

PRIME MINISTER

8 January 1986

SCOTLAND

Scotland is the only juicy target left over from from the 1985 Star Chamber so the Treasury and Viscount Whitelaw are rightly keen to pursue it. There is no reason to doubt the Treasury estimate of £900 million of over-provision compared with England.

Here are some examples:

	<u>England</u>	<u>Scotland</u>
NHS beds per 1,000 people	7.5	11.3
Pupil/teacher ratios	18.5	17.3
Proportion of road schemes which don't make a reasonable return	14.0%	28.0%
Proportion of housing lacking basic amenities	5%	2.8%

Your wider economic philosophy is not fully applied in Scotland. The NEB has disappeared but the Scottish Development Agency and the Highlands and Islands Development Board continue to flourish. Under the guise of stopping devolution George Younger is delivering it - your economic policies stop at the English Border.

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The Treasury and Lord Whitelaw now want to try a Needs Assessment Study, to provide public cast-iron confirmation of excess provision. This could force George Younger to concede more than he did last year.

But you will want to satisfy yourself on three points:

- i. Tight timetable. An agreed report has to be ready by August if it is to be of any use. The last study took over 2 years. The spending departments have every interest in dragging their feet. It would be a sad irony if the need for further work on the Study kept Scotland out of the firing line in the next PESC round.
- ii. What can we get out of it? Before embarking on a politically sensitive exercise, which is bound to leak, we need a reasonable prospect of good savings. Despite the political pressures for spending in Scotland, we need cuts of well over £100 million for 1987/8 rising cumulatively to make the exercise worthwhile.
- iii. Ulster. The real target is Scotland. But because the Treasury have to appear open-minded, they are also going to study Wales and Ulster despite the obvious political sensitivities in investigating Ulster. Why bother, when nobody is expecting any change in the end? Ulster should be excluded from the exercise.

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Ultimately, the question is a political one. The position of the Conservative Party in Scotland is so bad that it might not deteriorate any further. And the envious North of England might even welcome an attack on the pampered Scots over the Border. On the other hand, George Younger is reported to be very 'emotional' on the subject and may well threaten to resign.

If tomorrow's meeting doesn't agree on a Study, the fall-back is to use the threat of one to extract big concessions. Would George Younger promise, say, a further £50 million of cuts in the next year's Star Chamber under the pressure of such threats?

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