



CABINET OFFICE

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From: J B UNWIN
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LORD PRESIDENT

STAR CHAMBER: SCOTTISH BLOCK

As we have discussed, this is an extremely difficult one. The Scottish Secretary is still bidding for very large amounts indeed - £245, £249 and £291 million in the 3 years. He has made no concessions at all.

2. You will clearly need to look at the various issues on their merits. You will, however, wish to bear in mind both the teachers' pay issue (if Main is accepted there will be large further additions to expenditure in Scotland for which there is no present provision) and last year's tortuous exercise to find savings by revising the territorial block formula. As you know, we were not able to secure a specific conclusion to this but the Prime Minister's last word was that "Although she has not come to any firm conclusions, she does think, on the basis of these papers, that there is a case for reductions in the Scottish provision" (Mr Wicks' letter of 29 July).

HANDLING

3. I suggest that you start by inviting the Chief Secretary to set out the background as he sees it, and then ask Mr Rifkind to reply generally. You might then take the issues in the following order:-

1. Non-block items:-

- (a) the forecast overspend on regional assistance;
- (b) the Scottish Development Agency (SDA) bid for funds

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for derelict land;

(c) SDA efficiency savings;

2. Local Authority (LA) current expenditure: the "excess" formula consequentials;

3. The proposal (which was the main recommendation in my report) for a population-related adjustment to the baseline, giving savings of £133, £163 and £190 million.

ISSUES

4. The following notes briefly cover the main individual items.

5. Industry: Regional assistance. The Chief Secretary will point out that the forecast overspend (35 per cent in 1987-88) is not matched by bids from DTI or Welsh Office and he seeks offsetting savings on cash limited votes. Mr Rifkind will argue that it is not right to offset demand-led expenditure by savings elsewhere and that in any case Scotland is not getting a fair share of this programme. But it would not be unreasonable to ask him to find this from within his block.

6. There is also an issue on derelict land. The Chief Secretary will argue that it should be met from existing provision by reordering priorities. Mr Rifkind will argue the political necessity of dealing with the backlog of cases. The backlog appears to have been increased by funds diverted to the Garden Festival in Glasgow.

7. Industry: SDA. A review was undertaken following last year's bilateral. It accepts that the SDA has made an important contribution to the Scottish economy but indicates areas for more efficient performance. The Chief Secretary's proposed reductions amount to 5%, 11% and 10.5% of current SDA provision. Mr Rifkind will argue that any savings that can be generated must be reserved to counter the impact of industrial closures in Scotland. But

there must be a strong case for pressing him to be ready to deliver some savings to the Treasury.

8. LA consequentials. This is a very tricky one and bears directly on the disputed formula arrangements. Mr Rifkind argues that if applying the formula to the provision agreed for local authorities in England given an excess over what he himself is providing for local authorities, the balance should be available for redeployment elsewhere in his block. This is, of course, correct according to the normal rules applying to the block. But the Chief Secretary's argument is that:-

(a) the Scottish block is already overprovided;

(b) if Scottish authorities overspend, there is an automatic claim on the Reserve; while the formula anyway allows Scotland an uncovenanted bonus on provision for the remainder of the block programmes (health etc).

How far you push this must be linked to the further issue discussed below. But it is worth noting that Mr King has already accepted one half of the excess consequentials, although Mr Edwards has rejected a broadly similar deal. If Scotland received more than a half there would be expensive repercussions in the other territories.

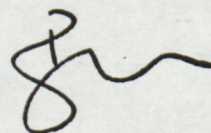
9. Population baseline settlement: as noted above, this is the issue brought out in the study I did earlier this year. The conclusion of that was that if Ministers wished to make a substantial real terms cut in the Scottish provision, the best course might be to amend the baseline to reflect changes in population since it was established. We calculated that this would produce savings of £133 and £163 million in 1987-88 and 1988-89 respectively, to which the Chief Secretary has now added an estimated £190 million for 1989-90.

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10. You will recall the discussions at the time. Mr Rifkind strongly opposed the proposal, arguing that it had not been demonstrated that Scotland was over provided. He added also for good measure that if any changes were made for population reasons, it would be right only to take account of population changes in Scotland, and not of the comparable changes in England and Wales also (ie the overall relative position). In the end the Prime Minister did not force matters to a conclusion, but summed up against Mr Rifkind in the terms quoted in paragraph 2 above.

11. The Chief Secretary's proposal simply wheels out again the proposal described above. Mr Rifkind will reject it for the same reasons. I doubt whether there is much profit in pressing these precise numbers or this precise formula. It may be better to use them more as a general justification for asking Mr Rifkind to consume his own smoke on the various specific items set out above so as to move back at least 70:30 in the Chief Secretary's direction. A settlement at baseline would not do this. It would be necessary to end up with net reductions on his programme of something like £-70, £-100 and £-130 million.

12. I shall have with me at the meeting the relevant background papers on the formula squabble should you need to refer to them or to show Mr Rifkind that you have not overlooked them.



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