	111	123	122	122	120	123	126
Housing	239	234	284	315	337	357	355	362	357
Oth Environ Svs	122	129	140	153	158	164	173	173	174
Law. Order etc	10	12	14	15	18	20	21	20	21
Education									
Arts/Libraries	458	499	534	564	591	628	666	680	702
Health and PSS	484	546	587	634	666	700	738	767	800
Other PS	16	16	19	20	23	25	30	31	30
Common Services	18	22	23	29	33	41	45	52	52
Total(ex SS)	1858	1998	2129	2286	2429	2553	2695	2752	2813
Social Security	716	865	995	1084	1172	1282	1361	1454	1505
Total N.I. Depts	2574	2864	3124	3368	3599	3835	4057	4210	4324
NI OFFICE									
Law. Order etc	308	339	356	372	401	435	464	474	486
Total Block	2882	3203	3480	3740	4000	4270	4521	4684	4810
Total -SS	2166	2338	2485	2656	2828	2988	3160	3230	3305

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Table 4

EXPENDITURE BY TERRITORY

SCOTLAND CONSTANT PRICES

£ million

	Outturn					Estimated			
	1980/81	1981/82	1982/83	1983/84	1984/85	Outturn 1985/86	Plans 1986/87	1987/88	1988/89
Industry, energy trade, emp (tourism)	10	11	12	11	13	11	12	11	11
Roads/Transport	501	525	525	515	498	529	535	527	511
Housing	1005	841	752	749	646	590	587	593	598
Oth Environ Svs	568	544	542	543	536	558	536	525	515
Law, Order etc	395	417	434	466	480	493	519	511	498
Education	1784	1818	1785	1793	1749	1734	1632	1581	1537
Arts/Libraries	71	72	69	67	69	70	68	66	64
Health and PSS	2006	2067	2085	2127	2181	2201	2225	2231	2240
Other PS	95	92	84	100	97	99	100	99	98
LA na to S							17	17	15
Total Block	6437	6388	6289	6374	6269	6286	6231	6160	6094
Ag, fish, food	198	176	165	170	184	199	173	163	161
Ind, En etc	156	146	172	167	203	282	275	204	204
EFL's	140	111	173	289	376	241	218	1	-106
Total non-block	494	433	511	627	763	722	666	368	259
Total for SoS	6930	6822	6801	7001	7032	7008	6898	6527	6354

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Table 5

	EXPENDITURE BY TERRITORY									
	WALES	CONSTANT PRICES					£ million			
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Estimated Outturn 1985/86	Plans 1986/87	1987/88	1988/89	
Industry, energy trade, emp (tourism)	5	6	5	5	6	7	7	7	7	
Roads/Transport	288	301	305	325	263	263	273	281	278	
Housing	264	141	136	204	139	121	128	123	123	
Oth Environ Svs	283	269	281	280	254	264	267	253	245	
Education	703	694	699	709	696	676	665	644	627	
Arts/Libraries	28	28	28	29	29	29	28	27	26	
Health and PSS	892	914	937	957	986	992	1016	1018	1031	
Other PS	28	27	26	32	31	33	34	33	32	
Total Block	2492	2381	2421	2540	2404	2385	2418	2387	2368	
Ag. fish. food	77	63	68	83	79	101	70	69	69	
Ind, En etc	107	110	87	77	108	139	143	119	113	
EFL's	35	35	32	26	31	26	15	11	11	
Total non-block	219	208	187	186	218	266	228	198	192	
Total for SoS	2710	2589	2606	2726	2622	2650	2645	2586	2562	

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Table 6

EXPENDITURE BY TERRITORY

N. IRELAND CONSTANT PRICES

£ million

NI DEPTS	Outturn					Estimated Outturn Plans			
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Ag. fish. food	68	65	74	79	78	75	75	76	74
Ind. En. Emp. etc	435	419	379	373	403	397	424	403	397
Roads/Transport	154	146	121	129	122	116	109	108	108
Housing	308	273	310	329	337	340	323	319	305
Oth Environ Svs	157	151	153	160	158	156	158	152	149
Law, Order etc	13	14	15	16	18	19	19	18	18
Education									
Arts/Libraries	590	583	583	589	591	598	607	599	600
Health and PSS	623	638	643	662	666	667	672	675	684
Other PS	21	19	21	21	23	24	27	27	26
Common Services	23	26	25	30	33	39	41	46	44
Total(ex SS)	2392	2334	2323	2389	2429	2431	2455	2423	2404
Social Security	922	1011	1085	1133	1172	1221	1240	1280	1286
Total N.I. Depts	3314	3346	3408	3519	3599	3652	3695	3707	3696
NI OFFICE									
Law, Order etc	396	396	388	389	401	414	423	417	415
Total Block	3710	3742	3796	3908	4000	4067	4118	4124	4111
Total-SS	2788	2731	2711	2775	2828	2846	2878	2844	2825

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Table 7

CHANGES IN TERRITORIAL EXPENDITURE

SCOTLAND	Percentage Change 1985/86 cf 1980/81	Percentage Change 1988/89 cf 1985/86
Industry, energy trade, emp (tourism)	50.0	8.3
Roads/Transport	42.7	7.7
Housing	-20.7	13.1
Oth Environ Svcs	32.9	3.1
Law, Order etc	68.7	12.5
Education	31.4	-1.1
Arts/Libraries	32.7	2.7
Health and PSS	48.3	13.4
Other PS	40.5	10.6
LA na to S		
Total Block	32.0	8.0
Ag, fish, food	35.7	-10.0
Ind, En etc	144.6	-19.3
EFL's	132.1	-149.0
Total non-block	97.4	-60.0
Total for SoS	36.7	1.0

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Table 8

CHANGES IN TERRITORIAL EXPENDITURE

WALES	Percentage Change 1985/86 cf 1980/81	Percentage Change 1988/89 cf 1985/86
Industry, energy trade, emp(tourism)	75.0	14.3
Roads/Transport	23.2	17.8
Housing	-38.0	13.4
Oth Environ Svs	25.9	3.6
Education	30.0	3.4
Arts/Libraries	36.4	3.3
Health and PSS	50.4	15.7
Other PS	59.1	8.6
 Total Block	 29.3	 10.6
Ag. fish, food	76.7	-24.5
Ind, En etc	75.9	-9.6
EFL's	0.0	-51.9
 Total non-block	 64.1	 -19.4
 Total for SoS	 32.2	 7.7

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Table 9

CHANGES IN TERRITORIAL EXPENDITURE

N. IRELAND	Percentage Change 1985/86 cf 1980/81	Percentage Change 1988/89 cf 1985/86
NI DEPTS		
Ag, fish, food	49.1	10.1
Ind, En, Emp. etc	23.4	11.3
Roads/Transport	1.7	3.3
Housing	49.4	0.0
Oth Environ Svs	34.4	6.1
Law, Order etc	100.0	5.0
Education		
Arts/Libraries	37.1	11.8
Health and PSS	44.6	14.3
Other PS	56.3	20.0
Common Services	127.8	26.8
Total(ex SS)	37.4	10.2
Social Security	79.1	17.4
Total N.I.Depts	49.0	12.8
NI OFFICE		
Law, Order etc	41.2	11.7
Total Block	48.2	12.6
Total-SS	38.0	10.6

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Table 10

PERCENTAGE CHANGES IN BLOCK EXPENDITURE

	1985/86 cf 1980/81		1988/89 cf 1985/86	
	Actual	Average Annual	Actual	Average Annual
Scotland	32.0	5.7	8.0	2.5
England	31.3	5.6	6.3	2.1
Wales	29.3	5.3	10.6	3.4
England	27.5	5.0	6.2	2.0
N. Ireland	48.2	8.2	12.6	4.0
Great Britain	30.5	5.5	4.0	1.3
N. Ireland-SS	38.0	6.6	10.6	3.4

NOTES 1: Each territory compared with comparable programme

2: Outturn figures and plan figures are not strictly comparable and therefore the percentage change figures shown which compare 1988/89 with 1985/86 need to be used with caution. In particular, because of local authority current overspending in both England and Scotland in all outturn years (1980-81 to 1985-86), the apparent growth of the Wales and Northern Ireland blocks is overstated throughout this table.

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Annex C

Potential Candidates for Transfer to the Scottish Block

Scottish Arts Council: £12.8m 1985/86

Currently being explored by SED and OAL. SAC has had declining share of ACGB funds (£105m) during abolition of GLC/MCCs. SO has helped out and SAC might hope to gain from formal transfer. Remaining ACGB funds would become comparable for formula purposes. SED would need extra staff to sponsor SAC and maintain policy links with OAL eg in respect of National companies. Value for money from the change is open to doubt since no administrative savings at OAL. Would require legislation.

Scottish Universities: £225m 1985/86

Recommended by recent Report from Scottish Tertiary Education Advisory Council (STEAC). Consultation proceeding and responses as mixed as during pre-devolution consideration. Represents about 15 per cent of UGC Budget (not 10/85 so comparability difficult to apply). More non-Scots at Scottish Universities than Scots going elsewhere. Produce 18 per cent of UK medical and dental graduates whereas NHS in Scotland only requires about 11 per cent. SED would require considerable extra staff to carry out DES and/or UGC functions. Would require legislation.

Forestry Commission: £126.9m gross (£53.42m net) 1985/86

More than 60 per cent of FCs activities in Scotland. Could legislate for SO to become sole sponsoring department (despite FC activities in other territories) and remove present confusion of commissioners and three sponsoring Ministers. Alternatively SO could fund Scottish activities separately but leads to split Accounting Officer responsibilities and comparability difficult when majority of expenditure is in territories. Alternatively 3 separate commissions but poor value for money in breaking up intergrated operation and forestry industry bound to be puzzled.

Nature Conservancy Council - Approximately £8m in 1985/86

Legislation not essential; links would need to be established between SO and NCC with management and manpower consequences for both. Remainder of NCC Budget would become comparable. Divergence of policy priorities likely if NCC in Scotland sponsored by Scottish Office.

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Manpower Services Commission - £134m - 1985/86

Already on a Scottish Vote but PES with Department of Employment who insist (with Treasury support) that absolute uniformity is very important. Separation of MSC (Scotland) would assist greater co-ordination with distinctive Scottish education system and with industrial and economic framework eg integration with activities of SDA/HIDB. Legislation not required since tripartite Ministerial responsibility already. In previous considerations, MSC claimed that separation would require significant additional manpower for them and sponsoring departments.

Dounreay: £70-80m (Treasury Estimate)

Transfer implies share of policy responsibility for UK fast reactor research so need to give SO powers. Would involve shared responsibilities with Department of Energy Ministers and Accounting Officer even under trading fund arrangements. Legislation still likely to be needed. Problems of monitoring UKAEA's expenditure and accounting for it to PAC. Scottish electricity industry has no more advantageous access to UKAEA research than does CEGB. Dounreay's electricity not essential to Scottish boards, cannot be offered as firm capacity and UKAEA can do nothing else with it.

Scottish Development Agency (£100m) and Highlands and Islands Development Board (£25m)

These agencies are at present funded from the non-block programmes of the Scottish Office. If they were transferred into the block the size of the total Scottish Office programme could be reduced accordingly. The position of the Welsh Development Agency and the Development Board for Rural Wales would have to be considered.

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P 01991

From: J B UNWIN
10 April 1986

MR WICKS

cc Sir Robert Armstrong

TERRITORIAL EXPENDITURE

As promised, I attach a copy of the article on this subject in The Times of 3 April. As you will see, the author was Michael Fallon, the Conservative MP for Darlington.

2. It is not difficult to have a guess at the source of inspiration of this article, particularly since Mr Fallon has been used by the Treasury for the purpose of arranged PQs on this subject. The Treasury strongly deny, however, that they have had any hand in it.

3. As you may have noticed, the article has sparked off some vigorous counter argument in the correspondence columns of the press (see the attached extract from today's Times). This will give you the flavour of the kind of arguments being traded across the table (with enormous detail and perseverance) in my informal group.

4. I am aiming to send you my report early next week.



J B UNWIN

v Unwmi



THE TIMES DIARY

Lambeth squawk

After Red Ted Knight and his 29 Lambeth sidekicks disappeared in a puff of smoke last night, the dominant Tory group is today preparing a counter-attack to prevent a triumvirate of remaining Labour councillors assuming the mantle of power. In a final gesture of defiance to the government, the debarred councillors shifted all powers to the three — the new mayor, Kingsley Smith, his deputy, Lynda Bellos, and Labour moderate Janet Boston — allowing the Tories no say in affairs, despite their 26 seats to Labour's four. Tory leader Mary Leigh said: "We will either take the matter to court immediately or call another council meeting to reverse this gross manipulation of the standing orders." Should the Tories take control after the council elections in May, Miss Leigh promises they will take a close look at some of the officers. Among those under the microscope will be Al Hanagan, chief public relations officer who ran the £700,000 anti-government campaign over rate-capping, and Phil Sealy, principal race relations officer.

Mod cons

Is Sir Clive Sinclair feeling the pinch since the collapse of his C5 company? His four-bedroom Chelsea home has just come on the market at an asking price of £995,000. Among the gadgets Sinclair is leaving behind are sets of electronically operated window blinds, automatically irrigated plant tubs, a high-tech kitchen and a back-up generator. Home computers, alas, are not included.

Teachers in England must be puzzled by the way that Scottish ministers can "find" the money to finance their colleagues' 15 per cent pay deal. Ratepayers south of the border were similarly surprised at the ease with which £38 million was "found" last spring in rate relief for Scots. To the Treasury at least the answer is simple, and disturbing.

Public expenditure last year was £2,210 per head in Scotland and £1,927 in Wales against £1,761 in England. In most of the big spending programmes — roads, hospitals, schools and housing — spending in Scotland is an average 30 per cent higher than in England. Housing takes 78 per cent more, education 36 per cent more, health 26 per cent more.

Why does Scotland do so well? The answer is neither English generosity nor Scottish ministerial advocacy but a Treasury mechanism, the "territorial block formula", applied to each territory (Scotland, Wales and Northern Ireland) since 1980. Under this curious system public spending in each country is determined not according to need but by mathematical formulae giving Scotland 10/85, Wales 5/85 and Northern Ireland 2.75 per cent of the English total.

The results five years on are startling. Security costs make comparison difficult for Northern Ireland. But in Scotland and Wales, there is now over-provision amounting to well over

Give England a fair deal for a change

by Michael Fallon

£1 billion a year which could not be justified under normal public spending rules. The territorial block formula is the cause of the trouble.

For a start, the formula appears to apply automatically. If additional provision, for example on roads or libraries, is decided for England, the Scottish and Welsh blocks benefit accordingly — whether or not new roads or libraries are actually required in Scotland and Wales. Worse still, the respective Secretaries of State can happily switch funds from one block to another; thus money theoretically allocated for Scottish prisons can end up being spent on Scottish hospitals instead.

Does this matter? I think it does. First, overall control of public spending is threatened by a system that builds in over-provision each year. As the government struggles to hold expenditure

broadly flat, each year's public spending bargaining round will become increasingly difficult; unjustified spending will make it even more so.

Secondly, England suffers. In particular, the formula discriminates against the less prosperous English regions. Without any regional analysis of public spending, the difference is hard to quantify. But regions such as the North West and North East, with structural and social problems similar to those of Scotland, lose out directly in per capita terms to their neighbours across the border.

Thirdly, there is little reason to exempt either Scotland or Wales from the current pressures on public spending. When other programmes are being restrained or cut back, it would be unfair not to look to Scotland and Wales for some contribution. Nor can Scotland in particular be regarded any

longer as one of Britain's poorer regions: measured on GDP per capita it ranks third, after only the South East and East Anglia. Indeed, suspending the formula in some areas (such as council housing) might compel Scottish Office ministers to pursue even more vigorously the policies that have extended ownership in England.

Finally, unless the entire territorial block formula system is recast, both the over-provision and discrimination will increase. The longer that action is postponed, the more difficult it will be politically for the Treasury to reassert its control over Scottish Office spending. And as the discrimination against the English regions becomes more severe, the government will face further pressure for devolution and separate development agencies from hard-pressed areas like such as the North East, the North West and the South West.

A review of both the mechanism and its effects is therefore long overdue. The arrival of funds approved by the US Congress will in any case complicate Northern Ireland spending. Separate studies ought now to be put in hand to determine real need in each territory and to equalize Whitehall subvention towards the main programme areas. Pending their conclusions the working of the formula should be suspended on all block programmes.

The author is Conservative MP for Darlington.

Richard Ford examines the strains imposed by Portadown

Loyal or loyalist? The great RUC challenge



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LETTERS TO THE EDITOR

Striking a fair deal for Scotland

From the Managing Editor of the Stornoway Gazette

Sir, Mr Michael Fallon's article, "Give England a fair deal for a change" (April 3) demonstrates just how dangerous statistics are. He chooses to cite expenditure per head of population to demonstrate that Scotland and Wales enjoy "over-provision".

Would he like to recalculate his figures on the basis of miles of road in the respective countries, or acres of land? He might then discover that England suffers gross over-provision.

In the Western Isles there is still a village which is miles from the nearest road, the roads themselves are largely single track and almost universally in need of resurfacing. Street lights outside the Stornoway area are a rarity, so are pavements, the two hospitals are dilapidated and we await Treasury approval for the construction of a new one. The council recently had to choose between closing schools and "bussing" children long distances or cutting per capita allocations to by far the lowest level in Scotland.

How can this be, when Mr Fallon tells us that Scotland gets too much Treasury cash?

The answer is simply that he is not comparing like with like. The Western Isles cover an enormous area, the distance from the Butt of Lewis to Barra Head is roughly the same as the distance from London to Birmingham, but the population is only about 30,000.

Those people need roads, schools, emergency services and the rest of the benefits of the age.

Of course it costs more to provide them in a scattered community than it does in an industrial centre. To quote expenditure per head of population in an effort to prove over-provision is laughable.

Mr Fallon may be right to question the use of rigid formulae by the Treasury, but he has certainly not demonstrated that England gets a raw deal.

Yours sincerely,
PAUL COWAN,
Managing Editor,
Stornoway Gazette,
10 Francis Street,
Stornoway,
Isle of Lewis.
April 3.

From Mr Peter Rendle

Sir, Mr Michael Fallon, MP, (feature, April 3) bolsters a simplistic case for increasing England's share of public expenditure at the expense of Scotland, Wales and Northern Ireland by misrepresenting the nature of the Treasury formula he wants to throw overboard.

Unlike the long discarded Goschen formula (an 11/80ths share for Scotland), the "Barnett" formula, as proposed by the Treasury in 1978, does not "give Scotland 10/85 of the English total" as Mr Fallon says. What it

does is, in short, to adjust the aggregate of relevant Scottish expenditure programmes by 10/85 of the adjustment, up or down, made to the aggregate of comparable English programmes in the annual public expenditure exercise.

Thus it achieves what Mr Fallon implies is not achieved. When English "programmes are being restrained or cut back", Scotland makes, in the 10/85 proportion, the contribution he seeks.

Mr Fallon also implies that there is a need "for the Treasury to reassert its control over Scottish Office spending". Reassert? I am quite certain that the officials now concerned in both the Treasury and the Scottish Office would wish to refute, as vigorously as I would have done in my day, his implication that Treasury control over Scottish Office expenditure is less vigorously asserted than it is for English expenditure.

Finally, studies such as Mr Fallon urges "to determine the real need in each territory" were extensively (and expensively) carried out under the lead of the Treasury in the run-up to intended devolution in 1979. The continued use of the Barnett formula after these inevitably not altogether conclusive studies suggests an inherent robustness, fairness and practicability which counter-indicate instant condemnation of that formula now.

The allocation of public expenditure is a complicated business. I suggest that Mr Fallon might first encourage a close examination of the respective needs and allocations of the different English regions.

For the record, I am Cornish!
Yours faithfully,
PETER RENDLE,
(Principal Finance Officer, Scottish Office, 1978-80),
St Clair,
159 Granton Road,
Edinburgh.
April 5.

From Mr George Stern

Sir, In his call for a "fair deal for England" Michael Fallon complains that Scottish public spending per head is now 25 per cent higher than England's, and that the Scottish GDP per head is now one of the highest in the UK.

His remedy, amazingly, is not to call for an increase in English public spending to repeat the Scottish economic success, but rather to reduce Scottish public spending, which, on his own showing, would reduce Scotland to its former poverty. Possibly the Conservative slogan for the next election should be "strength through misery?"

Yours faithfully,
GEORGE STERN,
6 Eton Court,
Shepherds Hill, N6.
April 3.

Punishment for child offences

From Mr J. Steele

Sir, For the last week your columns have recorded the heart-rending story of the ten-year-old girl who has apparently been abducted. Yet another case of this sort evokes sympathy for her poor parents, the fears of parents for their own children and impotent anger that these crimes against children have become so common.

On issues of crime and punishment MPs of all parties are apt to dismiss calls for more severe sentences by saying that the detection rate is the factor that limits deterrence. It seems obvious to me, and no doubt to most ordinary people, that criminals are deterred by a combination of the fear of being caught and the severity of the punishment prescribed.

For example, a child murderer might be deterred more effectively by a 20 per cent chance of being hanged than by a 50 per cent chance of being imprisoned for a few years.

At this point in the argument our conscience-stricken legislators recoil at the possibility of the wrong person being hanged and the fact that such a dreadful mistake would be irreversible.

This is indeed a risk, but against it must be balanced the alternate risk; that for lack of effective deterrence the abduction, rape and murder of children will continue at the present rate. If the decision were mine I know which risk my conscience would choose to take.

Yours faithfully,
JOHN STEELE,
8A Clements Road,
Walton-on-Thames,
Surrey.
April 2.

Loans to students

From Mr Jonathan D. Peacock

Sir, In response to Maureen Woodhall's article (April 2), I feel there is an issue - little discussed - which represents a considerable hole in the argument for student loans.

As students face large debts on leaving college, such a scheme would lead to them concentrating on those subjects which directly lead to the most lucrative short-term employment prospects. While this concentration on education for the "real world" of the labour market is desirable to a certain degree, too much concentration will lead to a crude following of the latest trends in employment.

Thus while the Government may desire to encourage graduates into the area in which they are most needed, loans will only encourage college-leavers into the area of highest reward. If a system of loans were in operation at the moment we would probably see college-leavers going into the

ON THIS DAY

APRIL 10 1810

In the struggle for parliamentary reform, freedom of speech and liberty of the subject, Sir Francis Burdett (1770-1844) is rarely mentioned in history books. Yet this man for 30 years held the seat of Westminster as a radical, earning the nickname "Westminster's pride". His collision with the Commons arose from the imprisonment of the radical orator, John Gale Jones. Burdett denounced the proceedings in the House and reprinted his speech as a pamphlet, an act which was voted a breach of privilege, leading to his extraordinary arrest.

SIR FRANCIS BURDETT.

The warrant of the SPEAKER of the House of Commons, for the committal of the Hon. Baronet to the Tower, in consequence of the vote of the House on Friday morning last, was at last carried into effect yesterday morning.

The avowed determination of the Hon. Baronet, not only to refuse a voluntary surrender to the SPEAKER's warrant, but to resist it forcibly, and the measure of barricading his doors, induced the Serjeant at Arms to consult the Law Officers of the Crown for legal advice, whether he might use force for carrying the warrant into effect. His Majesty's ATTORNEY and SOLICITOR-GENERAL are said to have given their opinions, that the use of force was justifiable...

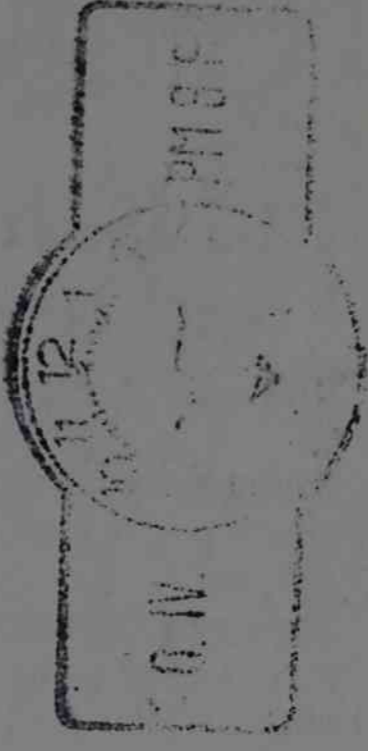
Accordingly, at a little before 11 o'clock yesterday morning, the Serjeant at Arms, accompanied by messengers, police officers, and a large military force broke into the house of Sir FRANCIS, in Piccadilly.

A strong body of horse kept the street clear on both sides of the Baronet's house. Mr. READ, the Police Magistrate, Townshend and Oddy, two of the Bow-street Officers, and a party of the patrol, accompanied the Serjeant at Arms. It is said, that the Officers, finding the hall door of Sir FRANCIS's barricaded, one of them ascended by a ladder to one of the drawing-room windows, raised the sash, and was about to enter; but a Gentleman on the inside, who was at breakfast with Sir FRANCIS, instantly shut it down, and opposed the entrance of the officer. Foiled in this attempt, the police officers got down the front area, either by a ladder or by forcing the area gate, and with iron crows broke open the area door... Some of the Foot Guards took possession of the hall, while the Serjeant and the officers were proceeding up stairs, when they met the Baronet; and the following is given as the substance of the conversation which took place:

The SERJEANT.—Sir Francis, you are my prisoner.

Sir FRANCIS.—By what right, Sir, have you forced an entrance into my house, in violation of the law of the land?

The SERJEANT.—Sir Francis, I am required to arrest you under the authority of this warrant.





NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

NLWseen

N L Wicks Esq
Principal Private Secretary
10 Downing Street
London
SW1

17 March 1986

Dear Nigel

Thank you for your letter of 20 February on the outcome of the recent meeting of Ministers on Public Expenditure matters.

The letter agrees generally with the Secretary of State's recollection of what was decided. There is, however, a possible ambiguity which he feels might give rise to future misunderstanding, namely the reference to identifying "what flexibility there might be in the next PES round for taking any remedial action which might be agreed."

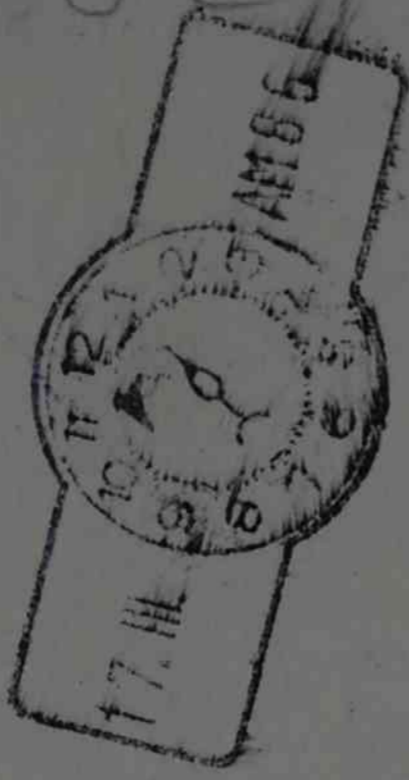
Mr King is quite clear that the short-term exercise was to be limited to checking the expenditure facts and was not intended to make the value judgements by which the need for 'remedial action' or the flexibility available for taking that action might be determined. It was recognised that any changes in relative expenditure shares would be highly controversial and would have to be seen to be grounded in an in-depth, objective study of relative need if it were in due course decided to undertake it.

It may be that we are reading into your letter more than was intended. But the Secretary of State wishes it to be clear that his officials are participating in the Study on the basis set out above.

*Yours sincerely
Jim Daniell*

J A DANIELL

REGIONAL POL
REVIEW
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ce BG
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4
PRIME MINISTER

COMMUNITY INVESTMENT: AN INITIATIVE FOR THE SOUTH WALES VALLEYS

I am writing to let you and colleagues have the details of the initiative I shall be launching in the Welsh Day Debate on Monday, 3 March to stimulate substantial improvement in the environments of South Wales Valleys communities and thereby to promote employment opportunities. I enclose a copy of the detailed paper which I shall be publishing.

My aim is to liberate the initiative of the communities by challenging their leaders and the private sector to take advantage of the support I am offering and to co-ordinate and focus the many existing mechanisms to achieve what is needed. While this initiative is designed to meet the special needs of the Valleys, it is wholly consistent with the general thrust of initiatives in other parts of the United Kingdom aimed to combat urban decay.

I will carry out the initiative within programmed resources.

/ I am sending copies of this minute and of the enclosed paper to members of E(A) and Sir Robert Armstrong.

27⁵ February 1986

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R N E



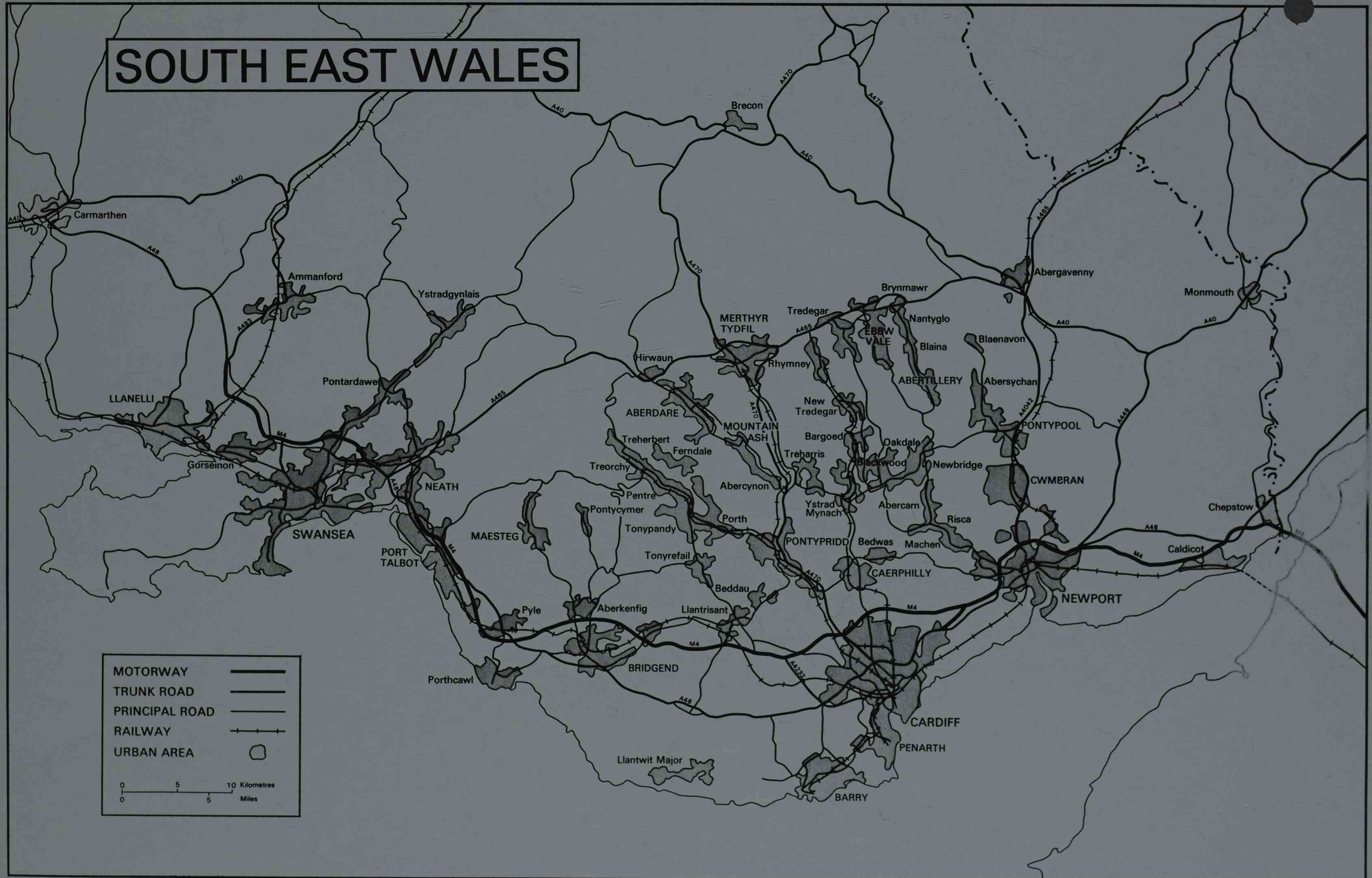


Community Investment: An Initiative for the Valleys



**Community Investment:
An Initiative for the Valleys**

SOUTH EAST WALES



MOTORWAY	
TRUNK ROAD	
PRINCIPAL ROAD	
RAILWAY	
URBAN AREA	

0 5 10 Kilometres
0 5 Miles

FOREWORD

Although much has already been achieved in the Valleys of South Wales to remove the industrial dereliction of the past and improve the environment in which people live, much more still remains to be done.

The moment has come when there are good reasons for thinking that the reputation of the Valleys as places in decline can be totally reversed and the Welsh Office wants to begin this process of change.

The purpose of this paper is to invite discussion and encourage the submission of ideas by the responsible local authorities, the voluntary sector, the business community and people living in the South Wales Valleys for the regeneration of their local community. It suggests a foundation from which innovative schemes can be launched. Additional resources will be made available to encourage this process. The objective is to bring about substantial and visible improvement in the environments of the town centres and the areas that immediately lead to them. It is not intended that projects should be designed and imposed by those who live outside; rather that ideas to revitalise and improve should come from the communities themselves. To achieve the success that is possible will require initiative and an enthusiastic response from those who are involved in the day-to-day life of the community.

The Welsh Office will be prepared to back up to 6 projects initially which hold out the promise of local communities making real progress in the revitalisation of their areas.

COMMUNITY INVESTMENT:

AN INITIATIVE FOR THE VALLEYS

The Historic Problem

1. The cities and the ports on the South Wales coast, and the industrial communities in the valleys, were created together. Each developed as an essential part of the same economic community, providing services that were entirely inter-dependent. The ports were built to ship the coal and metal products of the valleys to the world: the cities to provide the commercial, social and entertainment facilities. Public buildings, art galleries, universities, hospitals and parks were built in those cities out of the wealth of the mines and foundries, and they served the whole area. The canals, roads and railways linked the scattered urban complex together, though the steep mountain ridges separated valley communities.

2. During the long period of industrial change and decline in which the South Wales coalfield lost its competitive position in world markets and steelmaking moved to new flat sites close to the sea many of the old links weakened. Despite determined efforts by successive governments to provide incentives for new industry to establish itself in the valleys or at their heads, much of the most modern industry has concentrated along the M4 and the main railway system. New shopping centres and a great deal of the more attractive housing has also developed on the plain rather than in the valleys.

3. Despite very substantial public investment and the not inconsiderable private investment that has also taken place in the South Wales valleys to improve the environment, to promote job opportunities and to make them better places in which to live, they have suffered from economic decline and have also had to bear the burden of urban decay. The present, often rundown, appearance of some urban centres militates against the valleys together being seen from outside as places where people want to invest or live. Increasingly an attitude has developed that the valleys are separate and somehow detached from the rest of industrial Wales; that there is a special problem to be tackled in isolation; and this attitude has sometimes been responsible both for an unfortunate feeling of rivalry and a sense of

pessimistic defeatism. Success by local authorities, or Government agencies, in attracting new industry to locations outside the valleys is often seen as a threat to or even a defeat for the valleys. It has sometimes been suggested that development should be discouraged or prevented in the areas where access is easiest in the hope that it will be forced to move into the existing valley communities, despite a shortage of suitable industrial sites or the facilities that are needed.

A Positive Approach

4. A much more productive approach has been to improve the infrastructure, the communication links and industrial sites in or near the valleys without in any way discouraging the modernisation and transformation of the rest of South Wales. That approach offers the only realistic prospect for improving social and economic conditions in the valleys. Industrial South Wales should be seen and its problems tackled as an integrated whole. An analogy that illustrates this approach is to think of the area in terms of a human hand in which the fingers link to the knuckles and the palms, and the whole hand works effectively as a complete instrument. If the fingers are cold or lose their sense of feeling then the cure must be to improve the circulation. Such an approach suggests the possibilities that exist for regeneration and provides the answer to those who despair about the future of the valleys.

5. Firm foundations have already been laid. Great successes have been achieved in the transformation of the South Wales industrial base which, no longer dependent on the old basic industries, is far more diversified with a good and rising proportion of the fastest growing service and technology sectors. Wales has been strikingly successful in attracting a large share of inward investment to the United Kingdom, about 20 per cent of the total over the last three years. The two great steelworks, Llanwern and Port Talbot, which have and continue to receive massive investment, have transformed their competitive performance. The coal industry, after many decades of decline, has had to face the closure or merger of 11 pits; but this has been followed by a dramatic increase in productivity so that the South Wales coalfield has moved from heavy loss-making close to break even and is now attracting substantial investment, particularly on new coal face equipment. An announcement has recently been made of new workings at Carway Fawr at a capital cost of £29 million. The industry is facing the

future with increasing confidence that it can follow the same path of industrial modernisation pursued so successfully by the steel industry with which its fortunes are linked. Gwent, and particularly Cwmbran, has been successful in attracting new industry. The same is true of many places along the M4 strip with a particularly heavy concentration around Bridgend. The refurbishment of part of Newport's shopping centre has been started. The heart of the City of Cardiff has already been transformed into one of the most attractive shopping areas in the country and a major regeneration of South Cardiff is now underway. Important and successful urban renewal is taking place in the Swansea Valley, based on the enterprise zone, and in the maritime quarter of Swansea. Important public and private sector initiatives are having a real impact in the Neath Valley. The work of successive governments and local authorities has led to a great deal of success in attracting new industry and preparing industrial parks in Blaenau Gwent.

6. The preference frequently expressed by incoming industry for coastal plain or valley mouth locations - which usually stems from a requirement for large level sites and immediate proximity to the motorway and inter-city rail networks - must be respected. In the face of intense competition for such mobile investment it would be wholly counter-productive to seek to steer such projects to valley locations against the wishes of their promoters. That said, the encouragement of industrial development within the valleys proper has to be pursued vigorously. The availability of a committed and demonstrably versatile labour force, factory premises on landscaped industrial parks and a maximum measure of regional industrial support (most valley communities have Development Area status) have an undoubted appeal to some investors. Efforts by WINvest and others to secure such projects will continue. But there are three other vital elements in the strategy of industrial regeneration; the modernisation of existing plants within the valleys; the creation and fostering of an enterprise culture out of which will emerge new businesses and new jobs; and the creation of an environment which is attractive to investors, whilst at the same time enhancing the quality of life for existing communities.

7. Considerable assistance and advice can be obtained towards schemes of modernisation. The Industry Department of the Welsh Office and WINtech - the technology arm of the Welsh Development Agency - will continue to work with the managements of valleys firms in identifying and carrying through projects that will underpin the technological capability and competitiveness of such firms.

8. The nature of the traditional industries and in particular the fact of their being so capital intensive has for too long served to dampen the spirit of enterprise within the valleys. For many generations the vast majority of young men had no alternative but to follow their fathers to the pits or to the steel, tinsplate or other metal plants. The influx of many new firms over the past 40 years has provided thousands of jobs for both men and women, including some high quality professional and management posts. Opportunities to exploit acquired knowledge and skill in newly formed businesses have undoubtedly grown as the industrial base of the valleys has diversified; but it is only in very recent years that this growth has started to blossom, and it still requires much encouragement and support. The many steps taken by the Government to improve the climate of enterprise are as relevant to the valley communities as to other parts of the country. These measures have been backed up by the efforts of local authorities (particularly through the provision of workshops, often with urban programme support); local enterprise agencies (the Neath Partnership is an especially good example of what can be achieved, but others are fast developing); BSC (Industry) and NCB (Enterprise), both of which are offering invaluable assistance to individual projects as well as to local enterprise agencies; the Manpower Services Commission through its Enterprise Allowance Scheme and training schemes; the Wales Tourist Board which has vigorously backed imaginative efforts to develop tourism facilities in the valleys; and the Welsh Development Agency in a variety of ways (the Small Firms Counselling Scheme, factory and workshop provision and investment funds including some initiatives that are particularly relevant in the start-up situations). With banks and other financial institutions also increasingly alert to the needs of the small businessman and with university colleges, the Polytechnic of Wales and other institutes of higher education seeking collaboration with businesses large and small, the climate for enterprise has never been better. It is vital that the valley communities should take full advantage of all these opportunities.

9. The traditional industries have not only affected attitudes to work but have also left their scars upon the landscape in the form of spoil heaps and redundant buildings. The large-scale reclamation of this legacy was triggered by the Aberfan disaster in 1966, and most of the early work concentrated on colliery dereliction. By the mid-seventies its scope had widened to include dereliction on railway land, factories and metalliferous waste. Since the WDA took on responsibility for grant-aiding and co-

ordinating this work in 1976 it has approved the reclamation of 1,900 hectares in Gwent, Mid and West Glamorgan at a cost of £62 million. In addition, a wide variety of small scale schemes to improve the environment in these counties has been approved at a cost of over £2 million. Reclamation has not only improved the quality of life for residents and the perception of the valleys to incoming industrialists, but has also provided much-needed sites for industrial and commercial development, housing, schools, leisure and amenity. Paradoxically its success is measured in the unobtrusiveness of the end result - for example the tips on Cilfynydd Common are the only major colliery scars visible from the A470 south of Merthyr, but much remains to be done, and the Agency's current programme includes over £21 million worth of work in the three counties which has either been completed or will be finished over the next few years. The WDA is currently drawing up a new programme in conjunction with the local authorities.

10. Crucial communications improvements include the opening of the new road between Cardiff and Merthyr, the major road improvements at Rogerstone and Risca and the construction of the important new access roads into the Rhondda Valley. British Rail are undertaking, in partnership with the County Councils, a major development programme for the Cardiff Valleys network. This will involve the replacement of the existing rolling stock together with new stations and other major improvements to services and facilities. This will further strengthen what is one of the most comprehensive commuter rail services in the whole of Britain. With other major road schemes planned to further improve access to the Valleys, the opportunity exists to launch a fresh initiative designed to ensure that the Valleys share in the regeneration that is underway elsewhere in South Wales.

Community Initiatives

11. In spite of the inheritance of industrial dereliction and adverse social conditions, many of the valleys are attractive places which are not only the subject of deep loyalty and affection among those who live in them, but are also places to which others - who do recognise their inherent advantages - come in order to settle or retire. Even the most industrial areas adjoin some of the most beautiful countryside in Britain; and as the industrial dereliction is cleared away they will become more and more

attractive places in which to live. One of the major disadvantages at present is the appearance of many of the urban centres and the lack of amenities which ought to be the hub of social and even economic activity. For example, disused and run-down buildings such as Miners' Institutes, which are often environmental eyesores could, with refurbishment, provide visually attractive and much-needed social or, perhaps, craft-related industrial amenities. Ill-maintained buildings and the generally drab environment of some of these old town centres sell short the enormous attractions which the valleys have to offer.

12. These deficiencies can only in part be remedied through financial injections. The conditions arise partially from the industrial dereliction and economic decline; but they also stem from the absence of any co-ordinated action by local communities and the responsible agencies and authorities to work together with sufficient imagination and drive to make the very best use of the potential that exists.

13. The Government does not believe that it would be productive to seek to tackle these deficiencies, either wholesale or by selecting areas for treatment, purely on the basis of central government selection. A key component for success must be local initiative and the self-confidence that flows from it. The prime objective of government must be to seek to bring about co-ordination, commitment and drive.

14. The Government is anxious, therefore, with the co-operation of local authorities and the communities they represent, together with private interests that have commitments and ideas, to help to bring about substantial and visible improvements in the valleys and the environment of town centre areas and the areas immediately leading to them. The Government is not proposing to impose solutions: that would be counter-productive. It will seek to trigger a series of co-ordinated initiatives by local bodies, including those from the private and voluntary sectors. Where communities bring forward ideas and demonstrate willingness to back them, the Welsh Office will focus existing mechanisms of assistance and will also make available additional resources to meet the challenge, particularly where that would help to promote the contribution which is necessary from the private sector. It has already been convincingly shown in South Cardiff and in Swansea what can be achieved. The opportunity is there for the valleys as well; the next step must be for the communities

within them to come forward with realistic proposals which the Government can support and which could lead to a transformation of the towns that provide the focus of valley life.

15. Among the places which provides scope for such initiatives are Merthyr Tydfil and Aberdare. **Appendix 1** to this paper sets out some outline suggestions produced by Welsh Office professional staff on measures which could be taken to improve the town centres and the approaches of Merthyr Tydfil and Aberdare. These are given at this stage **merely as illustrations** which can be amended and modified and which could stimulate similar proposals for other valley towns. Although the schemes set out in **Appendix 1** have been prepared merely as examples and without discussions with the local authorities involved, they clearly demonstrate what would be possible given local commitment and the resources to back it up.

16. **Appendix 2** to this paper contains information about specific public investment, sometimes linked with private investment, benefiting the two communities of Merthyr Tydfil and Aberdare since 1979. The information is approximate and is not exhaustive but it gives a clear indication of the considerable extent of public investment in the areas. It has to be recognised however that, despite the solid achievements that this investment has brought about, much of the resultant development has been ad hoc and unco-ordinated. The rest of this paper sets out details of the initiative which the Government is now proposing. It has been designed as a pilot scheme, the object of which is to help make selected South Wales valley communities more attractive places in which to invest, live and work. If it is successful it can be developed and expanded.

The Initiative Described

17. Objective. The object is to focus private and public energies and investments to enhance the environment of South Wales valley communities in order to promote direct and indirect employment opportunities.

18. The Means: General. The scheme will work through local bodies and private investors with Welsh Office financial sponsorship geared to promote co-ordination and commitment by these and other local interests. It is a requirement of the scheme that the local communities must demonstrate to the Welsh Office by competitive bid that they have the commitment and the

capacity, with whatever guidance and assistance the Welsh Office and its agencies can provide, to deliver the desired improvements. The Government will use all the existing mechanisms of financial and practical assistance. The Welsh Development Agency, the Land Authority for Wales, CADW and the Wales Tourist Board will all have a part to play. The primary instruments will include urban development grant, the urban programme and the enveloping and block repair of private housing. They will be used to ensure that the public sector plays the role that is required alongside the private sector, and to encourage civic and voluntary interests to participate fully. The WDA is ready to provide a low cost consultancy service on property matters to authorities and private sector interests participating in the initiative and will ensure that its facilities in property, in land reclamation and investment are all deployed in the selected areas.

19. Resources. As already indicated, very substantial public sector resources have been and are already being used. For example, the WDA has approved expenditure of over £17 million on derelict land clearance in Mid-Glamorgan since 1979 and urban programme expenditure in that area and the eastern valleys of Gwent tops £33 million. The totality of specific government grant assistance and aid from the European Community going into individual communities in the area is also very large. Appendix 2 shows the considerable sums of specific public financial injections that have been made in Merthyr Tydfil and Aberdare since 1979 quite apart from rate support grant. The key programmes relating to this initiative are, however, not those concerned with industrial assistance, but those relating to land reclamation, housing, transport, the urban programme and Manpower Service Commission programmes, and the programmes of organisations like CADW, the Sports Council and the Welsh Water Authority. The objective is to ensure that such expenditure is concentrated to the best possible effect in the period ahead.

20. The programme of Priority Estates projects which aims to demonstrate the benefits of day to day management and repairs being run from an office on each estate will also be very relevant to the initiative. New projects are about to be launched on council estates in Merthyr, the Rhymney Valley and Pontypool, and there is already a project at Penrhys in the Rhondda.

21. Additional Resources Initially, in 1986/87, the Welsh Office will make available up to £2 million of capital allocations for expenditure on housing by local authorities, and £1 million of urban programme resources. The additional funds will reinforce existing expenditure programmes for the areas concerned. Inevitably, the bulk of developments under the initiative will fall in later financial years and the focusing of existing finance and the level of additional resources will be determined in the course of future public expenditure rounds in the light of the proposals that are brought forward.

22. Selection of projects. This paper has already made clear that the initiative for local projects must come from the communities concerned. At this stage, therefore, the number of projects to be selected has not been decided; but the Government has it in mind to back up to SIX projects in the first phase, if they are of sufficient quality and offer the prospect of substantial improvements to the environment of the areas concerned.

23. The Welsh Office is seeking initial bids by the end of June 1986 with a view to work starting on at least some of the selected projects by the autumn of this year. The bids should be made on behalf of identified communities and should demonstrate community commitment; but it is envisaged that, initially, local authorities will take the lead in preparing and submitting bids to the Welsh Office.

24. Possible Projects. Appendix 1 illustrates the nature of the problem in two areas and the kind of work that might be undertaken. As indicated in paragraph 15 above, the assessments contained in Appendix 1 have been carried out entirely within the Welsh Office. They are, therefore, purely illustrative and the local authorities and other organisations and private concerns in the communities could very well have alternative proposals which they would prefer and which might be more cost-effective and offer greater scope for improvement. Other communities in the valleys may come forward with schemes that should have a higher priority or that offer equal opportunities. The publication of Appendix 1, therefore, does not indicate that the Welsh Office will give preference to the areas or the proposals described or that any decisions of any kind have been taken about them. The success of the initiative will depend on the enthusiasm and wholehearted co-operation of everyone involved in both the public and private sectors and, while the Welsh Office will give guidance and provide resources, the revitalisation of the valley communities must depend very substantially on the efforts of those communities themselves.

A Brighter Future

25. Conclusion. Much progress has been made in environmental improvement to the older industrial areas of South Wales. Much remains to be done but the potential is enormous. For far too long industrial South Wales and particularly the valley areas have been seen as places in decline with a bleak prospect. The moment has come when there are very good reasons for thinking that that process can be completely reversed: and that building on the enormously important and encouraging developments now taking place in Cardiff, Swansea and elsewhere, major progress can be made towards revitalising all these closely integrated communities, so that they become increasingly attractive places in which to live and work, and magnets for future industrial and commercial development. The opportunities are there: the Government looks for a positive response to this initiative so that these opportunities can be taken and developed further in the future.

FEBRUARY 1986

THE WELSH OFFICE
CATHAYS PARK
CARDIFF

Note: Enquiries about this paper should be made to Mr R O Evans,
ERP4 Division, Telephone no Cardiff (0222) 823155

COMMUNITY INVESTMENT: AN INITIATIVE FOR THE VALLEYS

1. MERTHYR TYDFIL CENTRAL AREA AND APPROACHES

1.1 Merthyr has an attractive setting near the northern end of the Taff Valley. Parts of the town occupy exposed hilly slopes or sheltered valleys giving it a great variety of environments. Much of the town is enclosed by the A470(T), the A4060(T) and the A465(T) Heads of the Valleys roads. Seen from these roads the potentially attractive landscape is blighted at present by the existence of too many rundown, ageing buildings and some drab modern buildings set in an environment where there are still areas of dereliction and ill-used land.

1.2 The approach to Merthyr Town Centre from the Heads of the Valleys road is inevitably influenced by the somewhat bleak scenery and exposed nature of the road. While it is not easy to grow a great variety of trees in these conditions, much could be done by planting shelter belts and removing some of the more unattractive eyesores on the northern fringe of the town. The WDA has started discussions to determine in what form improvements could be made to the road corridor of the Heads of the Valleys road.

1.3 Completion of the A470 dual carriageway to Pentrebach makes the need for a more attractive approach from the south even more apparent. There is scope for improving the appearance of the Hoover factory and its environs by painting and planting; to improve the untidy commercial areas to the north and clear unsightly development. The appearance of houses, public buildings and open areas on the south of the town centre could be improved by tree planting, screening, painting and, perhaps, the large scale method of housing improvement known as 'enveloping'.

1.4 Merthyr's commercial centre is reasonably attractive and prosperous. Parts of High Street have been pedestrianised and there is scope to extend this, particularly to streets near the bus station. The existing pedestrianised area could be further improved with provision of seating and planting while the appearance of upper floors of many town centre properties would be improved by repair and redecoration. This is

particularly required in areas at the northern and southern ends of High Street where the physical condition of shops falls dramatically and where more properties are vacant. Here the Borough Council has declared Commercial Improvement Areas to improve shopfronts and structures - particularly roofs and chimneys using Urban Programme funding. The northern area would benefit from pedestrianisation - at present it carried a fairly heavy traffic flow - and treatment of its waste land sites.

1.5 To the north west of the main shopping area, the bus station is particularly bleak and unwelcoming. It is exposed to wind and weather, and could be brightened up by painting and landscaping. The poor quality bus station buildings also need refurbishment. The unattractive rear elevations of adjacent properties could be improved by some clearance, reconstruction and redecoration. Links into High Street and other streets could be signposted and pedestrianised.

1.6 West of the bus station sites have been identified by the Borough Council as having potential for commercial development. At present the areas are open grassland which could be readily improved by tree planting, and other landscaping to screen or shelter the bus station and improve views west from the town centre towards the Technical College.

1.7 The appearance of the large car park at the Technical College could be broken up by more planting and landscaping, and there is scope for flower and tree planting on both sides of the River Taff to create attractive walks along the Avenue de Clichy. The large slag tip behind the Technical College is particularly ugly and needs clearance or at least landscaping by shaping and planting.

1.8 Public offices north of the town centre bear little relationship to each other in terms of position or design. They could be painted in more sympathetic colours and their environs softened by planting and better means of enclosure. Castle Square might be screened by planting or building on the west, and provision of a feature to attract people into what is now simply a windswept open area.

1.9 Further north a large public car park could be tidied using better fencing, by landscaping its approaches and tidying the banks of Nant Morlais which are now litter strewn and overgrown. The recently constructed access to a culvert does little to improve the area. It could be redesigned using more sympathetic materials and fencing.

1.10 The Railway station is an unattractive flat roofed building. It could be improved by painting, cleaning and soft landscaping such as provision of flowers. A mural painted by pupils of a local school occupies a wall facing the Station. It is only fleetingly glimpsed and could be relocated in a more prominent position.

1.11 East of the station most buildings and structures have been cleared from a large area once used as a railway goods yard. The site has considerable potential for development, something which would also remove what has become an eyesore between the town centre and the Thomastown Conservation Area to the east. The Borough Council has granted outline planning consent for a major shopping development here. Even if the future of the area remains uncertain it could be immediately improved by clearance, surfacing, refencing and use for car parking to take advantage of its location offering good access to the town centre. To the east of the station yard site, long ribbon car parks along Tram Road Side North could be improved by landscaping such as tree planting and enclosing. John Street, the main pedestrian access from housing areas east of the centre, could be improved by pedestrianisation.

1.12 The area around St Tydfil's church is one of the main approaches to the town from the A470. The surroundings of the church could be made more cheerful; it is severed from the pedestrianised shopping area; the southern parts of High Street, although run down, are attractive and have the potential for improvement. Much of the area of southern High Street and the church environs lies within a Commercial Improvement Area. There is scope to improve appearance of the southern part of High Street and areas between it and the railway. There is also scope to landscape the area north of Court Street and east of High Street by planting and providing improved means of enclosure to screen and enhance buildings. South of St Tydfils church the area around the Robert and Lucy Thomas Fountain could be improved to take advantage of its prominent position on the main southern approach to the town centre. The impact and value of the fountain

is considerably devalued by its poor quality environment. The redesign of seating and openspace areas, is desirable. Alternatively the Fountain could be resited in a more central location in the town shopping area.

1.13 There is considerable scope for other improvements throughout Merthyr particularly by landscaping areas of poorly used land which sometimes link attractive features, finding new uses for old and abandoned buildings, improving the structure and physical environment of older housing areas by enveloping and other schemes and by rehabilitating industrial areas. An important consideration should also be restoration, conservation and management of the remaining stock of buildings, and other features from the town's industrial past. This would improve the environment and create employment directly in the restoration work and indirectly in the service and tourist trades. There is a need to act swiftly to preserve remaining structures from destruction by new development or natural deterioration. Many have already either been lost or encroached upon by development, and it is essential to recognise the longer term potential which these assets could provide for the town's economy and environment. Work is already in hand to restore Dowlais Stables and other Schemes are planned. The sort of projects undertaken at Ironbridge Museum in Shropshire could be repeated with the prospect of equal success in Merthyr.

2. ABERDARE CENTRAL AREA AND APPROACHES

2.1 Aberdare, serves a smaller population and hinterland than Merthyr. The town centre is smaller, more compact and has seen less redevelopment. Completion of the by-pass has opened up new views of the town and its approaches. Many properties not previously seen at close range are now exposed and the general appearance of the approach could be improved by planting, screening, building repairs and renovation. Similarly a more attractive approach from the bypass to the main commercial area would be a major improvement. The area east of the bypass near the railway station would benefit greatly from sensitive landscaping and planting. If, passenger rail services were reintroduced thought could be given to improving pedestrian access to the station.

2.2 The area between the bypass and Duke Street is being redeveloped. A new police station is proposed on the southern section while a new bus station and commercial/entertainment facilities are proposed on remaining

areas in accord with the adopted local plan. The design of buildings for these sites will be crucial for the future of the town because they occupy such a prominent position on the approach to the centre. It is important that they are of the highest possible quality. There is also scope to improve the western side of Duke Street. Improved property around Aberdare Market is particularly attractive, some of it undertaken using Urban Development Grant money, and further commercial development should be encouraged on the Western side of Duke Street. A rear access to Tesco and the market should be considered.

2.3 Market Street offers offers scope for pedestrianisation and a particularly attractive area could be created using the street and triangle of land alongside Aberdare Market as an open market. Here, too, tree planting and shop refurbishment could achieve much.

2.4 The pedestrianisation of Commercial Street is in hand. Paving and appropriate furniture will be used to make the street more attractive, while improvement to the appearance of shops is also vital. The local plan proposes pedestrianisation in Victoria Square. This could be linked with shop refurbishment - and redesign of the areas around the Memorials at each end of the "square" to produce a much more attractive area in the town centre.

2.5 Further west off Victoria Square the Rex Cinema and its surroundings could be redecorated, cleared and redesigned to complement St Elvan's, a particularly fine church being cleaned and repaired. The area could be tidied, trees and shrubs planted and the immediate environs enhanced. The view from Commercial Street and Canon Street would also be improved by clearance of some untidy development and treatment of the large paved area at the junction of these streets to create a more pleasant sitting and meeting area.

2.6 There is scope to improve the appearance of Cardiff Street by painting buildings, repairing, and refurbishing as appropriate and by redeveloping or using the now disused buildings of the Church in Wales Infants School in Cross Street. The area at the southern end of Cardiff Street presents considerable scope for upgrading, while nearby houses may be suitable for enveloping or block repair.

2.7 Canon Street contains small shops with facades and upper storeys in need of repair and repainting. The facades of large buildings on the street are also in need of repair and refurbishment. There may also be opportunities to envelope or carry out block repairs to houses to the north of Canon Street.

2.8 Along Bute Street, which runs parallel to Cardiff Street there are rows of terraced houses most of which seem to be in some disrepair. It might be worth enveloping these properties.

3. SUMMARY

Even a brief examination of the approaches and central areas of Aberdare and Merthyr Tydfil indicates that, although there has been substantial and worthwhile public and private investment, there is considerable scope for environmental improvement and for greater co-ordination of effort and targetting of resources in community centres. The suggestions made in this Appendix are illustrative only and are offered as examples of the type of environmental improvements which could make Merthyr, Aberdare and other valleys communities more attractive places in which to live and invest.

SUBJECT
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10 DOWNING STREET

From the Principal Private Secretary

20 February 1986

Dear Joan,

THE TERRITORIAL FORMULA

The Prime Minister held a meeting this morning to discuss the territorial formula. Those present were the Lord President, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Wales, Northern Ireland, Scotland, Environment, the Chief Secretary to the Treasury and the Chief Whip. The meeting had before it the Chief Secretary's letters of 20 December and 7 February and the minutes from the then Scottish Secretary of 6 January and from the present Scottish Secretary of 19 February.

Opening the discussion, the Lord President said that the origin of today's discussion lay in the 1985 Star Chamber's conclusion that the territorial formula was unfair to England and Wales and should be examined.

The following points were then made in discussion.

It was argued that the Government's priorities for public expenditure generally could not be achieved unless there was progress in restraining Scottish block expenditure. The Scottish block had, it was suggested, some £6 billion "excess" provision since 1979, partly because of an over-generous base line at the inception of the formula. A 1983 Treasury study, which had been disputed by the Scottish Office, suggested that excess provision amounted to £900 million that year. Since then the Scottish economic position had improved relatively to some of the regions in England and Wales. The block arrangements envisaged a periodic review of the formula. It had last been reviewed 6 years ago. A review was essential now since block provision was, by definition, given free of scrutiny. Broad figures supported the case for over provision: for example, per capita public expenditure in England was £1632 compared to £1861 in Wales, £2058 in Scotland and £2461 in Northern Ireland. It had been argued in the Star Chamber that Scottish provision was falling. But this was only true if both block and non-block expenditure, including the South of

Scotland Electricity Board's repayment of loans, were taken into account. It was suggested, that the Scottish block grant was increasing at the same rate as in England and Wales.

Against this, it was argued that the Scottish public opinion did not believe that Scotland had avoided the cuts in public provision which had been experienced in England. Treasury numbers, it was argued, were random and arbitrary. Nor should Ministers enter into a highly controversial scrutiny of the formula without considering whether this was the right time to do it. It had been agreed last year not to open the formula because of doubts whether the exercise would produce much and because of the political risks. These risks were still there. If the study concluded that there was over provision in Scotland, then it had to follow that public expenditure in England and Wales should increase or be reduced in Scotland. Neither course was, it was suggested, politically feasible. Nor could the inquiry be kept quiet. It would take at least two years at a particularly crucial juncture of the Government's fortunes. Reductions in Scottish expenditure were not easily made. Some 40 per cent of the Scottish block comprised local authority current expenditure which was not within central Government's direct control. Much of the rest went on the National Health Service.

In further discussion it was argued that

- (i) Absolute cuts in expenditure were not necessary to reduce any excess provision in Scotland. This could be achieved by a lower rate of increase.
- (ii) The work of the 1985 Star Chamber had been made more difficult by some Ministers' resentment about what they perceived as over provision in the Scottish block. This had led the Star Chamber to resort to unsatisfactory expedients for trying to absorb certain expenditure, eg. ATP within the Scottish block. Experience had shown that such expedients were of extremely limited value.
- (iii) The formula system served the territorial departments well. It could only be defended if it was reviewed from time to time to confirm that it still reflected need.
- (iv) Since the outcome of a needs study would be politically controversial and would be subject to expert scrutiny, its methodology and data would have to be on a demonstrably sound basis. Such a study could not be completed before the next PES round. Even though the previous study had taken 2 - 3 years its methodology, it had been argued, had been flawed in certain respects. On the other hand, any study should avoid becoming over refined

since there was evidence that complicated formulae did not produce better results than had simpler ones.

Summing up the discussion the Prime Minister said that the Cabinet Office should arrange, in strict secrecy, for an urgent study of the existing figures of public expenditure provision within the block in England, Scotland, Wales and Northern Ireland. The Cabinet Office would also report on what flexibility there might be in the next PES round for taking any remedial action which might be agreed. The group would then resume its discussion on a possible new needs assessment in the light of the Cabinet Office report.

I am sending a copy of this letter to David Morris (Lord Privy Seal's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Robert Gordon (Scottish Office), Robin Young (Department of the Environment), Richard Broadbent (Chief Secretary to the Treasury's Office), Murdo Maclean (Chief Whip's Office), and Sir Robert Armstrong and Brian Unwin (Cabinet Office).

Yours sincerely

Nigel Wicks

N L WICKS

Miss Joan MacNaughton,
Lord President's Office



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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SECRET

Prime Minister

19 February 1986

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England }

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SCOTTISH BLOCK

George Younger minuted to you on 6 January on whether it would make sense, at this stage, to initiate a needs assessment study covering the constituent parts of the United Kingdom. I thought that it would be useful to let you, and colleagues, have my own views, coming fresh to this issue which we are now to discuss on Thursday, 20 February.

2. As far as I am aware, the only reason why we are being asked to agree to a new needs assessment study is that it is supposed that there is at present overprovision in Scotland and that, accordingly, the Scotland programme should be subjected to even larger reductions in public expenditure than were agreed in the 1985, and earlier, surveys. There seems to me, however, to be no conclusive evidence either way to show that, when account is taken of relative need, Scotland receives either a disproportionately large or small share of public funding. For the reasons George Younger pointed out in his minute of 6 January it would not be reasonable for us to base any decisions on the type or quality of information contained in the paper which the Chief Secretary circulated on 20 December. So long as needs vary in different parts of the UK so must the level of provision and I fully endorse George Younger's judgement that the Scotland programme does not represent expenditure in excess of need.

3. I must say that I have been struck very forcibly by the magnitude of the contributions from the Scotland programme which George Younger repeatedly made to assist colleagues in meeting expenditure targets. As you will appreciate, most of the savings detailed in the Annex to George's

minute were not known to me previously and I fully share my predecessor's concern about the political damage that would result if the invisible reductions already made to the Scottish block were ever to become more widely known. The effects of these reductions are already very clear. Under our present expenditure plans the Scotland programme's percentage share of the UK planning total in 1988-89 will have fallen by about 10% compared to 1985-86 and by no less than 15% compared to 1978-79. These reductions are much greater than could possibly be justified on grounds of changes in need.

4. The general economic climate in Scotland is not at all encouraging. The Chief Secretary refers in his paper to Scotland's relatively good position but the latest unemployment figures show our unemployment rate rising again to 15%. The gap between that rate and the English rate has increased to 1.8%. Average earnings in Scotland continue to run below the GB average contrary to the Chief Secretary's paper. The latest economic trends have tended to exacerbate our political problems in Scotland. The deep-felt and widespread concern about the future of our heavy industry has come to a head with the closure of the Gartcosh steel rolling mill which is perceived in many quarters as threatening the survival of the Ravenscraig plant and thus of steel manufacturing in Scotland. Burroughs, one of the sunrise industries which we are relying on to provide replacement jobs for those lost in our traditional heavy industries, has recently announced major redundancies. The recent announcement of the go-ahead for the Channel Tunnel, with all its implications for the relative future prosperity of the different parts of Great Britain, has done nothing to reduce the sense of injustice felt by many in Scotland. The recent placing of MOD orders with Vickers at Barrow rather than the Clyde, the proposed privatisation of the management of Rosyth Dockyard and associated fears of the employment consequences and the payment of cold weather supplements to claimants in parts of England when they are being refused in colder parts of Scotland are just some of the additional factors which are influencing the political climate in Scotland at present.

5. I consider that our supporters in Scotland, faced shortly with local authority elections where we will have to fight hard even to maintain our existing position, would judge it a major political blunder for us to announce the setting up of a new needs assessment study. Such a study would inevitably be regarded as a device to cut expenditure

provision in Scotland. Nor would it be possible, as George Younger earlier made clear, to avoid any public announcement. If the study were to proceed, it would be essential for its existence to be disclosed from the start and its results published like those of its predecessor. Moreover, if it is to have sufficient credibility it will have to devise a new methodology rather than simply update the previous study and that will require a very considerable amount of careful work. It goes without saying that such a study would have to cover all the territories of the United Kingdom and not Scotland alone.

6. I am not convinced that this work would be justified. One of the major flaws in the present proposal seems to me to be the lack of consideration about the practical problems of doing anything with a study's results, once they are available. If a study were to show that Scotland or any other territory was underprovided, public expectations would be aroused that that shortfall would be made good by an additional allocation of public expenditure provision from the Treasury. Conversely, were a study to show overprovision in Scotland (and similar arguments would apply to Wales, Northern Ireland and England) there would be enormous political and practical difficulties in cutting provision. Forty per cent of my programme's provision is for local authority current expenditure, over which I do not have direct control; of the rest almost two thirds is accounted for by my health programme for which we have specific manifesto commitments and by my agriculture and industry programmes, and nationalised industries' EFLs which, of course, fall outside the block and provision for which is already negotiated direct with the Treasury. Are we collectively willing to face the consequences of sacking nurses, closing hospitals and reducing the size of the police force merely because there are fewer somewhere else? I do not believe any of these options would be either practical or politically realistic. To go ahead with a study would consume a large amount of resources and divert staff in virtually

every Whitehall Department from more productive tasks, for an outcome which would be at best uncertain, and which at worst holds out the prospect of lasting damage to the Government's credibility.

7. I am copying this minute to Willie Whitelaw, Norman Tebbit, Kenneth Baker, Nicholas Edwards, Tom King, John MacGregor, John Biffen, John Wakeham and Sir Robert Armstrong.

MR

M.R.



PRIME MINISTER

12 February 1986

MT

SCOTLAND

Scotland is one of the few targets left over from from the 1985 Star Chamber so the Treasury and Viscount Whitelaw are rightly keen to pursue it. There is no reason to doubt the Treasury estimate of £900 million of over-provision compared with England.

Here are some examples:

	<u>England</u>	<u>Scotland</u>
NHS beds per 1,000 people	7.5	11.3
Pupil/teacher ratios	18.5	17.3
Proportion of road schemes which don't make a reasonable return	14.0%	28.0%
Proportion of housing lacking basic amenities	5%	2.8%

The NEB has disappeared but the Scottish Development Agency and the Highlands and Islands Development Board continue to flourish. Under the guise of stopping devolution Scottish Secretaries are delivering it - your economic policies stop at the English Border.

The Treasury and Viscount Whitelaw now want a Needs Assessment Study to provide public cast-iron confirmation of excess provision. This should force the Scots to concede more than they did last year.

But you will want to satisfy yourself on three points:

- i. Tight timetable. An agreed report has to be ready by August to be of any use in the next PESC round. The last study took over 2 years. The spending departments have every interest in dragging their feet. Full time consultants will make things easier. You should stress the urgency of the report. It would be a sad irony if the need for further work on the Study kept Scotland out of the firing line in the next PESC round.
- ii. What can we get out of it? Before embarking on a politically sensitive exercise, which is bound to leak, we need a reasonable prospect of good savings. Despite the political pressures for spending in Scotland, we need cuts of well over £100 million for 1987/8 rising cumulatively to make the exercise worthwhile.
- iii. Ulster. The main target is Scotland. But because the Treasury have to appear open-minded, they are also going to study Wales and Ulster. There may be some over-provision in Ulster as well, but there are obviously political sensitivities in investigating it. Ulster should be excluded from the exercise: any cuts here

should follow after obtaining American and European money.

Ultimately, the question is a political one. The position of the Conservative Party in Scotland is so bad that it might not deteriorate any further. And the envious North of England might even welcome an attack on the pampered Scots over the Border. On the other hand, successive Secretaries of State have got immensely steamed up on the subject.

We recommend going for a quick study. But if tomorrow's meeting can't agree on this, you need a fall-back position. This is to keep the threat of a study hanging over the Scots so as to extract big concessions. Would Malcolm Rifkind offer, say, £50 million of cuts as an alternative to the Study?

David Willetts

DAVID WILLETTS

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PRIME MINISTER

The Territorial Formula: Case for a New Needs Study
(Meeting of Ministers after Cabinet on Thursday, 13 February)

This meeting, prompted by last Autumn's Star Chamber and the Cabinet public expenditure discussion on 7 November, has been postponed for some weeks. A decision is, however, urgent if a study is to be completed in time to affect the outcome of this year's Public Expenditure Survey.

att.
2. On the substance, there is little to add to my briefs of 7 and 8 January. I understand Mr Rifkind will strongly support the line (hard opposition) taken by Mr Younger. It may, however, be helpful briefly to recapitulate the main points on which conclusions should be reached tomorrow. These are:-

(i) Should there be a fresh needs study? This is primarily a political decision. But there is no prospect of significant public expenditure savings on the Scottish block (some £6.5 billion) without a fresh formula to justify them. The evidence of over provision in Scotland since the last published study in 1979 is at least a strong prima facia case for a new study. 7 years is in any case surely long enough for one formula to remain unexamined and unchanged. The Lord President and the Star Chamber strongly favoured such a study.

(ii) If so, how should it be organised and on what time scale? On time scale, we should really aim for completion by the summer, so that Ministers can take decisions on it immediately after the summer holiday. This will be very tight, and the Scottish Secretary will argue for something much longer and more thorough - perhaps taking a couple of years. On procedure, a key question is whether it would be acceptable to employ outside consultants, or whether the study should be done

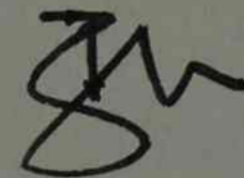
SECRET

entirely in-house (in either case working under a neutral Cabinet Office steering group). I favour the former, which would probably be quicker, but suggest you instruct me to consult urgently with the Departments involved and to bring forward detailed recommendations (which might be cleared in correspondence) very quickly;

(iii) If a study is agreed, should this be publicly announced? Knowledge of a study would almost certainly leak. This could be more damaging than coming clean in an appropriate low key statement from the start, which made it quite clear that decisions on the outcome remained entirely open (a possible text is attached to my minute of 7 January). However, the judgement here is very much one for the Scottish Secretary in the light of the reaction he would expect in Scotland to the fact of a new study.

HANDLING

3. As before, I suggest you ask the Lord President to remind the Group of the Star Chamber's recommendation and the background to the present proposal. You will then want the Scottish and other Territorial Secretaries and the Chief Secretary to argue their respective corners.



J B UNWIN

12 February 1986
Cabinet Office



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10 DOWNING STREET

From the Principal Private Secretary

7 February 1986

MEETING ON THE TERRITORIALS FORMULA

The Prime Minister agreed that Mr. Brittan, then Secretary of State for Trade and Industry, should be a member of this group. This was not so much because of his responsibility as Secretary of State for Trade and Industry but because he was a northern MP.

The new Secretary of State for Trade and Industry, Mr. Channon does not represent a northern constituency, and the case therefore for his membership is much weaker.

In these circumstances the Prime Minister has agreed that the Secretary of State for the Environment, Mr. Baker, should be invited to the meetings of the group instead of Mr. Channon. I have explained to Mr. Channon's office the reason why their Minister is not being invited.

(N.L. Wicks)

Michael Stark, Esq.,
Cabinet Office.

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NLS Ryde.

ad de - invite
Mr Channon
PRIME MINISTER

Could you pl invite Mr Baker to the meeting planned for after Cabinet on 13 Feb.

MEETING ON THE TERRITORIALS FORMULA

Both their offices (Tues) of the change of membership N.L.W.

You agreed that Mr Brittan should be a member of this group. 7.2.
This was, I believe, because he was a Northern MP rather than because of his responsibilities as Secretary of State for Trade and Industry.

Do you want Mr Channon to be a member? He has no Northern constituency interest. An alternative might be Mr Baker who might be expected to take a firm line in view of the less favourable treatment meted out to the English regions.

Other members of the committee are:-

- Secretary of State for Scotland
- Secretary of State for Wales
- Secretary of State for Northern Ireland
- Lord Privy Seal
- Chief Secretary, HM Treasury
- Chief Whip
- Lord President

Shall we invite Mr Baker instead of Mr Channon?

↓
Yes not

AK

Mr Baker is attending
13.2.86.

N.L.W.

N L Wicks

6 February 1986

SECRET

P 01864

MR WICKS

The Territorial Formula

Letter of 20 December from the Private Secretary to
the Chief Secretary to the Private Secretary to
the Secretary of State for Scotland:

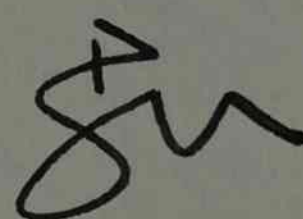
Letter of 6 January from the Secretary of State
for Scotland to the Prime Minister

1. We have discussed briefly the above letters which reached me after I had submitted my brief for tomorrow's meeting (P 01859). I do not think they affect the substance of my brief, but you may like to have at hand the following supplementary comments.
2. The letter from the Chief Secretary's Office (which the Treasury assure me the Scottish Secretary asked for) covers a "charge-sheet" of material on over-provision in the Scottish block, some of which is contained in my own brief. It argues in essence that compared with 1976/77 Scotland has increased its relative share of public expenditure compared with England, while the relative deprivation of Scotland has been largely eliminated.
3. The Scottish Secretary's reply rejects the proposition that public expenditure provision should be in inverse proportion to indices of prosperity, and asserts that the Scottish block does not represent expenditure in excess of need. He argues that he has more effective control over local authority spending than exists in England; that his programmes are increasing by only 0.3 per cent over the next 3 years, compared with 10.8 per cent for Government expenditure for the UK; and that the Scottish block is planned to increase by only 7.9 per cent compared with 10.8 per cent for all government expenditure. He therefore argues that there is no justification for launching a needs assessment study, which would be seriously politically damaging.

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4. I am sure that many holes could be picked in Mr Younger's arguments. For example, much of the increase in UK public expenditure is on programmes such as social security which are provided on a GB basis, so that Mr Younger is not comparing like with like - when this is taken into account the marginal changes in Scotland are virtually the same as those in other parts of the GB, so that the over provision already inbuilt into the block is being perpetuated. Again, the large negative EFL for Scottish electricity depresses the Scottish total, and Mr Younger's claims of savings of well over £200 million in each of the 1985 PESC years seems significantly and misleadingly overstated.

5. However, I think it would be a great mistake to get into detailed argument of this kind at tomorrow's meeting. Its main purpose should be to decide whether a fresh study of the formula should be undertaken, and not to reach a conclusion on whether there is actually over provision. In fact, to my mind, the Scottish Secretary's letter itself demonstrates that there is at least a prima facie case for a systematic, independent examination of the block grant arrangements. But against this must, of course, be set the political difficulties which the Scottish Secretary foresees.



J B UNWIN

Cabinet Office
8 January 1986

PRIME MINISTER

8 January 1986

SCOTLAND

Scotland is the only juicy target left over from from the 1985 Star Chamber so the Treasury and Viscount Whitelaw are rightly keen to pursue it. There is no reason to doubt the Treasury estimate of £900 million of over-provision compared with England.

Here are some examples:

	<u>England</u>	<u>Scotland</u>
NHS beds per 1,000 people	7.5	11.3
Pupil/teacher ratios	18.5	17.3
Proportion of road schemes which don't make a reasonable return	14.0%	28.0%
Proportion of housing lacking basic amenities	5%	2.8%

Your wider economic philosophy is not fully applied in Scotland. The NEB has disappeared but the Scottish Development Agency and the Highlands and Islands Development Board continue to flourish. Under the guise of stopping devolution George Younger is delivering it - your economic policies stop at the English Border.

SECRET

- 2 -

The Treasury and Lord Whitelaw now want to try a Needs Assessment Study, to provide public cast-iron confirmation of excess provision. This could force George Younger to concede more than he did last year.

But you will want to satisfy yourself on three points:

- i. Tight timetable. An agreed report has to be ready by August if it is to be of any use. The last study took over 2 years. The spending departments have every interest in dragging their feet. It would be a sad irony if the need for further work on the Study kept Scotland out of the firing line in the next PESC round.
- ii. What can we get out of it? Before embarking on a politically sensitive exercise, which is bound to leak, we need a reasonable prospect of good savings. Despite the political pressures for spending in Scotland, we need cuts of well over £100 million for 1987/8 rising cumulatively to make the exercise worthwhile.
- iii. Ulster. The real target is Scotland. But because the Treasury have to appear open-minded, they are also going to study Wales and Ulster despite the obvious political sensitivities in investigating Ulster. Why bother, when nobody is expecting any change in the end? Ulster should be excluded from the exercise.

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- 3 -

Ultimately, the question is a political one. The position of the Conservative Party in Scotland is so bad that it might not deteriorate any further. And the envious North of England might even welcome an attack on the pampered Scots over the Border. On the other hand, George Younger is reported to be very 'emotional' on the subject and may well threaten to resign.

If tomorrow's meeting doesn't agree on a Study, the fall-back is to use the threat of one to extract big concessions. Would George Younger promise, say, a further £50 million of cuts in the next year's Star Chamber under the pressure of such threats?

David Willetts

DAVID WILLETTS

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SECRET

P 01859

PRIME MINISTER

The Territorials Formula: Meeting with Ministers
at 2.30 pm, Thursday, 9 January

The following Ministers have been invited to this meeting:-

Lord President
Secretary of State for Trade and Industry
Secretary of State for Scotland
Secretary of State for Wales
Secretary of State for Northern Ireland
Lord Privy Seal
Chief Secretary
Chief Whip.

Its main purpose is to decide whether there should be a fresh study of the "formula" for determining the amount of certain public expenditure in Scotland, Wales and Northern Ireland; and, if so, to determine the timescale of such a study and how it should be organised. As explained below, the case for reconsideration of the present formula (derived from the published 1979 needs study, based on 1976-77 data) is a strong one; but the Secretary of State for Scotland can be expected to resist the proposal vigorously on political grounds.

BACKGROUND

2. You held a similar meeting to discuss a proposal of this kind in November 1984. You then concluded, in face of opposition from the Scottish Secretary, that it was doubtful whether a new study would achieve much; that it presented real political dangers for the Government; and that it would be better to trim Scottish programmes as and when opportunity arose, rather than through a "very conspicuous exercise".

SECRET

3. Pressure for reconsideration of this decision arose in the Star Chamber exercise last October when the scope for "trimming" the Scottish budget turned out in practice to be very small. Although the Scottish Secretary appeared to agree in principle that Scotland was over-provided and that it would be reasonable for him to make a greater contribution to public expenditure savings, in practice he was unwilling for political reasons to make any visible cuts, and the scope for invisible adjustments turned out to be disappointingly small. Although some transfers were agreed from the Scottish block in favour of the arts programme, ATP, and certain local authority expenditure, the amounts were small and well short of the Star Chamber's wishes. In consequence, in his report to the Cabinet on the work of the Star Chamber (paragraph 15 of C(85)26), the Lord President reported the Star Chamber's judgement that public service provision in Scotland was now generally too high in relation to comparable provision in England and Wales, and recommended that there should be a fresh assessment of need to serve as the basis for allocation of public provisions as between England, Scotland, Wales and Northern Ireland. The objective would be to establish new baselines for the territorial block provisions, and a new mechanism for adjusting those baselines in the light of future economic, demographic and other relevant changes; and to complete this work in time for decisions in the 1986 Survey.

CASE FOR A NEW STUDY

4. There appears to be ample evidence of substantial over-provision in Scotland; some over-provision in Northern Ireland; but none in Wales. All the territories seem to have improved their position, relative to England, since the last published study in 1979, which also showed major over-provision in Scotland.

Scotland

5. The Scottish block totals some £6.5 billion, and covers all major programmes within the Secretary of State's responsibility, except

2,461
2,058
1,861
1,632

SECRET

Block provision -
automatic
scrutiny.
free from

industry and agriculture. The latest evidence of over-provision derives from a Treasury internal study of 1983. This pointed to an excess of expenditure over need, of the order of £900 million. The reason for this was partly the excessive baselines already built into the formula; and partly falling population.

6. There is also a good deal of other supporting evidence. For example, a comparison of expenditure growth trends shows the Scottish block as far above the level needed to maintain its share of equivalent English expenditure at 1976-77 value. On a per capita basis, Scotland receives £2,058 against £1,706 for the UK average. This preference is geared to a state of relative deprivation that no longer exists. On GDP per capita, at 96% of the UK average, Scotland now ranks behind only the South East and East Anglia of UK economic planning regions; on personal disposable income per capita it scores 95 per cent of the UK average. And even on seasonally adjusted unemployment the gap has considerably narrowed (last month's figures showed Scotland at 14.9 per cent compared with a UK average of 13.2 per cent). On average weekly earnings Scotland now ranks above all the English regions except the South-East. In short, the average Scotsman is now virtually as well off as the average Englishman and better off than several English regions which receive no public expenditure preference.

7. Annex A attached also contains some telling comparative indicators of output, covering all major block programmes.

Northern Ireland

8. The Northern Ireland block totals £4.3 billion, and covers all major programmes within the Secretary of State's responsibility (including social security and industry). Anecdotally there is strong evidence of over-provision, but objectively the evidence is less strong than for Scotland. The internal study carried out by the Treasury in 1983 pointed to a £400 million excess of expenditure over need, but half of this was attributable to law and order where special factors obviously apply. Special factors in Northern Ireland may also justify

SECRET

some part of the remaining £200 million excess; but there is evidence of over-provision in health and housing.

Wales

9. The Welsh block totals some £2.5 billion and covers the same programmes as in Scotland, except law and order. Work by both the Treasury and the Welsh Office suggests that expenditure is broadly in line with need, and the Welsh Secretary has generally been ready to acknowledge this and to accept the case for the territorial blocks to be checked against need every few years.

10. The Scottish and Northern Ireland Secretaries are likely to dispute the above evidence as anecdotal and inconclusive. But there seems little doubt that in equity, and in order to secure a more rational allocation of public expenditure, it is high time for a fresh study to be undertaken. The last full study took place six years ago in 1979, and circumstances have clearly changed since then. The Treasury conducted an internal study in 1983, but the Scottish Office refused to cooperate in this and do not accept its findings. The main argument for not doing a fresh study is a political one, and it is on this that you will want to hear the views of your colleagues not directly concerned.

FORM OF NEW STUDY

11. If you decide that there is a case for a new study, I do not think it is sensible to try to settle the detailed arrangements and methodology at this meeting, but it is most important to settle the timescale. Mr Younger is likely to argue that a worthwhile study cannot properly be done in less than 2 to 3 years. If, however, the study is to be of any immediate operational use, it ought, as the Star Chamber recommended, to be completed in time to be fed into decisions in the 1986 Public Expenditure Survey. This would mean completing the study, and reporting to Ministers, by about the end of August. So, allowing for time to get the work under way, we should be talking of

SECRET

a study of six months duration, or not much longer. This would be a very right timetable; but the Treasury believe it to be possible.

12. I suggest, therefore, that if you agree in principle on a study on this timescale, you should invite the Cabinet Office, in consultation with the Treasury and the Territorial departments (including DOE) to report back quickly to Ministers with detailed recommendations on the terms of reference and mechanics of the exercise, which might then be cleared in correspondence. This would involve inter alia identifying the main expenditure programmes and sub programmes in the territorial blocks to be covered, and the relevant objective factors of need and statistical indicators to be applied to them in order to provide an overall assessment of need for each territorial block. An obvious starting possibility would be a simplified version of the methodology used for the 1979 study.

13. So far as handling the exercise is concerned, I think that if it is to be acceptable to the Territorial Departments, it will have to be supervised by a Steering Group under Cabinet Office chairmanship. It is, however, for detailed consideration with the Departments how the substantive work might best be organised. One possibility would be a number of Departmental working parties, covering the main block programmes, that would report to the Steering Group. Another possibility would be to engage outside consultants to carry out the bulk of the work under the supervision of the Steering Group. The consultant route might involve greater risk of leaks; but it could shorten the exercise by avoiding some of the inevitable interdepartmental squabbling in official working parties. Whatever the route chosen, however, Departments must accept that, while the Cabinet Office can undertake to provide the Chairman and Secretariat of a Steering Group, the remaining manpower and financial resources for this study must be made available by them and/or the Treasury.

Fallback Position

14. If you decide, as in November 1984, that political considerations,

SECRET

not least the likely timing of the next election, again rule out any substantive new study, it would be a pity not at least to record an internal conclusion committing the Government in principle to such a study early in the next Parliament. This should also be accompanied by a clear understanding that the Territorial Departments, particularly the Scottish Office, will in the meantime make every possible effort to find ways of contributing from their programmes to public expenditure savings.

PUBLICITY

15. The Scottish Secretary is, of course, extremely concerned about the political effects of any public knowledge of such a study and has even objected to papers on the subject being circulated. It seems most unlikely, however, that if a study were launched, it could be kept secret (particularly if an outside consultant were involved) and it is for consideration whether it would be prudent to anticipate the possibility of a leak by issuing an early low key statement on the exercise. This might, for example, take the form of an inspired Parliamentary Question on the lines of the draft at Annex B, and it would be made clear, as necessary, that the question of decisions on the results of the study would be quite a separate matter, to be considered in due course in the light of the outcome. Officials could, however, be asked to make further recommendations on this when they report on the terms of reference and methodology.

HANDLING

16. You may like to begin by asking the Lord President to remind the Group of the Star Chamber's recommendation. The Chief Secretary might then be invited to state the case for a new study in greater detail, and the Scottish and other Territorial Secretaries to respond. Other colleagues will have views on the political and Parliamentary aspects of the proposal.

CONCLUSIONS

17. You will want to ask the Group to decide:-

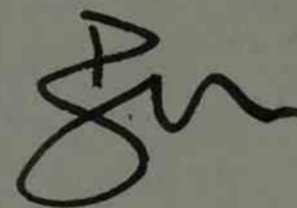
SECRET

(i) whether there should be a fresh needs study;

(ii) if so, what the timescale should be (in particular whether it should be completed in time for decisions on it to be fed into the 1986 PES exercise);

(iii) whether to instruct the Cabinet Office urgently to consider with the Departments concerned the detailed terms of reference and mechanics of the study, and to make recommendations to Ministers;

(iv) whether the possibility of a leak should be anticipated by issuing a low key Parliamentary Statement as suggested in paragraph 15 above.



J B UNWIN

7 January 1986
Cabinet Office

	<u>Scotland</u>	<u>England</u>
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Roads and transport (£597m)

Proportion of motorway or trunk road in road system -	6.3%	3.9%
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- as compared with:

- number of cars per 1,000 population	223	297
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Road schemes with negative NPV	28%	14%
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Urban motorways

Glasgow said to have highest per capita mileage in Europe

Housing (£619m):

Average local authority weekly rent	£11.44	£15.65
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- as percentage of average earnings	5.8%	8.3%
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Public sector renovations, as percentage of public sector stock	4.0%	2.3%
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Home improvement grants, as percentage of private sector stock	4.2%	1.4%
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Local authority sales, as percentage of local authority stock	1.2%	2.0%
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Dwellings statutorily unfit, as percentage of stock:

1981-82	4.4%	5.0%
1983-84	3.5%	[N/A?]

Dwellings lacking basic amenities (1981)	2.8%	5.0%
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	<u>Scotland</u>	<u>England</u>
<u>Law order and protective services (£542m):</u>		
Population per police officer	390	409
<u>Education (£1,755m):</u>		
Pupil/teacher ratio	17.3 (excluding Highlands and Islands)	18.5
Institutional costs per student (in the majority of cases where Scottish courses last for 4 rather than 3 years as in England)	133%	100%
Teacher training:		
Staff/student ratio	8.4:1	11.1
Unit costs	£3,803pa	£3,000pa
<u>Health and PSS (£2,424m)</u>		
Health expenditure per capita	£308.5	£244
Hospital beds per 1,000 population	11.1	7.3
Health authority staff per 10,000 population	252	186
General practitioners per 10,000 population	6.0	5.0

SECRET

ANNEX B

Possible Parliamentary Statement

Q. To ask the Prime Minister, if she will make a statement about the geographical basis of public expenditure.

A. The Government have set in hand a technical study of relative needs and standards of public service within the four countries of the United Kingdom - England, Scotland, Wales and Northern Ireland. These matters are subject to periodic and routine review, and no special significance is to be attached to this study.

SECRET



Prime Minister

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

6 January 1986

SCOTTISH BLOCK

1. We are due to meet on 9 January to discuss the proposal for a fresh assessment of the need for public expenditure in each part of the United Kingdom following the consideration by Cabinet on 7 November of the 1985 Public Expenditure Survey. The Chief Secretary circulated a note of alleged over-provision in the Scottish block.

2. The Scottish block has been the subject of a sustained attack by the Treasury for the past six years on the grounds of alleged overprovision. The Treasury case was originally founded upon the results of an interdepartmental study, prepared in the context of devolution in 1977-78 and published in 1979, of the relative public expenditure needs in the constituent parts of the United Kingdom. In spite of the substantial resources allocated to the work the published report acknowledged that the study was deficient in a number of important respects. It certainly could never have supported overt cuts on the basis that Scotland was doing too well.

3. About a year ago you, the Lord President, the then Chief Secretary and the territorial Secretaries of State looked very carefully at the case for embarking on a new study. We decided not to proceed: you doubted whether such a study would achieve much and you accepted that it presented real political dangers for the Government. Nevertheless in order to further our policy of reducing public expenditure, I agreed that officials from the Treasury and the Scottish Office should conduct a detailed study of the extent to which further invisible cuts might be made from my programmes. This was completed by the summer but when the results proved to be not to their liking, the Treasury revived the idea of

a Needs Assessment Study. This proposal, set in the context of a highly prejudicial presentation of my position, appeared in C(85)26, circulated immediately prior to the Cabinet meeting on 7 November.

4. The paper which the Chief Secretary circulated on 20 December is similar in tone. It seems to suggest that public expenditure provision in different parts of the UK should be in inverse proportion to various indices of prosperity. I know of no such relationship: it certainly does not apply to public transport in the south east of England. If Glasgow does have the highest urban motorway mileage in Europe then that is merely a quirk of definition. The structure of the Scottish Office and the number of NDPBs in Scotland are irrelevant to a demonstration of need or lack of need for public services in Scotland. Again I do not understand the reference to an "uncovenanted bonus" for local authority current expenditure unless it is intended to suggest that any increase in my block, even if attributable to the workings of the formula, must by definition be wrong. In general I hope the issue can be considered without such prejudicial overtones.

5. Under most programme heads, expenditure per head of population in Scotland is greater than in England. This is no new phenomenon; it existed prior to the introduction of the block and formula arrangements. It was no surprise therefore that the Needs Assessment Study concluded that Scotland's needs were greater than England's; but there was no agreement on how these needs could be assessed objectively nor on how they ought properly to be reflected in the relative sizes of expenditure programmes.

6. In my judgement the "Scotland" programme does not represent expenditure in excess of need. The selection of statistics circulated by the Chief Secretary does not constitute a basis for action. The fact that for example, there is one policeman to every 390 people in Scotland compared to only 1 for every 409 in England proves nothing - certainly not that Scotland has too many policemen. Similarly it would be indefensible to close hospitals in Scotland and make nurses redundant simply on the grounds that - there is greater NHS provision in Scotland than in England while taking no account of the relative levels of alternative provision and the special costs of medical education. To make overt cuts in the Scottish programmes on no better basis than an

assertion that Scotland is receiving too big a share of public expenditure, would unite all Scottish opinion - including that of our own supporters - against the Government.

7. Far from handing on "uncovenanted bonuses" to local authorities, etc, I have in fact taken very substantial and successful measures to keep a tight rein on public spending in Scotland. The three areas which account for nearly four fifths of my programme are:

Local Authority Current Expenditure

I was the first to take powers to force local authorities to reduce their spending. As a result, total local authority current expenditure in Scotland which was about 12.9% of the English figure in 1982-83 looks like being only about 11.9% of the English figure in 1985-86. In addition, local authority current expenditure on housing - largely rate fund contributions to subsidise rents - has been reduced by over 25% in Scotland since 1982-83 and will be reduced substantially again next year using the powers which I have taken to fix rate fund contributions by powers which have not been taken in England.

Local Authority Capital

The capital control system which has operated in Scotland for many years is completely effective in preventing overspending in contrast to the situation in England where there have been enormous overspends in 1983-84 and 1984-85 with the prospect of more to come.

NHS

Since we introduced cash planning in 1982-83, Scottish expenditure on HPSS has increased by almost exactly the same percentage as in England (just under 21%) comparing actual spending. However, it should be noted that in 1982-83, actual expenditure in Scotland on this programme was exactly as planned whilst in England plans were exceeded by almost £200m. Therefore if estimated outturn in 1985-86 is compared with what was planned to be spent in 1982-83, England has had an increase of 22.5% compared with Scotland's 21%.

8. In addition to the consequences to my programmes which, by the working of the formula, flow from the changes agreed to comparable English programmes, I have also made substantial invisible and visible reductions to my block. The overall effect of these concessions on the baselines in my programmes, when due allowance is made for the consequences of capital overspending by English local authorities and the effects of "invisible" savings made in earlier years, is to produce the following reductions:

1986-87	1987-88	1988-89
-228.6m	-265.2m	-225.7m

The details are in the Annex. They include a number of concessions leading to visible cuts where I have agreed to make changes quite outwith the normal rules on the application of the formula or even the normal rules for aligning funding responsibilities with Ministerial responsibilities.

9. The position following the 1985 Survey (based on the figures in the Autumn Statement) is as follows:-

- a. over the next 3 years total Government expenditure for the UK as a whole is planned to increase by 10.8% whilst, over the same period, expenditure on my programme is planned to increase by 0.3%. The Times has already published a table (copy attached) which highlights the difference in treatment between the "Scotland" programme and the rest of Government;
- b. if we confine our attention simply to figures I have announced for the Scottish block (and our political opponents exercise no such restraint) expenditure is planned to increase over the next 3 years by 7.9% compared to the 10.8% for all Government expenditure as noted above.
- c. Scotland of course shares in some of the other programmes which are growing faster but there is a growing gap between planned changes in the Scottish block and changes in comparable English programmes because of all the visible reductions I made during the 1985 Survey and the consequential effects of the "invisible" cuts which I have accepted in this and previous surveys.

d. over the next 3 years public expenditure on the Northern Ireland programme is set to increase by 12.1% on the Welsh programmes by 7.1% and on the Scottish programmes by 0.3%.

On the basis of the outturn data for 1985-86 in the Autumn Statement, for every £1,000 of public expenditure in the UK, £55.1 will be spent on my programmes. By 1988-89, under present planning, for every £1,000 of public expenditure in the UK, £49.9 will be spent on my programmes. In other words the Scotland programme's percentage share of the UK cake will have fallen by about 10% over the period. By any reckoning that is a very substantial change, much greater than could possibly be justified on grounds of changes in need; it is virtually 10 times larger than the relative population change since the 1970s cited in the Chief Secretary's paper.

10. In the light of these facts, I can see no justification for launching a new Needs Assessment Study because of ~~alleged overprovision for Scotland.~~ If, however, colleagues are minded to have a study they should be aware of what would be involved. The existence of the study will have to be disclosed from the outset and its results published like those of its predecessor. Any attempt to conceal the study would be doubly damaging if the concealment did not succeed (and that seems a very real risk given the number of Departments which will have to be involved).

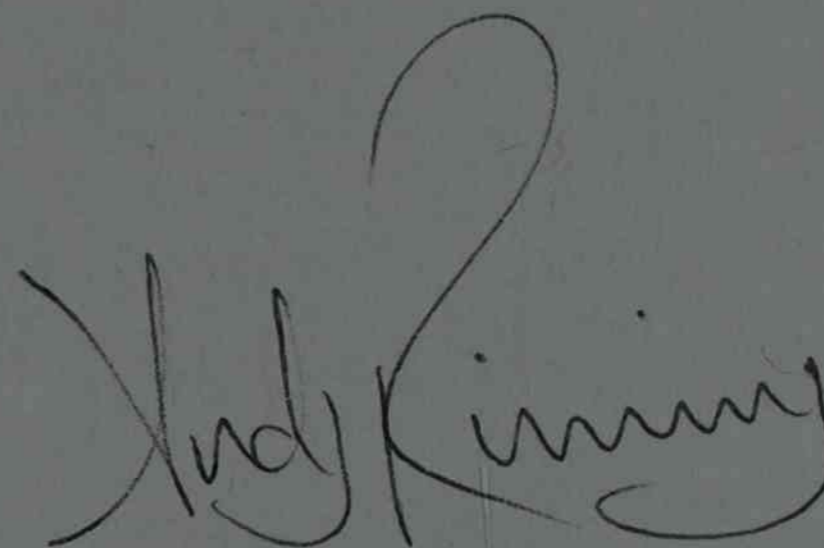
11. My responsibilities parallel those of at least nine departments and with the contributions required from the central departments as well, the resource commitments will be substantial and costly. The study will have to be comprehensive and the methodology soundly based so that the results can be publicly defensible; it will inevitably take a considerable time to complete. To achieve greater credibility than the earlier exercise, the study cannot simply be based on statistical indicators alone but must take account of the social, historical and institutional differences amongst the countries involved.


12. No matter how we seek to present it, the study will be universally recognised as a cost-cutting exercise since why else would any Government embark upon it? We will therefore be pressed from the outset about our intentions on implementing its findings. If they show that some or all of the territorial departments are under-funded the

Government will be expected to make good the shortfall with all the embarrassments that will cause; if they show that the territorial departments are over-provided the Government will be pressed to say whether or not it intends to face the political and practical consequences of redistributing provision away from those departments.

13. I conclude therefore that if colleagues insist upon a further Needs Assessment Study it will be a stick for all our backs. The political damage could far outweigh any benefits which might accrue from departing from the existing process for determining Scotland's share of public expenditure.

14. I am copying this to Willie Whitelaw, John MacGregor, Leon Brittan, Norman Tebbit, John Biffen, Tom King, Nicholas Edwards and John Wakeham.

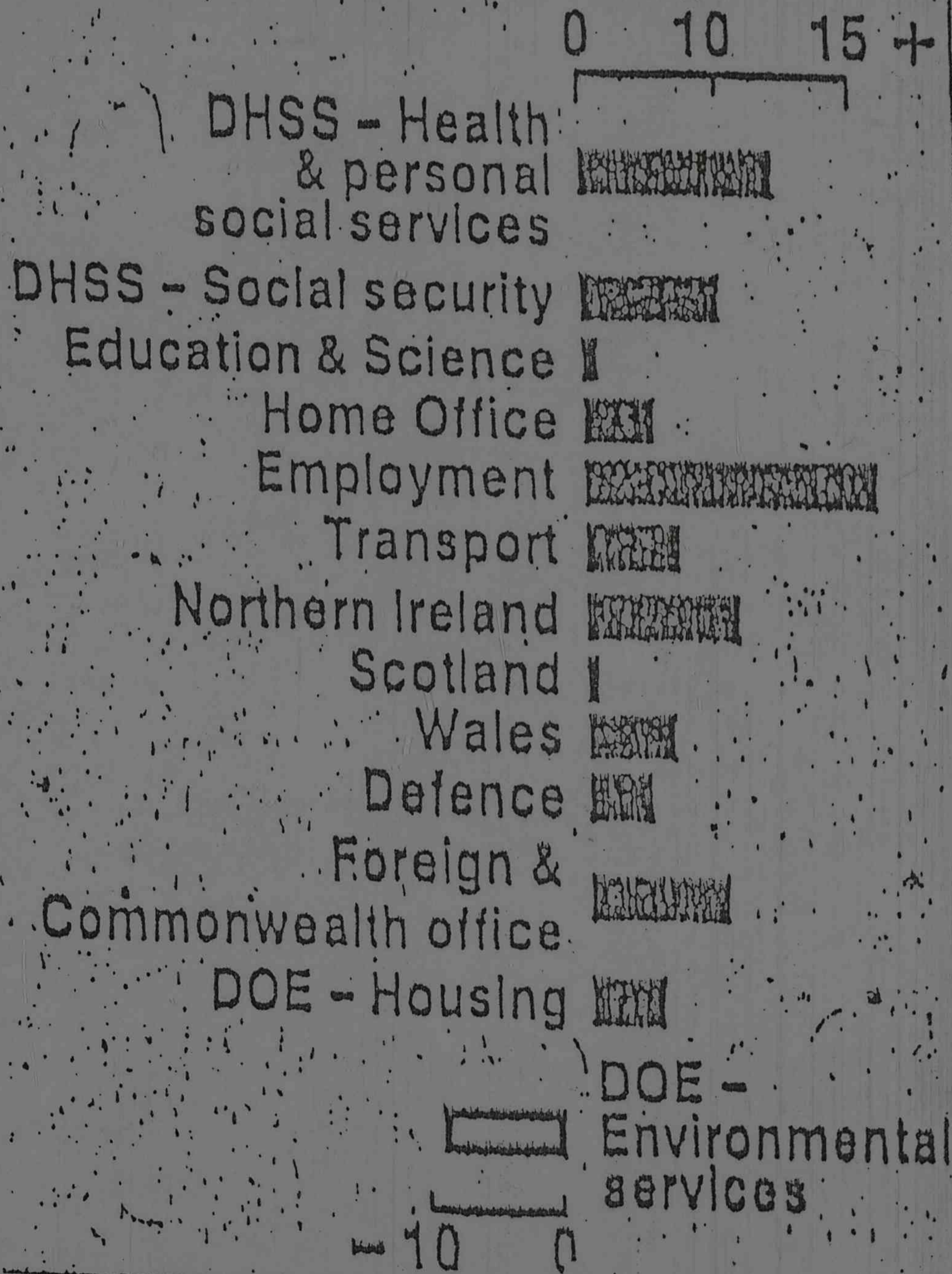


 GEORGE YOUNGER

Approved by the Secretary of
State and issued in his
absence

Public spending by Department

(Percentage increase in cash terms,
main departments 1985/86 to 1988/89)



CONCESSIONS MADE IN 1985 PES

£ million

	1986-87	1987-88	1988-89
Cumulative effect of "invisible" ⁽¹⁾ reductions made since 1980	46	66	66
Reductions in bids for Electricity Boards' EFLs	44	56	29
Reduced entitlement to Revised ⁽²⁾ Economic Assumptions for Local Authority Housing	8.7	20.7	9.6
Cuts in budgets linked with cost effectiveness studies	7	7	15.5
Switch to AEG for domestic rate rebates to offset effects of revaluation	15	0	0
Moratorium on Regional Development Grants	5	9.9	1.1
Switch to ODA for Aid to Trade programme	1.3	4	4
Switch to DES for training of Engineering and Technology students	1	1	-
Switch to OAL to support Scottish Arts Council following local government reorganisation	0.6	0.6	0.6
Consequentials of capital ⁽³⁾ overspending by English local authorities (Estimated)	100	100	100
TOTAL	228.6	265.2	225.7

Notes

(1) During the 1985 Survey, the following invisible reductions to the Block, additional to those conceded in earlier years, were given up:

£5m £10m £10m

These figures are the most that can be conceded without incurring an unacceptably high risk of detection. By the end of the present Survey period the aggregated effect of invisible reductions to the Scottish block since 1980 will be £342m. By 1978, the baseline will be nearly £70m lower than it would have been if no invisible reductions had been made. This is about 1% of the baseline. If no invisible reductions had been made but the size of the baseline had been adjusted each year to match population changes the baseline would have been higher than it is at present.

(2) The Secretary of State conceded the additions to the Scottish block arising from the application of the revised economic assumptions to PES provision for local authorities' rate fund contributions to their housing accounts.

(3) The Secretary of state has accepted this year that he will not receive additions to the Scottish block in respect of excessive capital spending by English local authorities. Such formula additions were received last year. It is difficult to quantify this concession with any precision but it could well amount to about £100m in each Survey year.

2. The results of the 1985 PES may be summarised as follows:

	Plans			
	£bn			
	Estimated Outturn 1985-86	1986-87	1987-88	1988-89
All public expenditure	134.2	139.1	143.9	148.7
Increase related to 1985-86 Estimated Outturn		+ 3.7%	+ 7.2%	+ 10.8%
Secretary of State's programmes with concessions	7.4	7.54	7.39	7.42
Increase related to 1985-86 Estimated Outturn		+ 1.9%	- 0.1%	+ 0.3%
Secretary of State's programmes without concessions	7.4	7.77	7.66	7.65
Increase related to 1985-86 Outturn		+ 5.0%	+ 3.5%	+ 3.4%

3. The effects of the concessions on the Secretary of State's programmes are as follows:-

- (a) growth in 1986-87 (compared to 1985-86 outturn) has been cut from 5.0% to 1.9% ie to virtually half the growth planned for the UK as a whole;

(b) growth in 1987-88 (compared to 1985-86 outturn) has been cut from 3.5% to -0.1%; the proposed growth for the UK as a whole is 7.2%;

(c) growth in 1988-89 (compared to 1985-86 outturn) has been cut from 3.4% to 0.3% or less than one-thirtieth of the growth planned for the UK.

4. In proportionate terms therefore and with the exception of the Secretary of State for Trade and Industry, no other Cabinet Minister has made a larger contribution to maintaining the Government's expenditure plans on an even keel. (The Secretary of State for Trade and Industry has made larger concessions by virtue of reductions in the external finance of nationalised industries, principally British Steel and the Post Office.)

ccba.

1



Treasury Chambers, Parliament Street, SW1P 3AG

Robert Gordon Esq
 Private Secretary to the
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1

20 December 1985

Dear Robert

NEEDS STUDY

At your Secretary of State's request, the Chief Secretary has agreed that I should send you in advance of the Prime Minister's meeting on 9 January, the enclosed document prepared in the Treasury, which summarises evidence of high standards of provision in the Scottish block, relative to England. Your Secretary of State agreed that it would at the same time be right to circulate the paper to those who are to attend the meeting. The Chief Secretary has asked me to remind all concerned of its sensitivity.

In circulating this paper, the Chief Secretary has asked me to make clear that in his view the purpose of the meeting is not to decide the extent or otherwise of over or under provision in your Secretary of State's, or any other, territorial block budget. It is to discuss the proposal for a needs study itself.

I am sending copies of this letter and its enclosures to David Norgrove (No 10) John Mogg (Trade and Industry), Joan MacNaughton (Lord President's Office), Colin Williams (Welsh Office), Graham Sandiford (Northern Ireland Office), David Hayhoe (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and to Michael Stark (Cabinet Office).

Yours sincerely
Richard Broadbent

R J BROADBENT
 Private Secretary

SCOTTISH BLOCK

Evidence of over-provision in the Scottish block (1986-87 baseline, £6.7b) is of three kinds:

- (a) Earlier Treasury work on expenditure/need relationship.
- (b) General expenditure indices.
- (c) Individual programme indices.

Treasury work on expenditure/need relationship

2. The results of the Treasury's internal study were discussed with the Scottish Office in 1984. On the basis of admittedly provisional and incomplete work, but using a methodology believed to be in general soundly based and applying to programmes covering 86% of the block total (then £6.2b), it pointed to an excess of expenditure over need of the order of £900m. Within the block, an excess of expenditure over need above 15% was identified for health and PSS, housing, schools, and local environmental services; for no services were expenditure levels shown as falling short of need. Over-provision was attributed partly to excessive levels of baseline provision dating back to the early 1970s, and later built into the block budgeting system; partly to a decline in relative need.

General expenditure indices

3. An independent check of general expenditure indices gives prima facie support to the evidence of over-provision in the Treasury study.

4. First, the trend of expenditure in block programmes covered by the Treasury study in 1983 showed Scotland on

1985-86 plans as £350m above the level needed to maintain the same relative share of equivalent English expenditure at 1976-77 value. More recent evidence indicates that this situation has not changed. Moreover by 1976-77, on the evidence of the earlier interdepartmental "needs assessment study" of 1979, Scotland was already substantially over-provided; while since then there is prima facie evidence that Scotland's need for public expenditure has fallen relative to England's, since its population has fallen by 0.6% in six years, while England's has increased by 0.4%.

5. Secondly, the case for geographical disparities in levels of public expenditure must rest to a considerable extent on relative levels of economic prosperity. Yet Scotland's privileged position in public expenditure - it received £2,058 per capita on the latest figures against £1,706 for the UK average - is not reflected in its relative placing in the national economic indicators, which has improved markedly over a decade. On GDP per capita, at 96% of the UK average, Scotland now ranks behind only the SE and East Anglia of UK economic planning regions; on personal disposable income per capita it scores 95% of the UK average; while on average earnings for male manuals it is 2% above the UK average. Even on seasonally adjusted unemployment the gap has narrowed considerably, Scotland now standing at 14.9% against a UK average of 13.2%; related expenditure falls largely outside the block anyway.

6. Thirdly, indices of relative expenditure levels in the field of local authority current expenditure - half the Scottish block - paint a similar picture. In 1985-86, relevant current expenditure stands at £558 per capita in Scotland, as against £466 in Wales and £455 in England. Although (as noted) high levels of provision are primarily a consequence of inherited baselines, the workings of the formula have contributed : the settlement on LA current

provision for 1985-86 gave Scotland an uncovenanted bonus, through the formula mechanism, of £47m over and above need.

7. Fourthly, a similar disparity emerges on local authority net capital provision: Scotland spends £111 per capita, as against £90 in Wales and £47 in England. (Gross provision shows Scotland at £139 per capita, Wales at £123, and England at £89.)

8. Fifthly there is the structure of the public sector in Scotland. The evidence here is deductive. Generous levels of spending must be a necessary concomitant of a federal structure of six sub-departments and four minor departments, offering scope for rationalisation, and (perhaps more so) of a total of 221 executive and advisory NDPBs. Wales, with well over half the population and a spread of functions only modestly less than Scotland's, manages with a single department and 47 NDPBs.

Individual programme indices

9. The table appended compares indicators for standards of provision as between Scotland and England, for most of the main block programmes, on the basis of the latest available figures (generally around 1983-84). The programme expenditure totals shown are 1986-87 baseline figures. In general, standards of provision might be expected to be slightly higher in Scotland, but not to the extent shown here.

10. As to education: against the background of the over-provision shown in the table, note also that the workings of the formula gave Scotland a £7m uncovenanted bonus, over and above need, in the recent teachers' pay settlement.

11. As to housing: the main points to emerge from the table are that:

- Scotland's public sector stock is, relatively speaking, twice the size of England's;

Scotland's housing conditions are no worse than England's;

- Scotland's public sector rents are very much lower than England's;
- Scotland is much better off in terms of provision for renovation of public and private sector housing (after adjusting for larger public and smaller private stock) than England;
- despite the larger number of public sector tenants in Scotland, sales performance is worse.

12. The indicators for other programmes speak for themselves.

ScotlandEnglandRoads and transport (£597m)

Proportion of motorway or trunk road in road system -	6.3%	3.9%
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- as compared with:

- number of cars per 1,000 population	223	297
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Road schemes with negative NPV	28%	14%
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Urban motorways

Glasgow said to have highest per capita mileage in Europe

Housing (£619m):

Average local authority weekly rent	£11.44	£15.65
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- as percentage of average earnings	5.8%	8.3%
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Public sector renovations, as percentage of public sector stock	4.0%	2.3%
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Home improvement grants, as percentage of private sector stock	4.2%	1.4%
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Local authority sales, as percentage of local authority stock	1.2%	2.0%
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Dwellings statutorily unfit, as percentage of stock:

1981-82	4.4%	5.0%
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1983-84	3.5%	[N/A?]
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Dwellings lacking basic amenities (1981)	2.8%	5.0%
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ScotlandEnglandLaw order and
protective services (£542m):

Population per police officer	390	409
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Education (£1,755m):

Pupil/teacher ratio	17.3	18.5
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(excluding
Highlands
and Islands)

Institutional costs per student (in the majority of cases where Scottish courses last for 4 rather than 3 years as in England)	1338	1008
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Teacher training:

Staff/student ratio	8.4:1	11.1
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Unit costs	£3,803pa	£3,000pa
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Health and PSS (£2,424m)

Health expenditure per capita	£308.5	£244
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Hospital beds per 1,000 population	11.1	7.3
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Health authority staff per 10,000 population	252	186
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General practitioners per 10,000 population	6.0	5.0
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00...

copy



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU762
Secretary of State for Trade and Industry

28 November 1985

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall SW1

Prime Minister 4

cc SR
SS

2 lines

DHS
28/11

As you may know, it is exactly one year this week since Norman Lamont (in Norman Tebbit's enforced absence) announced the new regional industrial policy, which changed both the Assisted Areas map and the grants regime.

Since the policy was introduced, my Department has developed a computerised information system which, amongst other things, breaks down, by constituency, offers of assistance to firms under the new policy.

The story we can tell is a good one: in the period from November 1984 to October 1985, we have offered a total of £305 million to firms in assisted areas - and this is only under the new policy. In addition there are all the payments we make under the 'old' regional policy, as well as the other forms of assistance we make available to firms.

I have today written to all MPs whose constituencies are affected by the new policy, telling them on an individual basis how much assistance has been offered, under the new policy, to firms in their constituency over the last year. I have, in addition, written separately to our own colleagues, urging them to use the occasion of the first anniversary of the new policy to make the most that they can, in local media terms, of what we are doing for firms in their constituency.

I have also briefed the national press, and the main regional press outlets, on how I see the new policy working after its first year.

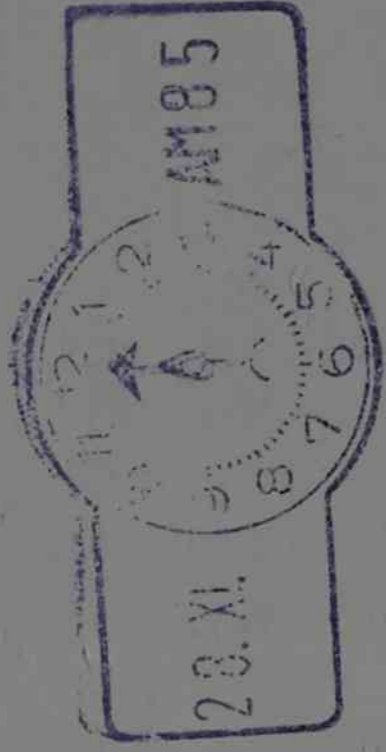


You will want to be aware that I am attaching high priority to publicising my Department's activities in support of industry in the regions. Regional news media are hungry for local stories: we need both to give them plenty of localised information, and to encourage our colleagues to make use of their local media.

Copies of this letter go to the Prime Minister, Kenneth Baker, George Younger, Nick Edwards and Norman Tebbit.

Leon,

LEON BRITTAN



SECRET



now 9.1.86.

Handwritten signature

17 Wicks
1600 - 1700
Wed 18 Dec
CR

12/11

Mrs Hughes

Arrange.

10 DOWNING STREET

From the Principal Private Secretary

8 November 1985

*NB a very sensitive
matter, so speak to P Sec when arranging it,
making clear its sensitive nature.*

NW

THE TERRITORIALS FORMULA

8.11

The Prime Minister has agreed that the composition of the small Group of Ministers to consider the "formula" for determining the amount of certain expenditures for Scotland, Wales and Northern Ireland should be:

- Prime Minister (in the Chair)
- Secretary of State for Scotland
- Secretary of State for Wales
- Secretary of State for Northern Ireland
- Lord President
- Lord Privy Seal
- Chief Whip
- Chief Secretary
- Secretary of State for Trade and Industry.

We will now set in hand arrangements for convening a meeting of this Group. However, the Prime Minister's diary is such that it is unlikely to take place this month.

Perhaps we could have a word on the telephone about supporting documentation.

NIGEL WICKS

J. B. Unwin, Esq., C.B.,
Cabinet Office.

SECRET

PRIME MINISTER

THE TERRITORIALS FORMULA

It has been agreed that a small group of Ministers should meet to consider the "formula" for determining the amount of certain expenditures for Scotland, Wales and Northern Ireland. You agreed that you would chair the group. I suggest that its other members might be:-

Secretary of State for Scotland
Secretary of State for Wales
Secretary of State for Northern Ireland
Lord President
Lord Privy Seal
Chief Whip

+ CST
agreed with
M.

Chief Sec

and possibly the Secretary of State for the Environment
(representing England).

No. DTI rep. England

If you could let me have your views on the composition, we will arrange a meeting in due course. The Cabinet Office could provide some documentation.

N.h.W.

mf

7 November, 1985

RAMADF

SECRET



10 DOWNING STREET

File
JJA
36
cc: CS/
DI
CO

cc P. Morrison

From the Private Secretary

28 October 1985

OY KAUKAS

The Prime Minister has seen your letter to me of 23 October.

The Prime Minister's decision that £4 million of the assistance for Oy Kaukas should be found from the cash limited part of the Scottish Industry programme was not taken on any assumption that the resources could not be found from within the base line provision for selective financial assistance. In the Prime Minister's view, if the Secretary of State for Scotland believes this project is sufficiently important to justify exceeding the cost per job guidelines, the extra resources should be found from cash limited Scottish programmes, whatever the position on the base line provision for selective financial assistance.

I am copying this letter to Richard Broadbent (Chief Secretary's Office), John Mogg (Department of Trade and Industry) and Michael Stark (Cabinet Office).

(David Norgrove)

John Graham, Esq.,
Scottish Office.

ECU

CONFIDENTIAL file BM



10 DOWNING STREET

From the Private Secretary

28 October 1985

SECTION 7 ASSISTANCE

The Prime Minister has seen the Chief Secretary's letter of 24 October to your Minister. She agrees very strongly that cases where the guidelines on cost per job and public sector contribution are exceeded should be very rare. She also supports the Chief Secretary's decision to make Treasury approval for such cases conditional on a reduction in the Department's provision for cash limited expenditure equivalent to the amount by which the proposed grant exceeds the maximum permitted by the guidelines.

I am copying this letter to Richard Broadbent (Chief Secretary's Office), John Mogg (Department of Trade and Industry), John Graham (Scottish Office) and Colin Williams (Welsh Office).

(David Norgrove)

Malcolm McHardy, Esq.,
Department of Trade and Industry

CONFIDENTIAL

26

PRIME MINISTER

SECTION 7 ASSISTANCE

You agreed earlier that the Secretary of State for Scotland could offer £12 million of assistance to Oy kaukas to set up a pulp mill in Scotland, £4 million above the maximum provided for under the cost per job guidelines. You made your agreement conditional upon his being prepared to find the £4 million from within his provision for cash limited Scottish expenditure.

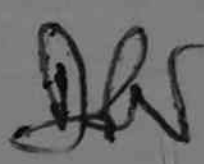
The Scottish Office say (letter at Flag A) that he is willing to transfer £4 million from his cash limited provision assuming that the money cannot be found within the baseline provision for selective financial assistance. This misses the point (or sees it all too well). Selective financial assistance is demand determined and not cash limited. If Mr. Younger wants to exceed the guidelines, he should pay for it - not the Treasury. I recommend that you make this clear.

This is particularly important since the Chief Secretary has now written to Departments (Flag B) to generalise the decision which you made in the Oy Kaukas case, saying that his approval for assistance going beyond the cost per job or public sector contribution criteria will only be given if the spending Departments agree to reduce their provision for cash limited expenditure by the amount by which the proposed grant exceeds the maximum permitted by the guidelines.

Agree:

- Yes
MF
- (i) to write confirming the stricter interpretation in the Oy Kaukas case;
 - (ii) to write to Departments supporting the Chief Secretary in a general application of the same rule?

25 October 1985


DAVID NORGROVE



Treasury Chambers, Parliament Street, SW1P 3AG
The Hon Peter Morrison MP
Minister of State for Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

24 October 1985

Dear Peter,

SECTION 7 ASSISTANCE

Thank you for your letter of 4 October about Section 7 assistance to Goodyear. *will request of 'd.*

I welcome your undertaking not to bring forward cases outside the guidelines unless you think that they can be properly defended as exceptional in regional policy terms. But I am very concerned at the number of requests for exceptional treatment put to me in the short time I have been Chief Secretary, the latest from Paul Channon in connection with the Guangdong Nuclear Project. *will request of 'd.*

As I explained in my minute of 3 October to the Prime Minister in connection with George Younger's proposal to offer grant to Oy Kaukas, I do not believe that we can accept a situation in which the guidelines are repeatedly exceeded. The risks to the job-related objective of our new regional assistance policy are clear. There are also considerable dangers for control of public expenditure.

The proposals we have yet to discuss on limiting of commitments under Section 7 of the Industry Act may in due course exert control over the expenditure, but any proposals that we agree will take time to implement and it will be some time before we know how effective they are. Furthermore, commitment limiting will not deal with the need to achieve the job-related policy objective.

Under the guidelines all cases which exceed the two quantifiable criteria - cost/job and public sector contribution - come to the Treasury for approval. I hope that these cases will be rare in future, and I shall need a great deal of

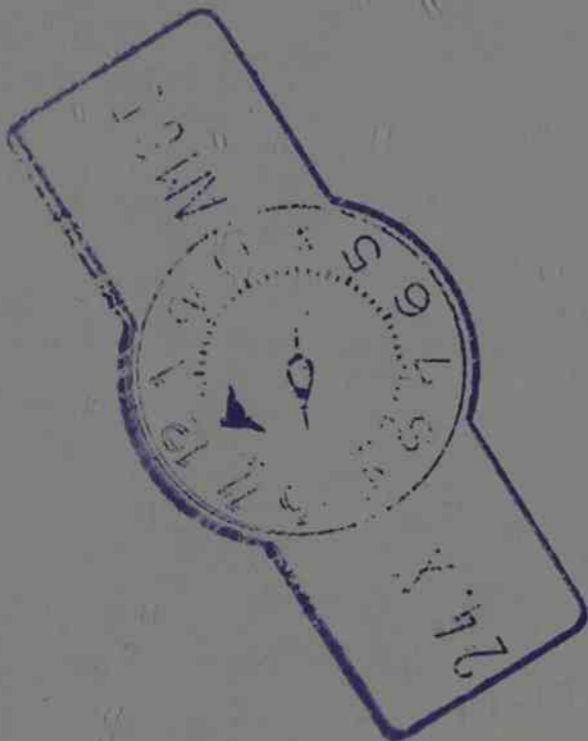
CONFIDENTIAL

convincing that other factors make it essential to give assistance breaching the guidelines. Further, I think it is only right to let you know that in such cases I propose in future to make my approval (and that of my officials) conditional on a reduction in the department's provision for cash limited expenditure, equivalent to the amount by which the proposed grant exceeds the maximum permitted by the guidelines. This procedure reflects the Prime Minister's decision in the Oy Kaukas case. My officials will provide more detailed guidance to Departments on how these arrangements will be applied.

I am copying this to the Prime Minister (in view of her involvement with the Oy Kaukas case) and to Leon Brittan, George Younger and Nicholas Edwards.

Younger,
JH

JOHN MacGREGOR





NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

cc P. Mowison

David Norgrove Esq
10 Downing Street
LONDON
SW1A 2AA

Prin Minutes

JV

23 October 1985

23/10

Dear David,

My Secretary of State has asked me to record his gratitude for the Prime Minister's agreement to the offer of assistance of £12 million to Oy Kaukas Ab, recorded in your letter to me of 17 October. The offer has been made and my Secretary of State is hopeful that this very important project will be secured.

I confirm that my Secretary of State is willing, if the company proceed with the project, to transfer £4 million from the cash limited part of his Industry programme, to provide additional provision for selective financial assistance. This assumes, of course that the Chief Secretary's original requirement, that the expenditure be covered from baseline provision for selective financial assistance, remains impossible to meet.

I am copying this letter to Richard Broadbent (Chief Secretary's Office), John Mogg (Department of Trade and Industry) and Michael Stark (Cabinet Office).

Yours sincerely,
John S. Graham

J S GRAHAM
Private Secretary

REGIONAL POLICY

REVIEW

PT 7





SRW
cc P. Morrison

10 DOWNING STREET

From the Private Secretary

4 October 1985

PROPOSED LINWOOD PULP AND PAPER PLANT

The Prime Minister has seen your Secretary of State's minute of 1 October and the Chief Secretary's minute of 3 October.

Your Secretary of State explained the great importance he attaches to securing the Oy Kaukas Ab investment for Linwood. The Prime Minister agrees that assistance of £12million may be offered to the Company, provided your Secretary of State is willing to find £4million of this from cash limited Scottish expenditure.

I am copying this letter to Richard Broadbent (Chief Secretary's office), John Mogg (Department of Trade and Industry) and Michael Stark (Cabinet Office).

(DAVID NORGROVE)

John Graham, Esq.,
Scottish Office.

CONFIDENTIAL

ECh

Prime Minister

To Mr

Agree that Mr Younger may offer of £12 m provided he is willing to find £4 m of it from within his cash limited expenditure?

MR NORRGROVE

(You could if you wished 3 October 1985

JRW

ask him to find £2 m, leaving the Treasury to find the other £2 m as they have already offered - 3/10.

LINWOOD PULP AND PAPER PLANT

but £4m would be salutary and Mr Younger can afford it.)

Mr
✓
The whole £4m

George Younger wants to break the regional policy guidelines by topping up the £8m regional development grant permissible on this project by a further £4m of selective assistance. The Treasury rightly want to draw the line to avoid further breaches of our new policy, and further subsidies from non-cash limited funds.

The industrial advantages of the project are limited. It will be highly vulnerable to shifts in exchange rates and in the market for pulp, and will not break even until around 1990. The project does not create a particularly large number of indirect jobs in its supplier industries.

Nevertheless, if the political imperatives are overwhelming then we would recommend that George Younger be permitted to top up the RDG provided that all of the extra assistance (about £4m) is found from within the existing Scottish block. This would limit the damage to our regional policy guidelines and discourage others from seeking to take advantage of the breach.

ie including £4m already offered by the Treasury

Peter Warry

PETER WARRY



FROM: CHIEF SECRETARY

DATE: 3 October 1985

CPH
cc P. MONYSON

PRIME MINISTER

PROPOSED LINWOOD PULP AND PAPER PLANT

George Younger wrote to you on 1 October about regional assistance to Oy Kaukas.

2 I was not able to agree to the proposal because it broke the guidelines for administering our regional assistance policy, and George could give me no clear assurance about the public expenditure consequences.

3 The guidelines seek to ensure that the objective of the new policy, relating to jobs rather than investment, is achieved. They lay down a cost/job ceiling of £17,000. In this case the cost/job would be £25,000. George refers to indirect jobs in forestry and clay. The cost/job ceiling relates to direct jobs - there will in all cases be further indirect job effects. This is in fact a highly capital intensive project, involving the importation of around £100 million of equipment.

4 The guidelines also test the viability and economic efficiency of proposals. This case has to rely on a presumption of a project life of 20 years, twice that normally used. Also much of the production would be sold in the United States, and therefore both viability and economic efficiency will be vulnerable to exchange rate movements.

5 I am also concerned at the public expenditure position. Regional assistance is not cash limited, and the guidelines act not only to secure value for money in terms of cost/job, but also as a restraint on the expenditure. George was unable to give me a clear assurance that the cost of this project would be contained within his PES provision.

6 My concerns are increased because this case follows a decision in June to offer £15 million of regional assistance to Digital Equipment Corporation to set up a plant at Bathgate. In that case also the cost/job was very much higher than the guideline. My predecessor was persuaded to agree to this assistance on the basis of undertakings by Norman Tebbit and George Younger that further breaches to the guidelines would be unlikely.

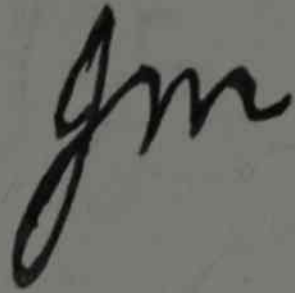
7 It was with considerable reluctance that I made a compromise proposal to George for assistance of £10 million, in recognition of his strong interest in the Oy Kaukas project, and I felt that as the amount of assistance had been negotiated downward, further effort should be made to reduce it to a level at which the cost/job guideline would be within an acceptable margin of the guideline.

8 I do not believe that we should accept a situation in which the guidelines are repeatedly ignored. This will not achieve our jobs-related policy objective, and there are very clear dangers for control of public expenditure. Whatever your decision in the case, I should be grateful if you would ask colleagues to ensure that in future the guidelines - particularly that relating to cost/job - are adhered to. If the very rare case arises where other imperatives require assistance to be given although the guidelines would be breached, the amount of assistance should be deducted from the departments' provision for cash limited expenditure.

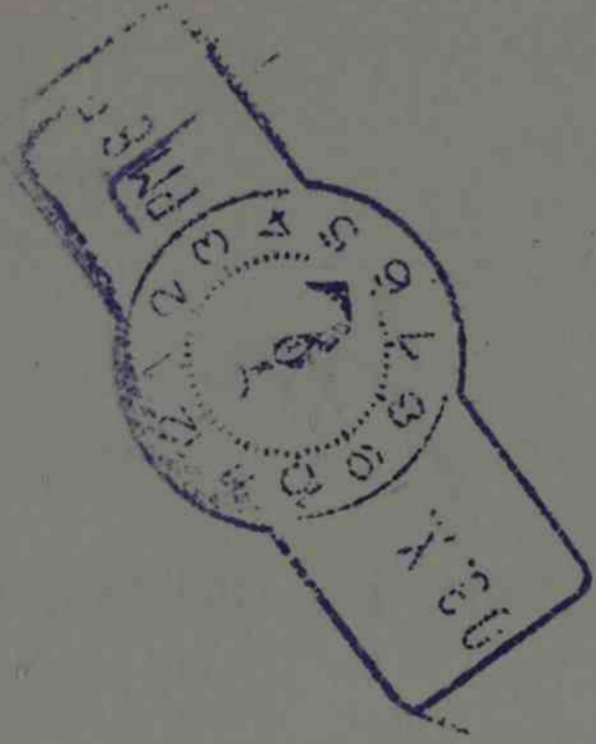
I question the need for this. If you decide that Mr Younger will have to find the £4m (or even £2m) from his cash limits, it will speak for itself in future cases. If you do not, it does not help much to circulate a general exhortation.

DHR

9 I am copying to George Younger, Leon Brittan, and
Sir Robert Armstrong.



JOHN MacGREGOR



R.



NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

cc P. Morrison

CONFIDENTIAL

Prime Minister

1 October 1985

PROPOSED LINWOOD PULP AND PAPER PLANT

1 In view of its political importance in Scotland, I must reluctantly involve you in a decision about the regional assistance to be offered to a Finnish company, OY KAUKAS AB. The company is considering establishing a major pulp and paper plant at Linwood to manufacture lightweight coated (lwc) paper. If the project goes ahead it will be one of the most substantial and promising investments in manufacturing industry in Scotland since 1979.

2 Total investment costs are around £190m and the project, if it went ahead, would create nearly 500 jobs at Linwood and up to 400 indirect jobs elsewhere in peripheral areas including the Highlands and South West Scotland from where the wood would come and the Cornish clay pits (since clay is used in the manufacturing process).

3 OY KAUKAS AB is a diversified wood processing company employing 2,800 people in Finland. It is a partner in a company manufacturing lwc paper in West Germany, which offers an alternative location for the project.

4 There is no doubt about the attractiveness of the project in industrial terms. All UK consumption of lwc paper (about 115,000 tons a year) is at present based on

imported supplies. As well as catering for the domestic market the mill would be a major exporter and the world market is estimated to grow substantially. The viability and economic efficiency of the company's plans have been very thoroughly tested. The plant would be based on our own supplies of timber which are expected to increase rapidly as forestry plantings mature over the coming decade. Without it they would face an uncertain market probably increasing the dependence they presently have on exports of wood to Scandinavia. The benefits in terms of employment and to the forestry industry are therefore obvious.

5 The decision which remains to be taken is how much regional assistance we should offer. In terms of the normal rules established last year as part of the changes in regional policy we announced then, the maximum permitted would be around £8m; this is because the cost per job calculations permit only the inclusion of the 500 jobs internal to the factory, although in this case the 400 secured outside in forestry are also a major benefit. Locate in Scotland, who have handled the detailed negotiations with the company, are clear that this will not be sufficient to win the project. They believe that a £12m package of assistance is needed (representing 7% of the project costs). The Scottish Industrial Advisory Board, who advise me on selective financial assistance offers, strongly endorsed this package when they considered the case at their August meeting. This proposed assistance though substantial is modest as a proportion of the total investment which it would secure; it compares with £35m which would have been available automatically in Regional Development Grant before the changes we made last year and an actual grant expenditure including RDG and selective assistance of £28 m on the pulp mill which went to Shotton in 1980.

£ 170m
total.

6 When the new regional aid arrangements were introduced it was agreed that offers of assistance in excess of the normal rules had to be cleared with Treasury, and John MacGregor and I have together been considering the case over the last few

weeks. He has helpfully recognised the exceptional nature of the situation and I gratefully acknowledge that he has felt able to agree to an offer package of £10m. Unfortunately, having sounded out the firm's accountants, Locate in Scotland are clear that this would not be sufficient to persuade the company to invest here. A 20% grant is available in Germany and £12m is the minimum likely to secure the project for the UK. I have given what assurances I can about the PES implications but have been unable to obtain Treasury agreement to this offer.

7 My purpose in minuting to you is to underline the political significance of the case in Scotland. On your recent visit, you will have appreciated the concern, for example, about the future of Ravenscraig and the closure of Gartcosh. Since then substantial lay-offs have been announced at Scott Lithgow. Against that background, a new major investment at Linwood, where the Talbot car factory closed some years ago, would be widely appreciated. Indeed if failure to attract such a substantial investment could be attributed to the difference between a £10m and £12m aid package our supporters in the West of Scotland would find this impossible to understand. I should add that the Finns have issued a press statement about their scheme and a good deal of the detail is known locally.

8 The timetable in terms of the company's planning is now very tight and a decision must be reached quickly. I hope you will agree that the offer of the £12m package can now be made. If a meeting would be helpful I am, of course, at your disposal.

9 I am copying this minute to Leon Brittan, Nigel Lawson and John MacGregor. A copy also goes to Sir Robert Armstrong.

G.Y.

G.Y.





SUBJECT
cc Master

MTJBBQ

le

cc JOE

10 DOWNING STREET

16 September 1985

From the Principal Private Secretary

REGIONAL INDUSTRIAL EXECUTIVE FOR THE NORTH EAST

I ought to have reported before now the general drift of the conversation at the lunch at Durham University last Wednesday when there was considerable discussion among participants about the value of a regional Industrial Executive for the North East.

All the participants, trade unionist, industrialist, academic alike, pressed the case for the Executive in forcible terms. No-one had a good word for the local authority dominated North Eastern Development Council. The Prime Minister was told that the Executive would "co-ordinate" the activities of the 50-odd agencies interested in development in the north east, and that "authority would be delegated" to the Executive by the agencies.

It soon emerged when the Prime Minister probed the case for the Executive, that its proponents were clear neither about the nature of its function nor about the authority which would be delegated to it. After some further questioning from the Prime Minister, it was suggested that the Executive might act as a "first stop" for industrialists, especially foreign industrialists, in their investigation of sites for development in the north east. The Executive could serve as a "focus" of the region's development promotion, which was, for the moment, diffused over the various agencies.

All in all, a worthwhile discussion. But I do have to say that I believe the Prime Minister was not convinced that the proponents of the Executive had worked through with sufficient rigour its precise function and method of operation. From a number of replies to the Prime Minister's questions, I think that many of the participants in the discussion would agree with that diagnosis.

I am sending a copy of this letter to Robin Young at the Department of the Environment.

John Mogg Esq
Department of Trade and Industry

SM



NBP
AT
4/7

QWJ

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Rees MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON

10 July 1985

Dear Peter,

File on B/U.

1985 PES REPORT: OPTION REDUCTIONS IN REGIONAL DEVELOPMENT GRANT (RDG) AND SELECTIVE FINANCIAL ASSISTANCE (SFA)

I have had drawn to my attention Norman Tebbit's suggestion in this year's PES Report that expenditure on RDG and SFA is a suitable candidate for option reductions. I am writing to you now to record my firm opposition to such a suggestion - though I understand this has already been registered with your officials.

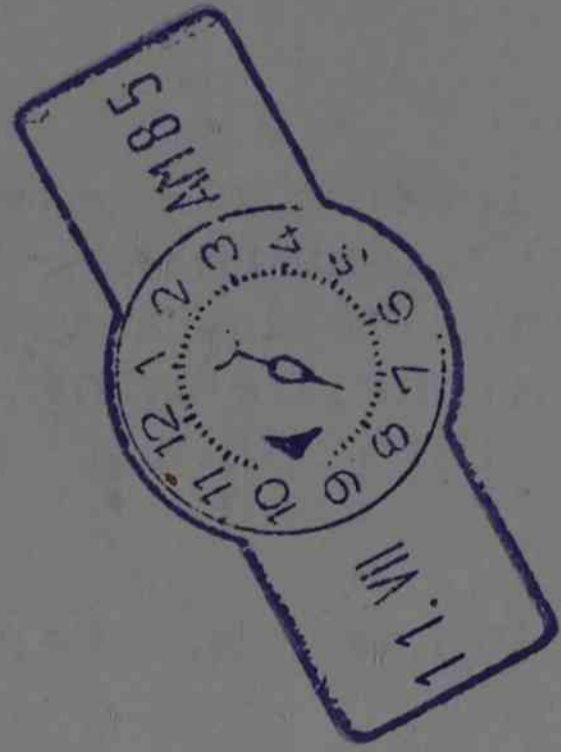
Following tomorrow's general discussion at Cabinet you will be embarking on the usual round of bilateral discussions. Before you do so I must record my serious reservations about this particular proposal. I am in no doubt that RDG and SFA are of considerable importance in the improvement of regional economies. We recognised this in our White Paper of December 1983 and in the review of regional assistance which we brought into effect on 29 November last year. We have been able to rebut robustly criticism of the changes we made not only because they were, in themselves, sensible, but also because they were effected in the context of a meaningful framework of financial assistance. Even the announcement of the 4 month moratorium on payment of RDG has been received with relatively little fuss - although I believe there are now signs, as I forecast there would be, that smaller firms are beginning to have cash-flow problems as a result. However, if we were to announce an extension of the moratorium on RDG (and I am unclear how exactly this would work) and to suspend SFA for a period, it would be tantamount to an abandonment for a time of a regional financial assistance policy. Apart from the serious setback this would be to companies in the Region, it would be a very serious blow to our efforts in securing internationally mobile investments. These efforts have achieved some striking results in recent years, but we are in a strongly competitive situation with other European countries and if we are unable

to offer the present financial incentives even temporarily, the loss of momentum will gravely undermine our credibility in the eyes of foreign companies. I believe it would also have serious political repercussions, coming, as it would, within a year of our bringing into effect a new regional financial assistance policy.

I am copying this letter to the Prime Minister and the other members of E(A).

Yours truly,

George



Press Notice

129

21 March 1985

EXTENSION FOR NORTH EAST NEW TOWNS DEVELOPMENT CORPORATIONS

N
21/2

Patrick Jenkin, Secretary of State for the Environment, told the House of Commons today that he is to extend until 31 March 1988 the life of the development corporations for the three North East New Towns, Aycliffe, Peterlee and Washington. The original target date had been 31 December 1985.

In a written answer to a Parliamentary Question from Jack Dormand MP (Easington)

Mr Jenkin said:-

"In May 1984 we sought the views of the local authorities concerned in the development of the three new towns of Aycliffe, Peterlee, and Washington on the future of these towns. We also asked other interested bodies and individuals to let us have their views. We asked for comment particularly on whether the purposes for which the development corporations were established had been substantially achieved, and on the target date of 31 December 1985 which had been set for winding up the three development corporations. The response to these consultations showed clearly the high opinion held locally of the value of the work done by these corporations, and that there was scope for this to continue. The Government has accordingly concluded that it would be appropriate to defer the winding-up date to 31 March 1988.

"Between now and then, we shall expect the corporations to pursue their work in developing industry and commerce in their towns, and with that, the generation of jobs, relying to the maximum on private investment. We shall also expect them, in consultation with the Commission for the New Towns, the English Industrial Estates Corporation (for the industrial estates), and local organisations, to prepare satisfactory arrangements for the period after 31 March 1988.

"Since 1963 Aycliffe and Peterlee Development Corporations have had the same membership. In order to simplify the management and administration of their work, we shall consult them about using the powers under section 6 of the New Towns Act 1981 to bring them into a single corporation."

NOTE TO EDITORS

In May 1984 the Department issued a consultation paper proposing that the planned wind-up date of December 1985 for all three towns should be adhered to, and that the remaining individual and commercial assets of the development corporation be transferred to the English Industrial Estates Corporation. Their promotional role would be taken on by the North of England Development Council.

Responses to the consultations showed overwhelming support in favour of retaining the three development corporations at a time when the North East faced high unemployment figures and there was much concern about closures.

Today's announcement also proposes that Aycliffe and Peterlee should merge. The corporations already have the same board membership and joint staffing arrangements and merger will simplify the administrative and financial running of the organisations.

Press Enquiries: 01-212 4682-6
(out of hours: 01-212 7132)
Public Enquiries: 01-212 3434
(ask for Public Enquiries Unit)

CONFIDENTIAL



file SH
o B Over

10 DOWNING STREET

From the Private Secretary

15 March, 1985

Dear John,

North East New Towns

The Prime Minister has seen your Secretary of State's letter to the Secretary of State for Trade and Industry. She is content with the understanding he has reached with the Secretary of State for Trade and Industry and the Chief Secretary on the future of the three North East new towns.

I am copying this letter to Private Secretaries to members of E(A), Richard Stoate (Lord Chancellor's Office) and Richard Hatfield (Cabinet Office).

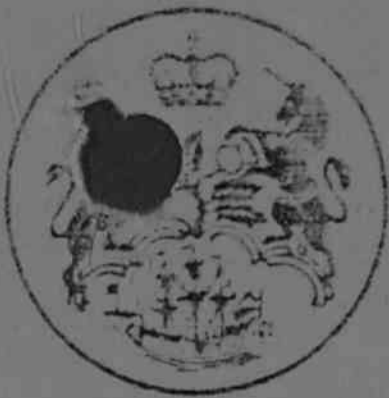
Yours sincerely
Andrew Turnbull

ANDREW TURNBULL

John Ballard, Esq.,
Department of the Environment

CONFIDENTIAL

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From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)

GTN 215)5186
(Switchboard) 215 7877

C/NO

Norman Lamont MP

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1

13 March 1985

Dear Patrick

NORTH-EAST NEW TOWNS

Thank you for your letter of 27 ^{3 February} November setting out further proposals for the future of the north east new towns' development corporations.

I agree to what you propose subject to a few points. First, we should make it clear that we stand by the original proposal to transfer the relevant assets to the EIEC on wind-up. As far as I can see, there is no other body to which they could be transferred other than the New Towns Commission, which we have already agreed would be inappropriate. Moreover, the reference to "successors which can command local confidence and acceptance" may imply that we accept the criticisms made of the EIEC by the partisan respondents to your consultation document. That reference should be replaced by the naming of the EIEC as the intended successors.

Second, we should omit your draft answer's reference to "remaining development potential" and "the need for economic growth". Both those factors will be largely unchanged in 1988, and it might not be wise to allow scope for the arguments to be re-opened then. I therefore suggest that paragraph 2 of your draft statement should be deleted, and that paragraph 1 should end with the further sentence, "The Government has accordingly concluded that it would be appropriate to defer the winding-up date to 31 March 1988".

TUBAQA



Third, your condition "c" does not square very well with "b", and I think it should be deleted. We have concluded, I think, that the New Town development corporations' job is effectively done; that being so, if any new industrial or commercial development is needed in the new towns, it should fall to be considered in the context of the EIEC's programme for the entire region. I have to say that given the enormous vacant stock, I can see little possibility of these towns being able to claim any priority.

I am copying this letter to the Prime Minister, members of E(A), the Lord Chancellor, the Lord President and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Lamont', written in a cursive style.

NORMAN LAMONT

REGIONAL POLICY: Review:

A7.

13 MAR 1986



Scotland

File

PRIME MINISTER

cc. Mr. Alison
Mr. Turnbull
Mr. Redwood

You ought to be aware that at the Chairman's weekly meeting at Central Office (this week chaired by Tom Arnold) Jimmy Goold spoke with great force about the political implications for the Conservatives in Scotland because of the rates revaluation and this view was totally back by Russell Sanderson. His main points were:-

1. In the latest NOP the Conservatives have now dropped 7 points and are now behind the Alliance. The NOP published in the Glasgow Herald on 9th March showed the parties as follows:-

	<u>Now</u>	<u>Feb</u>	<u>June '83 General Election</u>
Conservative	19%	26%	28%
Labour	47%	44%	35%
Alliance	20%	16%	25%
SNP	14%	14%	12%

2. He would do all he could to sell the recent announcement by George Younger but did not feel it would cut much ice in Scotland.
3. He warned that all of this would create immense difficulties for the conference in Perth.

I think there is a good case once Central Council is out of the way, for you to have a meeting with George Younger to discuss the Scottish Conference in general and your own speech in particular.

STEPHEN SHERBOURNE
13.3.85



AT 11/3 CCDD

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of the Environment
2 Marsham Street
London
SW1P 3EB

8 March 1985

NORTH EAST NEW TOWNS

Thank you for giving me the opportunity to comment on the arrangement outlined in your letter of 27 February to Norman Lamont.

I am pleased we have been able to agree that the three North East new towns should be wound up in March 1988 and that there should be no further new factory building by those corporations in the period of their extended life. This restriction should help us to overcome criticism from other economically deprived regions that these three new towns are being given preferential treatment.

I accept that circumstances may arise which require additional expenditure beyond the agreed gross provision of £11 million in 1986-87 and £8.5 million in 1987-88. I would however need to be satisfied that the extra development was unforeseen at the time when the towns capital programmes were committed and that the additional expenditure sought would result in clear financial benefits that could be realised in the short term (for example, expenditure which would enhance a disposal value by more than the money spent.)

I am generally content with the draft of your announcement. However, I think it is necessary, if we are to avoid undue criticism, to make it clear publicly that there will be a ban on new factory building during the extended life of these towns. I also think that if we are to ease the path for the transfer of the industrial assets to the EIEC in 1988 as proposed in your consultation document, it is unwise to imply that the assets will be transferred only to a successor which commands local confidence. The towns could use this agreement to frustrate our proposals.

Legislative Policy
A2 Lewan

CONFIDENTIAL

I am copying this letter to the Prime Minister, members of E(A), the Lord Chancellor, the Lord President, Norman Lamont and to Sir Robert Armstrong.

John van der ...

11 MAR 1985

11 12 1 2 3 4
5 6 7 8 9

PETER REES

CONFIDENTIAL

CONFIDENTIAL

D/f all departmental responses. AT 27/2

CC NO ✓



2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

Prime Minister:

This was a subject which E(A) could not take.

My ref:

Your ref:

2

Dear Newman, The deal outlined below has been broadly accepted by DTI (see letter attached)

27 February 1985

NORTH EAST NEW TOWNS

You will remember that, because of the cancellation of E(A) on 12 February, we were unable to discuss this matter in any detail. However, following a brief discussion which I had with Peter Rees at the time, we have been able to develop proposals which are, I understand, acceptable to the Treasury, and to which I do not think that you will object, since they much resemble the possible compromise discussed between yourself, Ian Gow and Peter Rees on 18 December.

13/3

The proposal is that the three development corporations would be retained until 31 March 1988, on the basis of:

- a. a reduction of £2 million in their total forecast expenditure for each of the financial years 1986/87 and 1987/88; this would tie in with the extension of the External Finance Limit form of control to all public corporations;
- b. a ban on new factory building by the corporations in the period of their extended life;
- c. an agreement to consider, on its merits, any special case for extra development by the corporations; I would, of course, accept that anything that might be agreed under this head would have to be found from within the new town programme, whatever that happens to be.

The effect of this would be to establish a total expenditure budget, for capital and revenue accounts combined, for all three towns of £11 million in 1986/87 and £8.5 million in 1987/88. Again, this would be for me to accommodate within the existing new towns programme in PESC. The precise make-up of this expenditure and its division between the three towns would be determined in the normal way.

For the reasons which I have set out in my E(A) paper, I think that the development corporations have a helpful contribution to make to the north-east as a whole. This proposal seems to achieve this aspect, while making a worthwhile contribution towards reducing public expenditure generally. Unless you, or any other of our colleagues, see major objections - in which case we shall need an early discussion in E(A) - I would propose to announce them in the form of the attached draft PQ answer.

~~CONFIDENTIAL~~

I need to make an early announcement in order to resolve the uncertainty which has been hanging over these organisations for too long.

I am sending copies of this letter to the Prime Minister, members of E(A), to the Lord Chancellor and the Lord President, and to Sir Robert Armstrong.

Yours ever
Patrick

PATRICK JENKIN

DRAFT PQ ANSWER

NORTH EAST NEW TOWNS

To ask the Secretary of State, if he has now reached a conclusion on the future of the three north-east new towns.

In May 1984 we sought the views of the local authorities concerned in the development of the three new towns of Aycliffe, Peterlee, and Washington. We also asked other interested bodies and individuals to let us have their views. We asked for comment particularly on whether the purposes for which the new towns had been designated had been substantially achieved, and on the target date of 31 December 1985, which had been set for winding up the three development corporations. The response to these consultations showed clearly the high opinion held locally of the value of the work done by the corporations.

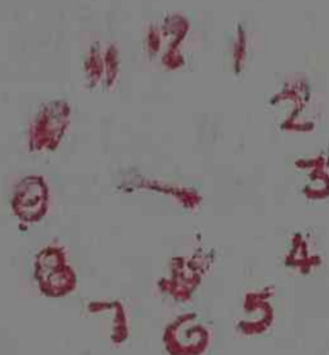
2. In the light of the development potential which remains in the three new towns, of the need of the region for economic growth, and of the response to the consultation the Government has concluded that it would be desirable to retain the corporations for a further specific period. In the light of the consultations, we now propose to set the date of 31 March 1988 for the winding up of the corporations.

3. Between now and then, we shall expect the corporations to pursue their work in developing industry and commerce in their towns, and with that the generation of new jobs, relying to the maximum on private investment. We shall also expect them to prepare for the transfer of their assets and liabilities remaining at 31 March 1988 to successors which can command local confidence and acceptance.

4. Since 1963 Aycliffe and Peterlee development corporations have had the same membership. In order to simplify the management and administration of their work, we shall consult them about using the powers under section 6 of the New Towns Act 1981 to bring them into a single corporation.

~~Human PA~~
MAY POL
Review

27 FEB 1985



PRIME MINISTER

North East New Towns

(E(A)(85)5) ————— FLAG A

BACKGROUND

Statutory consultation took place in Summer 1984 on a proposed winding-up date of 31 December 1985 for the three North Eastern New Town Development Corporations (NTDCs). The Secretary of State for the Environment, acceding to overwhelming opposition in responses, proposes that the NTDCs should be kept in existence until March 1989 with the specific task of promoting, developing and disposing of their industrial and commercial assets as quickly and effectively as possible. (The transfer to local authorities of housing and community assets of the NTDCs is not at issue). He argues that they still have useful work to do in industrial promotion; and that winding them up would be unpopular and would be seen to remove effective bodies committed to the region. The Lord Chancellor wrote strongly supporting this line on 5 February. ————— FLAG B

2. The Secretary of State for Trade and Industry is opposed to extension on the grounds that the alternative proposed in consultation (transferring the industrial assets of the NTDCs to the English Industrial Estates Corporation (EIEC) and their promotional functions to the North of England Development Council (NEDC)) would be cheaper; and that the retention of NTDCs exercising industrial functions alone would distort regional policy within the North East and between the North East and other regions. The Chief Secretary, Treasury, is opposed, not only on cost and regional policy grounds, but also because the retention of NTDCs exercising functions confined to industry and commerce would conflict with the recent

CONFIDENTIAL

decision not to establish Development Agencies in the English regions.

3. Of the 21 English new towns, 8 have already been wound up. Apart from the three North East NTDCs which are the subject of this discussion, a further five are scheduled for winding up this year, including one in the North West. No proposals have yet been made for the timing of winding up the remaining five English new towns; there is no question of winding up the five Scottish NTDCs until the 1990s. It is not unprecedented for an NTDC to survive for an extended period after the transfer of its housing and community assets to the local authority; this has been the position since 1978 with two of the three NTDCs now under discussion (Aycliffe and Peterlee) and was previously the case with Bracknell.

MAIN ISSUES

4. The main issues are whether the NTDCs should be wound up at the end of 1985 or whether their life should be extended; and, if the latter, for how long and on what terms.

5. The Department of the Environment estimate that if the NTDCs were wound up, the EIEC would spend about £6 million a year on management of the three industrial estates and on capital projects. Keeping the NTDCs in operation would involve additional costs (£1.5-2 million per year on revenue - mainly staff - plus £0.5 million a year on capital) but these would be met within existing provision for New Towns. The Sub-Committee's decision may thus depend more on the relative importance they attach to the hostile reaction in the North East to wind-up and to the awkward implications of retention for regional policy than on strictly financial considerations. The following points are relevant.

i. Mr Jenkin explicitly assumes that the extended NTDCs would continue both with a vigorous promotional effort and with the provision of new factory accommodation. Although the proposals would involve some decline in the NTDCs' activities, and

CONFIDENTIAL

although Mr Jenkin argues that the continuing NTDCs would be more effective than EIEC in disposing of the industrial assets, there seems little prospect of the NTDCs' task being complete by 1989. There is no assurance that wind-up in 1989 will prove much easier than wind-up this year.

ii. Mr Jenkin has already rejected (paragraph 9 of E(A)(85)5) an extension to 1987 coupled with stringent expenditure reductions. It remains possible to construct a range of compromises by varying either the wind-up date, the scale of NTDC activities in the meantime, or both. Local trouble from wind-up this year would no doubt be acute, but might be got over in time. Run-down over a period might make the controversy less intense, but more prolonged.

HANDLING

6. You will want the Secretary of State for the Environment to present his paper and the Secretary of State for Trade and Industry and the Chief Secretary, Treasury to put their view. The Lord President of the Council and the Lord Chancellor, who have asked to attend, will have views on the political merits.

CONCLUSION

7. You will want to reach conclusions on the following:
- i. whether the three North Eastern NTDCs should be wound up on 31 December 1985;
 - ii. if not,
 - a. by how long should their life be extended;
 - b. subject to what financial conditions;
 - iii. arrangements for announcing a decision.

PLG

P L GREGSON

11 February 1985

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.



HOUSE OF LORDS,
SW1A 0PW

CONFIDENTIAL

Prime Minister

North East New Towns

The Economic Affairs Sub-Committee will shortly be discussing E(A) (85)5, which deals with the future of the three New Town Development Corporations in the North East, Aycliffe, Peterlee and Washington. In last summer's consultative document it was proposed that The Corporations should be wound up by December 1985, but Patrick Jenkin now recommends that their life should be extended until March 1989. He regards them the most effective means of job generation in the region, with a proven record of achievement, and considers that they still have valuable work to do.

Whilst acknowledging the need in future for the arrangements in these New Towns to conform to those now agreed for the English regions generally, I cannot but agree that it would be premature and ill-advised to make such a change at the present time. The North East, as Patrick points out, is one of the most economically depressed parts of the country, with a particular problem of declining industries; and, coming on top of recent disappointments like the reduction to one in the order for Type 22 frigates (albeit with the promise of a Type 23 ship later), and the impending redundancies at Austin and Pickersgill, the winding up of the Development Corporations as early as the end of the year would be a severe blow to morale in the area, quite apart from the loss in terms of practical facilities and expertise.

I therefore strongly support the proposal that the Corporations should be kept in being for a further three years, with the specific task of promoting, developing and disposing of their industrial and commercial assets as quickly and effectively as possible.

I am copying this minute to the members of E(A), the Lord President of the Council, the Paymaster General, and Sir Robert Armstrong.

H: of S: M.

5th February, 1985

CONFIDENTIAL



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for EA folder
1/12/85

1 February 1985

MR TURNBULL

NORTH EAST NEW TOWNS

A possible compromise between the Chief Secretary and the Secretary of State for the Environment would be:

1. To concede to the DoE an extension to the end of 1987.
2. To agree with the Chief Secretary that there should be no increase in square footage of factory space available, and there should be a substantial squeeze on the amount of money spent.

It would be possible to continue with the Development Corporations, with their main task being to dispose of what they have already accumulated and developed. This would meet Patrick's point that their teams would market the land and assets well, whilst agreeing with the Chief Secretary that the amount of money available should be reduced.



JOHN REDWOOD

010

TF

cc 100



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215)5186
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

Murdo Maclean Esq
Private Secretary to
The Rt Hon John Wakeham MP
Government Chief Whip
12 Downing Street
LONDON SW1

15 January 1985

Dear Murdo

REGIONAL POLICY DEBATE: GOVERNMENT MOTION

I promised to let you have the terms of a Government motion for the regional policy debate this Thursday afternoon (17 January). The following is acceptable to Ministers here and has been cleared with Andrew Turnbull at No.10 and with the Chief Secretary's Office: I have also discussed it with David Morris in the Lord Privy Seal's office, who was content for it to be copied to him quickly without formal clearance by the Lord Privy Seal, given its clearance by others:-

"This House takes note of the Government's statement on 28 November announcing changes in regional industrial incentives; welcomes the closer alignment of the new Assisted Areas map to areas' relative needs for increased employment opportunities; agrees that it is right at a time of high unemployment to relate assistance more directly to jobs; and notes with approval that the increased cost-effectiveness of regional assistance will enable the burden upon taxpayers to be substantially reduced."

I am copying this letter to Andrew Turnbull (No.10), Richard Broadbent (Chief Secretary's Office) and David Morris (Lord Privy Seal's Office).

Yours sincerely

Edmund Hosker

EDMUND HOSKER
Private Secretary

TUEANE



115 JAN 1985

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CCNO

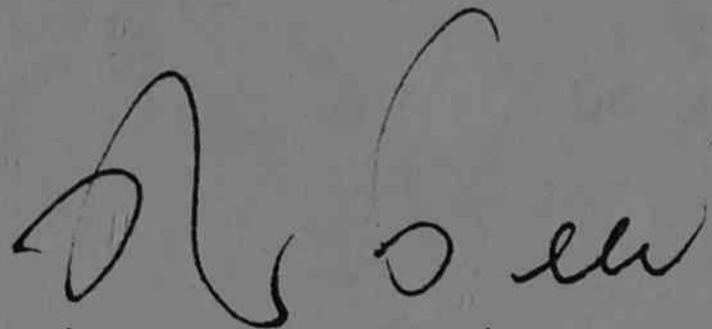
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AT 6/12

01 211 6402

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
London
SW1P 3AG

6 December 1984



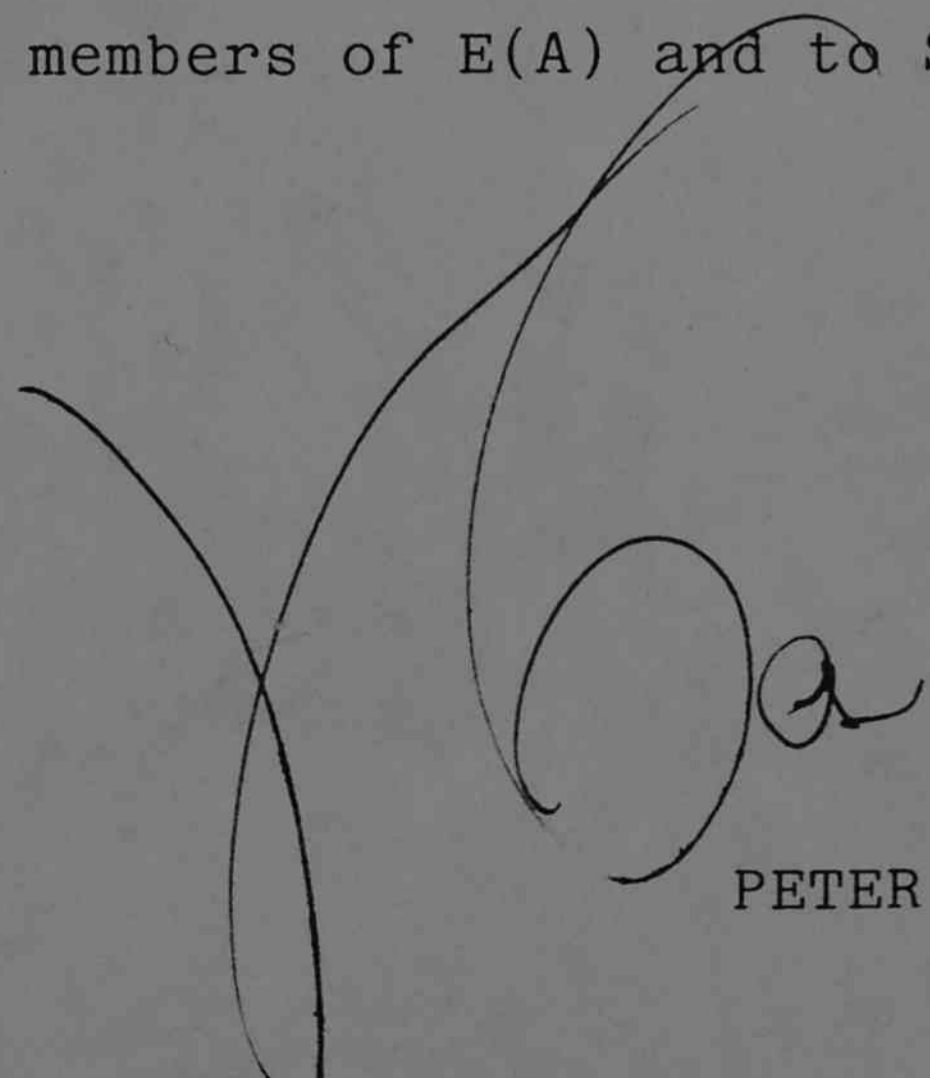
NCB (ENTERPRISE) LTD

You wrote to me on 26 November about NCB (Enterprise) Ltd. The Prime Minister had also commented (Andrew Turnbull's letter of 26 November).

As you know, I have now made an announcement agreeing, as suggested by the Prime Minister, that the National Coal Board should double the funds available to NCB (Enterprise) Ltd from £5m to £10m. I also made it clear that that figure would be further increased when the need arises.

I intend to proceed from now on under the terms of your letter of 26 November. I will authorise the advance of further tranches of £5m as and when justified by the net cash requirements of the company, up to the limit you suggest of £25m in new business. We will of course keep your officials informed.

I am copying this letter to members of E(A) and to Sir Robert Armstrong.



PETER WALKER

CONFIDENTIAL

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- 6 DEC 1984



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bcbl

SM

10 DOWNING STREET

From the Private Secretary

3 December 1984

West Midlands

The Prime Minister has seen your letter to David Barclay of 26 November. She has noted and is content with the proposal that Mr. Butcher should cease to have special Ministerial responsibility for the West Midlands.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Alan Davis (Department of the Environment) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Andrew Lansley, Esq.,
Department of Trade and Industry

dfg



Prime Minister (2)

To note.

AT 27/11

CBH

ENO

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

PS/

Secretary of State for Trade and Industry

26 November 1984

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear David,

In April 1983, the Parliamentary Under Secretary of State for Industry (Mr Butcher), was given special responsibility for the West Midlands. As you know, the imminent announcement on regional policy will, for the first time, bring the West Midlands into the Assisted Area map. Simultaneously with the announcement of the changes to regional policy, Mr Butcher intends to make it clear in the West Midlands that it would be inappropriate for him to continue to take a particular special Ministerial responsibility for the area. In particular, he will not encourage the title "Minister for the West Midlands" which the press have used as a consequence of these special responsibilities. He will, however, also make it clear that he will continue to take a close interest in those activities and projects in the area in which he has become involved. My Secretary of State has approved this.

2 I am copying this letter to Janet Lewis-Jones (Lord President's Office), Alan Davis (Department of the Environment), Richard Hatfield (Cabinet Office) and to Bernard Ingham.

Yours ever,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

JH1BPO



Members' Brief

No. 29
29th November 1984

1. A NEW DEAL FOR THE REGIONS

A reduction in unemployment depends on control of public expenditure leading to low inflation plus growth. The prime purpose of regional policy is to reduce disparities in regional employment opportunities. In this respect it has not worked satisfactorily. The Government has therefore decided to improve regional policy to make it less costly and more cost-effective. At the end of the transition period in 1987-8 assistance worth £400m. will be concentrated where it will have the greatest impact on employment.

Past experience has shown that all too often regional development grants have had no link with jobs. In one project alone, £100m. of taxpayer's money was spent on the oil terminal at Sullum Voe creating around 800 jobs; the project would almost certainly have gone ahead on that site in any case. In addition, new jobs in assisted areas have often been at the expense of jobs in other areas. Furthermore, the assisted area map has increasingly failed to reflect adequately those areas worst hit by unemployment during the current recession. Parts of the West Midlands have, for example, been excluded until now.

Cost. There will be annual savings of £290m. from 1987-8. They will assist the continued reform of the tax system and maintain the downward pressure on interest rates. Industry everywhere will be encouraged to undertake profitable investment that will lead to more jobs. The changeover will be gradual to allow industry time to adjust to the new régime with a minimum of disruption to their forward planning. Indeed, expenditure on regional development grants is expected to rise until 1986-7.

Coverage

Mr Norman Lamont has said: 'To achieve greater cost-effectiveness we have concluded that the new map should have two tiers instead of three, and that the inner tier, which will qualify for automatic grants as well as regional selective assistance will be restricted to 15 per cent of the working population. This compares with 22 per cent for the present development and special development areas. The outer tier of the map, which will qualify for regional selective assistance, will cover a further 20 per cent of the working population' (*Hansard*, 28th November 1984, Col. 936).

These changes will mean that:

- Although development area coverage has fallen, total coverage has increased from 27 to 35 per cent.
- In the past the automatic regional development grants (RDGs) have been heavily biased towards manufacturing industry. The range of activities that will now qualify for RDG has been expanded to include growth areas in the service sector such as data processing and software development.
- Regional selective assistance will not normally be available for projects which simply transfer operations from one part of the country to another with no net increase in jobs. Aid will be available for modernisation projects which safeguard or create employment.
- The extension of the map will give many local authorities access to the European Regional Development Fund for their infrastructure projects for the first time.

Rate of Regional Development Grant. The new 15 per cent rate of grant, as compared with 22 per cent in the old SDAs and 15 per cent in DAs, is sufficient to help encourage investment decisions that might not otherwise take place. In addition, to limit the grant paid to capital projects creating few jobs, a ceiling of £10,000 per job has been set. (This limit will not normally apply to small firms.) Alternatively, firms will be able to apply for a direct grant of £3,000 per job created in labour intensive projects.

The New Map. The Government took into consideration unemployment rates, the industrial structure, the occupational structure of the workforce, the prospective growth in the numbers seeking work and location in relation to major markets. Several areas, previously unassisted, have now achieved assisted area status, including parts of the West Midlands, in recognition of their needs. The distribution of expenditure between England, Scotland and Wales will remain broadly the same.

Conclusion. Regional policy is only one of a range of policies (such as the YTS and Support for Innovation) by which Government seeks to improve the framework within which industry operates. As **Mr Lamont** has said: 'The most important feature of our policy is that money will now be spent in the areas with the worst problems and that, in terms of new jobs per £ of expenditure, the new policy will be far more effective than the old' (*ibid.*, Col. 937).

2. INDUSTRIAL RELATIONS AND THE LAW

After the repeal of the last Conservative Government's industrial relations legislation, many said that the law could not be used in this area. But the last few months have told a different story. It is increasingly clear that the legislation passed by this Government is now helping to create a much better climate in industry. As **Mr Tom King**, Secretary of State for Employment, recently pointed out:

'A quiet revolution in attitudes is taking place at all levels of British industry – amongst employers, union leaders and, most important of all, amongst union members themselves ... Not just companies, but also individuals and groups of union members have shown their willingness to seek the protection of the law in defence of their rights. It is clear that our trade union reforms are starting to work, that they will increasingly lead to a real change of attitudes in industrial relations in this country' (Bridgwater, 24th November 1984).

The Evidence

Strikes. Employers are showing that they are prepared to use the pre-strike ballot provisions of the Trade Union Act 1984. The most notable example to date occurred last week when Austin Rover's use of the new law hastened the collapse of a very damaging strike.

Closed Shop. To have any legal standing a closed shop must, from 1st November this year, be sanctioned by eighty per cent of its members voting in a secret ballot. In most cases, the necessary ballots are not being held; where they have occurred, the required majority has often not been obtained. The closed shop is in retreat.

Trade Union Attitudes. Last week the Electricians' Union (EETPU) became the first union to announce that it would accept public money for postal ballots; the AUEW are now thinking of following this move. Several unions are looking at ways of bringing their rule books into line with the provisions of the Trade Union Act 1984, including Clive Jenkins' ASTMS.

Vindication of the Government's Approach. The Industrial Relations Act 1971 attempted to impose an overnight change in industrial relations, as did Labour's divisive 1969 'In Place of Strife' proposals. In contrast the Government's approach is both widely accepted and increasingly successful because it has taken care to keep in step with what the vast majority, including trade unionists, believe is fair and reasonable. And unlike previous attempts, the present legislation is flexible; it gives rights to employers and individuals to use as they see best, rather than imposing a rigid set of obligations.

The Legislation

The 1980 Act:

- gave employers legal remedies against *secondary picketing* (away from the pickets' workplace);
- gave employers legal remedies against most *secondary action*, like 'blacking';
- introduced *closed shop protection* for those with conscientious objections and some other classes of employees;
- provided *funding for postal ballots* held by trade unions.

The 1982 Act:

- made it possible to take *legal action against trade unions* (rather than just individual strike organisers);
- gave employers legal remedies against any industrial action where no dispute exists between *employers and their own employees* or which is not wholly or mainly about employment matters (e.g., which is *primarily political*);
- gave all employees (and employers) statutory protection against *unballoted closed shops* (any closed shops not approved by an overwhelming majority of the workforce in a secret ballot).

The 1984 Act:

- required *elections to union executives* to be by direct, secret ballot;
- made the holding of *strike ballots* with provision for secret voting a further condition of unions' legal immunity for organising industrial action;
- required unions to hold *political fund review ballots* every 10 years.



From the Minister of State for Industry

NBPM
AT 27/4
C. D. R.
Press Office
CCND

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

CONFIDENTIAL

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
New St Andrew's House
St James Centre
EDINBURGH
EH1 3SX

27 November 1984

Dear George

REGIONAL POLICY STATEMENT

As promised in my letter of 19 November, I enclose a copy of the statement I propose to make to the House on 28 November.

I am copying this letter to the Prime Minister, Nick Edwards, Willie Whitelaw, Nigel Lawson, Patrick Jenkin, John Biffen, Tom King, John Gummer, David Young, John Cope and Sir Robert Armstrong.

*Yours
Norman*

NORMAN LAMONT

1MOAJL



REGIONAL POLICY STATEMENT

With permission, Mr Speaker, I should like to make a statement on the Government's review of Regional Policy. I have laid before the House today four Orders bringing into force the new regional development grant scheme and the new map of assisted areas.

Our decisions have been taken after very full consultation, including consideration of almost five hundred submissions. I have placed in the Library a list and a summary of the submissions received.

The submissions received show considerable support for the Government's proposals as outlined in the White Paper. Whilst the majority support the continuation of regional policy, many were critical of the waste inherent in the present system and consider it possible to make the policy more cost effective.

To achieve greater cost-effectiveness we have concluded that the new map should have two tiers instead of three, and that the inner tier, which will qualify for automatic grants as well as regional selective assistance, will be restricted to



15% of the working population. This compares with 22% for the present development and special development areas. The outer tier of the map, which will qualify for regional selective assistance, will cover a further 20% of the working population. We have included in the new map several areas, most notably parts of the West Midlands, that have previously been denied regional assistance. Both tiers will be eligible for support from the European Regional Development Fund.

In redrawing the map, we considered the present and future employment patterns of each area, along with other factors, including the risk of distortions where non-assisted areas are adjacent to assisted areas. Some such effects are inevitable in any regional policy.

For the new RDG scheme we have set the rate of capital grant at 15%. In our view the new rate is high enough to ensure that grants are an effective incentive to investment.

For too long regional policy has unduly discriminated against service industries even when such industries offer the prospect of increased employment. We have therefore decided to make some service industries eligible for regional development grant. These are listed in the relevant order.



Since unemployment is everyone's main concern today, it is also right that any policy as expensive as regional policy should be tied more closely to jobs.

We have already announced our intention to make two changes to give effect to that aim. Firstly, capital grant will be subject to a cost per job limit. Too much money has been spent in support of capital intensive projects that create few jobs and do little for the economies of the regions. The cost per job limit will be £10,000. However we wish to minimise the burdens placed on small firms and this limit will not in general be applied to firms employing less than 200.

Secondly we also announced that in future firms should be able to receive a job grant as an alternative to capital grant. The job grant will be set at a level of £3,000 for each new job created. Firms will not have to choose between job grant and capital grant: they will automatically receive whichever is greater.

The Government also intend to continue to give selective assistance to projects that protect existing employment but which otherwise would not go ahead. With the increase in



the outer tier of the map, this will mean an increase in selective assistance. Overall the balance between automatic grants and selective assistance will shift considerably towards the latter.

After the working through of the transitional provisions, we expect the new regional policy to cost nearly £300 million per year less than if present policy were to be continued. This will be a considerable lightening of the public expenditure burden of the policy. Even so we will still be spending nearly £400 million on regional policy in 1987/8 to improve job prospects in the worst hit areas.

The most important feature of our policy is that that money will now spent in the areas with the worst problems and that, in terms of new jobs per pound of expenditure, the new policy will be far more effective than the old.

Regional PA 177

Review



→ J.F.

NBPM AT 27/11

~~CCND~~

FROM THE LEADER OF THE HOUSE
HOUSE OF LORDS

N
27/11

26 November 1984

Dear Norman

~~W.M. AT~~

Thank you for sending me a copy of your letter of 21 November to John Biffen about regional policy.

You suggest in your letter that it would be desirable for you to be able to say that the Government would provide time for a debate in the House of Commons on regional policy, and you raise the question whether a debate in the House of Lords would also be required. I have consulted Bertie Denham on this point, and we think that the Opposition are likely to be content with the debate on the Order specifying the percentage rate of capital grant. Any request for a wider debate could, we think, be met by arranging an Unstarred Question.

I am sending copies of this letter to the Prime Minister, the Lord Privy Seal, the Secretaries of State for Scotland and Wales and the acting Chief Whip.

John
Lamont

WHITELAW

Norman Lamont Esq MP
Minister of State
Department of Trade and Industry

27 NOV 1984

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Regional for P7
Review

CONFIDENTIAL



WPA
NBPM

AT 26/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

26 November 1984

Dear Secretary of State

NCB (ENTERPRISE) LTD

Thank you for your letter of 22 November to Nigel Lawson.

with AT

I accept that, despite the gathering return to work since we last looked at the question, there is still a case for announcing a boost to NCB (Enterprise) Ltd at the same time as the changes to regional policy. The question is, how much of a boost? As I discern it, your proposal for £20 million is based more on the need for an effective presentational impact than on a detailed assessment of viable lending prospects before the Company. That is not surprising, given that the Company was formed only recently and does not yet have a Chief Executive.

Nonetheless you will understand my concern over financial control. The funds involved will in effect come from the taxpayer. The Company have previously given assurances that it will only lend where there is a satisfactory commercial case. Nonetheless there is a risk that NCB (Enterprise) Ltd will come under pressure to spend the £25 million on whatever business opportunities are presented to it, whether viable or not.

Accordingly I should like to suggest an approach that reduces the Exchequer's financial exposure, while still allowing NCB to gain maximum public impact.

I would be prepared for NCB to announce next week that it will provide funds for NCB (Enterprise) Ltd to invest

- 1 -

CONFIDENTIAL

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up to £25 million in new businessness. The actual loans from the Board to the Company would be advanced in tranches of £5 million to cover its net cash requirements only as they arise.

Such an approach takes advantage of the fact that with loan repayments, the net amount of loans outstanding should be less than the gross advances. This has been the case, for example, with BSC (Enterprises) Ltd. It also provides a safeguard for your Department to satisfy itself periodically that the Company is being operated on as business like a basis as its purpose allows. I should be grateful if Treasury officials could be kept in touch with developments. Formal approval under the Coal Acts will be needed for each tranche.

As you say, we can take account of NCB (Enterprises) Ltd net cash outflow when determining the future EFLs for the Board.

I am sending copies of this letter to members of E(A) and to Sir Robert Armstrong.

Yours Sincerely
Paul Rees

PETER REES

Approved by the Chief Secretary
and signed in his absence



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eclabq

10 DOWNING STREET

26 November 1984

From the Private Secretary

NCB (ENTERPRISE) LTD

The Prime Minister has seen your Secretary of State's letter of 22 November to the Chancellor of the Exchequer. She believes that the best way in which NCB(E) can be given a boost is to establish its presence by appointing a Chief Executive and some go-ahead Board members, plus the completion of a number of loans. Without this, raising its capital is bound to look hollow.

She believes, therefore, that the best course is to announce that the capital is being doubled to £10 million and that this can be increased still further (there could be an understanding that this meant up to £20 million) as and when NCB(E)'s operations justified it.

I am copying this letter to Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Michael Reidy Esq
Department of Energy

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10 DOWNING STREET

From the Private Secretary

Prime Minister ①

Since NCB(E) has, to my knowledge, made one loan in six months, what it needs is presence rather than more money. Regrettably NCB are unlikely to be able to announce a Chief Executive and a sheet of new loans before Wednesday, an increase in capital is all that is left.

An alternative would be to announce doubling of resources to £10 million, with indication that this figure could be increased as NCB(E) gets established.

Agree

Yes

- (i) an exhortation to increase NCB(E) presence
- (ii) Mr Walker's proposal or

£10m - fulfil - (iii) the smaller increase suggested above?
- up to £20m - if needed not

AT 23/11

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

23 November 1984

De Name

N 23/11

ANNOUNCEMENT OF NEW REGIONAL POLICY ARRANGEMENTS

Thank you for your letter of 19 November.

File with Steenagh Wallace

I am sure that you are right that we should take a co-ordinated line on the announcement and in broad terms. I am content with your proposals and look forward to seeing your own briefing. Our officials and our press officer will certainly continue to be in very close touch.

On your specific proposals, I agree that we have to ensure that nothing leaks out prior to the announcement itself and I, therefore, endorse your line.

On the day of the announcement I will give a briefing (in London) to the Welsh lobby and will do television and radio interviews for use in Wales.

On the issue of letters to MPs and to local authority chief executives, I would prefer that these came from you - principally because, strictly speaking, it is your announcement and the matter of it ought, in my view, to reflect that.

I look forward to early sight of the text of the announcement.

/ Copies of this go to the Prime Minister, George Younger, Nigel Lawson, Patrick Jenkin, Tom King, John Gummer, David Young, John Cope and Sir Robert Armstrong.

✓ en
Near

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

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NAPM

AT 26/4

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Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

23 November 1984

Dear Minister

REGIONAL DEVELOPMENT GRANTS
APPLICATION OF GRANT PER JOB LIMIT

attached

Thank you for your letter of 22 November.

As my office has indicated to yours by telephone, I must reluctantly accept this proposal. I do so on the basis that you can absorb the additional cost, estimated at £1 million, within the overall net expenditure totals which we previously agreed.

Yours sincerely

Peter Rees
PETER REES

[Approved by the Chief Secretary]

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26 NOV 1944



From the Minister of State for Industry

NBP m AT 22/11
DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215

(Switchboard) 215 7877

5186

Norman Lamont MP

CONFIDENTIAL

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Whitehall
LONDON SW1

22 November 1984

Dear Chief Secretary

REGIONAL DEVELOPMENT GRANTS - APPLICATION OF GRANT PER JOB LIMIT

Our policy on the new RDG Scheme has always been that projects of large firms would get grant only if, and to the extent that, new jobs are created. I have sought and obtained the advice of the Solicitor General on the proposed Order (a copy of his letter is enclosed) and the advice is that it would not be lawful to have a prescribed limit of nil for large firm projects where no jobs are created, as this would frustrate what the Act appears to intend - namely that at least some grant should be payable in respect of capital expenditure under an approved project.

The implication is that, if we approve a large firm project involving capital expenditure, some grant should be payable even if the project creates no jobs. And if we do not specify in the Order some limit on grant in respect of capital expenditure, grant on an approved project creating no new jobs will be at the full rate of 15% of that capital expenditure. This is clearly unacceptable. The situation is extremely unfortunate to say the least. However, I think I must accept the legal advice.

However it is not quite as bad as it appears. We will still in general be able to refuse to approve RDG projects of large firms where no jobs are expected to be created, because the Secretary of State can say that the main criterion by which he will exercise his discretion to approve such projects is whether or not they create jobs - though of course he must always entertain applications. The general policy for large firms therefore remains no job, no grant.

THUAJH



There is a problem which relates to projects which are approved in advance on the basis that they will create new jobs, but in fact fail to do so. In this case the Act envisages that some grant is payable, and the Solicitor General's advice is that the minimum limit which it is safe to specify is £500. I therefore propose to include this figure in the Order as the limit on capital grant in the case of large firms which create no jobs. I would of course explain to the House that our general policy in the case of large firms remains no jobs, no grant. The exact wording will be cleared with the Solicitor General.

This proposal will involve some increase in expenditure, but this is likely to be less than £1m a year.

I hope you and your colleagues will be able to agree to this. In order to keep to our timetable, the above figure of £500 must be agreed by 3.00pm tomorrow. I should therefore be most grateful if you would let me know by then whether you agree.

I am copying this letter to the others members of E(A) and to the Solicitor General.

Yours Sincerely
Norman Lamont

NORMAN LAMONT

(Approved by the Minister and signed in his absence)

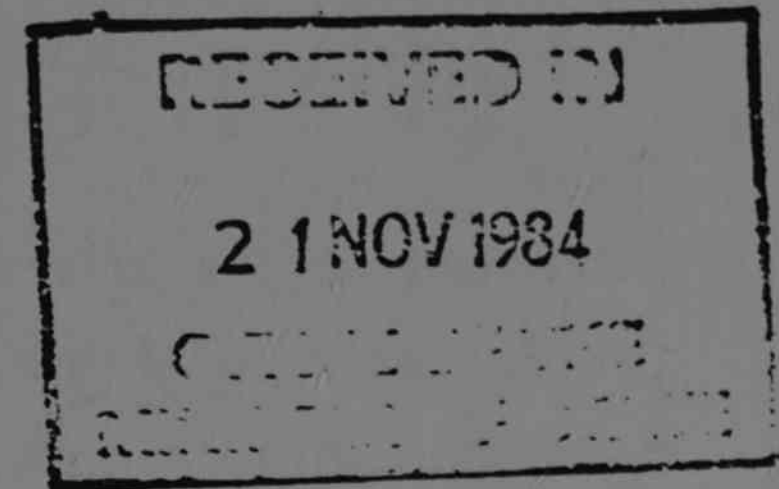
THUAJH



01-405 7641 Extn

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ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL



Norman Lamont Esq. MP
Minister of State
Department of Trade & Industry
1 Victoria Street
London SW1H 0ET

21 November 1984

Jein Norman.

NEW SCHEME OF REGIONAL DEVELOPMENT GRANTS

I saw officials from your Department yesterday to discuss the vires of providing for a nil limit ⁱⁿ Article 5(1)(a)(ii) of the Regional Development Grant (Prescribed Percentage, Amount and Limit) Order. Mr Mason of Parliamentary Counsel was also present and assisted in clarifying for me the structure of the Act.

I regret that I was not persuaded by the arguments that a nil limit could lawfully be prescribed. These matters are of course very much ones of impression. It seems to me, however, that a court would be likely to hold that once the Secretary of State has exercised his discretion and approved a project for grant in accordance with Section 3 of the substituted Part II of the 1982 Act, Section 4 creates a mandatory obligation to pay a grant. It would find that it would be contrary to the intention of Parliament as expressed in the Act for an undertaking in whose favour the Secretary of State has approved a project to receive no grant at all by virtue of the limit prescribed for the purposes of Section 4(1)(b). It would therefore conclude that the Secretary of State could not by Order take away in its entirety what had been conferred by Section 4. It is therefore unsafe, in my opinion, to provide for a nil limit in the Order in the case of large undertakings engaged in projects producing no jobs.

I examined with officials other ways of achieving your policy objectives - not to pay any grant to large undertakings creating no jobs. I was initially



- page two -

attracted to the idea that there would be no limit prescribed and that the Secretary of State would adopt a general policy of exercising his discretion in such cases by not approving the projects. I am informed, however, that the option is not open for practical and technical reasons. The only other option put to me was that a low limit should be prescribed for these cases. I agreed that this option would be lawful. However, such a limit should not be derisory. £500, in my view, would be defensible.

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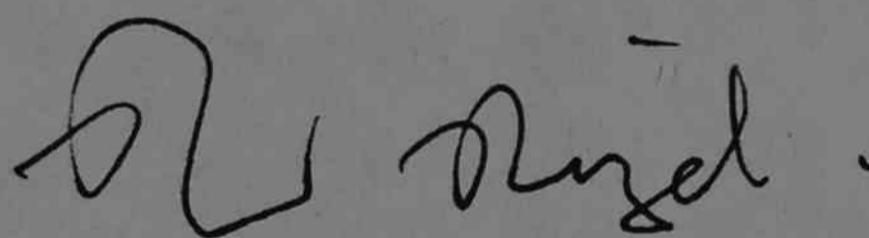
SECRETARY OF STATE FOR ENERGY
MILLBANK LONDON SW1P 4AG

01 211 6402

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1A 0AA

22 November 1984




NCB (ENTERPRISE) LTD

- file with Sharragh Wallace

You will have seen Andrew Turnbull's letter of 8 October to Callum McCarthy regarding the Prime Minister's suggestion that in order to minimise the possible impact on the miners strike of the forthcoming announcement on regional policy, without delaying that announcement, we should announce a boost to NCB (Enterprise) Ltd.

I believe that the only boost which will carry any credence is an announcement of a substantial increase in the level of resources available to the new company. The NCB have advised that the company would welcome an increase in resources available to it from the present £5 million to £25 million, which they judge will open opportunities for investments which they would not otherwise be able to take. I therefore propose, with your approval, to give formal consent under section 2(5) of the Coal Industry Act 1975 for the NCB to lend up to £25 million to NCB (Enterprise) Ltd. This does not, of course, imply an immediate increase in public expenditure of £20 million. Indeed I would envisage no increase in expenditure in the current financial year. Beyond that, however, it will be necessary, if we are to persuade the Board themselves to finance the new company, to take into account the likely cash requirements of NCB (Enterprise) Ltd when setting the Board's EFL. I would like to give Ian MacGregor an assurance on this point.

Given the planned announcement of changes to regional policy on 28 November, and in order to ensure that the Board are in a position to make the announcement of the boost to NCB (Enterprise) Ltd at a time when this will be most publicly opportune, I should welcome your agreement by 26 November. Copies of this letter go to members of E(A) and to Sir Robert Armstrong.



PETER WALKER

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PT-7 Review

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10 DOWNING STREET

From the Private Secretary

22 November, 1984

REGIONAL REORGANISATION

The Prime Minister was grateful for your Minister's letter of 16 November about Regional Reorganisation.

The Prime Minister is content with the proposal to transfer responsibility for the administration of Regional Development Grants in Scotland and Wales to the Scottish and Welsh Secretaries of State. She also agrees the terms of the draft Parliamentary Question and Answer which your Minister provided. Our Parliamentary Section will be in touch with yours to discuss the timing of the announcement, and other details.

I am sending a copy of this letter to John Graham (Scottish Office), Colin Jones (Welsh Office) and to Richard Hatfield (Cabinet Office).

(David Barclay)

E. Hosker, Esq.,
Department of Trade and Industry.

RB



WBP
AT 22/11
C. Fenolter
CCNO

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

22nd November 1984

Dear Norman,

ANNOUNCEMENT OF NEW REGIONAL POLICY ARRANGEMENTS

Thank you for your letter of 19 November about the arrangements for handling the announcement of the decisions on regional policy.

I am generally content with what you propose. I agree in particular that there should be no Press briefings in advance of the announcement. I shall be meeting the Scottish lobby immediately after the announcement is made, and Allan Stewart will at the same time be giving non-attributable briefings to Scottish leader-writers and journalists. I think it would be valuable for a Scottish Office Minister to join you at your press conference, to underline the fact that the decisions being announced are those of the Government as a whole, and I propose that Michael Ancram should do this. Nick Edwards might wish to consider a similar arrangement. The Director of the Scottish Information Office will be ready to liaise with his counterpart in your Department as necessary.

I look forward to seeing a copy of your proposed statement as soon as possible. My officials are in touch with yours on what should be said in response to questions, including the particular points you mentioned, and will be seeking to work out an agreed line.

I am content that you should write to Scottish MPs along the lines of the draft letters you enclosed, though I think this might be reinforced by an informal word to our back-benchers, after your statement, and Allan Stewart will be doing this. I think it would be consistent if your Department were also to write to Scottish local authorities (together with the New Town Development Corporations and COSLA); Allan will in any case be seeing Glenrothes representatives separately. I also agree with the arrangements you propose for replying to those who made representations, and am content that these letters should issue from your Department.

I am copying this letter to the Prime Minister, Nick Edwards, Nigel Lawson, Patrick Jenkin, Tom King, John Gummer, David Young, John Cope and Sir Robert Armstrong.

Yours
wv,
George

Regional Policy : Review A7.

22 NOV 1984

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

The Rt Hon John Biffen MP
Lord Privy Seal
Privy Council Office
Whitehall
LONDON SW1A 2AT

W 21/11

21 November 1984

John Biffen

As you know, I am due to make a statement next week about our new regional policy and will lay the necessary Orders at that time. I would expect the Opposition to press for a major debate on Regional Policy - a debate which, given the interests of so many MPs, particularly in the assisted area map, we should find very difficult to resist. I was in fact pressed hard, both at Second and Third Reading of the Cooperative Development Agency and Industrial Development Bill, to concede that there would be such a debate: I did of course not do so though I think the case for such a debate is strong.

Four Orders need to be laid. There is a Commencement Order, which brings into force Part II of the CDA/ID Act (the new RDG Scheme) and contains transitional and "anti-windfall" provisions. This is not subject to Parliamentary procedure. There is an Order which brings in the new map of the Assisted Areas, and is subject to the negative resolution procedure. There is an Order which specifies the activities to which a project must relate to be eligible for new RDG, and this is also subject to the negative resolution procedure. Finally, there is an Order which specifies the percentage rate of capital grant, the amount of job grant, and the grant-per-job limit. This Order will, like the others, come into force at midnight after it is laid, but will lapse unless within a period of forty days (excluding any period in which Parliament is dissolved, prorogued or adjourned for more than four days) it is approved by affirmative resolution in both Houses.

There will in any event need to be a debate on the Order relating to rates of grant since it is subject to the affirmative procedure. I would expect that, if we do not provide for a more general

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debate, the Opposition will also pray against the Order containing the list of assisted areas in order to have a debate on the map.

In these circumstances, I believe it would be desirable if I were to say next week that we would provide time for a debate on Regional Policy - a debate which I suggest should be taken with the Orders so as to avoid further debate on them. I doubt whether a debate in the House of Lords would also be required, other than as necessary for the Orders, but you and Willie Whitelaw may have views on this.

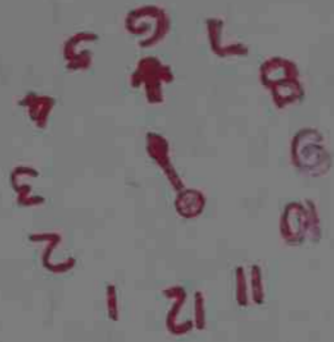
If you agree that this is the right way to proceed, I would suggest that we should try to find time for it before the Christmas Recess.

In the circumstances I should be grateful for an early response.

I am copying this letter to the Prime Minister, the Lord President, the Secretaries of State for Scotland and Wales and to the Chief Whip.

A handwritten signature in black ink, appearing to read 'Norman Lamont', with a stylized flourish above the first name.

NORMAN LAMONT



21 NOV 1984

21 NOV 1984

(6)



From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

CONFIDENTIAL

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
New St Andrew's House
St James Centre
EDINBURGH
EH1 3SX

19 November 1984

Dear George

ANNOUNCEMENT OF NEW REGIONAL POLICY ARRANGEMENTS

I understand that discussions with the EC are proceeding satisfactorily, and that we are on target for an announcement on 28 November. The purpose of this letter is to outline my thinking about both press handling of the announcement of the changes and the formal Parliamentary statement, notification of AA map changes to MPs, etc.

I am sure that you will agree that it would be unhelpful if the ultimate shape of the map, and the new aid regime, were to leak out in advance of our announcement. It is, of course, impossible to prevent journalists producing speculative pieces before we make our announcement. But I think we should do what we can to avoid this happening on the basis of incomplete briefing. Accordingly, I do not propose that I or my colleagues in this Department should undertake any briefing on regional policy in advance of the announcement. I shall also ensure that my officials do not do any background briefing.

It is obviously essential that all territorial Ministers take the same line on press briefing, and I hope that you and Nick Edwards, to whom I am copying this letter, will be able to confirm that you will handle requests for press briefing along the lines I have suggested.

1THAGY



We are now turning our minds to the details of presentation and handling of the announcement. I propose to hold a Press Conference in London on the day itself and no doubt you and Nick will be holding similar press conferences in Scotland and Wales. I think it would be sensible if our respective Directors of Information now get in touch to discuss any areas where liaison might be necessary.

So far as the formal Parliamentary statement is concerned, this will of course follow the normal pattern of a statement in the Commons followed by questions, with a parallel statement in the Lords. I shall let colleagues see a copy of the statement in due course, and it will be important for our officials to agree on what is to be said in response to supplementary questions both at the time of the statement and subsequently. In this connection I am thinking particularly of such issues as the financial implications of the decisions and the line to be taken on demands for publication of the objective basis on which decisions were taken about the AA map.

It has always been the practice for MPs to receive letters on the day of the announcement of any AA map change telling them of its impact on the TTWAs relating to their constituencies. Given the large number of constituencies affected by the change it will be necessary to prepare the letters in advance. I am already setting this in hand for England and enclose the two specimen letters which seem to me needed. I am of course very happy to do the same for Scotland and Wales unless you and Nick Edwards would prefer to do this yourselves.

It has also been the practice to notify Chief Executives of all Local Authorities (and the Local Authority Associations) of changes in AA status. I am arranging for this to be done in England at official level and assume that you and Nick Edwards would wish to make similar arrangements in Scotland and Wales.

In addition to these traditional notifications it will be necessary on this occasion to tell all those who responded to the White Paper during the consultation period what the Government's decisions are. I think this can best be done by sending them all a copy of the press statement under cover of a very brief covering letter at official level, and given that the submissions were made to the DTI I suggest that these letters could most conveniently go out from here.

I should be grateful to know as soon as possible whether you and Nick are content with these arrangements.

1THAGY



I am copying this letter to the Prime Minister, Nick Edwards,
Nigel Lawson, Patrick Jenkin, Tom King, John Gummer, David Young,
John Cope and Sir Robert Armstrong.

Norman Lamont
NORMAN LAMONT

MPs whose constituencies do and/or will include parts that
are Assisted

You will know from my statement in Parliament today that the Government have completed their review of regional industrial policy. This included a fundamental revision of the map of Assisted Areas.

As laid down in the Industrial Development Act 1982, when considering the designation of each individual area we have taken account of all its circumstances, actual and expected, as well as the objectives of regional policies. Our objective for regional industrial policy is the reduction of regional imbalances in employment opportunities on a stable long term basis. We therefore considered each area's need for employment opportunities relative to []/[elsewhere in Scotland and]/[elsewhere in Wales and] the rest of the country. We also took account of the cost of regional policy, its implications for areas that are not assisted, and all the submissions and representations received in response to our White Paper "Regional Industrial Development".

[An alternative paragraph 3 for MPs whose constituencies are wholly or partly in the Manchester TTWA is at A.]

The AA map continues to be based on the Department of Employment's Travel-To-Work Areas (TTWAs) as these represent the closest approximations to self-contained labour-markets. Thus TTWAs are the best basis for nationwide comparisons of relative need for employment opportunities. As you will know from Alan Clark's letter of 16 July, TTWAs were revised earlier this year using 1981 census information on people's actual journeys to work. Your constituency [includes all or part of theTTWAs.]/[is in the TTWA(s).] As from 29 November, [description of above TTWAs AA status].

Within Intermediate Areas, firms are eligible for Regional Selective Assistance [while within Development Areas firms are also eligible for the new Regional Development Grants (RDG)]. Under our transitional provisions, wherever the changes would otherwise lead to a reduction or loss of RDG, the old map and old RDG scheme will continue to apply for assets provided by 28 November 1985. Derelict Land Clearance Grants, which are administered by the Department of the Environment, will continue to be available throughout the Assisted Areas are eligible for support from the European Regional Development Fund.

I enclose [a copy of my statement and] a map of the Assisted Areas.

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ALTERNATIVE PARAGRAPH 3

The AA map continues to be based on the Department of Employment's Travel-To-Work Areas (TTWAs) as these represent the closest approximations to self-contained labour-markets. Thus TTWAs are the best basis for nationwide comparisons of relative need for employment opportunities. As you will know from Alan Clark's letter of 16 July, TTWAs were revised earlier this year using 1981 census information on people's actual journeys to work. [Your]/[Part of your] constituency is in the new Manchester TTWA. As many in the Manchester area commute long distances, this is one of the largest TTWAs in the country. It is therefore not possible to include all of it in the AA map except at the cost of excluding many smaller areas with stronger cases for assistance than Manchester. With effect from 29 November the Northern part of the TTWA, as illustrated by the enclosed map, is therefore an Intermediate Area. This includes all of Tameside, the Inner City Partnership Area, the Trafford Park industrial estate, and a number of wards between these areas and other Assisted Areas. As many people commute to central Manchester from a much wider area, we are confident that assisting this area will improve employment prospects for all living in the Manchester TTWA. [Your constituency also includes part of the TTWA which is now an [Intermediate]/[Development Area].

MPs who have made representations but whose constituencies
are and will be wholly Non-Assisted

You will know from my statement in Parliament today that the Government have completed their review of regional industrial policies. This included a fundamental revision of the Assisted Areas (AAs) map.

As laid down in the Industrial Development Act 1982, when considering the designation of each individual area we have taken account of all its circumstances, actual and expected, as well as the objectives of regional policies. Our aim in regional policy is to reduce regional imbalances in employment opportunities on a stable long term basis. We therefore considered each area's need for employment opportunities relative to []/[elsewhere in Scotland and]/[elsewhere in Wales and] the rest of the country. We also took account of the cost of regional policy, its implications for areas that are not assisted, and all the submissions and representations received in response to our White Paper "Regional Industrial Development".

In view of the interest you have shown in the progress of the review, I enclose [a copy of this statement together with] a copy of the new map.

MONAKW

19 NOV 1984



CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

26 October, 1984.

New Structure for Regional Industrial Incentives:
Map of Assisted Areas

The Prime Minister has seen the Lord President's minute of 25 October. She was very grateful to him and to colleagues who worked with him in agreeing on the new map of Assisted Areas. She was content with the solution which was reached.

I am sending copies of this letter to the Private Secretaries to members of E(A), Len Appleyard (Foreign and Commonwealth Office), Alex Gallway (Office of the Paymaster General), Edmund Hosker (Mr. Lamont's Office, Department of Trade and Industry), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Janet Lewis-Jones,
Lord President's Office.

CONFIDENTIAL

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CONFIDENTIAL

MR TURNBULL

25 October 1984

ASSISTED AREA MAP

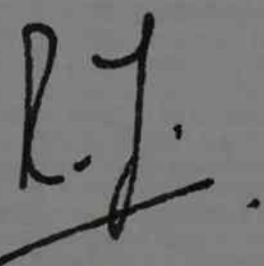
LORD WHITELAW'S MINUTE OF 25 OCTOBER

There is no doubt that the decisions recorded in Lord Whitelaw's minute represent an active agreement by the relevant Secretaries of State. The overall map coverage is as close to 35% as makes no difference (it is actually 35.049%) and, to the extent that any forecast savings are to be believed, we can expect savings of £290 million per annum.

For your own information, I should point out that some of the new adjustments are much less than objective, the Scottish ones particularly so. Girvan, Newton Stewart and Alloa ought to be in the inner tier on any objective criteria - they are among the neediest areas as defined for purposes of the Regional Policy review. Conversely, Dundee falls well outside the inner tier. Nevertheless, the decisions reached are more or less those which Mr Younger wanted. Dundee, I understand, was given to him as a tranquiliser when he was denied assisted area status for the whole of the HIDB area.

The only other questionable inclusion is Plymouth, which falls well outside entitlement to AA status on 35% coverage (it is nearly 41% 'down the list').

Given the overall acceptability of the new package to the EC, it is unlikely that they will probe the anomalies which lie buried in it. Whether the UK public will fall for it is another matter.



ROBERT YOUNG

CONFIDENTIAL



Prime Minister ①

Handwritten initials/signature

PRIME MINISTER

Handwritten initials

To note that Lord President has secured agreement to a regional map which keeps area covered within 35 per cent of working population. Agree a letter of thanks?

**NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES:
MAP OF ASSISTED AREAS**

AT
25/10

At their meeting on 3 October the Ministerial Sub-Committee on Economic Affairs (E(A)) decided that the target for net savings in public expenditure as a result of changes in the system of regional industrial incentives should be £280-300 million a year; and that the new map of Assisted Areas (AAs) should be based as far as possible on the objective criteria set out in the Report by officials attached to the memorandum E(A)(84)53 by the Secretary of State for Trade and Industry, with inner and outer tiers covering about 15 per cent and about 20 per cent of the working population respectively. However, a number of areas at the margin were not susceptible to a mechanistic approach. I was invited to take the chair of a small group of the Ministers most closely concerned, to which decisions on these areas were remitted.

2. The Group met under my chairmanship on 17 October; I also had bilateral exchanges with several members of the Group. This minute reports our decisions. They will form the basis of proposals to be put to the Commission tomorrow: it is necessary to meet this timetable if clearance is to be obtained from the Commission by 28 November.

Likely attitude of the Commission

3. Informal discussions between the Commission and Department of Trade and Industry officials suggest that the Commission are likely to accept an AA map of Great Britain covering no more than 35 per cent of the working population, provided that it conforms broadly to objective criteria. It would be counter-productive to try to negotiate wider coverage, and could provoke the Commission



to impose arbitrary cuts, as they have done with other Community countries. The Group therefore did its best to formulate proposals meeting these requirements, in the hope that this will avoid delay in securing approval from the Commission. Each month's delay will cost some £20 million in loss of savings from the new scheme.

Decisions

4. The Group's decisions are therefore closely based on the proposals in Annex B to E(A)(84)53, subject to the changes set out below.

England

Alnwick and Amble, Bideford, Dartmouth and Kingsbridge, Torbay, the southern half of the Manchester travel to work area, Skegness and Worksop will be excluded from the outer tier of AAs. But, as proposed in E(A)(84)53, Plymouth and Darlington, two particularly sensitive areas, will be included.

Scotland

Dundee will be included in the inner rather than the outer tier. Alloa, Girvan, Newton Stewart and a number of areas in the Highlands will be put into the outer rather than the inner tier. The Secretary of State for Scotland has agreed not to pursue the other modifications proposed in his memorandum E(A)(84)55.

Wales

Neath/Port Talbot and Pontypridd/Rhondda will be put into the inner rather than the outer tier. Monmouth will be excluded from AA status.

5. The coverage of the resulting AA map does not exceed 35 per cent of the working population; it produces savings within the range of £280-300 million agreed by E(A).

CONFIDENTIAL



6. I am sending copies of this minute to the members of E(A), to the Foreign and Commonwealth Secretary, the Paymaster General, the Minister of State, Department of Trade and Industry (Mr Lamont), and to Sir Robert Armstrong.

hrolw

25 October 1984

CONFIDENTIAL

Regional Pol: Review of Reg Pol Part 7.





MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

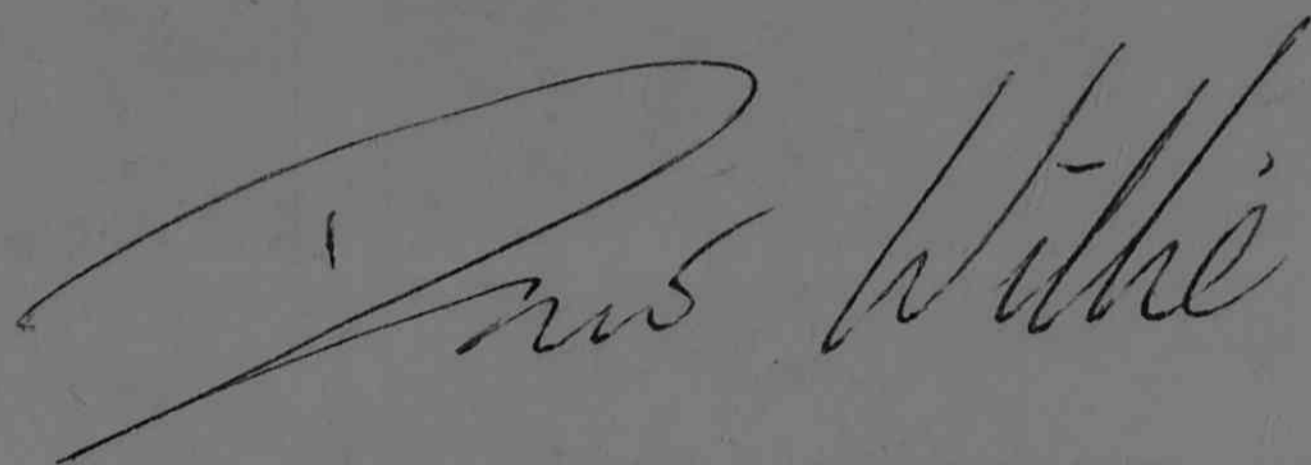
NBPM

AT 15/10

CONFIDENTIAL

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
SW1A 2AT

15 October 1984



REGIONAL POLICY

E(A) on 3 October recognised that there were grounds for reviewing the decisions on areas at the margin where other important considerations applied beyond the criteria used in drawing up option A. A small group under your Chairmanship has been set up to consider such proposals and I am therefore writing to put the case for upgrading both Hull and Grimsby on the new assisted areas map from the outer to the inner tier.

Both ports are currently within development areas and their inclusion in the new outer tier would involve a reduction in incentives to new investment. The distant water fleet based on the two ports has declined sharply within the past decade and is now represented by less than a handful of vessels with a ripple effect on the dependent shore-based industries. Quota restrictions under the Common Fisheries Policy on the North Sea fisheries together with the high landing costs on the Humber make Hull and Grimsby relatively unattractive to owners of smaller vessels. The decline in the fishing industry at the two ports in recent years is illustrated by the following figures for full and part-time employment and of landings:-

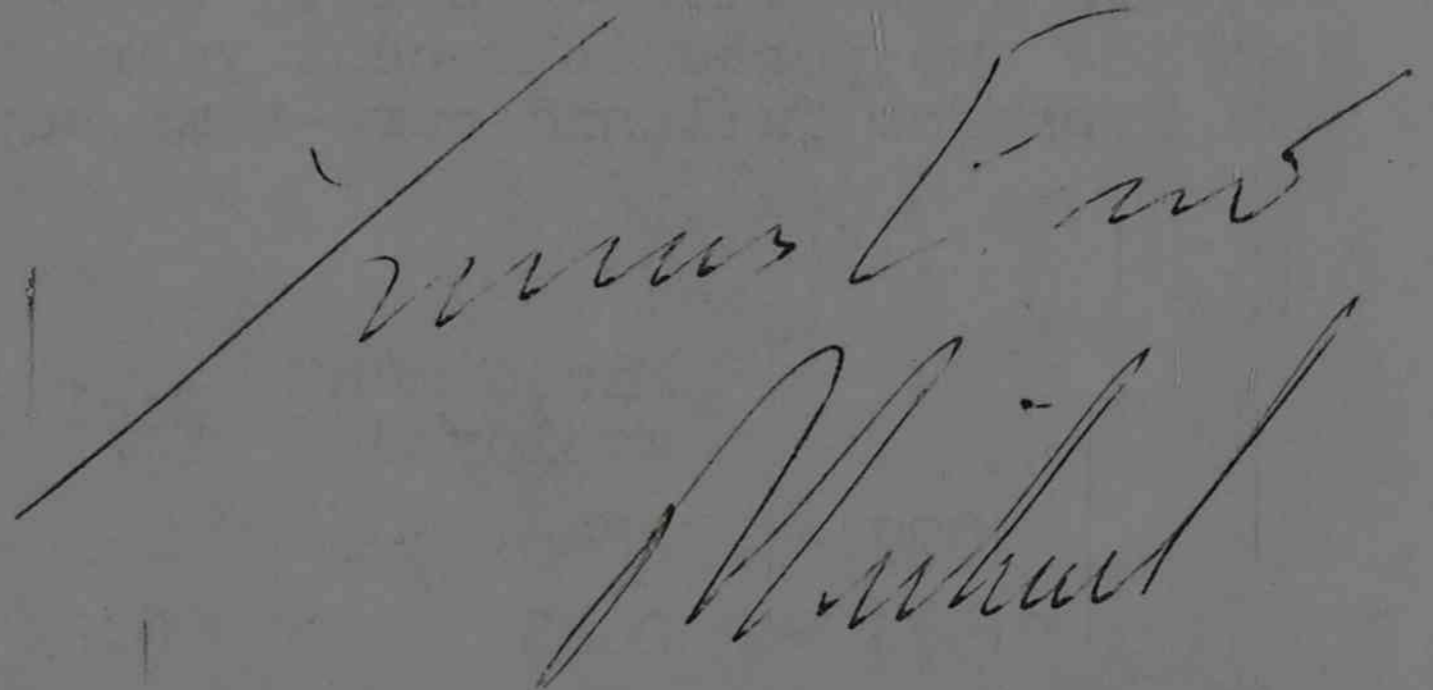
	Fishermen Employed	Decline	Landings quantity (tonnes)	value (£m)
1977	2865	-	176,278	68
1978	2685	6.3%	115,718	46
1980	1962	31.5%	73,649	29
1983	1605	44.0%	46,145	25

/A consultant's study ...

A consultant's study of the fishing industry at Grimsby and Hull, on behalf of the local authorities and the EC Commission as the basis for a possible Humberside Integrated Development Programme for the better focussing of Community development funds on these two ports, has concluded there is now little hope that employment in the fish catching industry will return to former levels.

As the Working Group's report makes clear there is a heavy dependence in these two areas on fishing. While I recognise that there can be no certainty at present of special assistance from Brussels towards an integrated development programme, to reduce the present development area category of both ports would risk sending the wrong signal to our European colleagues. There are, historic rivalries apart, sound reasons for treating both areas alike and I would therefore strongly urge your agreement to their upgrading to the inner tier to maintain their present priority.

I am sending copies of this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Michael Jopling', written in dark ink. The signature is slanted upwards from left to right.

MICHAEL JOPLING

MS



10 DOWNING STREET

cc PGO	WO ³
CO	SO
DTRANS	DN
CS, HMT	NIO
MAFF	HMT
DM	Mr Owen ✓
CDLO	
LPSO	
DOE	

From the Private Secretary

8 October 1984

Regional Policy

The Prime Minister has seen the Secretary of State for Energy's letter of 5 October. While recognising the implications of the changes in regional support for coal mining areas, the Prime Minister thinks that, rather than delay the announcement on regional policy, it would be better to announce a boost to NCB (Enterprise) to coincide with it.

I am copying this letter to the Private Secretaries to members of E(A), and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry.

107

010



SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1H 9QJ

01 211 6402

Prime Minister ⁽²⁾ CC/NO

Rather than delay regional policy
 announcement it would be
 better to announce a boost
 to NCB (Enterprise) to coincide
 with it.

Agree?

HT
5/10

The Rt Hon Norman Tebbit MP
 Secretary of State for Trade & Industry
 1 Victoria Street
 LONDON
 SW1H 0ET

5 October 1984

REGIONAL POLICY

Following the discussion of your proposals for a new structure for regional industrial incentives at E(A) on 3 October, I thought that I should write clarifying my concern over the possible impact on the miners strike.

I think we must recognise that within the regions the striking miners gain support and strength from a widely held feeling that the Government is not fully committed to maintaining full employment in declining areas. This is exploited by those who argue that, whatever the rights and wrongs of proposals for individual colliery closures, resistance to any restructuring of the coal industry should be supported. I believe that we must therefore take seriously the risk that announcement of your proposals will be seized on and presented as further evidence of a lack of concern, thereby strengthening resolve to maintain the strike.

Clearly the risk is greatest where your proposals involve a specific downgrading of aid in coal mining areas. From the small scale map and limited detail provided to E(A) it is not possible to identify these areas with certainty, but on the basis of the old travel to work areas it seems likely that the downgrading of the Durham, Morpeth and Ashington, Dunfermline, Kirkcaldy, Llanelli, Newport and Pontypool and Cwmbran areas from Development Area to Intermediate Area could be particularly relevant. The old Durham travel to work area contained Bearpark colliery, which closed earlier this year, and the old Dunfermline travel to work area contained Bogside colliery, which had to be abandoned by the NCB earlier this year following flooding and a build-up of gas as a result of withdrawal of safety cover by the NUM. The last has been subject to particular political interest by a number of Scottish labour MPs. All of the others contain operational pits in difficult areas. It would be particularly unfortunate if your proposals were to have an adverse effect on the job creation efforts of the National Coal Board's newly created NCB (Enterprise) Ltd subsidiary.

CONFIDENTIAL

I believe that we should therefore consider whether announcement of the changes you propose should be deferred until the present strike is over. If this is not possible, I would hope that we can at least seek to limit the possible damage by ensuring that the announcement of the changes includes some specific recognition of the particular problems of colliery closure areas and an indication of flexibility to deal with these. I would also welcome urgent discussions between our officials in an attempt to identify and minimise the potentially most difficult aspects of the proposed changes.

I am sending copies of this to other members of E(A) and to Sir Robert Armstrong.

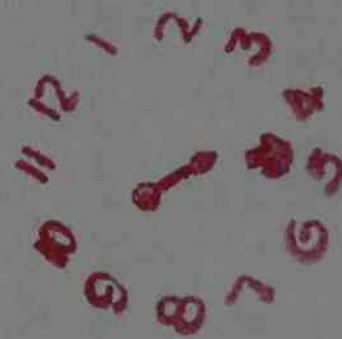
P. Walker

PETER WALKER

CONFIDENTIAL

known
policy

11



PERSONAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2/10

Dear Andrew

E(A) tomorrow: Regional policy

We had at one stage thought of circulating our own paper for EA, on regional support, but decided against — namely on technical grounds, given the trilateral tomorrow, etc.

The Chancellor & Chief Secretary will, however, be arguing to points in the attached draft paper tomorrow (and Mr Tebbit knows they will). I gather Bob Young in the policy unit has been fully briefed, and

may be letting you have a note.
But you might find it useful also
to see the attached draft - which, as I
say, we decided not to distribute.

Yours ever

Daniel.

DRAFT

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(A)(84)

COPY NO

CABINET

MINISTERIAL STEERING GROUP ON ECONOMIC STRATEGY
SUB-COMMITTEE ON ECONOMIC AFFAIRS

THE NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES
Memorandum by the Chancellor of the Exchequer

I support the general direction of the Secretary of State for Trade and Industry's proposals in E(A)(84)53. However, both the logic of his arguments, and the scale of the public expenditure savings needed to achieve the planning totals agreed in Cabinet, point to going further. The aim would be to establish a level of spend nearer what was expected when we agreed last year to savings of £150-200 million - ie expenditure of around £300 million a year. (The attached table compares the various packages with the 1987-88 PES baseline expenditure and the latest forecasts of spend.)

2. First, I propose that the inner tier of the assisted areas map should be set at ten per cent rather than fifteen per cent. The size of the inner tier has the most significant impact on costs: the extra five per cent adds about £60 million to the annual costs of the scheme. We cannot achieve the required savings with a fifteen per cent inner tier.

3. Secondly, while I do not wish to oppose modest new schemes to encourage innovation and new firm formation in the assisted areas from 1987/88 onwards, any additional costs must be contained within the overall level of spend proposed for regional selective

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assistance. The proposal in paragraph 23 of E(A)(84)53 would reduce the net savings by about £20 million.

4. Thirdly, it is crucial that whatever new arrangements we introduce for regional assistance enable us to prevent actual expenditure from escalating out of control well above forecast levels. One suggestion for achieving this would be an annual limit on financial commitments for regional development grant and regional selective assistance taken together; accompanied by changes in the administration of these schemes to improve control over the annual expenditure. I propose that officials should urgently explore the possibilities so that a practical form of control can be adopted.

5. Finally, I am extremely concerned about the difficulty of getting European Commission clearance of a map, as proposed in E(A)(84)53, which exceeds 35 per cent, and includes Plymouth, the whole of Manchester and new assisted areas which are "islands". As I understand it, the Commission are very likely indeed to take exception to each of these singly, and in combination they are a recipe for rejection. We cannot afford that and the consequent delay in public expenditure savings.

Conclusion

6. I support the general direction of E(A)(84)53, but recommend the following amendments to the proposals in it:

- a. an inner tier of 10 per cent rather than 15 per cent;
- b. expenditure of £20 million for 1987/88 on schemes for innovation and new firm formation should be contained within the overall spend proposed for regional selective assistance, rather than reducing the net savings from regional policy changes;
- c. officials should identify a practical way of controlling regional expenditure;
- d. to avoid rejection by the Commission and delay in achieving savings, we should ensure that the total map coverage does not exceed 35 per cent and minimise the number of areas which the Commission is likely to resist.

CONFIDENTIAL

1987/88 EXPENDITURE ESTIMATES: REGIONAL DEVELOPMENT GRANT AND
REGIONAL SELECTIVE ASSISTANCE

	Expenditure	Saving on PES baseline (£489m)	Saving on latest forecast (£679m)
	£m	£m	£m
Map option A (15% + 20%)			
10% capital grant	350	139	329
15% capital grant (proposed in E(A)(84)53)	377	112	302
20% capital grant	409	80	270
Map Option B (10% + 25%)			
10% capital grant	297	192	382
15% capital grant (proposed in this paper)	316	173	363
20% capital grant	339	150	340
Map Option C (10% + 15%)			
10% capital grant	284	205	395
15% capital grant	303	186	376
20% capital grant	326	163	353

Note: these figures assume that any expenditure on new measures to encourage innovation and new firm formation in the assisted areas is absorbed within total expenditure for regional selective assistance. The proposals in E(A)(84)53 would add about £20 million to each expenditure total.

P. 01401

PRIME MINISTER

Review of Regional Policy:
New Structure for Regional Industrial Incentives
(E(A)(84)53, 55 and 56)

BACKGROUND

Flag A

The Sub-Committee decided in October last year (E(A)(83)5th Meeting) that the Regional Development Grant (RDG) scheme should be replaced by a new scheme under which grant would be paid against approved capital expenditure, subject to a grant-per-job ceiling, with an alternative job grant for the most labour intensive projects. They also agreed that the Assisted Areas (AA) map should be revised, and that officials should prepare alternative regional incentive packages to achieve net savings in public expenditure of £150 to £200 million a year.

ProposalsFlag B

2. The officials' report, which is attached to the Secretary of State for Trade and Industry's paper (E(A)(84)53) examines a range of grant and map options. The particular combination favoured by Mr Tebbit is:

- a. two tiers of assistance, together covering 37.3 per cent of the working population:
 - an inner tier of Development Areas (DAs), covering 14.8 per cent of the working population, and eligible for both RDGs and Regional Selective Assistance (RSA);
 - an outer tier of Intermediate Areas (IAs), covering 22.5 per cent, and eligible for RSA only;

- b. geographical coverage as illustrated in Annex A and listed in Annex B of E(A)(84)53;
- c. an RDG scheme involving:
 - a 15 per cent capital grant;
 - a grant-per-job ceiling of £10,000;
 - a £3000 job grant for labour intensive projects;
- d. the inclusion of the service industries listed in Annex C to E(A)(84)53 in the new RDG scheme.

Mr Tebbit also proposes a revised savings target of £280-300 million for 1987/88, with £20 million of the savings to be used to finance a new scheme to promote innovation and new firm formation in the AAs. This would be announced at the same time as the revised RDG scheme, although it would not begin until 1987/88 and officials would need to study the details further.

Flag C

3. The Secretary of State for Scotland's paper (E(A)(84)55) concentrates on the AA map in Scotland. The effect of his proposals as compared to Mr Tebbit's would be a slight increase both in total Scottish AA coverage and in the proportion within the inner tier. The effect would be to increase the proportion of the GB working population covered by the inner tier from 14.8 per cent to 15.18 per cent, and coverage of inner and outer tiers combined from 37.3 per cent to 37.6 per cent. The additional cost would be about £6 million in 1987/88.

Flag D

4. The Minister of State, Welsh Office's paper (E(A)(84)56) argues that Mr Tebbit's proposals create disparity between Wales and Scotland, and proposes additions to the inner tier in Wales. The cost is not quantified in the paper; but Welsh Office officials estimate that the proposals would add about 0.5 per cent to the proportion of the GB working population covered by the inner tier, and cost about £8-10 million a year.

MAIN ISSUES

5. The main issues are:
- i. the level of savings to be sought;
 - ii. the extent of the geographical coverage of AAs, and the split between inner and outer tiers;
 - iii. the particular areas to be included in the AA map;
 - iv. the rates of grant for the new RDG scheme;
 - v. the service industries to be eligible for RDG;
 - vi. the Commission's attitude and any implications for timing;
 - vii. whether to decide now that further measures to encourage innovation and new firms in AAs are needed, and, if so, the cost and the timing of any announcement.

Target savings

6. This is the key issue. Decisions on the desired total cost of the regional industrial incentives will limit the room for manoeuvre on geographical coverage, rate of grant, qualifying activities, and any new scheme to encourage innovation and new firm formation. There is a dispute between the Chancellor of the Exchequer and Mr Tebbit.

7. The Chancellor (in his letter of 16 August) has suggested that the savings target should be £350 million rather than the aim of £150-200 million adopted by the Sub-Committee last October. His argument is that economic assumptions at that time suggested that expenditure would be about £300 million a year; now that the economic assumptions suggest higher capital spending, the right course is to increase the target savings.

8. Mr Tebbit has gone some considerable way to meet this argument, recognising that the case for regional incentives diminishes as the economic climate improves. He now suggests savings (on the latest

forecast expenditure) of £280-300 million (before expenditure of £20 million on innovation and new firm formation).

9. This difference in views is illustrated in the annexed table, which shows the position in 1987/88. The following points are relevant:

a. On the one hand, if it is accepted that RDGs are demand-led it is not possible to hold to a fixed annual level of expenditure on them. The Sub-Committee's discussion in October 1983 did not envisage that expenditure should be held at £300 million a year, or any other specific figure.

b. On the other hand, the general structure of the new scheme will need to take account of what can be afforded. Mr Tebbit tacitly recognises this, at least to some extent, by offering significant reductions below the baseline. The Sub-Committee will need to consider whether these go far enough.

Map coverage

10. As noted above, decisions on target savings, map coverage and the rate of grant are interdependent; the wider the map coverage, the greater the cost of regional incentives for a given rate of grant. The greatest impact on expenditure is made by decisions on the size of the inner tier, since DAs qualify for both RDGs and RSA.

11. There are two main policy decisions to be taken:

i. whether Assisted Area coverage as a whole should be increased from 27.5 per cent of the working population at present to over 37 per cent;

(37.3 per cent on Mr Tebbit's proposals; 37.6 per cent on Mr Younger's)

ii. how large the inner tier coverage should be.

12. On i., although an increase in AA coverage looks at first sight like a step backwards towards the 44 per cent coverage under the last Labour Government, it may ease the political acceptability of the changes at a time of high unemployment and it will help the UK to maximise take-up from the European Regional Development Fund.

13. On ii., Mr Tebbit proposes inner tier coverage of 14.8 per cent. If the proposals of both Mr Younger and Mr Stradling Thomas were accepted the inner tier coverage would be increased to some 15.7 per cent at an extra cost of around £15 million. The Chancellor, on the other hand, may argue for a smaller inner tier - say covering 10 per cent with a saving of some £60 million.

Details of the map

14. I understand that Mr Tebbit intends to illustrate some of the detailed options on the map with slides. If decisions have been taken on the public expenditure savings to be achieved and on the percentage of the working population to be covered by the inner and outer tiers, it may not be necessary to take final decisions on all the details of the map. The outstanding points might be remitted to the Secretary of State for Trade and Industry in consultation with the Secretaries of State for Scotland and Wales and Treasury Ministers.

15. There are however two points which should be borne in mind:

i. The more Ministers move away from the objective criteria employed in the officials' report, the more difficult it will be to resist further special pleading, to avoid increasing assisted area coverage still more, and to secure EC clearance.

ii. Negotiating with the Commission about the new map will require careful handling. It is for consideration whether the 28 November date for announcement is realistic and, in particular, whether to avoid commitment to this date in advance of Mr Tebbit's informal discussions with the Commission. He might be asked to keep in close touch with the Foreign and Commonwealth Secretary on the EC aspects.

Details of the new RDG scheme

16. The main considerations in setting the rate of capital

grant are the level of public expenditure savings sought, the desired impact on employment in the AAs, and judgements on the cost-effectiveness of different rates. A 15 per cent capital grant is consistent with Mr Tebbit's proposals on savings and the map, and officials' findings that a rate below 10 per cent might not influence investment decisions, while a grant rate above 20 per cent would not be cost-effective. A 10 per cent rate might save £25-30 million.

17. The grant-per-job ceiling limits grant payments for projects that create few jobs relative to total capital expenditure. Setting the ceiling so low that many cases hit it would reduce the effectiveness of the scheme, because the uncertainty affecting the employment consequences of many projects will complicate the inclusion of RDG in companies' investment appraisals. Too high a ceiling would increase total RDG expenditure. The £10,000 ceiling proposed by Mr Tebbit is about double the average capital-intensity and would limit the grant paid for about $\frac{1}{6}$ of projects comprising 25 per cent of eligible investment. The ceiling would not apply to small firms (employing less than 200).

18. EC rules set a £3,200 maximum for the alternative job grant for labour intensive projects. There is unlikely to be disagreement with Mr Tebbit's proposal for a £3000 grant.

Service Industries

19. The White Paper proposed the extension of RDGs to service industries. It also set out criteria for selection, the most important being that the availability of grant should increase the overall level of economic activity in the AA. Mr Tebbit's list (Annex C to E(A)(84)53) adds cable television to officials' proposals. The Sub-Committee may wish to consider further candidates such as tourism.



If so you may find it helpful to draw on Table 3 of Annex B to the officials' report, which sets out the arguments against including various other activities.

20. The cost of extending RDGs to the proposed activities is uncertain, but might be of the order of £10-30 million a year. Obviously the more activities made eligible, the greater the cost.

Innovation and Firm Formation

21. The Sub-Committee took no view on this last October. Mr Tebbit's proposal, for a scheme costing £20 million a year, is modest compared to the full range of schemes discussed in the earlier Anson report, which might have cost £60-70 million a year. Discussion is likely to concentrate on whether the cost should be contained within the overall regional spend, rather than reducing savings.

22. There are two reasons for making and announcing decisions now. First the presentational advantages of the scheme as a counter-weight to the cut-back in RDGs. Second, it will clarify the PES position. But there is no overriding need to reach firm decisions now, in advance of necessary further work by officials, and the Sub-Committee might prefer to return to this later.

Timing

23. Once finalised, the new arrangements should be introduced quickly in order to avoid unnecessary speculation, minimise lobbying and secure the savings as early as possible. Mr Tebbit proposes introduction on 28 November. This is an ambitious timetable, particularly in view of the EC difficulties, and it is unlikely to be met if the Sub-Committee do not settle most of the issues at this meeting.

HANDLING

24. You will wish to ask the Secretary of State for Trade and Industry to introduce his memorandum. Thereafter it will probably be convenient to divide discussion between two broad areas:

- i. the level of savings to be achieved; which sets the parameters for
- ii. the details of the new arrangements.

The Secretary of State for Trade and Industry should have set the context for discussion of i.. The Chancellor of the Exchequer, the Secretary of State for Scotland and the Minister of State, Welsh Office are likely to be the main other contributors.

25. On ii., the Secretary of State for Scotland and the Minister of State, Welsh Office should be asked to speak to their memoranda, which are mainly concerned with map coverage. The Minister for Local Government (Mr Baker) and the Minister of State Northern Ireland Office (Mr Boyson) may have views on the implications for the English regions and for Northern Ireland.

CONCLUSIONS

26. You will wish the Sub-Committee to reach conclusions on the following:

- i. the target level of savings in 1987/88;
- ii. the overall geographical coverage of the new AA map, and the split between inner and outer tiers;



- iii. the areas to be included in the new AA map, if necessary leaving the position of marginal TTWAs to a small group of interested Ministers;
- iv. the rates of grant for the new RDG scheme;
- v. the service industries to be eligible for RDG;
- vi. whether the Secretary of State for Trade and Industry should, after discussion with the Foreign Secretary, consult the Commission informally about the new arrangements, and the timing of the announcement relative to such consultation and to formal submission of UK proposals to the EC;
- vii. whether Ministers wish to decide now to introduce new measures to encourage innovation and new firms in the AAs from 1987/88 and the scale of resources to be devoted to them; if so, the timing of any announcement and further work by officials.

PLG

P L GREGSON

2 October 1984

£ million

Expenditure

PES baseline:

- RDG (old scheme)	380
- RSA	<u>109</u>
Total	489

PES baseline with
latest economic
assumptions:

- RDG (old scheme)	548
- RSA	<u>131</u>
Total	679

Savings

		(a) on PES baseline	(b) on latest forecast
Mr Tebbit's proposals			
- RDG (old scheme)	47		
(new scheme)	153	180	348
- RSA	<u>178</u>	<u>(69)</u>	<u>(47)</u>
Sub-total	378	111	301
- New firms	<u>20</u>	<u>(20)</u>	<u>(20)</u>
Total	398	91	281

Mr Lawson's proposals

(RDG + RSA total;
assumes new firms scheme
not additional)

300	189	379
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NBP7

ST 2116

LORD PRIVY SEAL

Andrew Turnbull
The Chief Whip wanted you
to see in confidence the advice
he has given to the Lord Privy Seal

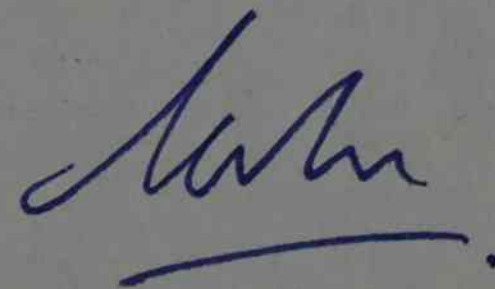
NEW STRUCTURE OF REGIONAL INDUSTRIAL INCENTIVES

FERB

2.90

~~Points~~ points to make on behalf of the Chief Whip -

1. Sure ~~the~~ broad thrust of policy is right and Secretary of State must be supported in his objectives.
2. There are bound to be some difficulties with back benchers who will be under pressure in their constituencies and who will not stand firm.
Very important to begin a back bench operation shortly before policy made public. It would be helpful if the Chief Whip and the Secretary of State could be invited to work out a detailed programme of action in terms of regions and individuals.
3. The South West will be without a doubt the most difficult area. Coming on top of their perceived grievances over agricultural policy, they may well become very disgruntled over regional policy if they think they are being yet further disadvantaged. It will be extremely important to secure a soundly based group early on who will stand firm.
4. Whilst the report seeks to strike a balance between regions, difficulties could arise over any change in this balance, ie if it is thought, for example, that there are substantial improvements proposed for Wales, this could well affect the attitude of back benchers in the West Midlands. Extremely important to minimise these difficulties. Changes must therefore be viewed in this context.



2nd October 1984

● PART 6 ends:-

E (A) (84) 55 of 28-9-84

PART 7 begins:-

E (A) (84) 56 of 1.10.84

