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C(80) 62

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27 October 1980

## CABINET

## PUBLIC EXPENDITURE: SCOTLAND

## Memorandum by the Secretary of State for Scotland

1. In C(80) 58 (paragraph 4 of the Annex) the Chief Secretary proposes that I should make total reductions of £150 million a year in my Scottish Office programmes covered by the "block" arrangements (which excludes Agriculture, Fisheries, Forestry and most Trade, Industry, Energy and Employment expenditure). Of this about £60 million would be found in 1981-82 by applying the usual formula arrangements to the net change in corresponding English programmes; the balance of £90 million is described as being "on account of assessed need". The issues raised by the second part of this proposal are of such importance that I must bring them to the collective attention of my colleagues.
2. I will of course make the formula based reductions flowing from whatever decisions we take on comparable English programmes. I see no reason why the Scottish Office should not make its full contribution to the economies we all have to make. However to go even further by discriminating against Scotland only would be to invite political disaster, and I cannot agree to it. I made my general position on this clear in my minute of 8 July to the Prime Minister (copy attached).
3. I have fully carried out the undertaking I gave at Cabinet on 10 July (CC(80) 28th Conclusions, Minute 2), namely to consider additional cuts in Scottish programmes provided they would not be seen as being discriminatory. I have concluded that this cannot be done, because -
  1. The Needs Assessment Study (NAS) on which the Treasury have founded their proposal, is incomplete, is methodologically suspect and was in any case not designed for this purpose. The present relativities derive from the decisions of successive Governments of both parties with Treasury agreement. If they are to be changed this really cannot be done on the basis of the study or on raw per capita comparisons. To make special cuts by reference to public expenditure in parts of the United Kingdom is a major - and in my view dangerous - change.

2. To find the total deductions of £150 million a year sought by the Treasury is simply impracticable. In 1981-82 I could not find sufficient savings even if I were to make all achievable cuts in current expenditure and impose a total moratorium until March 1982 on all capital expenditure which is not already legally committed or in relation to which a statutory obligation exists.

3. As I indicated in my minute of 8 July, there are political objections which override even the compelling arguments set out above. To alter Scotland's relative share of block expenditure by making reductions over and above those determined by the formula would be utterly disastrous politically. Such a decision would be clearly seen in Scotland by all the Opposition parties as a deliberate act of policy directed against Scotland, and I would be hard put to explain it, let alone defend it, to our own supporters. No-one in Scotland will accept the NAS as valid evidence. I myself told the Select Committee on Scottish Affairs (with Treasury agreement) in July that the NAS could not be used for this purpose. Nor could I justify the imposition on Scottish services under my control of cuts far in excess of the level of cuts to be made on comparable services in England. Such a decision would utterly destroy our credibility in Scotland and would be handing the Scottish National Party precisely the issue they have been looking for.

G Y

Scottish Office

27 October 1980



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Prime Minister

PUBLIC EXPENDITURE SURVEY 1980: SCOTLAND

1. In C(80)40, the Chief Secretary proposes that my programmes (excluding agriculture and fisheries) should be reduced by £150m a year over the next three years. This reduction would be additional to those flowing from his specific proposals on health, education, etc. I was given no warning, formal or informal, of this proposal which purports to reflect the outcome of a meeting of Ministers on 1 May held to consider the Needs Assessment Study completed last year.
2. In fact, as the note of that meeting records, there was general agreement that it would be very difficult politically to alter relative shares by re-distributing existing public expenditure allocations, particularly since any such re-distribution would have to be made public. We did, however, agree that it would be legitimate to take account of the results of the Needs Assessment Study as a relevant factor in taking decisions on the distribution of increases or reductions in public expenditure plans. In taking this decision the Ministers concerned were all aware that the great bulk of my expenditure is, in total, adjusted in proportion to changes in the total of comparable programmes in England and Wales. The formula by which this is done was made public with Treasury agreement at the same time as the last Public Expenditure White Paper; and, as it happens, I was questioned in detail about this by the Scottish Select Committee yesterday.
3. The needs Assessment Study was part of the ill-fated devolution proposals which assumed an arm's length relationship between the UK Government and a Scottish Assembly. Many of us, in resisting the Assembly, argued that Scotland would do less well financially if it had one. The Chief Secretary's proposal totally undermines this argument - and this on the basis of a Study which the Chief Secretary himself acknowledges was not intended to determine relative levels of public expenditure. As you said in the House last week it is right that public expenditure per head in Scotland is greater by a considerable amount than in England and Wales.

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4. A few key figures will show what the Chief Secretary's proposal would mean. He excludes agriculture and fisheries: in the light of our manifesto commitments I must also exclude health and law and order from my calculations. Present plans for the rest of my programmes provide for cuts of nearly 11½% between this year and 1984. The Chief Secretary's proposal would put this up to almost 18%. This is, quite simply, impracticable.

5. We need not imagine that any changes in public expenditure shares can be made by stealth. Public knowledge of the formula and the close interest shown by the Scottish Select Committee and the Scottish press will see to that. What is proposed is not re-distribution: it is, and will be seen as, a scheme to balance the national books by forcing Scotland to take debilitating medicine not prescribed for any other part of the UK. I need hardly explain to you what a disaster any move of this sort would be for our whole political position in Scotland. To do it within 18 months of the referendum and at a time of the highest unemployment since the war would be very hard to justify. My own credibility if I were to agree to such a proposal would be gravely weakened both with public opinion and our own Party supporters.

6. I shall of course be prepared to argue my case in Cabinet, but I think it right to make my position clear to you beforehand. I should not have been put in the position of having to challenge in Cabinet a proposal of such importance to me when I have had no previous warning of it and when it is in conflict with an earlier Ministerial agreement.

7. I am copying this minute to other members of the Cabinet, the Chief Whip, the Minister of Transport and Sir Robert Armstrong.

A.Y.

8 JULY 1980