002/1287

VCB9

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

NBPM.

4th March 1986

Dear Malcolm,

PUBLIC EXPENDITURE: 1985-86 OUTTURN

Thank you for your letter of 26 February. Since you were able to accept the housing package proposals in my letter of 25 February we can regard the position on this as settled. I note that you will be responding separately on the industry package in the next few days.

with DRN

I am copying this letter to the Prime Minister, Nicholas Edwards, Paul Channon, Kenneth Baker, other members of E(A) and Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

ECON POL PUBLIC EXPEND : PE34

CC BG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

28 February 1986

Dear Chief Secretary.

PUBLIC EXPENDITURE: 1985-86 OUTTURN

As foreshadowed in my letter 26 February I am now in a position to reply to the proposals in your letter of 25 February about the industry package.

I must re-emphasise the point which I made at our meeting on 4 February that the written agreement by my officials, to which you refer was to offset the additional expenditure on regional assistance if other Departments' forecasts that they would have no underspending on regional assistance remained firm. They have not done so. Paul Channon is now forecasting a very substantial underspend. I have made the point in my letter to him yesterday about provision for 1986-87 that this year's forecast outturn for the three Departments involved is very close to their aggregate provision. What went wrong was the distribution of provision between Departments, which was recognised at the time it was done to be very crude.

Notwithstanding my view on this issue of principle, I have tried to be helpful. Having offset about a third of the original forecast of additional spending at the time we identified later a further very substantial offset in the form of a reduction in NSHEB's EFL. My letter of 12 February contained no suggestion whatever that I anticipated that you would rule this out. George Younger made it absolutely explicit in his letter to you of 9 December that he was offering the reduction as an offset against any future calls on the Reserve. We received no indication from you that this would not be acceptable. Is it reasonable for you to seek to take a different view after all this time?

Your problem is to keep additional spending within the total which we have set for the Reserve this year. I have been obliged to incur a small part of that additional spending and you are pressing me to specify other areas of my programmes where spending will be less than planned. I am doing so by pointing to the reduction in NSHEB's spending against its planned EFL. I do not see how you can say that the reduction does not count. Neither do I agree your argument for doing so. I accept that, in

principle, EFLs are ring fenced for the purposes of the Survey discussion, although I understand that you agreed to some of Leon Brittan's bid in the last Survey being offset from reductions in EFLs within his programmes. However, I know of no agreement that ring fencing applies for the purpose of the arrangements governing calls on the Reserve. I must press you again to let matters rest on the basis of George Younger's letter of 9 December.

I am pleased to be able to let you know that my additional spending on regional assistance is now forecast to be about £5 million less than we had been expecting. The amount not already offset is therefore only £9 million. The EFL reduction is therefore over £3 million more than the amount to be offset.

I said in my letter of 12 February that I could not find other reductions but in order to be helpful we have carried out another detailed examination of my Votes to see if anything could be found. The forecast underspending which has emerged as we come nearer to the year end is very modest, amounting to about £2.4 million in total spread across six Votes. When we met on 4 February I stressed the considerable polictical importance of the SDA and HIDB being allowed to use their excess capital receipts. I very much hope that on the basis of the EFL reduction you will now be able to agree to this.

I am copying this letter to the Prime Minister, Nicholas Edwards, Paul Channon, other members of E(A) and Sir Robert Armstrong.

Yours sincerely

Andy Rinning

ANDY RINNING
Private Secretary

Approved by the Secretary of State
and signed in his absence

ECON POL
PUBLIC EXPENDITURE
PT 34

CC BG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

26 February 1986

NBPM

Dear John,

PUBLIC EXPENDITURE : 1985-86 OUTTURN

Thank you for your further letter of 25 February in response to my letter of 12 February setting out proposals for dealing with the calls which I have been obliged to make on the Reserve in relation to regional assistance to industry and housing support grant.

I entirely accept that the proper course in relation to English local authority capital overspending is to eliminate it and that you are trying to do so. My proposals have always related to the arrangements which are appropriate until such time as you succeed and I shall continue to approach the matter in that context.

I have no difficulty with your wish to keep the housing and industry packages separate or with your proposal that the £3.5 million surrender to the Reserve from my SO/LA2 cash block should be wholly regarded as offsetting the need for additional housing support grant expenditure. (I was, incidentally, taken aback at your suggestion that I had in any sense gone back on my agreement to surrender the £3.5 million simply because I proposed to apply part of the surrender as an offset within the industry package.) I remain disappointed at your stance on the question of the SSHA's potential tax liability but I reluctantly accept that we shall have to return to it in 1986-87, if it arises.

Since I am accepting your housing package, I have instructed my officials to proceed immediately with arrangements for bringing forward the outstanding HSG Order. We are now absolutely up against the time limits for carrying it through this year.

I shall respond separately to you on the industry package in the next few days.

AEP01914.026

I am copying this letter to the Prime Minister, Nicholas Edwards, Paul Channon, Kenneth Baker, other members of E(A) and Sir Robert Armstrong.

Yours ever,

Malcolm

MALCOLM RIFKIND

AEP01914.026

ECON POL: Public Expenditure: Pt 34