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10 DOWNING STREET

From the Private Secretary

8 November 1984

Dear Richard

TERRITORIAL EXPENDITURE

The Prime Minister held a meeting today to discuss provision for public expenditure programmes in the territorial blocks. Present were the Lord President, the Chief Secretary and the Secretaries of State for Scotland, Wales and Northern Ireland. Also present was Sir Robert Armstrong. The meeting had before it the Chief Secretary's paper attached to your letter of 6 November.

The Chief Secretary argued that provision for most public expenditure programmes in the territorial blocks was calculated by applying an automatic formula to the English totals. This arrangement had a number of advantages - it made it possible to dispense with detailed negotiations on individual programmes - but equity demanded that the needs of the territories should be periodically reassessed in order to see whether there was under- or over-production. Work in the Treasury suggested that there was some over-provision in Northern Ireland and Scotland, in the latter case possibly £1 billion at a time when income differentials with England had narrowed. Regions in the North of England were irritated by the unfavourable comparisons with Scotland.

The Chief Secretary therefore suggested that the Needs Assessment Study, which was last conducted in 1979, should be reworked. He was very conscious of the political sensitivity and in his paper he had suggested methods by which the Study could be carried out which would minimise the risk of damaging leaks.

The Secretary of State for Scotland expressed strong reservations about such a Study. If it were to show that Scotland was under-provided for, the Government would lose a major plank in its defence against Scottish nationalism. If this Study showed Scotland were over-provided for, it would be inevitable that the Treasury would seek to cut this back, which would create a major political issue in

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Scotland. He was prepared, where possible, to make economies in provision for Scottish programmes but this was best done by chipping away over a period of years, e.g. by rounding down when applying the formula, rather than by setting up a very public target for expenditure reductions. He offered to consider with the Chief Secretary what further savings might be found in this year's public expenditure survey.

The Secretary of State for Wales was sceptical about what such a Study could achieve. The last one in 1979 had indicated some under-provision in Wales but little adjustment had, in practice, been made. The Secretary of State for Northern Ireland felt that it would be difficult to apply the results of the Study to Northern Ireland, given its very special problems. Many public expenditure programmes were under severe pressure as a result of rising police costs.

The Lord President shared the scepticism which had been expressed about the advantages of the exercise. While representing a border constituency for many years, he had observed a good deal of grumbling about provision north of the border but this had never become a major political issue.

Summing up the discussion, the Prime Minister said the meeting had not favoured launching a new Needs Assessment Study. It was doubtful whether it would achieve much and it presented real political dangers for the Government. It would be better, as the Secretary of State for Scotland had offered, to trim Scottish programmes as and when opportunity arose, rather than through a very conspicuous exercise.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), John Graham (Scottish Office), Colin Jones (Welsh Office), Graham Sandiford (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

(ANDREW TURNBULL)

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