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Treasury Chambers, Parliament Street, SW1P 3AG

5 March 1984

The Rt Hon James Prior MP  
Secretary of State  
Northern Ireland Office  
Whitehall  
London SW1A 2AZ

*Dear Secretary of State,*

THE NORTHERN IRELAND BLOCK

With the Prime Minister's approval I am taking a fresh look, in the interval between annual Surveys, at a number of areas of public expenditure which lend themselves to in-depth review. One area where I see a good case for this is the block budgeting regime for Scotland, Wales and Northern Ireland - overall rather similar, despite important differences in your constitutional position and in the wider coverage of your block.

This regime has now been operational for about five years, the Northern Ireland block itself having been introduced in 1979. The attractive simplicity of the block/formula arrangements has saved us all a great deal of time and trouble, and there could be no benefit to anybody in a return to the programme-by-programme horse-trade which preceded them. Nonetheless, given the inexorable pressure we face on all public expenditure programmes, I have felt the time has come to take stock of the public expenditure consequences of this largely automatic system. That can only mean relating expenditure to some assessment of need.

The Treasury has carried out an internal study which attempts to relate expenditure to need for the three territorial blocks. The Prime Minister has seen the results. This is an inherently difficult topic, because no way of measuring need can ever be perfect or free from controversy. For present purposes, we have seen no alternative but to attempt a further update based on the inter-departmentally agreed methodology used in the 1979 Needs Assessment Study (NAS) and its 1980 repeat - while aware that that methodology has had its critics. I would nonetheless make two claims for the NAS approach:-



- (i) While its detail is arguable, it can be used with some confidence to point up areas where there is an important divergence between expenditure and need - need, for these purposes, being assessed relative to need in England.
- (ii) It is a valid indicator of the broad trend, over time, of that relationship between expenditure and need.

The results suggest at first sight that the Northern Ireland block is now running at a level significantly in excess of relative need, and that the gap has widened in the last few years. No absolute precision is claimed for the figures. But you should know that the sum total of the excesses identified in those results for 1983-84 is around £400m if one includes the law and order programme, or £200m if one excludes it. In recognition of your politico-security problem I am ready to agree that we should set aside the higher figure, though the precise amount must be a matter for debate. Moreover the study has not covered some important programmes such as public and private sector industry (which fall outside other territories' blocks), where again there is reason to suspect some over-provision. I also acknowledge that our own data on Northern Ireland are less complete even than those for the other territories; but there is little doubt that housing, and health and personal services, are the main programmes where there is evidence of excess provision in relation to relative need.

It seems to me evident that such a large figure as £200m must point to some imbalance in the geographical distribution of public expenditure resources. For some kinds of expenditure this is supported by statistical and anecdotal evidence of rather high relative standards of provision.

How has this situation arisen? Not, the study suggests, through the working of the territorial formula, whose effect tends to be broadly neutral over time, and in any event, very marginal. On a comparable basis, the excess seems to have grown by around £175m since 1978-79 after inflation is allowed for. About 90% of this increase is evidently due to a rise in Northern Ireland expenditure provision relative to England, much of which seems to have been implicit in the forward plans already in existence when the block was established (which looked forward to 1982-83). The rest appears due to reduced relative need in Northern Ireland.

As to the implications, I recognize very clearly the constraints imposed by the political dimension. I recognize that you might face very great difficulty over any proposal to make any changes to the block expenditure totals already published in the Public Expenditure White Paper. And any fundamental change to the block/formula regime itself would, I am sure, hold as little attraction for the Assembly or the informed public in Northern Ireland as it does for either of us.



But I do believe that, unless we can be shown to have got the problem out of proportion, it has to be tackled. Before coming to any firm view on how to do so, I should like to have a talk with you about it. But what I have in mind is a different approach to the setting of baseline provision for your block for the new final year in each Survey round, starting with this year's Survey. The usual procedure is to apply a flat percentage increase to the previous year's provision. Instead I believe we should detach the Northern Ireland block and negotiate each year on the level of the new baseline provision. To make any impact on the problem this would obviously have to be on the understanding that we were looking for an outcome lower than the flat percentage increase would give you. Then the provision would gradually, over time, move more into line with relative need.

I recognise that you will want to think carefully about this, before embarking on any wide-ranging study. So I am not copying this letter widely, and I am sure the first step should be a meeting between the two of us. But I would hope it might be possible to agree that officials should jointly look into the results of the Treasury study and seek to reach some kind of agreed view on them. I have acknowledged that the results are necessarily based on incomplete information, and it may be that your officials will want to propose corrections. But I think it essential that we aim to make some initial impact on this problem in the 1984 Survey.

I am sending the Prime Minister a copy of this letter.

Yours Sincerely  
Paul Rees

P. PETER REES

(Approved by the Chief Secretary  
and signed in his absence)

6 MAR 1984

