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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister

6 January 1986

## SCOTTISH BLOCK

1. We are due to meet on 9 January to discuss the proposal for a fresh assessment of the need for public expenditure in each part of the United Kingdom following the consideration by Cabinet on 7 November of the 1985 Public Expenditure Survey. The Chief Secretary circulated a note of alleged over-provision in the Scottish block.

2. The Scottish block has been the subject of a sustained attack by the Treasury for the past six years on the grounds of alleged overprovision. The Treasury case was originally founded upon the results of an interdepartmental study, prepared in the context of devolution in 1977-78 and published in 1979, of the relative public expenditure needs in the constituent parts of the United Kingdom. In spite of the substantial resources allocated to the work the published report acknowledged that the study was deficient in a number of important respects. It certainly could never have supported overt cuts on the basis that Scotland was doing too well.

3. About a year ago you, the Lord President, the then Chief Secretary and the territorial Secretaries of State looked very carefully at the case for embarking on a new study. We decided not to proceed: you doubted whether such a study would achieve much and you accepted that it presented real political dangers for the Government. Nevertheless in order to further our policy of reducing public expenditure, I agreed that officials from the Treasury and the Scottish Office should conduct a detailed study of the extent to which further invisible cuts might be made from my programmes. This was completed by the summer but when the results proved to be not to their liking, the Treasury revived the idea of

a Needs Assessment Study. This proposal, set in the context of a highly prejudicial presentation of my position, appeared in C(85)26, circulated immediately prior to the Cabinet meeting on 7 November.

4. The paper which the Chief Secretary circulated on 20 December is similar in tone. It seems to suggest that public expenditure provision in different parts of the UK should be in inverse proportion to various indices of prosperity. I know of no such relationship: it certainly does not apply to public transport in the south east of England. If Glasgow does have the highest urban motorway mileage in Europe then that is merely a quirk of definition. The structure of the Scottish Office and the number of NDPBs in Scotland are irrelevant to a demonstration of need or lack of need for public services in Scotland. Again I do not understand the reference to an "uncovenanted bonus" for local authority current expenditure unless it is intended to suggest that any increase in my block, even if attributable to the workings of the formula, must by definition be wrong. In general I hope the issue can be considered without such prejudicial overtones.

5. Under most programme heads, expenditure per head of population in Scotland is greater than in England. This is no new phenomenon; it existed prior to the introduction of the block and formula arrangements. It was no surprise therefore that the Needs Assessment Study concluded that Scotland's needs were greater than England's; but there was no agreement on how these needs could be assessed objectively nor on how they ought properly to be reflected in the relative sizes of expenditure programmes.

6. In my judgement the "Scotland" programme does not represent expenditure in excess of need. The selection of statistics circulated by the Chief Secretary does not constitute a basis for action. The fact that for example, there is one policeman to every 390 people in Scotland compared to only 1 for every 409 in England proves nothing - certainly not that Scotland has too many policemen. Similarly it would be indefensible to close hospitals in Scotland and make nurses redundant simply on the grounds that - there is greater NHS provision in Scotland than in England while taking no account of the relative levels of alternative provision and the special costs of medical education. To make overt cuts in the Scottish programmes on no better basis than an

assertion that Scotland is receiving too big a share of public expenditure, would unite all Scottish opinion - including that of our own supporters - against the Government.

7. Far from handing on "uncovenanted bonuses" to local authorities, etc, I have in fact taken very substantial and successful measures to keep a tight rein on public spending in Scotland. The three areas which account for nearly four fifths of my programme are:

#### Local Authority Current Expenditure

I was the first to take powers to force local authorities to reduce their spending. As a result, total local authority current expenditure in Scotland which was about 12.9% of the English figure in 1982-83 looks like being only about 11.9% of the English figure in 1985-86. In addition, local authority current expenditure on housing - largely rate fund contributions to subsidise rents - has been reduced by over 25% in Scotland since 1982-83 and will be reduced substantially again next year using the powers which I have taken to fix rate fund contributions by powers which have not been taken in England.

#### Local Authority Capital

The capital control system which has operated in Scotland for many years is completely effective in preventing overspending in contrast to the situation in England where there have been enormous overspends in 1983-84 and 1984-85 with the prospect of more to come.

#### NHS

Since we introduced cash planning in 1982-83, Scottish expenditure on HPSS has increased by almost exactly the same percentage as in England (just under 21%) comparing actual spending. However, it should be noted that in 1982-83, actual expenditure in Scotland on this programme was exactly as planned whilst in England plans were exceeded by almost £200m. Therefore if estimated outturn in 1985-86 is compared with what was planned to be spent in 1982-83, England has had an increase of 22.5% compared with Scotland's 21%.

8. In addition to the consequences to my programmes which, by the working of the formula, flow from the changes agreed to comparable English programmes, I have also made substantial invisible and visible reductions to my block. The overall effect of these concessions on the baselines in my programmes, when due allowance is made for the consequences of capital overspending by English local authorities and the effects of "invisible" savings made in earlier years, is to produce the following reductions:

1986-87	1987-88	1988-89
-228.6m	-265.2m	-225.7m

The details are in the Annex. They include a number of concessions leading to visible cuts where I have agreed to make changes quite outwith the normal rules on the application of the formula or even the normal rules for aligning funding responsibilities with Ministerial responsibilities.

9. The position following the 1985 Survey (based on the figures in the Autumn Statement) is as follows:-

- a. over the next 3 years total Government expenditure for the UK as a whole is planned to increase by 10.8% whilst, over the same period, expenditure on my programme is planned to increase by 0.3%. The Times has already published a table (copy attached) which highlights the difference in treatment between the "Scotland" programme and the rest of Government;
- b. if we confine our attention simply to figures I have announced for the Scottish block (and our political opponents exercise no such restraint) expenditure is planned to increase over the next 3 years by 7.9% compared to the 10.8% for all Government expenditure as noted above.
- c. Scotland of course shares in some of the other programmes which are growing faster but there is a growing gap between planned changes in the Scottish block and changes in comparable English programmes because of all the visible reductions I made during the 1985 Survey and the consequential effects of the "invisible" cuts which I have accepted in this and previous surveys.

d. over the next 3 years public expenditure on the Northern Ireland programme is set to increase by 12.1% on the Welsh programmes by 7.1% and on the Scottish programmes by 0.3%.

On the basis of the outturn data for 1985-86 in the Autumn Statement, for every £1,000 of public expenditure in the UK, £55.1 will be spent on my programmes. By 1988-89, under present planning, for every £1,000 of public expenditure in the UK, £49.9 will be spent on my programmes. In other words the Scotland programme's percentage share of the UK cake will have fallen by about 10% over the period. By any reckoning that is a very substantial change, much greater than could possibly be justified on grounds of changes in need; it is virtually 10 times larger than the relative population change since the 1970s cited in the Chief Secretary's paper.

10. In the light of these facts, I can see no justification for launching a new Needs Assessment Study because of ~~alleged overprovision for Scotland.~~ If, however, colleagues are minded to have a study they should be aware of what would be involved. The existence of the study will have to be disclosed from the outset and its results published like those of its predecessor. Any attempt to conceal the study would be doubly damaging if the concealment did not succeed (and that seems a very real risk given the number of Departments which will have to be involved).

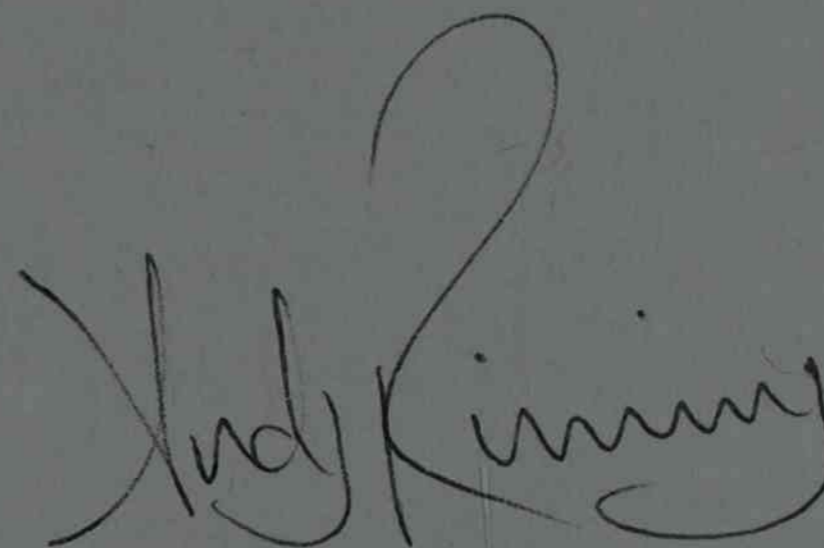
11. My responsibilities parallel those of at least nine departments and with the contributions required from the central departments as well, the resource commitments will be substantial and costly. The study will have to be comprehensive and the methodology soundly based so that the results can be publicly defensible; it will inevitably take a considerable time to complete. To achieve greater credibility than the earlier exercise, the study cannot simply be based on statistical indicators alone but must take account of the social, historical and institutional differences amongst the countries involved.


12. No matter how we seek to present it, the study will be universally recognised as a cost-cutting exercise since why else would any Government embark upon it? We will therefore be pressed from the outset about our intentions on implementing its findings. If they show that some or all of the territorial departments are under-funded the

Government will be expected to make good the shortfall with all the embarrassments that will cause; if they show that the territorial departments are over-provided the Government will be pressed to say whether or not it intends to face the political and practical consequences of redistributing provision away from those departments.

13. I conclude therefore that if colleagues insist upon a further Needs Assessment Study it will be a stick for all our backs. The political damage could far outweigh any benefits which might accrue from departing from the existing process for determining Scotland's share of public expenditure.

14. I am copying this to Willie Whitelaw, John MacGregor, Leon Brittan, Norman Tebbit, John Biffen, Tom King, Nicholas Edwards and John Wakeham.

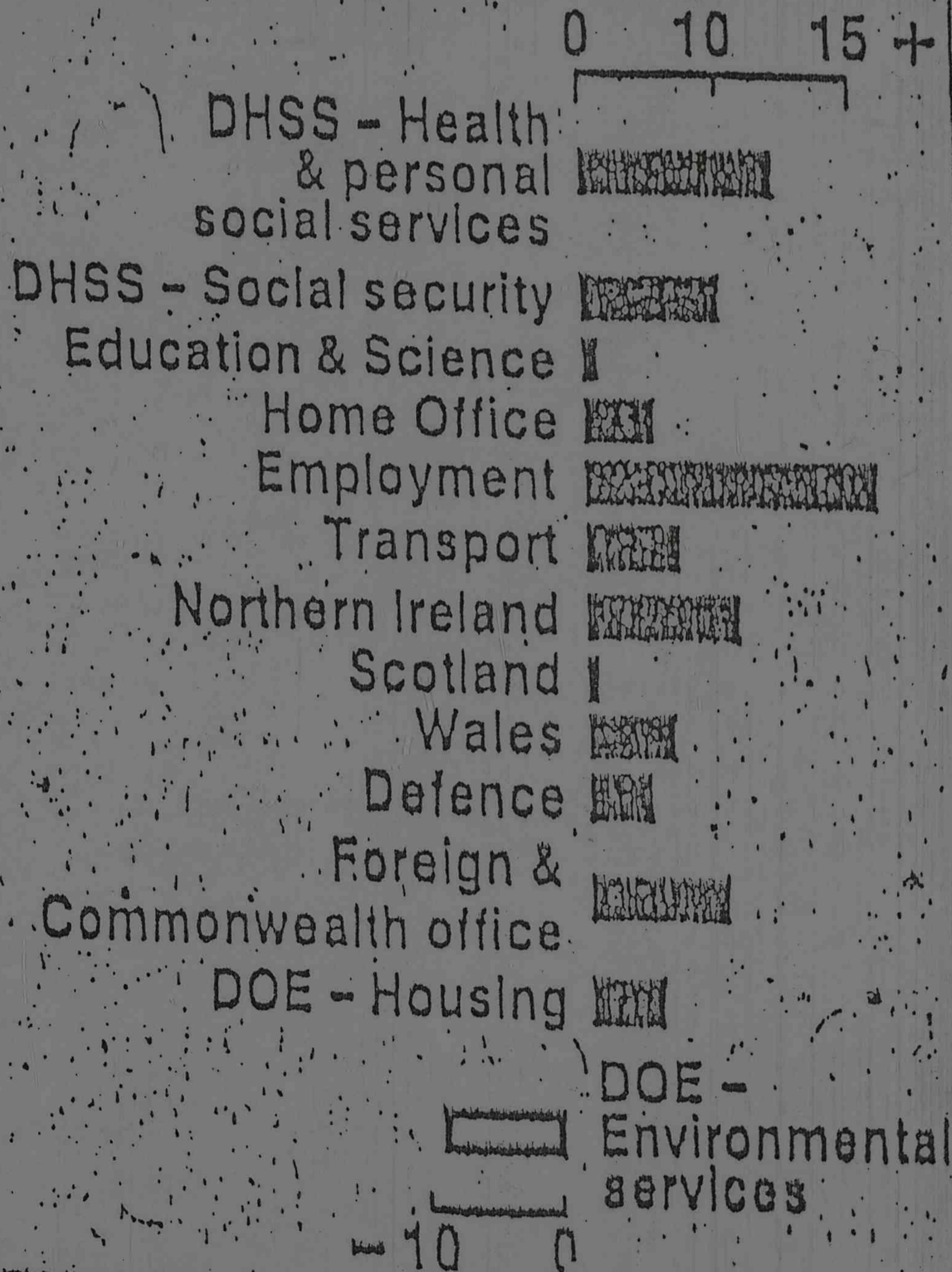


 GEORGE YOUNGER

Approved by the Secretary of  
State and issued in his  
absence

# Public spending by Department

(Percentage increase in cash terms,  
main departments 1985/86 to 1988/89)



## CONCESSIONS MADE IN 1985 PES

£ million

	1986-87	1987-88	1988-89
Cumulative effect of "invisible" <sup>(1)</sup> reductions made since 1980	46	66	66
Reductions in bids for Electricity Boards' EFLs	44	56	29
Reduced entitlement to Revised <sup>(2)</sup> Economic Assumptions for Local Authority Housing	8.7	20.7	9.6
Cuts in budgets linked with cost effectiveness studies	7	7	15.5
Switch to AEG for domestic rate rebates to offset effects of revaluation	15	0	0
Moratorium on Regional Development Grants	5	9.9	1.1
Switch to ODA for Aid to Trade programme	1.3	4	4
Switch to DES for training of Engineering and Technology students	1	1	-
Switch to OAL to support Scottish Arts Council following local government reorganisation	0.6	0.6	0.6
Consequentials of capital <sup>(3)</sup> overspending by English local authorities (Estimated)	100	100	100
TOTAL	228.6	265.2	225.7

Notes

(1) During the 1985 Survey, the following invisible reductions to the Block, additional to those conceded in earlier years, were given up:

£5m            £10m            £10m

These figures are the most that can be conceded without incurring an unacceptably high risk of detection. By the end of the present Survey period the aggregated effect of invisible reductions to the Scottish block since 1980 will be £342m. By 1978, the baseline will be nearly £70m lower than it would have been if no invisible reductions had been made. This is about 1% of the baseline. If no invisible reductions had been made but the size of the baseline had been adjusted each year to match population changes the baseline would have been higher than it is at present.

(2) The Secretary of State conceded the additions to the Scottish block arising from the application of the revised economic assumptions to PES provision for local authorities' rate fund contributions to their housing accounts.

(3) The Secretary of state has accepted this year that he will not receive additions to the Scottish block in respect of excessive capital spending by English local authorities. Such formula additions were received last year. It is difficult to quantify this concession with any precision but it could well amount to about £100m in each Survey year.

2. The results of the 1985 PES may be summarised as follows:

	£bn			
	Plans			
	Estimated Outturn 1985-86	1986-87	1987-88	1988-89
All public expenditure	134.2	139.1	143.9	148.7
Increase related to 1985-86 Estimated Outturn		+ 3.7%	+ 7.2%	+ 10.8%
Secretary of State's programmes with concessions	7.4	7.54	7.39	7.42
Increase related to 1985-86 Estimated Outturn		+ 1.9%	- 0.1%	+ 0.3%
Secretary of State's programmes without concessions	7.4	7.77	7.66	7.65
Increase related to 1985-86 Outturn		+ 5.0%	+ 3.5%	+ 3.4%

3. The effects of the concessions on the Secretary of State's programmes are as follows:-

- (a) growth in 1986-87 (compared to 1985-86 outturn) has been cut from 5.0% to 1.9% ie to virtually half the growth planned for the UK as a whole;

(b) growth in 1987-88 (compared to 1985-86 outturn) has been cut from 3.5% to -0.1%; the proposed growth for the UK as a whole is 7.2%;

(c) growth in 1988-89 (compared to 1985-86 outturn) has been cut from 3.4% to 0.3% or less than one-thirtieth of the growth planned for the UK.

4. In proportionate terms therefore and with the exception of the Secretary of State for Trade and Industry, no other Cabinet Minister has made a larger contribution to maintaining the Government's expenditure plans on an even keel. (The Secretary of State for Trade and Industry has made larger concessions by virtue of reductions in the external finance of nationalised industries, principally British Steel and the Post Office.)