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Treasury Chambers, Parliament Street, SW1P 3AG

Robert Gordon Esq
 Private Secretary to the
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1

20 December 1985

Dear Robert

NEEDS STUDY

At your Secretary of State's request, the Chief Secretary has agreed that I should send you in advance of the Prime Minister's meeting on 9 January, the enclosed document prepared in the Treasury, which summarises evidence of high standards of provision in the Scottish block, relative to England. Your Secretary of State agreed that it would at the same time be right to circulate the paper to those who are to attend the meeting. The Chief Secretary has asked me to remind all concerned of its sensitivity.

In circulating this paper, the Chief Secretary has asked me to make clear that in his view the purpose of the meeting is not to decide the extent or otherwise of over or under provision in your Secretary of State's, or any other, territorial block budget. It is to discuss the proposal for a needs study itself.

I am sending copies of this letter and its enclosures to David Norgrove (No 10) John Mogg (Trade and Industry), Joan MacNaughton (Lord President's Office), Colin Williams (Welsh Office), Graham Sandiford (Northern Ireland Office), David Hayhoe (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and to Michael Stark (Cabinet Office).

Yours sincerely
Richard Broadbent

R J BROADBENT
 Private Secretary

SCOTTISH BLOCK

Evidence of over-provision in the Scottish block (1986-87 baseline, £6.7b) is of three kinds:

- (a) Earlier Treasury work on expenditure/need relationship.
- (b) General expenditure indices.
- (c) Individual programme indices.

Treasury work on expenditure/need relationship

2. The results of the Treasury's internal study were discussed with the Scottish Office in 1984. On the basis of admittedly provisional and incomplete work, but using a methodology believed to be in general soundly based and applying to programmes covering 86% of the block total (then £6.2b), it pointed to an excess of expenditure over need of the order of £900m. Within the block, an excess of expenditure over need above 15% was identified for health and PSS, housing, schools, and local environmental services; for no services were expenditure levels shown as falling short of need. Over-provision was attributed partly to excessive levels of baseline provision dating back to the early 1970s, and later built into the block budgeting system; partly to a decline in relative need.

General expenditure indices

3. An independent check of general expenditure indices gives prima facie support to the evidence of over-provision in the Treasury study.

4. First, the trend of expenditure in block programmes covered by the Treasury study in 1983 showed Scotland on

1985-86 plans as £350m above the level needed to maintain the same relative share of equivalent English expenditure at 1976-77 value. More recent evidence indicates that this situation has not changed. Moreover by 1976-77, on the evidence of the earlier interdepartmental "needs assessment study" of 1979, Scotland was already substantially over-provided; while since then there is prima facie evidence that Scotland's need for public expenditure has fallen relative to England's, since its population has fallen by 0.6% in six years, while England's has increased by 0.4%.

5. Secondly, the case for geographical disparities in levels of public expenditure must rest to a considerable extent on relative levels of economic prosperity. Yet Scotland's privileged position in public expenditure - it received £2,058 per capita on the latest figures against £1,706 for the UK average - is not reflected in its relative placing in the national economic indicators, which has improved markedly over a decade. On GDP per capita, at 96% of the UK average, Scotland now ranks behind only the SE and East Anglia of UK economic planning regions; on personal disposable income per capita it scores 95% of the UK average; while on average earnings for male manuals it is 2% above the UK average. Even on seasonally adjusted unemployment the gap has narrowed considerably, Scotland now standing at 14.9% against a UK average of 13.2%; related expenditure falls largely outside the block anyway.

6. Thirdly, indices of relative expenditure levels in the field of local authority current expenditure - half the Scottish block - paint a similar picture. In 1985-86, relevant current expenditure stands at £558 per capita in Scotland, as against £466 in Wales and £455 in England. Although (as noted) high levels of provision are primarily a consequence of inherited baselines, the workings of the formula have contributed : the settlement on LA current

provision for 1985-86 gave Scotland an uncovenanted bonus, through the formula mechanism, of £47m over and above need.

7. Fourthly, a similar disparity emerges on local authority net capital provision: Scotland spends £111 per capita, as against £90 in Wales and £47 in England. (Gross provision shows Scotland at £139 per capita, Wales at £123, and England at £89.)

8. Fifthly there is the structure of the public sector in Scotland. The evidence here is deductive. Generous levels of spending must be a necessary concomitant of a federal structure of six sub-departments and four minor departments, offering scope for rationalisation, and (perhaps more so) of a total of 221 executive and advisory NDPBs. Wales, with well over half the population and a spread of functions only modestly less than Scotland's, manages with a single department and 47 NDPBs.

Individual programme indices

9. The table appended compares indicators for standards of provision as between Scotland and England, for most of the main block programmes, on the basis of the latest available figures (generally around 1983-84). The programme expenditure totals shown are 1986-87 baseline figures. In general, standards of provision might be expected to be slightly higher in Scotland, but not to the extent shown here.

10. As to education: against the background of the over-provision shown in the table, note also that the workings of the formula gave Scotland a £7m uncovenanted bonus, over and above need, in the recent teachers' pay settlement.

11. As to housing: the main points to emerge from the table are that:

- Scotland's public sector stock is, relatively speaking, twice the size of England's;

Scotland's housing conditions are no worse than England's;

- Scotland's public sector rents are very much lower than England's;
- Scotland is much better off in terms of provision for renovation of public and private sector housing (after adjusting for larger public and smaller private stock) than England;
- despite the larger number of public sector tenants in Scotland, sales performance is worse.

12. The indicators for other programmes speak for themselves.

ScotlandEnglandRoads and transport (£597m)

Proportion of motorway or trunk road in road system -	6.3%	3.9%
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- as compared with:

- number of cars per 1,000 population	223	297
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Road schemes with negative NPV	28%	14%
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Urban motorways

Glasgow said to have highest per capita mileage in Europe

Housing (£619m):

Average local authority weekly rent	£11.44	£15.65
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- as percentage of average earnings	5.8%	8.3%
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Public sector renovations, as percentage of public sector stock	4.0%	2.3%
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Home improvement grants, as percentage of private sector stock	4.2%	1.4%
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Local authority sales, as percentage of local authority stock	1.2%	2.0%
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Dwellings statutorily unfit, as percentage of stock:

1981-82	4.4%	5.0%
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1983-84	3.5%	[N/A?]
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Dwellings lacking basic amenities (1981)	2.8%	5.0%
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ScotlandEnglandLaw order and
protective services (£542m):

Population per police officer	390	409
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Education (£1,755m):

Pupil/teacher ratio	17.3	18.5
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(excluding
Highlands
and Islands)

Institutional costs per student (in the majority of cases where Scottish courses last for 4 rather than 3 years as in England)	1338	1008
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Teacher training:

Staff/student ratio	8.4:1	11.1
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Unit costs	£3,803pa	£3,000pa
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Health and PSS (£2,424m)

Health expenditure per capita	£308.5	£244
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Hospital beds per 1,000 population	11.1	7.3
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Health authority staff per 10,000 population	252	186
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General practitioners per 10,000 population	6.0	5.0
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