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c.c. J. Redwood

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10 DOWNING STREET

From the Private Secretary

17 February, 1984.

Territorial Programmes

The Chief Secretary, accompanied by Mr. Bailey, came to see the Prime Minister today to talk about the territorial expenditure programmes. Mr. Redwood was also present. The paper attached to the Chief Secretary's minute of 30 January indicated that there was substantial over-provision in Scotland and in Northern Ireland, though not in Wales. This arose, not so much from the working of the current formula, but from the generous base line established in the 1970s. The Chief Secretary handed the Prime Minister a further note setting out a number of indicators of over-provision, for example, pupil-teacher ratios, rents, roads. He argued that, with the growth of the North Sea oil sector, and electronics, there had been a substantial narrowing of the income differential. Incomes in Scotland were now about 99% of those in England. A number of English regions, for example, Cumbria and the North East, felt a sense of grievance at the level of provision enjoyed north of the border.

The Prime Minister agreed that the figures did indeed point to over-provision. She pointed out, however, that there was an important political dimension to the Scottish case. Major changes were taking place in the structure of Scottish industry. There had been a number of major closures, for example, Invergordon, Linwood, Wiggins Teape, and now Scott Lithgow and Henry Robb. There were further major redundancies still in prospect, - Ravenscraig, Bathgate, and the Scottish pits. Despite strong growth elsewhere in the Scottish economy, all these redundancy cases would attract strong political opposition.

The Secretary of State was in a difficult position. On a number of cases in the past he had sought to find a new operator, but this had generally been unsuccessful. He had played a cooperative role in the handling of these closures. This had been enormously valuable in allowing the necessary restructuring of industry to take place, and in allowing heavy exchequer subsidies to be withdrawn. A frontal assault on public expenditure in Scotland would put him in extreme difficulties, and could create a possible opening for the SNP.

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The Prime Minister said she recognised the case for reducing public expenditure provision in Scotland and Northern Ireland, but felt that this should be tackled with great care. There should be no attempt to publicise the figures. Instead, the aim should be to pare down the figures starting with the last year of the survey. The Chief Secretary should begin to sound out the Secretaries of State for Scotland and Northern Ireland.

I would be grateful if this letter were shown only to those who need to know of its content.

Andrew Turnbull

John Gieve, Esq.,
HM Treasury.

Chief Secretary

From: W J E NORTON
Date: 17 February 1984

MR BAILEY

AMW 17/2

cc: Mr Watson

TERRITORIAL STUDY

Here is some supplementary briefing for the call on No. 10, as requested.

(1) More examples of over-provision in Scotland

(a) Pupil-teacher ratios in schools: 1981-82

England	18.5
Wales	18.0
Northern Ireland	18.7
Scotland	17.1
<u>Scotland less Highlands and Islands</u>	<u>17.3</u>

(b) <u>Housing:</u>	<u>% Dwellings Unfit</u>	<u>% Dwellings lacking in basic amenities</u>	<u>Rents</u>
England	about 5.2	5.0	£14.05
Scotland	4.5	2.8	£9.84

(2) Anecdotal evidence of over-provision in Scotland

(a) Teacher training. The Scots, despite some recent closures, still have a large admitted surplus of capacity.

(b) Roads. Glasgow has the highest/mileage of urban motorway per capita in Europe. A glance at any road map will show the now extensive system of fast modern highways in the Lowlands, and even parts of the Highlands - and everybody who uses them agrees that most of them are, by English standards, extensively under-used.

(3) Decline in Scottish population, compared with England

	<u>Scotland</u>	<u>England</u>
1975	5.21m	46.70m
1978	5.18m	46.66m
1981	5.15m	46.82m

(4) Methodology - Major Objective Factors

"Lack of pupil places" (see Appendix to minute to No. 10) refers to the imbalance between supply and demand caused by population movements, especially the movement out of cities into the countryside.

(5) Cases in the pipeline

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| (a) <u>Scotland</u>
(Outside block) | Scott Lithgow
Bathgate |
| (b) Northern Ireland
(Inside block) | Harland and Wolff
Power station investments (perhaps)
Lear Fan |

WJEN

W J E NORTON