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Prime Minister

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George Younger minuted to you on 6 January on whether it would make sense, at this stage, to initiate a needs assessment study covering the constituent parts of the United Kingdom. I thought that it would be useful to let you, and colleagues, have my own views, coming fresh to this issue which we are now to discuss on Thursday, 20 February.

2. As far as I am aware, the only reason why we are being asked to agree to a new needs assessment study is that it is supposed that there is at present overprovision in Scotland and that, accordingly, the Scotland programme should be subjected to even larger reductions in public expenditure than were agreed in the 1985, and earlier, surveys. There seems to me, however, to be no conclusive evidence either way to show that, when account is taken of relative need, Scotland receives either a disproportionately large or small share of public funding. For the reasons George Younger pointed out in his minute of 6 January it would not be reasonable for us to base any decisions on the type or quality of information contained in the paper which the Chief Secretary circulated on 20 December. So long as needs vary in different parts of the UK so must the level of provision and I fully endorse George Younger's judgement that the Scotland programme does not represent expenditure in excess of need.

3. I must say that I have been struck very forcibly by the magnitude of the contributions from the Scotland programme which George Younger repeatedly made to assist colleagues in meeting expenditure targets. As you will appreciate, most of the savings detailed in the Annex to George's

minute were not known to me previously and I fully share my predecessor's concern about the political damage that would result if the invisible reductions already made to the Scottish block were ever to become more widely known. The effects of these reductions are already very clear. Under our present expenditure plans the Scotland programme's percentage share of the UK planning total in 1988-89 will have fallen by about 10% compared to 1985-86 and by no less than 15% compared to 1978-79. These reductions are much greater than could possibly be justified on grounds of changes in need.

4. The general economic climate in Scotland is not at all encouraging. The Chief Secretary refers in his paper to Scotland's relatively good position but the latest unemployment figures show our unemployment rate rising again to 15%. The gap between that rate and the English rate has increased to 1.8%. Average earnings in Scotland continue to run below the GB average contrary to the Chief Secretary's paper. The latest economic trends have tended to exacerbate our political problems in Scotland. The deep-felt and widespread concern about the future of our heavy industry has come to a head with the closure of the Gartcosh steel rolling mill which is perceived in many quarters as threatening the survival of the Ravenscraig plant and thus of steel manufacturing in Scotland. Burroughs, one of the sunrise industries which we are relying on to provide replacement jobs for those lost in our traditional heavy industries, has recently announced major redundancies. The recent announcement of the go-ahead for the Channel Tunnel, with all its implications for the relative future prosperity of the different parts of Great Britain, has done nothing to reduce the sense of injustice felt by many in Scotland. The recent placing of MOD orders with Vickers at Barrow rather than the Clyde, the proposed privatisation of the management of Rosyth Dockyard and associated fears of the employment consequences and the payment of cold weather supplements to claimants in parts of England when they are being refused in colder parts of Scotland are just some of the additional factors which are influencing the political climate in Scotland at present.

5. I consider that our supporters in Scotland, faced shortly with local authority elections where we will have to fight hard even to maintain our existing position, would judge it a major political blunder for us to announce the setting up of a new needs assessment study. Such a study would inevitably be regarded as a device to cut expenditure

provision in Scotland. Nor would it be possible, as George Younger earlier made clear, to avoid any public announcement. If the study were to proceed, it would be essential for its existence to be disclosed from the start and its results published like those of its predecessor. Moreover, if it is to have sufficient credibility it will have to devise a new methodology rather than simply update the previous study and that will require a very considerable amount of careful work. It goes without saying that such a study would have to cover all the territories of the United Kingdom and not Scotland alone.

6. I am not convinced that this work would be justified. One of the major flaws in the present proposal seems to me to be the lack of consideration about the practical problems of doing anything with a study's results, once they are available. If a study were to show that Scotland or any other territory was underprovided, public expectations would be aroused that that shortfall would be made good by an additional allocation of public expenditure provision from the Treasury. Conversely, were a study to show overprovision in Scotland (and similar arguments would apply to Wales, Northern Ireland and England) there would be enormous political and practical difficulties in cutting provision. Forty per cent of my programme's provision is for local authority current expenditure, over which I do not have direct control; of the rest almost two thirds is accounted for by my health programme for which we have specific manifesto commitments and by my agriculture and industry programmes, and nationalised industries' EFLs which, of course, fall outside the block and provision for which is already negotiated direct with the Treasury. Are we collectively willing to face the consequences of sacking nurses, closing hospitals and reducing the size of the police force merely because there are fewer somewhere else? I do not believe any of these options would be either practical or politically realistic. To go ahead with a study would consume a large amount of resources and divert staff in virtually

every Whitehall Department from more productive tasks, for an outcome which would be at best uncertain, and which at worst holds out the prospect of lasting damage to the Government's credibility.

7. I am copying this minute to Willie Whitelaw, Norman Tebbit, Kenneth Baker, Nicholas Edwards, Tom King, John MacGregor, John Biffen, John Wakeham and Sir Robert Armstrong.

MR

M.R.

