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P 01859

PRIME MINISTER

The Territorials Formula: Meeting with Ministers  
at 2.30 pm, Thursday, 9 January

The following Ministers have been invited to this meeting:-

Lord President  
Secretary of State for Trade and Industry  
Secretary of State for Scotland  
Secretary of State for Wales  
Secretary of State for Northern Ireland  
Lord Privy Seal  
Chief Secretary  
Chief Whip.

Its main purpose is to decide whether there should be a fresh study of the "formula" for determining the amount of certain public expenditure in Scotland, Wales and Northern Ireland; and, if so, to determine the timescale of such a study and how it should be organised. As explained below, the case for reconsideration of the present formula (derived from the published 1979 needs study, based on 1976-77 data) is a strong one; but the Secretary of State for Scotland can be expected to resist the proposal vigorously on political grounds.

BACKGROUND

2. You held a similar meeting to discuss a proposal of this kind in November 1984. You then concluded, in face of opposition from the Scottish Secretary, that it was doubtful whether a new study would achieve much; that it presented real political dangers for the Government; and that it would be better to trim Scottish programmes as and when opportunity arose, rather than through a "very conspicuous exercise".

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3. Pressure for reconsideration of this decision arose in the Star Chamber exercise last October when the scope for "trimming" the Scottish budget turned out in practice to be very small. Although the Scottish Secretary appeared to agree in principle that Scotland was over-provided and that it would be reasonable for him to make a greater contribution to public expenditure savings, in practice he was unwilling for political reasons to make any visible cuts, and the scope for invisible adjustments turned out to be disappointingly small. Although some transfers were agreed from the Scottish block in favour of the arts programme, ATP, and certain local authority expenditure, the amounts were small and well short of the Star Chamber's wishes. In consequence, in his report to the Cabinet on the work of the Star Chamber (paragraph 15 of C(85)26), the Lord President reported the Star Chamber's judgement that public service provision in Scotland was now generally too high in relation to comparable provision in England and Wales, and recommended that there should be a fresh assessment of need to serve as the basis for allocation of public provisions as between England, Scotland, Wales and Northern Ireland. The objective would be to establish new baselines for the territorial block provisions, and a new mechanism for adjusting those baselines in the light of future economic, demographic and other relevant changes; and to complete this work in time for decisions in the 1986 Survey.

#### CASE FOR A NEW STUDY

4. There appears to be ample evidence of substantial over-provision in Scotland; some over-provision in Northern Ireland; but none in Wales. All the territories seem to have improved their position, relative to England, since the last published study in 1979, which also showed major over-provision in Scotland.

#### Scotland

5. The Scottish block totals some £6.5 billion, and covers all major programmes within the Secretary of State's responsibility, except

2,461  
2,058  
1,861  
1,632

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Block provision -  
automatic  
scrutiny.  
free from

industry and agriculture. The latest evidence of over-provision derives from a Treasury internal study of 1983. This pointed to an excess of expenditure over need, of the order of £900 million. The reason for this was partly the excessive baselines already built into the formula; and partly falling population.

6. There is also a good deal of other supporting evidence. For example, a comparison of expenditure growth trends shows the Scottish block as far above the level needed to maintain its share of equivalent English expenditure at 1976-77 value. On a per capita basis, Scotland receives £2,058 against £1,706 for the UK average. This preference is geared to a state of relative deprivation that no longer exists. On GDP per capita, at 96% of the UK average, Scotland now ranks behind only the South East and East Anglia of UK economic planning regions; on personal disposable income per capita it scores 95 per cent of the UK average. And even on seasonally adjusted unemployment the gap has considerably narrowed (last month's figures showed Scotland at 14.9 per cent compared with a UK average of 13.2 per cent). On average weekly earnings Scotland now ranks above all the English regions except the South-East. In short, the average Scotsman is now virtually as well off as the average Englishman and better off than several English regions which receive no public expenditure preference.

7. Annex A attached also contains some telling comparative indicators of output, covering all major block programmes.

#### Northern Ireland

8. The Northern Ireland block totals £4.3 billion, and covers all major programmes within the Secretary of State's responsibility (including social security and industry). Anecdotally there is strong evidence of over-provision, but objectively the evidence is less strong than for Scotland. The internal study carried out by the Treasury in 1983 pointed to a £400 million excess of expenditure over need, but half of this was attributable to law and order where special factors obviously apply. Special factors in Northern Ireland may also justify

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some part of the remaining £200 million excess; but there is evidence of over-provision in health and housing.

Wales

9. The Welsh block totals some £2.5 billion and covers the same programmes as in Scotland, except law and order. Work by both the Treasury and the Welsh Office suggests that expenditure is broadly in line with need, and the Welsh Secretary has generally been ready to acknowledge this and to accept the case for the territorial blocks to be checked against need every few years.

10. The Scottish and Northern Ireland Secretaries are likely to dispute the above evidence as anecdotal and inconclusive. But there seems little doubt that in equity, and in order to secure a more rational allocation of public expenditure, it is high time for a fresh study to be undertaken. The last full study took place six years ago in 1979, and circumstances have clearly changed since then. The Treasury conducted an internal study in 1983, but the Scottish Office refused to cooperate in this and do not accept its findings. The main argument for not doing a fresh study is a political one, and it is on this that you will want to hear the views of your colleagues not directly concerned.

FORM OF NEW STUDY

11. If you decide that there is a case for a new study, I do not think it is sensible to try to settle the detailed arrangements and methodology at this meeting, but it is most important to settle the timescale. Mr Younger is likely to argue that a worthwhile study cannot properly be done in less than 2 to 3 years. If, however, the study is to be of any immediate operational use, it ought, as the Star Chamber recommended, to be completed in time to be fed into decisions in the 1986 Public Expenditure Survey. This would mean completing the study, and reporting to Ministers, by about the end of August. So, allowing for time to get the work under way, we should be talking of

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a study of six months duration, or not much longer. This would be a very right timetable; but the Treasury believe it to be possible.

12. I suggest, therefore, that if you agree in principle on a study on this timescale, you should invite the Cabinet Office, in consultation with the Treasury and the Territorial departments (including DOE) to report back quickly to Ministers with detailed recommendations on the terms of reference and mechanics of the exercise, which might then be cleared in correspondence. This would involve inter alia identifying the main expenditure programmes and sub programmes in the territorial blocks to be covered, and the relevant objective factors of need and statistical indicators to be applied to them in order to provide an overall assessment of need for each territorial block. An obvious starting possibility would be a simplified version of the methodology used for the 1979 study.

13. So far as handling the exercise is concerned, I think that if it is to be acceptable to the Territorial Departments, it will have to be supervised by a Steering Group under Cabinet Office chairmanship. It is, however, for detailed consideration with the Departments how the substantive work might best be organised. One possibility would be a number of Departmental working parties, covering the main block programmes, that would report to the Steering Group. Another possibility would be to engage outside consultants to carry out the bulk of the work under the supervision of the Steering Group. The consultant route might involve greater risk of leaks; but it could shorten the exercise by avoiding some of the inevitable interdepartmental squabbling in official working parties. Whatever the route chosen, however, Departments must accept that, while the Cabinet Office can undertake to provide the Chairman and Secretariat of a Steering Group, the remaining manpower and financial resources for this study must be made available by them and/or the Treasury.

#### Fallback Position

14. If you decide, as in November 1984, that political considerations,

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not least the likely timing of the next election, again rule out any substantive new study, it would be a pity not at least to record an internal conclusion committing the Government in principle to such a study early in the next Parliament. This should also be accompanied by a clear understanding that the Territorial Departments, particularly the Scottish Office, will in the meantime make every possible effort to find ways of contributing from their programmes to public expenditure savings.

#### PUBLICITY

15. The Scottish Secretary is, of course, extremely concerned about the political effects of any public knowledge of such a study and has even objected to papers on the subject being circulated. It seems most unlikely, however, that if a study were launched, it could be kept secret (particularly if an outside consultant were involved) and it is for consideration whether it would be prudent to anticipate the possibility of a leak by issuing an early low key statement on the exercise. This might, for example, take the form of an inspired Parliamentary Question on the lines of the draft at Annex B, and it would be made clear, as necessary, that the question of decisions on the results of the study would be quite a separate matter, to be considered in due course in the light of the outcome. Officials could, however, be asked to make further recommendations on this when they report on the terms of reference and methodology.

#### HANDLING

16. You may like to begin by asking the Lord President to remind the Group of the Star Chamber's recommendation. The Chief Secretary might then be invited to state the case for a new study in greater detail, and the Scottish and other Territorial Secretaries to respond. Other colleagues will have views on the political and Parliamentary aspects of the proposal.

#### CONCLUSIONS

17. You will want to ask the Group to decide:-

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(i) whether there should be a fresh needs study;

(ii) if so, what the timescale should be (in particular whether it should be completed in time for decisions on it to be fed into the 1986 PES exercise);

(iii) whether to instruct the Cabinet Office urgently to consider with the Departments concerned the detailed terms of reference and mechanics of the study, and to make recommendations to Ministers;

(iv) whether the possibility of a leak should be anticipated by issuing a low key Parliamentary Statement as suggested in paragraph 15 above.



J B UNWIN

7 January 1986  
Cabinet Office

	<u>Scotland</u>	<u>England</u>
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Roads 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%
1983-84	3.5%	[N/A?]

Dwellings lacking basic amenities (1981)	2.8%	5.0%
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	<u>Scotland</u>	<u>England</u>
<u>Law order and protective services (£542m):</u>		
Population per police officer	390	409
<u>Education (£1,755m):</u>		
Pupil/teacher ratio	17.3 (excluding Highlands and Islands)	18.5
Institutional costs per student (in the majority of cases where Scottish courses last for 4 rather than 3 years as in England)	133%	100%
Teacher training:		
Staff/student ratio	8.4:1	11.1
Unit costs	£3,803pa	£3,000pa
<u>Health and PSS (£2,424m)</u>		
Health expenditure per capita	£308.5	£244
Hospital beds per 1,000 population	11.1	7.3
Health authority staff per 10,000 population	252	186
General practitioners per 10,000 population	6.0	5.0

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ANNEX B

Possible Parliamentary Statement

Q. To ask the Prime Minister, if she will make a statement about the geographical basis of public expenditure.

A. The Government have set in hand a technical study of relative needs and standards of public service within the four countries of the United Kingdom - England, Scotland, Wales and Northern Ireland. These matters are subject to periodic and routine review, and no special significance is to be attached to this study.

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MR WICKS

The Territorial Formula

Letter of 20 December from the Private Secretary to  
the Chief Secretary to the Private Secretary to  
the Secretary of State for Scotland:

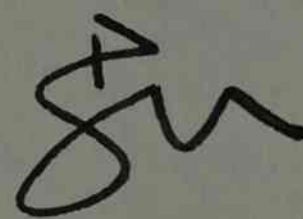
Letter of 6 January from the Secretary of State  
for Scotland to the Prime Minister

1. We have discussed briefly the above letters which reached me after I had submitted my brief for tomorrow's meeting (P 01859). I do not think they affect the substance of my brief, but you may like to have at hand the following supplementary comments.
  
2. The letter from the Chief Secretary's Office (which the Treasury assure me the Scottish Secretary asked for) covers a "charge-sheet" of material on over-provision in the Scottish block, some of which is contained in my own brief. It argues in essence that compared with 1976/77 Scotland has increased its relative share of public expenditure compared with England, while the relative deprivation of Scotland has been largely eliminated.
  
3. The Scottish Secretary's reply rejects the proposition that public expenditure provision should be in inverse proportion to indices of prosperity, and asserts that the Scottish block does not represent expenditure in excess of need. He argues that he has more effective control over local authority spending than exists in England; that his programmes are increasing by only 0.3 per cent over the next 3 years, compared with 10.8 per cent for Government expenditure for the UK; and that the Scottish block is planned to increase by only 7.9 per cent compared with 10.8 per cent for all government expenditure. He therefore argues that there is no justification for launching a needs assessment study, which would be seriously politically damaging.

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4. I am sure that many holes could be picked in Mr Younger's arguments. For example, much of the increase in UK public expenditure is on programmes such as social security which are provided on a GB basis, so that Mr Younger is not comparing like with like - when this is taken into account the marginal changes in Scotland are virtually the same as those in other parts of the GB, so that the over provision already inbuilt into the block is being perpetuated. Again, the large negative EFL for Scottish electricity depresses the Scottish total, and Mr Younger's claims of savings of well over £200 million in each of the 1985 PESC years seems significantly and misleadingly overstated.

5. However, I think it would be a great mistake to get into detailed argument of this kind at tomorrow's meeting. Its main purpose should be to decide whether a fresh study of the formula should be undertaken, and not to reach a conclusion on whether there is actually over provision. In fact, to my mind, the Scottish Secretary's letter itself demonstrates that there is at least a prima facie case for a systematic, independent examination of the block grant arrangements. But against this must, of course, be set the political difficulties which the Scottish Secretary foresees.



J B UNWIN

Cabinet Office  
8 January 1986