

MNSPM
BT 7/17

PRIME MINISTER

29 July 1985

EXPENDITURE ON SCOTLAND AND NORTHERN IRELAND

Scotland and Northern Ireland have their snouts well and truly in the public expenditure trough. The challenge is to find a politically acceptable way of putting them on the same diet as the English.

Last year, the Treasury proposed a "Needs Assessment Study" to prove that Scotland and Northern Ireland were getting more than their fair share. You rightly rejected that approach. It offered the worst of all possible worlds - an almighty row in Scotland, without any prospect of immediate savings. The Treasury have learnt their lesson. They aren't advocating more fancy studies - the figures we already have in the paper show clearly how well Scotland and Northern Ireland are doing. What we need to do is to hold expenditure in 1986-87 and beyond in a way that is politically defensible.

The Treasury propose suspending the block formula. What this means is that Scottish expenditure next year will be held at the level already fixed in the White Paper for 1986-87. We would be applying direct to Scotland the Cabinet decision to hold the baseline overall. The Treasury expect to have to concede some additional bids for health, roads etc in England, but there will be no consequential

increases in the Scottish allocation. They estimate this may save around £90 million in 1986-87 and 1987-88, and £120 million in 1988-89. If applied to local authority current expenditure as well, it could save even more in the later years.

You may wish to discuss the politics of all this with the Chancellor at your meeting on Wednesday. There obviously will be a row. But not doing anything also has costs:

- the Chancellor will have to go for even more unpalatable options in other areas of expenditure;
- the growing resentment in the North East at the high levels of provision across the border will increase.

Under the guise of appearing to resist devolution, George Younger is in practice delivering it - your economic policies stop at the border. The Scottish opinion polls don't suggest that the Government is getting any credit for this high spending. So we support the Treasury's modest but ingenious attempt to restore the balance.

David Willetts

DAVID WILLETTS