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cc JR



Prime Minister ①
This has been resolved. The
Chief Secretary has got no
advance on £5m, £5m, £20m.
but has secured agreement that
Treasury officials should be
allowed to go on to be problem in
detail.

Dear Andrew,

AT 12/12

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

12 December 1984

SCOTTISH BLOCK: PUBLIC EXPENDITURE WHITE PAPER

In your letter to me of 11 December you said that the Prime Minister would be grateful if the Lord President could discuss with the Secretary of State for Scotland and the Chief Secretary the possibility of finding larger savings in the Scottish block than those which the Secretary of State for Scotland had hitherto been able to find, which were a £5 million baseline cut in 1985-86, and £5 million and £20 million respectively in the following two years. The discussion took place at a meeting this morning.

The Secretary of State for Scotland said that he was willing to go as far as possible in finding savings within his block so long as these were not visible to informed critics. In particular, Professor David Heald, who advised the Scottish Select Committee, was swift to spot any deviation in the application of the formula by which marginal changes are determined in comparison with English programmes. Any suggestion that the formula was not being fully applied or that Scottish block programmes were not growing broadly in line with comparable English programmes would be seized upon by the Government's critics and would lead to very serious political difficulties in Scotland. It would be impossible to defend savings which were "visible" in this way, but he was willing to trim the Scottish block programmes as far as possible so long as that could be done invisibly. He had found savings of £5 million for 1985-86 but could go no further. He had offered £20 million as a rough figure for the third year in the hope that, given time, he would be able to find ways of presenting a larger sum in an acceptable way, but he could not make abrupt changes.

Andrew Turnbull Esq

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The Chief Secretary explained that having been enjoined by the Prime Minister to look for opportunities to trim the Scottish block, he felt that further savings might be found. The exact application of the comparability formula to a very large number of PES sub-programmes was complex and not publicly known, and greater savings would not necessarily be visible. He was also faced with the general problem of an upward drift in the overall public expenditure figures between the Autumn Statement and the White Paper, and was more widely seeking contributions to ease the problems.

The Secretary of State for Scotland had only announced the aggregate figure for his expenditure and was under strong pressure to give the detailed breakdown. He intended to do so by means of an oral statement the following day (Thursday) and could not hope in the time available to find any acceptable extension to the savings he had so far identified. He would, however, be very willing for his officials to discuss in detail with Treasury officials the difficulties thrown up by the problem of visibility and the need for him always to respond to his critics by saying that the formula had been adhered to in determining the size of the Scottish block.

The Lord President, summing up the discussion, said that it was clear that no further savings beyond those already offered by the Secretary of State for Scotland could be found quickly. The Treasury should, however, take up his offer of full discussions on the problem of visibility in the second and third years with a view to finding greater savings in those years.

I am sending copies of this letter to John Graham (Scottish Office), Richard Broadbent (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely,
Janet Lewis-Jones.*

JANET A LEWIS-JONES
Private Secretary

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