



NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CUBG

Prime Minister²
Modest - but of kind
will expect to gain from the
operation of the formula.

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

30 May 1986

JRS
2/6.

Dear John,

PES 1986

I write to advise you of my bids for additional expenditure over the three Survey years.

My bids and offsetting savings may be summarised as follows:-

	£m		
	1987-88	1988-89	1989-90
Agricultural Development Programme	-	0.2	3.9
Agricultural Research and Advisory Services	2.0	1.4	1.8
Industry	7.6	-	20.5
Total Bids	9.6	1.6	26.2
Reduced requirements for housing subsidies	- 8.2	-12.8	
Net Bids	+ 1.4	-11.2	+26.2

Details of my bids and savings are provided in the Annex to this letter. Michael Jopling's PES letter to you describes the UK bids flowing from the Government's policy and CAP commitments including some of the agriculture bids

MAG14801

AGRICULTURE, FISHERIES AND FOOD

The Minister for Agriculture, following consultation with his agricultural colleagues, is submitting a number of bids which arise on these programmes reflecting overall UK policies and those of the EC. There are a number of points (which will be in the MAFF letter) which are basically Scottish and which are described below.

Agricultural Development Programme (ADP)

	£m		
	1987-88	1988-89	1989-90
Additional Bid	-	0.2	3.9

The Agricultural Development Programme (ADP) for certain Scottish Islands has been the subject of earlier correspondence. Although it has received approval in principle from the Council of Ministers there are still some technical matters to be sorted out. As these are resolved the estimates set out below may have to be varied.

	1987-88	1988-89	1989-90
Estimated ADP Expenditure	-	3.9	7.7
Estimated Expenditure under existing schemes	-	3.7	3.8

It is appreciated that there may be some difficulty in accepting such a bid. There are however a number of points. First, the Agriculture and Fisheries programmes are already under great pressure. A number are demand-led and whilst discussions are proceeding on how more might be done to control these we cannot look for savings over and above those required in recent PES rounds. Second, some elements of the programmes are already facing quite severe cuts following decisions in 1984-85 and further adjustments to accommodate even important initiatives coming from the EC are really unthinkable. Third, whilst the rules on additionality are fully understood the UK economy does stand to gain quite a bit from FEOGA if we are able to work up an acceptable package under the ADP. Fourth, a good deal of political importance is attached to this programme and the way the EC initiative has been received in the Scottish Islands. The bid is modest in relation to the political goodwill it will generate. Certainly it will be unacceptable politically to refuse to follow through the general commitment we have already given to implementation of the programme.

Agricultural Research and Advisory Services

	£m		
	1987-88	1988-89	1989-90
Additional Bid	1.0	1.0	1.0

Decisions were taken in the 1984 PES round to cut the level of public support to Agricultural Advisory and R & D Services. The thinking behind this decision was, however, concerned primarily with achieving cash savings rather than reducing services. We have, therefore, been looking to generating income from new charges for both advisory and statutory services. The implications of this have been discussed with Treasury officials who have helpfully suggested that this should be the subject of a separate Ministerial letter indicating the implications for redundancies and associated costs (which it has already been agreed would fall on the Reserve) if no adjustment is made to the level or phasing of the savings to be achieved in Scotland. The illustrative figures associated with the bid are noted above and will be explained more fully in a separate letter.

Pay Realism

	1987-88	1988-89	1989-90
Additional Bid	0.418	0.439	0.813

This bid relates to the pay of staff of the Scottish Agricultural Research Institutes and Colleges and parallels one which is being submitted by Michael Jopling for MAFF. It updates the bid allowed in last year's PES round and takes account of the recent Civil Service pay award which will apply automatically to SARI/SAC staff.

Pensions etc payable to staff in the Scottish Agricultural Colleges and Research Institutes (SARI/SAC)

	1987-88	1988-89	1989-90
Additional Bid	0.535	-	-

There has already been an exchange of correspondence at official level about this. The Department of Agriculture and Fisheries for Scotland Superannuation Scheme 1975 was introduced for staff of the SARI/SAC with the approval of Treasury and is by analogy with the Principal Civil Service Pension Scheme which is funded from the Civil Superannuation Fund. However, because of the conventions of Supply Estimates and PES it has fallen upon cash limit Vote Class XVI, 2 to meet the continuing increase in costs arising from increases in the number of staff retiring and the effect of the annual pension inflation factor outstripping the PES inflation factors. We have so far been able to meet the shortfall from estimating savings elsewhere in my AFF programme, and indeed have been able to do so for 1988-89 and 1989-90. However, there remains a shortfall of £0.535m in 1987-88 and we regard it as entirely iniquitous to make policy savings to cover this expenditure over which we have no control.

THE INDUSTRY PROGRAMME

The main point is that we have inadequate provision for expenditure on regional assistance. This is the subject of Ministerial correspondence with Mr Paul Channon and we expect the necessity for a bid to be averted by a redistribution of aggregate provision for Great Britain, to reflect the evidence that the distribution on which existing Survey figures are based was wrong. There is a technical point relating to ERDF non-quota receipts passed on to the private sector which Treasury officials have indicated should be entered formally as a bid (£0.6 million in 1987-88), although there is an established agreement that the processing of such receipts will not affect the expenditure programme of sponsoring Departments.

We consider that there is also a need for an increase in provision for the SDA in 1987-88 and 1989-90. The Agency's capacity for action has assumed even greater political importance than usual in the wake of the Gartcosh closure and the recently announced redundancies in shipbuilding and railway engineering. We think it is imperative that we maintain the Agency's gross spending provision at this year's level in real terms, in order to avoid a contraction in the level of activity. Even this will leave us vulnerable to criticism given the effect of the Garden Festival on the normal pattern of the Agency's activities particularly on land renewal. A particular aspect of the latter is the need to tackle a substantial backlog of work on clearing industrial dereliction. Derelict land clearance is one of the principal objectives of the Government's urban policy and the present inability of the Agency (one principal instrument for delivering urban policy in Scotland) even to keep pace with the increase in dereliction is a matter of growing political embarrassment. The additional requirements are:-

	£m		
	1987-88	1988-89	1989-90
Additional Bid	7.0		20.5

The high figure for 1989-90 is, of course, mainly due to the fact that the baseline figure is derived from the abnormally low figure for 1988-89, which reflects the one-off peak in receipts from the Garden Festival.

The range of the Industry programme is narrow; the only significant area of expenditure not already mentioned is the Highland and Islands Development Board. The Board's provision is already to be squeezed, through planned cash reductions, at a time of considerable pressure on them and we see no scope for further reductions.

HOUSING SUBSIDIES

We have reduced requirements for housing subsidies which, although they are within the block, are subject to special PES arrangements under the 'concordat'. The reductions are:-

	£m	
	1987-88	1988-89
	8.199	12.840

MANPOWER

Since May 1979 Scottish Office manpower (excluding the Prison Service) has been reduced by some 1340 (16.5%). Our present targets require a further reduction of 184 (2.7%) by 1 April 1989 in the number of staff who were in post on 1 April 1986. (The required reduction is 240 (3.5%) measured from our manpower target for 1 April 1986, which we had to undershoot simply in order to avoid a breach of the cash limit - not because there was insufficient work to justify the target figure.)

Considerable satisfaction can be taken from the contribution which the Scottish Office had made to our overall drive to reduce Civil Service numbers. But looking



ahead to the next critical period, we believe that we may be handicapping ourselves unnecessarily if we do not now allow a slow down in the rate of contraction. Some diminution in traditional standards of service may be acceptable in some areas, but we have reached the point where we are unable to pursue initiatives (on which Ministers will be judged by the electorate) as we would wish. This includes the delivery of an acceptable Scottish dimension to national initiatives such as those in relation to drug misuse and crime prevention: it also includes areas of education and housing policy where purely Scottish considerations apply.

Officials will be writing to their Treasury counterparts about the details underlying the assessment made by Scottish Office Ministers. In short, however, we believe that the Scottish Office manpower targets should be relaxed to the extent of the following:

1 April 1987	1 April 1988	1 April 1989	1 April 1990
9040	9013	9008	9030

These are minor changes - amounting only to a slow down in the rate of reduction, rather than a net increase - when compared with developments in the major network departments. But we shall ensure that the additional staff are deployed to make the most significant direct contribution to the effective delivery and presentation of our policies.

Running Costs Cash Limits

Cash limits on running costs were introduced last year on the basis that it would be appropriate to move to realistic assumptions for pay increases. The Scottish Office settled on +5% for 1986-87, +3.5% for 1987-88 and 3% for 1988-89. In the event the pay settlement for 1986-87 was 6% together with numerous special awards which brought the overall cost to the Scottish Office up to about 7% of our pay bill. We are taking exceptional steps to contain these additional costs during the present financial year but if we are to secure the effective delivery and presentation of Government policies in Scotland, adjustments are required to the cash limits on our running costs for the forward years. Changes are also required to reflect realistic pay assumptions for 1987-88 and other items such as the costs of the information technology and greater expenditure on training, both designed to make the more effective use of staff resources. Similar considerations apply to the minor Departments and the Scottish Prison Service. Officials have already been in touch on the details but, when full account is taken of the efficiency savings which we have in progress, the reviewed running costs cash limits we require are as follows:-

		£m
1987-88	1988-89	1989-90
148.6	153.4	157.3

THE SCOTTISH PRISON SERVICE

In the Prison Service we need to increase manpower levels to cater for substantially higher inmate numbers than were forecast in PES 85 and for the likelihood that numbers will increase further. This situation can be met only by keeping open Low Moss Prison, which we had planned to close as Shotts II was commissioned, with its staffing consequentials. More security staff and instructors are needed to provide a satisfactory regime for the larger prison population. Treasury officials have been informed of our proposals for prison service manpower increases and of their reasons.



incorporated in the foregoing table I will, at your officials' suggestion, be writing to you separately about one point not in Michael's letter ie a bid for £1m in each year of the Survey which will, if conceded, reduce the call on the Reserve.

To ensure the effective delivery and presentation of our policies in Scotland I require the following revised manpower totals for the Scottish Office, and my four minor Departments.

1 April 1987	1 April 1988	1 April 1989	1 April 1990
9040	9013	9008	9030

For the same reasons I also require the following adjustments to the running costs cash limits for the Scottish Office and my four minor Departments.

			£m
1987-88	1988-89	1989-90	
148.6	153.4	157.3	

For the Scottish Prison Service, the manpower totals needed to maintain present standards of security and to cater for an increasing prison inmate population are as follows:-

1 April 1987	1 April 1988	1 April 1989	1 April 1990
3145	3356	3386	3401

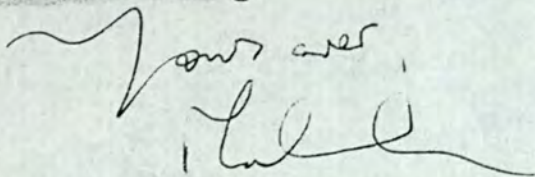
The revised cash limits for the running costs of the Prison Service, related to these manpower targets, are as follows:-

			£m
1987-88	1988-89	1989-90	
63.4	66.3	68.1	

Details of these requirements are provided in the Annex. I should make clear that I propose to meet the increased running costs in the three Survey years from within the Scottish block.

I look forward to discussing the above bids when we resume our deliberations on the overall size and shape of the Scottish programme.

Copies of this letter go to the Prime Minister, the Lord President, Douglas Hurd, Michael Jopling, Paul Channon, Tom King and Nicholas Edwards and to Sir Robert Armstrong.



MALCOLM RIFKIND

MAG14801