

PRIME MINISTER

12 February 1986

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SCOTLAND

Scotland is one of the few targets 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%

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 Scottish Secretaries are delivering it - your economic policies stop at the English Border.

The Treasury and Viscount Whitelaw now want a Needs Assessment Study to provide public cast-iron confirmation of excess provision. This should force the Scots to concede more than they 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 to be of any use in the next PESC round. The last study took over 2 years. The spending departments have every interest in dragging their feet. Full time consultants will make things easier. You should stress the urgency of the report. 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 main target is Scotland. But because the Treasury have to appear open-minded, they are also going to study Wales and Ulster. There may be some over-provision in Ulster as well, but there are obviously political sensitivities in investigating it. Ulster should be excluded from the exercise: any cuts here

should follow after obtaining American and European money.

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, successive Secretaries of State have got immensely steamed up on the subject.

We recommend going for a quick study. But if tomorrow's meeting can't agree on this, you need a fall-back position. This is to keep the threat of a study hanging over the Scots so as to extract big concessions. Would Malcolm Rifkind offer, say, £50 million of cuts as an alternative to the Study?

David Willetts

DAVID WILLETTS

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PRIME MINISTER

The Territorial Formula: Case for a New Needs Study
(Meeting of Ministers after Cabinet on Thursday, 13 February)

This meeting, prompted by last Autumn's Star Chamber and the Cabinet public expenditure discussion on 7 November, has been postponed for some weeks. A decision is, however, urgent if a study is to be completed in time to affect the outcome of this year's Public Expenditure Survey.

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2. On the substance, there is little to add to my briefs of 7 and 8 January. I understand Mr Rifkind will strongly support the line (hard opposition) taken by Mr Younger. It may, however, be helpful briefly to recapitulate the main points on which conclusions should be reached tomorrow. These are:-

(i) Should there be a fresh needs study? This is primarily a political decision. But there is no prospect of significant public expenditure savings on the Scottish block (some £6.5 billion) without a fresh formula to justify them. The evidence of over provision in Scotland since the last published study in 1979 is at least a strong prima facia case for a new study. 7 years is in any case surely long enough for one formula to remain unexamined and unchanged. The Lord President and the Star Chamber strongly favoured such a study.

(ii) If so, how should it be organised and on what time scale? On time scale, we should really aim for completion by the summer, so that Ministers can take decisions on it immediately after the summer holiday. This will be very tight, and the Scottish Secretary will argue for something much longer and more thorough - perhaps taking a couple of years. On procedure, a key question is whether it would be acceptable to employ outside consultants, or whether the study should be done

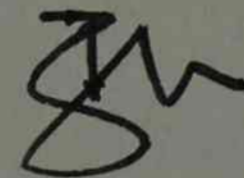
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entirely in-house (in either case working under a neutral Cabinet Office steering group). I favour the former, which would probably be quicker, but suggest you instruct me to consult urgently with the Departments involved and to bring forward detailed recommendations (which might be cleared in correspondence) very quickly;

(iii) If a study is agreed, should this be publicly announced? Knowledge of a study would almost certainly leak. This could be more damaging than coming clean in an appropriate low key statement from the start, which made it quite clear that decisions on the outcome remained entirely open (a possible text is attached to my minute of 7 January). However, the judgement here is very much one for the Scottish Secretary in the light of the reaction he would expect in Scotland to the fact of a new study.

HANDLING

3. As before, I suggest you ask the Lord President to remind the Group of the Star Chamber's recommendation and the background to the present proposal. You will then want the Scottish and other Territorial Secretaries and the Chief Secretary to argue their respective corners.



J B UNWIN

12 February 1986
Cabinet Office

