

P 02006

MR WICKS

TERRITORIAL EXPENDITURE

Prime Minister's 10

Agree to the

Yes meets suggested by
R. Urwin of interested
ministers? W.C.W. 18.3

I attach separately a formal minute to you covering a report on the Territorial Formula that the Cabinet Office were instructed by the Prime Minister to prepare at the informal meeting of Ministers on 20 February (your letter of 20 February to Miss MacNaughton refers).

at time

2. I think, however, that it would be helpful if I supplemented that minute with the following personal comments.

3. The report is, as instructed, largely confined to what has happened on public expenditure. The picture there is very clear. Contrary to Treasury claims, there has been no significant divergence between expenditure in Scotland and in England as a whole since the expenditure blocks were established. This is illustrated most clearly in Table IV of the report, which shows that block expenditure in Scotland as a percentage of corresponding English programmes is the same now as in 1980-81; and Table V also shows that relative per capita public expenditure in Scotland (both in the Scottish block and on a wider definition) has actually slightly decreased.

4. So on grounds of public expenditure treatment alone, there is no obvious justification for the Treasury case.

5. This leaves, of course, the question of needs. The Treasury argue that there is evidence to show that relative needs in Scotland have declined since the 1979 study (based on 1976-77 data) and that Scotland is as a result substantially over provided. They have adduced in support of this argument a number of selective economic statistics. It would, of course, require a full needs study to establish the validity or otherwise of this argument. I have, however, with the help of CSO expertise, examined it critically in so far as

has been possible in the time available and looked at a wide range of economic and social statistics. My firm conclusion is that there is simply not enough evidence to justify the Treasury assertion. I regard the GDP per capita statistics as a good rough and ready proxy for relative needs. You will see from Figure 1 attached to the report that between 1976 and 1984 the relative position of Scotland has not changed very much (in fact it has slightly worsened). As for other more detailed indicators, for every statistic the Treasury have produced to support their case, the Scottish Office have been able to produce, with no less obvious conviction, a statistic to demonstrate the contrary. The subject is infinitely arguable,

6. I had hoped to include the flavour of the above paragraph in the report. I have simply not, however, been able to obtain the agreement of the Departments concerned to do so.


7. Where does this leave us? I sense that the wish of the Prime Minister and other senior Ministers is to find a means of justifying a substantial reduction in the Scottish provision. My own conclusion, not least in the light of the wrangling round the table that it has been necessary to go through even to produce this modest report, is that a fresh full scale needs study would serve no useful purpose. Apart from the politics of it, and the time and resources it would take, it would offer little prospect of achieving the above objective (a cut in Scottish provision) unless agreement could be reached beforehand on how the study should be conducted; and at least broad agreement also in advance on the conclusions to be drawn from its findings (ie in crude terms, reductions in Scottish expenditure if the study did show that Scottish relative needs had declined).

8. I frankly see no chance of meeting either of these conditions. My conclusion, therefore, is that if Ministers still wish to move in the coming Survey to cuts in the Scottish provision, by far the best immediate course is to go boldly for the option in paragraph 21 of the report, namely to adjust the Scottish baseline once-off to reflect the change in population since 1979. As Table VIII shows, this could justify reductions of some £130 million and £160 million in 1987-88 and 1988-89 respectively.

*But NB it would justify extra
for N. Ireland!*

SECRET & PERSONAL

9. For completeness we have listed also (at Annex C) potential candidates for transfer to the Scottish block. For reasons of security, however, I have not discussed these with Departments responsible for the services concerned. I suspect, however, that there would be some pretty violent departmental objections; and there are genuine difficulties (eg the conflict between managerial control and financial responsibility) which are discussed in paragraphs 24 and 25 of the report. However, we could certainly arrange detailed study of some or all of these options if Ministers so wished.



J B UNWIN

Cabinet Office

16 April 1986

SECRET & PERSONAL



CONFIDENTIAL

SECRET

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MR. WICKS

18 April 1986

TERRITORIAL EXPENDITURE

The Cabinet Office paper makes clear that a new needs assessment would provide endless scope for inter-departmental wrangling and little certainty about the outcome if indeed, as seems unlikely, an agreed answer could result.

Changes in the items covered by the blocks would be likely to have a similar unproductive effect.

We would therefore support the conclusion in Brian Unwin's personal note to you that, if Ministers wish to move towards cuts in the Scottish provision, they should argue for adjustments on population grounds, since a number of items of expenditure are or should be affected by this factor.

At least this provides a single issue to be argued, rather than a mass of minor details. It might well be appropriate for such cuts to be phased over a period.

David Hobson

DAVID HOBSON

SECRET

Regional fol.

P 01991

From: J B UNWIN
10 April 1986

MR WICKS

cc Sir Robert Armstrong

TERRITORIAL EXPENDITURE

As promised, I attach a copy of the article on this subject in The Times of 3 April. As you will see, the author was Michael Fallon, the Conservative MP for Darlington.

2. It is not difficult to have a guess at the source of inspiration of this article, particularly since Mr Fallon has been used by the Treasury for the purpose of arranged PQs on this subject. The Treasury strongly deny, however, that they have had any hand in it.

3. As you may have noticed, the article has sparked off some vigorous counter argument in the correspondence columns of the press (see the attached extract from today's Times). This will give you the flavour of the kind of arguments being traded across the table (with enormous detail and perseverance) in my informal group.

4. I am aiming to send you my report early next week.



J B UNWIN

v Unwmi



THE TIMES DIARY

Lambeth squawk

After Red Ted Knight and his 29 Lambeth sidekicks disappeared in a puff of smoke last night, the dominant Tory group is today preparing a counter-attack to prevent a triumvirate of remaining Labour councillors assuming the mantle of power. In a final gesture of defiance to the government, the debarred councillors shifted all powers to the three — the new mayor, Kingsley Smith, his deputy, Lynda Bellos, and Labour moderate Janet Boston — allowing the Tories no say in affairs, despite their 26 seats to Labour's four. Tory leader Mary Leigh said: "We will either take the matter to court immediately or call another council meeting to reverse this gross manipulation of the standing orders." Should the Tories take control after the council elections in May, Miss Leigh promises they will take a close look at some of the officers. Among those under the microscope will be Al Hanagan, chief public relations officer who ran the £700,000 anti-government campaign over rate-capping, and Phil Sealy, principal race relations officer.

Mod cons

Is Sir Clive Sinclair feeling the pinch since the collapse of his C5 company? His four-bedroom Chelsea home has just come on the market at an asking price of £995,000. Among the gadgets Sinclair is leaving behind are sets of electronically operated window blinds, automatically irrigated plant tubs, a high-tech kitchen and a back-up generator. Home computers, alas, are not included.

Teachers in England must be puzzled by the way that Scottish ministers can "find" the money to finance their colleagues' 15 per cent pay deal. Ratepayers south of the border were similarly surprised at the ease with which £38 million was "found" last spring in rate relief for Scots. To the Treasury at least the answer is simple, and disturbing.

Public expenditure last year was £2,210 per head in Scotland and £1,927 in Wales against £1,761 in England. In most of the big spending programmes — roads, hospitals, schools and housing — spending in Scotland is an average 30 per cent higher than in England. Housing takes 78 per cent more, education 36 per cent more, health 26 per cent more.

Why does Scotland do so well? The answer is neither English generosity nor Scottish ministerial advocacy but a Treasury mechanism, the "territorial block formula", applied to each territory (Scotland, Wales and Northern Ireland) since 1980. Under this curious system public spending in each country is determined not according to need but by mathematical formulae giving Scotland 10/85, Wales 5/85 and Northern Ireland 2.75 per cent of the English total.

The results five years on are startling. Security costs make comparison difficult for Northern Ireland. But in Scotland and Wales, there is now over-provision amounting to well over

Give England a fair deal for a change

by Michael Fallon

£1 billion a year which could not be justified under normal public spending rules. The territorial block formula is the cause of the trouble.

For a start, the formula appears to apply automatically. If additional provision, for example on roads or libraries, is decided for England, the Scottish and Welsh blocks benefit accordingly — whether or not new roads or libraries are actually required in Scotland and Wales. Worse still, the respective Secretaries of State can happily switch funds from one block to another; thus money theoretically allocated for Scottish prisons can end up being spent on Scottish hospitals instead.

Does this matter? I think it does. First, overall control of public spending is threatened by a system that builds in over-provision each year. As the government struggles to hold expenditure

broadly flat, each year's public spending bargaining round will become increasingly difficult; unjustified spending will make it even more so.

Secondly, England suffers. In particular, the formula discriminates against the less prosperous English regions. Without any regional analysis of public spending, the difference is hard to quantify. But regions such as the North West and North East, with structural and social problems similar to those of Scotland, lose out directly in per capita terms to their neighbours across the border.

Thirdly, there is little reason to exempt either Scotland or Wales from the current pressures on public spending. When other programmes are being restrained or cut back, it would be unfair not to look to Scotland and Wales for some contribution. Nor can Scotland in particular be regarded any

longer as one of Britain's poorer regions: measured on GDP per capita it ranks third, after only the South East and East Anglia. Indeed, suspending the formula in some areas (such as council housing) might compel Scottish Office ministers to pursue even more vigorously the policies that have extended ownership in England.

Finally, unless the entire territorial block formula system is recast, both the over-provision and discrimination will increase. The longer that action is postponed, the more difficult it will be politically for the Treasury to reassert its control over Scottish Office spending. And as the discrimination against the English regions becomes more severe, the government will face further pressure for devolution and separate development agencies from hard-pressed areas like such as the North East, the North West and the South West.

A review of both the mechanism and its effects is therefore long overdue. The arrival of funds approved by the US Congress will in any case complicate Northern Ireland spending. Separate studies ought now to be put in hand to determine real need in each territory and to equalize Whitehall subvention towards the main programme areas. Pending their conclusions the working of the formula should be suspended on all block programmes.

The author is Conservative MP for Darlington.

Richard Ford examines the strains imposed by Portadown

Loyal or loyalist? The great RUC challenge



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LETTERS TO THE EDITOR

Striking a fair deal for Scotland

From the Managing Editor of the Stornoway Gazette

Sir, Mr Michael Fallon's article, "Give England a fair deal for a change" (April 3) demonstrates just how dangerous statistics are. He chooses to cite expenditure per head of population to demonstrate that Scotland and Wales enjoy "over-provision".

Would he like to recalculate his figures on the basis of miles of road in the respective countries, or acres of land? He might then discover that England suffers gross over-provision.

In the Western Isles there is still a village which is miles from the nearest road, the roads themselves are largely single track and almost universally in need of resurfacing. Street lights outside the Stornoway area are a rarity, so are pavements, the two hospitals are dilapidated and we await Treasury approval for the construction of a new one. The council recently had to choose between closing schools and "bussing" children long distances or cutting per capita allocations to by far the lowest level in Scotland.

How can this be, when Mr Fallon tells us that Scotland gets too much Treasury cash?

The answer is simply that he is not comparing like with like. The Western Isles cover an enormous area, the distance from the Butt of Lewis to Barra Head is roughly the same as the distance from London to Birmingham, but the population is only about 30,000.

Those people need roads, schools, emergency services and the rest of the benefits of the age.

Of course it costs more to provide them in a scattered community than it does in an industrial centre. To quote expenditure per head of population in an effort to prove over-provision is laughable.

Mr Fallon may be right to question the use of rigid formulae by the Treasury, but he has certainly not demonstrated that England gets a raw deal.

Yours sincerely,
PAUL COWAN,
Managing Editor,
Stornoway Gazette,
10 Francis Street,
Stornoway,
Isle of Lewis.
April 3.

From Mr Peter Rendle

Sir, Mr Michael Fallon, MP, (feature, April 3) bolsters a simplistic case for increasing England's share of public expenditure at the expense of Scotland, Wales and Northern Ireland by misrepresenting the nature of the Treasury formula he wants to throw overboard.

Unlike the long discarded Goschen formula (an 11/80ths share for Scotland), the "Barnett" formula, as proposed by the Treasury in 1978, does not "give Scotland 10/85 of the English total" as Mr Fallon says. What it

does is, in short, to adjust the aggregate of relevant Scottish expenditure programmes by 10/85 of the adjustment, up or down, made to the aggregate of comparable English programmes in the annual public expenditure exercise.

Thus it achieves what Mr Fallon implies is not achieved. When English "programmes are being restrained or cut back", Scotland makes, in the 10/85 proportion, the contribution he seeks.

Mr Fallon also implies that there is a need "for the Treasury to reassert its control over Scottish Office spending". Reassert? I am quite certain that the officials now concerned in both the Treasury and the Scottish Office would wish to refute, as vigorously as I would have done in my day, his implication that Treasury control over Scottish Office expenditure is less vigorously asserted than it is for English expenditure.

Finally, studies such as Mr Fallon urges "to determine the real need in each territory" were extensively (and expensively) carried out under the lead of the Treasury in the run-up to intended devolution in 1979. The continued use of the Barnett formula after these inevitably not altogether conclusive studies suggests an inherent robustness, fairness and practicability which counter-indicate instant condemnation of that formula now.

The allocation of public expenditure is a complicated business. I suggest that Mr Fallon might first encourage a close examination of the respective needs and allocations of the different English regions.

For the record, I am Cornish!
Yours faithfully,
PETER RENDLE,
(Principal Finance Officer, Scottish Office, 1978-80),
St Clair,
159 Granton Road,
Edinburgh.
April 5.

From Mr George Stern

Sir, In his call for a "fair deal for England" Michael Fallon complains that Scottish public spending per head is now 25 per cent higher than England's, and that the Scottish GDP per head is now one of the highest in the UK.

His remedy, amazingly, is not to call for an increase in English public spending to repeat the Scottish economic success, but rather to reduce Scottish public spending, which, on his own showing, would reduce Scotland to its former poverty. Possibly the Conservative slogan for the next election should be "strength through misery?"

Yours faithfully,
GEORGE STERN,
6 Eton Court,
Shepherds Hill, N6.
April 3.

Punishment for child offences

From Mr J. Steele

Sir, For the last week your columns have recorded the heart-rending story of the ten-year-old girl who has apparently been abducted. Yet another case of this sort evokes sympathy for her poor parents, the fears of parents for their own children and impotent anger that these crimes against children have become so common.

On issues of crime and punishment MPs of all parties are apt to dismiss calls for more severe sentences by saying that the detection rate is the factor that limits deterrence. It seems obvious to me, and no doubt to most ordinary people, that criminals are deterred by a combination of the fear of being caught and the severity of the punishment prescribed.

For example, a child murderer might be deterred more effectively by a 20 per cent chance of being hanged than by a 50 per cent chance of being imprisoned for a few years.

At this point in the argument our conscience-stricken legislators recoil at the possibility of the wrong person being hanged and the fact that such a dreadful mistake would be irreversible.

This is indeed a risk, but against it must be balanced the alternate risk; that for lack of effective deterrence the abduction, rape and murder of children will continue at the present rate. If the decision were mine I know which risk my conscience would choose to take.

Yours faithfully,
JOHN STEELE,
8A Clements Road,
Walton-on-Thames,
Surrey.
April 2.

Loans to students

From Mr Jonathan D. Peacock

Sir, In response to Maureen Woodhall's article (April 2), I feel there is an issue - little discussed - which represents a considerable hole in the argument for student loans.

As students face large debts on leaving college, such a scheme would lead to them concentrating on those subjects which directly lead to the most lucrative short-term employment prospects. While this concentration on education for the "real world" of the labour market is desirable to a certain degree, too much concentration will lead to a crude following of the latest trends in employment.

Thus while the Government may desire to encourage graduates into the area in which they are most needed, loans will only encourage college-leavers into the area of highest reward. If a system of loans were in operation at the moment we would probably see college-leavers going into the

ON THIS DAY

APRIL 10 1810

In the struggle for parliamentary reform, freedom of speech and liberty of the subject, Sir Francis Burdett (1770-1844) is rarely mentioned in history books. Yet this man for 30 years held the seat of Westminster as a radical, earning the nickname "Westminster's pride". His collision with the Commons arose from the imprisonment of the radical orator, John Gale Jones. Burdett denounced the proceedings in the House and reprinted his speech as a pamphlet, an act which was voted a breach of privilege, leading to his extraordinary arrest.

SIR FRANCIS BURDETT.

The warrant of the SPEAKER of the House of Commons, for the committal of the Hon. Baronet to the Tower, in consequence of the vote of the House on Friday morning last, was at last carried into effect yesterday morning.

The avowed determination of the Hon. Baronet, not only to refuse a voluntary surrender to the SPEAKER's warrant, but to resist it forcibly, and the measure of barricading his doors, induced the Serjeant at Arms to consult the Law Officers of the Crown for legal advice, whether he might use force for carrying the warrant into effect. His Majesty's ATTORNEY and SOLICITOR-GENERAL are said to have given their opinions, that the use of force was justifiable...

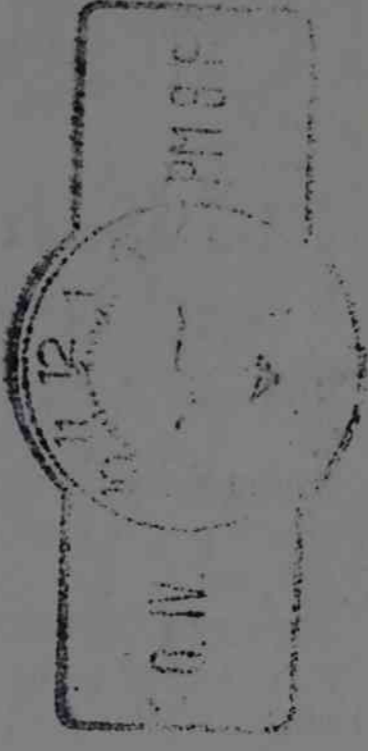
Accordingly, at a little before 11 o'clock yesterday morning, the Serjeant at Arms, accompanied by messengers, police officers, and a large military force broke into the house of Sir FRANCIS, in Piccadilly.

A strong body of horse kept the street clear on both sides of the Baronet's house. Mr. READ, the Police Magistrate, Townshend and Oddy, two of the Bow-street Officers, and a party of the patrol, accompanied the Serjeant at Arms. It is said, that the Officers, finding the hall door of Sir FRANCIS's barricaded, one of them ascended by a ladder to one of the drawing-room windows, raised the sash, and was about to enter; but a Gentleman on the inside, who was at breakfast with Sir FRANCIS, instantly shut it down, and opposed the entrance of the officer. Foiled in this attempt, the police officers got down the front area, either by a ladder or by forcing the area gate, and with iron crows broke open the area door... Some of the Foot Guards took possession of the hall, while the Serjeant and the officers were proceeding up stairs, when they met the Baronet; and the following is given as the substance of the conversation which took place:

The SERJEANT.—Sir Francis, you are my prisoner.

Sir FRANCIS.—By what right, Sir, have you forced an entrance into my house, in violation of the law of the land?

The SERJEANT.—Sir Francis, I am required to arrest you under the authority of this warrant.



LB/UP
CC/DW
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MR WICKS

TERRITORIAL EXPENDITURE

At the informal meeting of Ministers held on 20 February to consider whether there should be a fresh study of the formula for determining the amount of certain public expenditure in Scotland, Wales and Northern Ireland, the Prime Minister instructed the Cabinet Office to arrange, in strict secrecy, for a study of the recent pattern of public expenditure provision in each territory and also of what flexibility there might be in the next Public Expenditure Survey for taking any remedial action which might be agreed. This would form the basis for Ministers to resume their discussion on the possibility of commissioning a new needs study.

2. I attach a report prepared under my chairmanship and agreed with officials of the Treasury, Scottish Office, Welsh Office, Northern Ireland Office and Department of the Environment. This reviews public expenditure developments since the territorial blocks were established; and examines possible options for justifying in public a real terms cut in the Scottish provision should Ministers decide to do so. It does not, in accordance with the remit, tackle the question of need.

3. The main conclusions of the report are:-

(i) since they were established, the size of the territorial public expenditure blocks has moved roughly in line with the corresponding programmes in England;

(ii) one possible way of making a substantial real terms cut in the Scottish provision might well be to amend the base line to reflect changes in population since it was established;

(iii) there are a number of potential options for achieving real terms reductions by transferring items of expenditure into the Scottish block, but if Ministers wished to pursue any of these consultation would need to be extended to the Departments with primary responsibility for the items concerned.

SECRET

4. The Prime Minister will presumably now wish to arrange a further meeting of the Ministers concerned to consider the implications of this report. ✓

5. I am sending copies of this minute and of the report to the Private Secretaries to the Lord President, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Wales, Northern Ireland, the Environment, and Scotland, the Chief Secretary, Treasury, and to Sir Robert Armstrong.



J B UNWIN

Cabinet Office

16 April 1986

SECRET



COMPLETION

TERRITORIAL EXPENDITURE

1. One of the conclusions of the 1985 Star Chamber was that public service provision in Scotland was now generally too high in relation to comparable provision in England and Wales, and that corrective action was needed. The Prime Minister held a meeting with the Ministers concerned in February, and asked the Cabinet Office to arrange a study of the recent pattern of Public Expenditure provision in each territory and also of what flexibility there might be in the next Public Expenditure Survey (PES) for taking any remedial action which might be agreed. This would form the basis for Ministers to resume their discussion on the possibility of commissioning a new assessment of relative expenditure needs, to serve as the basis for the allocation of public service provision as between England, Scotland, Wales and Northern Ireland.

PART I: THE RECENT PATTERN OF PUBLIC EXPENDITURE PROVISION

BACKGROUND: the Block and Formula System

2. The block system and the formula were introduced for Scotland in 1978 to eliminate the need for annual negotiation between the Treasury and the Secretary of State across all his programmes. Originally a temporary measure, it was extended to Northern Ireland in 1979 and to Wales in 1980, and has become the established mechanism for determining public expenditure allocations.

3. The programmes covered by the block vary between territories, but in all cases roads and transport, housing, other environmental services, education, arts and libraries, health and personal social services, tourism and other public services are included. Annex A shows in detail the coverage of the block for each territory.

4. The size of the block each year is adjusted by amounts calculated using a population based formula applied to changes in the corresponding English programmes: for example, if the English housing programme is increased or decreased by £85 million, there is a change of £10 million in the Scottish block. This formula (whose numbers differ for each territory) operates entirely automatically, and there is no scrutiny by Treasury Ministers. Within the block totals so determined, the Territorial Secretaries of State have discretion to allocate resources between block programmes according to local priorities, subject to a ring fence restricting transfers into or out of local authority current expenditure; to collective Ministerial policy decisions; and to the Treasury's right to be consulted on repercussions, etc. The relativities between the different territories were therefore largely fixed on the date on which the block was first established. Two issues arise: First, are the baselines fair, taking account of any changes in each territory since the 1970s; and second are the ratios applied to marginal changes still appropriate?

5. An interdepartmental study of relative public expenditure needs was completed in 1979. The intention was not to determine the absolute levels of public expenditure required according to 'need', but to assess relativities. By examining objective economic and social statistical data relevant to each of the programmes covered in the study, a figure of relative need was derived. This was compared with the pattern of expenditure in 1976-77. The departments concerned agreed that the methods of assessment used were a long way from providing wholly definitive measures of relative expenditure needs, and that there is therefore no 'right' answer. But in summary the outcome of the study was as follows:

TABLE 1

	<u>Relative Need</u>	<u>Relative Expenditure</u>
England	100	100
Scotland	116	122
Wales	109	106
Northern Ireland	131	135

Figures are per capita, for 1976-1977

Source: Needs Assessment Study 1979.

6. However, whatever the correct interpretation of this study, it is relevant to note that no change to the block/formula arrangements was made as a result of it. The Treasury has nonetheless used figures based on the study to secure cumulative non-formula reductions of £233 million from the Scottish block since 1980. These reductions relate to block resources totalling £56.2 billion over the period 1980-81 to 1988-89. The knock-on effect of this is that the block baseline for Scotland in 1989-90 will be some £90 million lower than it would otherwise have been.

7. Short of a full updating of the 1979 study, it is not possible to give an assessment of how relative needs have changed, except in one important respect: the population of Scotland has fallen, while that of Northern Ireland and England has increased. Other changing factors of need relate largely to individual services and require detailed study. We have, nonetheless, in figures 1-3, drawn together some statistics on GDP per head, personal disposable incomes, and unemployment for the four territories between 1976 and 1984 or 1985. The changes in population or economic circumstances could provide a basis for defending in public a further reduction in the Scottish block: this is developed in Part II of the report.

Public Expenditure Developments

8. In comparing the provision for the different territories, three comparisons can be made:

- (i) on the basis of expenditure on programmes covered by the block and formula;
- (ii) on the total expenditure within the control of the relevant Secretary of State. Except in Northern Ireland, this comprises the block programmes plus other programmes outside the blocks and not subject to the formula (principally agriculture, industry and employment, and nationalised industry EFLs)*, and
- (iii) on 'total identifiable public expenditure' which includes both the block and non-block programmes under the Secretary of State's control plus spending by other departments operating on a UK or GB basis which can be allocated by territory. This includes, for example, Social Security in Scotland and Wales. (Expenditure on defence and foreign affairs is, however, excluded.)

* In Northern Ireland, agriculture, trade/industry/energy, and social security are included in the block, and comparison with other blocks is therefore difficult. However, in this paper social security (which is demand led and not covered by the comparability formula) has been excluded from the data to provide a more accurate comparison for the four territories.

9. This paper is mainly concerned with trends in block expenditure, but in considering whether the distribution of resources is equitable it is important to bear in mind that this accounts for only about half to two thirds of total identifiable public expenditure. The following table shows the relative importance of each of these totals for 1984-85, the most recent year for which full information is available.

	Block Expenditure	Secretary of State's Expenditure	£ billion Total identifiable Expenditure
England	-	-	82.7
Scotland	6.3	7.0	11.4
Wales	2.4	2.6	5.4
Northern Ireland	2.8	2.8	4.2
(including Social Security)	4.0	4.0	4.2)

10. The following tables show the trends in block expenditure over the last five years and plans for the next three for each territory compared with corresponding total of English programmes (which is of course different for each territory), first in cash terms and then as percentages. (Fuller information including data for individual programmes is given in Annex B, both in cash and in constant prices.)

TABLE III

Trends in Block Expenditure for each territory compared
with the corresponding English Programme

	1980-81 outturn	1985-86 plan estimated outturn	£ billion 1988-89 plan
Scotland	5.0	6.6	7.1
English Programmes	34.8	45.7	48.6
Wales	1.9	2.5	2.8
English Programmes	30.2	38.5	40.9
Northern Ireland	2.2	3.0	3.3
English Programmes	40.7	53.1	55.2
Total Public Expenditure	92.6	134.2	148.7

Note: Northern Ireland Figures exclude Social Security
Source: Cabinet Office, derived from PEWP

TABLE IV

Territorial Expenditure as a Percentage of corresponding English Programmes

	1980-81	1985-86	1988-89
Scotland	14.4	14.4	14.6
Wales	6.4	6.5	6.8
Northern Ireland	5.4	5.6	6.0

11. When the changes in block expenditure are expressed in per capita terms, the following pattern emerges:

TABLE V

	Relative Block expenditure per capita		Relative total identifiable expenditure per head	
	1980-81	1984-85	1980-81	1984-85
England	100	100	100	100
Scotland	130	128	127	126
Wales	107	106	110	109
Northern Ireland	160	160	151	152

12. The changes in population or economic circumstances could provide a basis for defencing in public a further reduction in the Scottish block: this is developed in Part II of this report.

Conclusion

13. While these figures for expenditure naturally conceal a number of movements and changes within individual programmes reflecting the discretion of the Secretaries of State to make switches, the broad conclusion must be that since the block and formula arrangements were established the aggregate territorial expenditure blocks have moved roughly in line with the corresponding programmes in England, as one would have expected.

PART II: SCOPE FOR REMEDIAL ACTION

14. The Prime Minister's Meeting asked for a Report on what flexibility there might be in the next PES round for taking any remedial action which might be agreed. Ministers had in mind that any excess provision in Scotland could be eliminated over time by real term cuts even if cash cuts were not acceptable.

15. There are two ways of reducing or eliminating any imbalance in provision. The real resources devoted to the blocks can be reduced either outright or, alternatively, by financing additional services out of the blocks with no compensating increase in provision. The problem is both presentational and practical: the operation of the block and formula system is closely scrutinised by Parliament and outside commentators, and the relevant Secretary of State would need to be able to provide an adequate justification for the change; he would also have to work out how to make reductions in services already within the block or moved into it if real term cuts were to be achieved.

16. The scope for 'invisible' reductions in the Scottish block has been extensively examined in the 1984 and 1985 PES. The upper limit was shown to be only £5-10 million a year, and was expected to decline over time. So while the baseline has effectively been ratcheted down by this means (as indicated in paragraph 6), by about £50 million between 1980 and 1986, there is little further scope for changing the balance of expenditure by invisible savings.

Changes to reflect shifts in population

17. One possible way of making a real terms cut in the Scottish provision might well be to up date either the formula or the base line to take account of changes in population since 1979, although it should be noted that population was not taken into account when the original base lines were established and not all services in the blocks are directly dependent on population.

1976-7

(i) Changes in the formula

18. There are two ways in which the comparability formula might be amended. First, the ratios used to determine the marginal changes to the territorial blocks could be adjusted on the basis of the existing formula in line with the change in population since 1979. If this had been in force in the 1985 PES it would have altered the figures by approximately the following amounts:

TABLE VI

Effect of a change in the existing formula on the block provision

	1986-87	1987-88	£ million 1988-89
Scotland	- 2	- 2	- 2
Wales	0	0	0
Northern Ireland	0	0	0

Note This table shows what the change in formula consequential would have been in the 1985 PES round had the formula constants changed from their 1979 values (10/85, 5/85, 2.75 per cent) by the same percentage as the population ratios are projected to change.

19. An alternative would be to adopt a new formula, constructed to represent the actual relative populations as of now. Had this been in force, it would have altered the figures by approximately the following amounts:

TABLE VII

Effect of adopting a new formula on the block provision

	1986-87	1987-88	£ million 1988-89
Scotland	- 9	- 7	- 6
Wales	+ 1	+ 1	+ 1
Northern Ireland	+ 2	+ 1	+ 1

Note This table shows what the change in formula consequentials would have been in the 1985 PES round had the formula constants been replaced by the projected population ratios for each year.

20. It should be noted however, that the formula applies equally to marginal increases and decreases in provision, so that updating the formula for population changes may therefore be broadly neutral over time: indeed over the whole period since 1979 comparability increases and decreases for all three territories have largely cancelled out.

(ii) Change in the baseline

21. A more radical option would be to adjust the base line once-off to reflect the change in population ratios since 1979. This would give the following results:

TABLE VIII

Effect of changing the baseline to reflect current populations

	1986-87	1987-88	£ million 1988-89
Scotland	- 109	- 133	- 163
Wales	- 8	- 8	- 8
Northern Ireland	+ 34	+ 34	+ 35

Note: This table shows the affect of applying the percentage changes in projected population ratios since 1979 to the baselines in the plan year.

22. If Ministers wished to use this option to justify any reduction in provision for Scotland, it would, of course, be necessary to decide whether it could be done in isolation or whether consequential adjustments would also need to be made in respect of Northern Ireland and Wales.

Changes to reflect economic circumstances

23. It would be possible also to adjust either the baseline or the formula to reflect changes in economic circumstances since they were first established. But since the data shown in Figures 1, 2, and 3 do not point to any clear of sustained divergence in the fortunes of the territories since the blocks were established it would be hard to use them to justify any specific changes.

Transfers to the Scottish block

24. The alternative approach is to ask the Secretary of State for Scotland to take on extra responsibilities to be funded out of the block without a corresponding increase in provision, so that there could be a net saving to the Exchequer. We have identified a number of candidates which are listed and briefly discussed in Annex C. It must be stressed, however, that they are put

forward without any commitment by the Scottish Office or the Treasury, and because of the sensitivity of this exercise they have not been discussed with the departments which currently have responsibility for the activities concerned. In most cases we would expect current sponsor Departments to argue against transfer, and in considering them Ministers will wish to bear in mind the following considerations:

- a. the extent to which a transfer could be confined to Scotland alone, leaving the same responsibilities for other territories with the GB or UK Minister;
- b. the extent to which comparability could be established so that the Scottish block would in future receive formula consequences in respect of the transferred programmes;
- c. the extent to which it is judged necessary to maintain uniformity of policy throughout GB or UK and control by a single Minister;
- d. whether legislation would be necessary and the timetable for its enactment;
- e. wider political considerations.

25. More generally most of the proposals put forward would raise the fundamental issue of managerial control: if the Secretary of State for Scotland is to take financial responsibility then he should generally also exercise policy and managerial supervision responsibility for the activities concerned. This might create a risk of either divided responsibilities between the English and Scottish departments for common activities, or alternatively different policy objectives, priorities, and levels of service north and south of the border.

26. If Ministers wished to pursue further any of these possibilities, detailed study in conjunction with the department currently carrying responsibility would be necessary.

CONCLUSIONS

27. This brief study has shown that:

(i) Since they were established, the size of the territorial blocks has moved roughly in line with the corresponding programmes in England;

(ii) One possible way of making a substantial real terms cut in the Scottish provision might well be to amend the baseline to reflect changes in population since it was established. Changes to the formula would produce much smaller reductions.

(iii) there are a number of options for achieving real terms reductions by transferring items of expenditure into the Scottish block, but these would give rise to complex issues, which would need to be considered further with the Departments with primary responsibility for the items concerned.

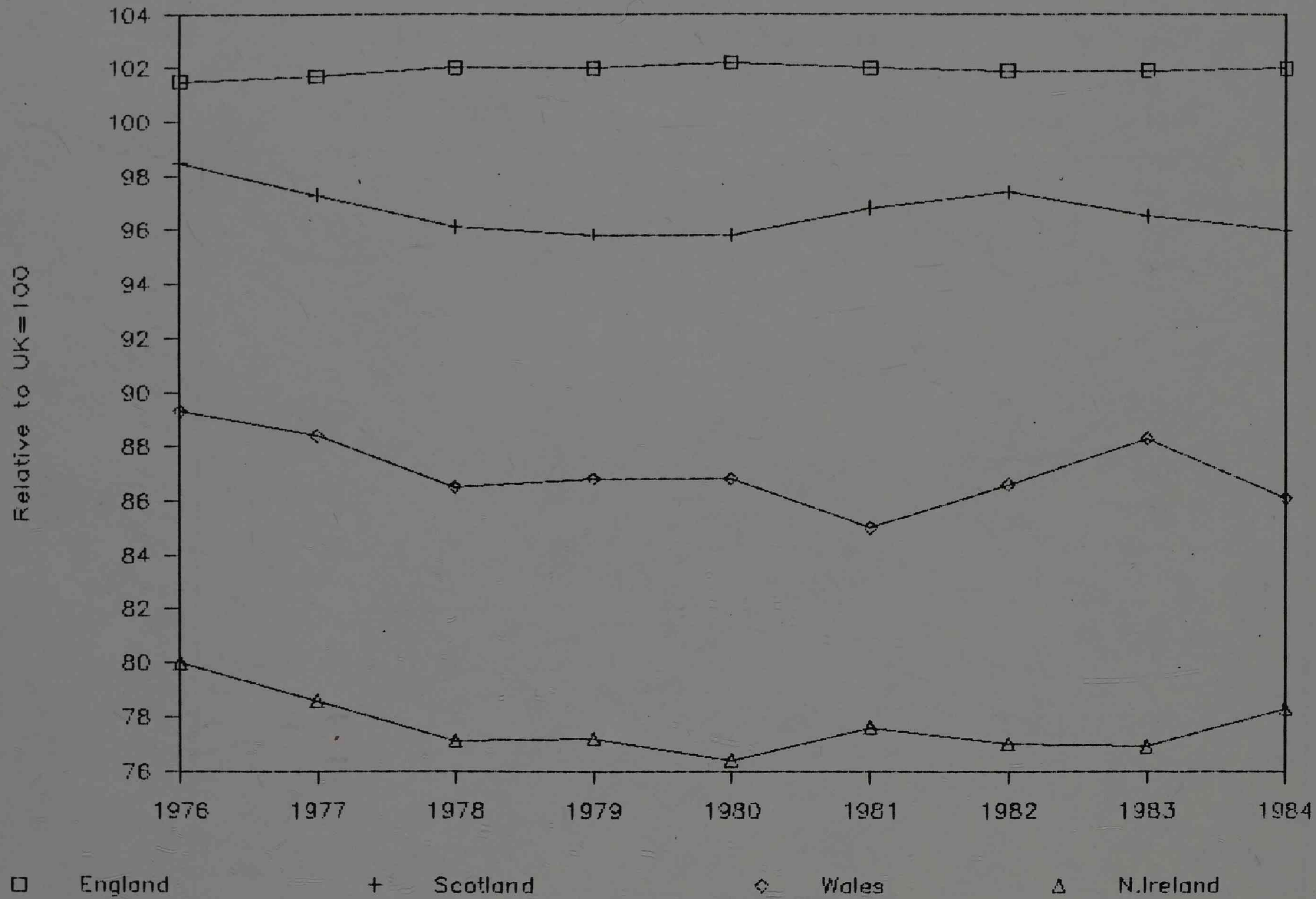
Cabinet Office

16 April 1986

Gross Domestic Product Per Capita

Fig 1

At Factor Cost



Personal Disposable Income

Fig 2

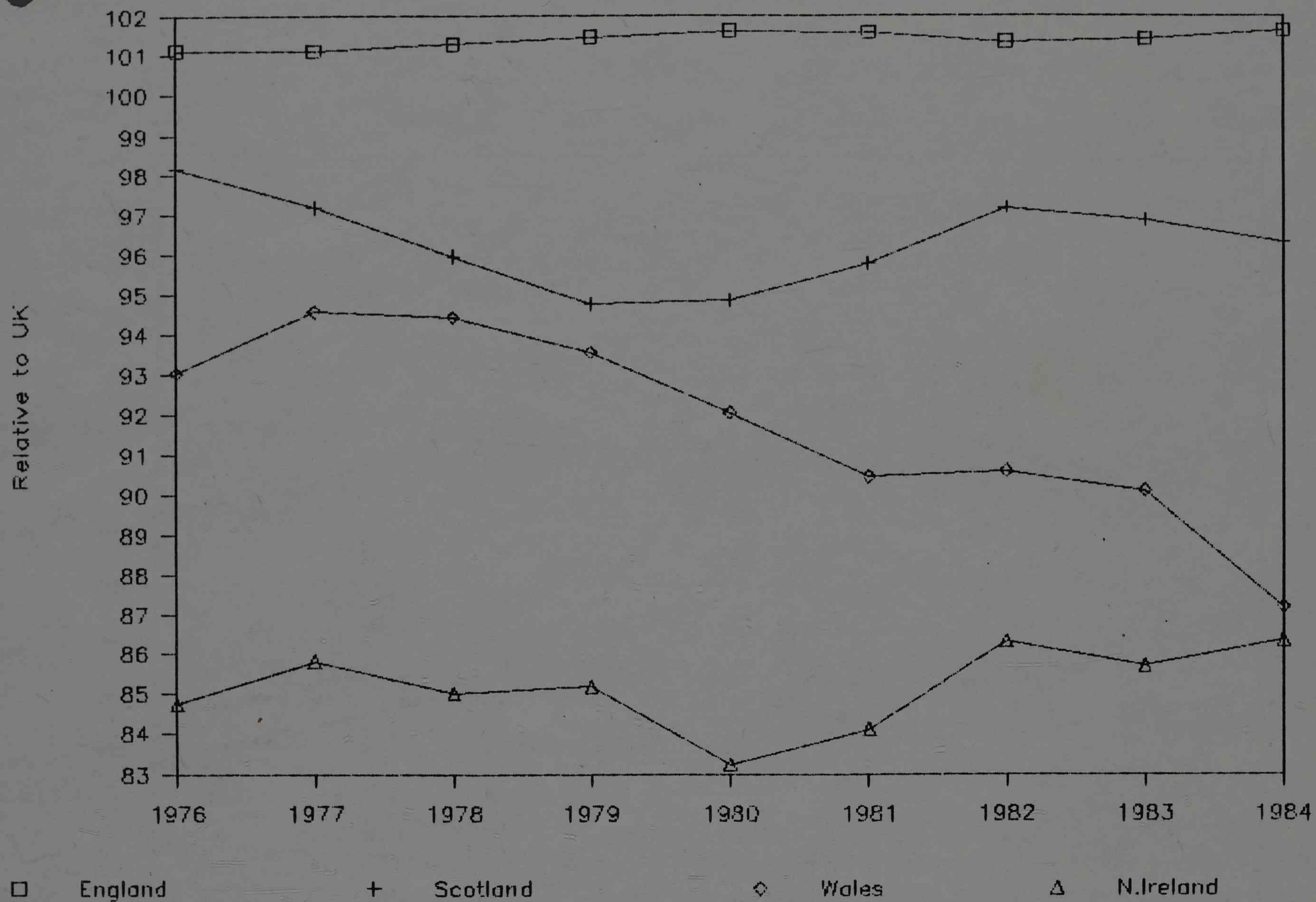
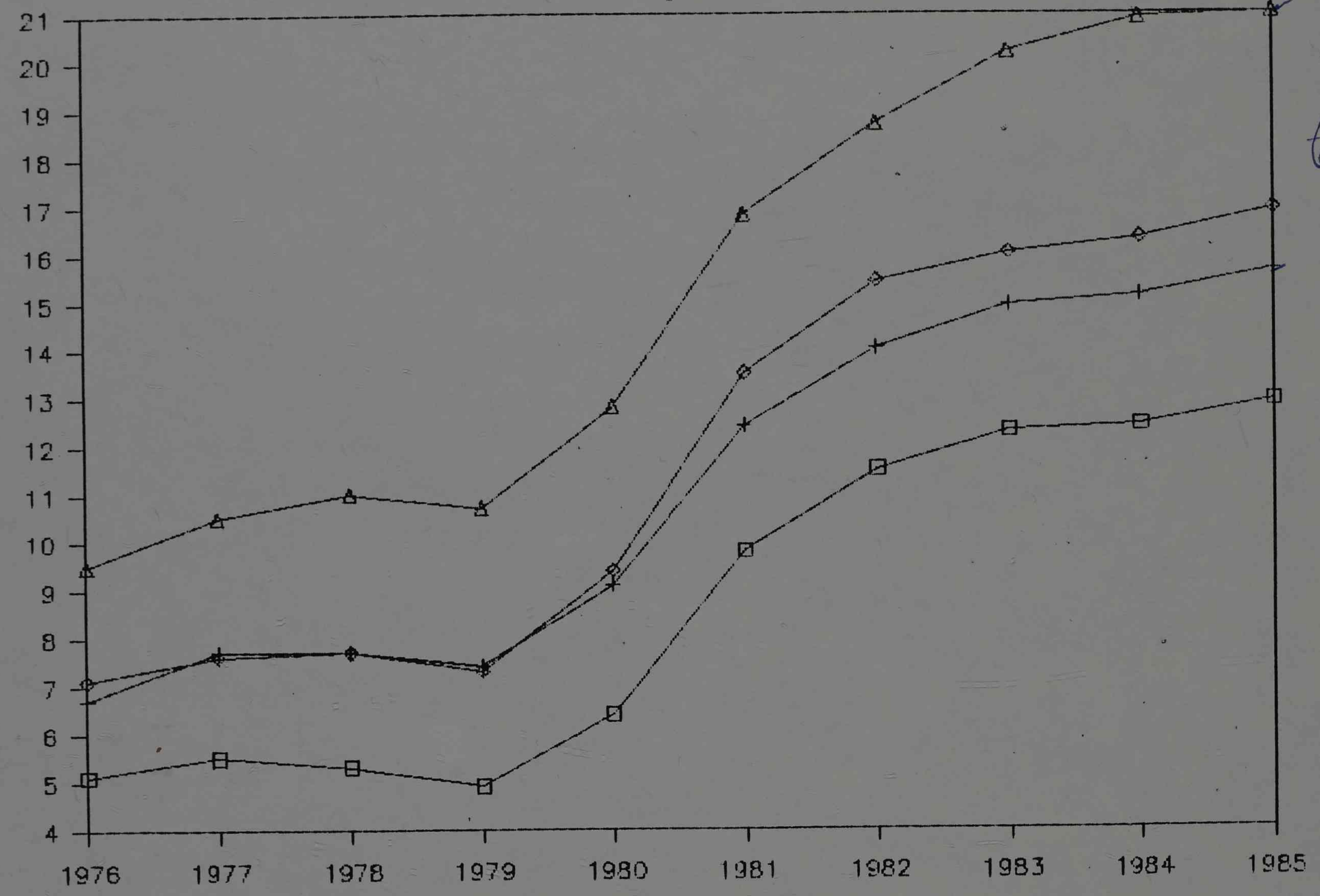


Fig 3

Unemployment Rates

Percentages



5.1 12.4
6.7 15.2

□ England

+ Scotland

◇ Wales

△ N.Ireland

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Annex A

	Scotland	Wales	Northern Ireland
Agriculture, Food and Fisheries			x
Industry, Energy, Trade, Employment (except Tourism)			x
Tourism	x	x	x
Roads and Transport	x	x	x
Housing	x	x	x
Other Environmental Services	x	x	x
Law, order and protective services	x		x
Education	x	x	x
Arts and Libraries	x	x	x
Health and Personal Social Services	x	x	x
Other public services	x	x	x
Social Security			x

Note In Northern Ireland an element of agriculture expenditure comes within the Block a major portion is also borne on MAFF votes.

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Annex B.

Table 1

EXPENDITURE BY TERRITORY

	SCOTLAND									
	£ million									
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Estimated Outturn 1985/86	Plans 1986/87	1987/88	1988/89	
Industry, energy trade, emp (tourism)	8	9	11	11	13	12	13	13	13	
Roads/Transport	389	449	481	493	498	555	587	599	598	
Housing	781	720	689	717	646	619	645	673	700	
Oth Environ Svs	441	466	497	520	536	586	588	596	604	
Law, Order etc	307	357	398	446	480	518	570	580	583	
Education	1386	1556	1636	1716	1749	1821	1792	1796	1801	
Arts/Libraries	55	62	63	64	69	73	75	75	75	
Health and PSS	1558	1769	1911	2036	2181	2311	2443	2534	2621	
Other PS	74	79	77	96	97	104	110	113	115	
LA na to S							19	19	19	
Total Block	5000	5468	5765	6100	6269	6600	6841	6997	7129	
Ag. fish. food	154	151	151	163	184	209	190	185	188	
Ind. En etc	121	125	158	160	203	296	302	232	239	
EFL's	109	95	159	277	376	253	239	1	-124	
Total non-block	384	371	468	600	763	758	731	418	303	
Total for SoS	5393	5839	6234	6700	7032	7358	7573	7413	7433	

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Table 2

EXPENDITURE BY TERRITORY

£ million

	WALES					Estimated		1987/88	1988/89
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Outturn 1985/86	Plans 1986/87		
Industry, energy trade, emp (tourism)	4	5	5	5	6	7	8	8	8
Roads/Transport	224	258	280	311	263	276	300	319	325
Housing	205	121	125	195	139	127	140	140	144
Oth Environ Svs	220	230	258	268	254	277	293	287	297
Education	546	594	641	679	696	710	730	732	734
Arts/Libraries	22	24	26	28	29	30	31	31	31
Health and PSS	693	782	859	916	986	1042	1115	1156	1206
Other PS	22	23	24	31	31	35	37	37	39
Total Block	1936	2038	2219	2431	2404	2504	2655	2711	2770
Ag. fish. food	60	54	62	79	79	106	77	78	80
Ind, En etc	83	94	80	74	108	146	157	135	132
EFL's	27	30	29	25	31	27	16	12	13
Total non-block	170	178	171	178	218	279	250	225	225
Total for SoS	2105	2216	2389	2609	2622	2783	2904	2937	2997

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Table 3

EXPENDITURE BY TERRITORY

£ million

NI DEPTS	N. IRELAND					Estimated			
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Outturn 1985/86	Plans 1986/87	1987/88	1988/89
Ag. fish. food	53	56	68	76	78	79	82	86	87
Ind. En. Emp. etc	338	359	347	357	403	417	465	458	464
Roads/Transport	120	125	111	123	122	122	120	123	126
Housing	239	234	284	315	337	357	355	362	357
Oth Environ Svs	122	129	140	153	158	164	173	173	174
Law. Order etc	10	12	14	15	18	20	21	20	21
Education									
Arts/Libraries	458	499	534	564	591	628	666	680	702
Health and PSS	484	546	587	634	666	700	738	767	800
Other PS	16	16	19	20	23	25	30	31	30
Common Services	18	22	23	29	33	41	45	52	52
Total(ex SS)	1858	1998	2129	2286	2429	2553	2695	2752	2813
Social Security	716	865	995	1084	1172	1282	1361	1454	1505
Total N.I. Depts	2574	2864	3124	3368	3599	3835	4057	4210	4324
NI OFFICE									
Law. Order etc	308	339	356	372	401	435	464	474	486
Total Block	2882	3203	3480	3740	4000	4270	4521	4684	4810
Total -SS	2166	2338	2485	2656	2828	2988	3160	3230	3305

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Table 4

EXPENDITURE BY TERRITORY

SCOTLAND CONSTANT PRICES

£ million

	Outturn					Estimated			
	1980/81	1981/82	1982/83	1983/84	1984/85	Outturn 1985/86	Plans 1986/87	1987/88	1988/89
Industry, energy trade, emp (tourism)	10	11	12	11	13	11	12	11	11
Roads/Transport	501	525	525	515	498	529	535	527	511
Housing	1005	841	752	749	646	590	587	593	598
Oth Environ Svs	568	544	542	543	536	558	536	525	515
Law, Order etc	395	417	434	466	480	493	519	511	498
Education	1784	1818	1785	1793	1749	1734	1632	1581	1537
Arts/Libraries	71	72	69	67	69	70	68	66	64
Health and PSS	2006	2067	2085	2127	2181	2201	2225	2231	2240
Other PS	95	92	84	100	97	99	100	99	98
LA na to S							17	17	15
Total Block	6437	6388	6289	6374	6269	6286	6231	6160	6094
Ag, fish, food	198	176	165	170	184	199	173	163	161
Ind, En etc	156	146	172	167	203	282	275	204	204
EFL's	140	111	173	289	376	241	218	1	-106
Total non-block	494	433	511	627	763	722	666	368	259
Total for SoS	6930	6822	6801	7001	7032	7008	6898	6527	6354

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Table 5

	EXPENDITURE BY TERRITORY								
	WALES	CONSTANT PRICES					£ million		
	Outturn 1980/81	1981/82	1982/83	1983/84	1984/85	Estimated Outturn Plans 1985/86	1986/87	1987/88	1988/89
Industry, energy trade, emp (tourism)	5	6	5	5	6	7	7	7	7
Roads/Transport	288	301	305	325	263	263	273	281	278
Housing	264	141	136	204	139	121	128	123	123
Oth Environ Svs	283	269	281	280	254	264	267	253	245
Education	703	694	699	709	696	676	665	644	627
Arts/Libraries	28	28	28	29	29	29	28	27	26
Health and PSS	892	914	937	957	986	992	1016	1018	1031
Other PS	28	27	26	32	31	33	34	33	32
Total Block	2492	2381	2421	2540	2404	2385	2418	2387	2368
Ag. fish. food	77	63	68	83	79	101	70	69	69
Ind, En etc	107	110	87	77	108	139	143	119	113
EFL's	35	35	32	26	31	26	15	11	11
Total non-block	219	208	187	186	218	266	228	198	192
Total for SoS	2710	2589	2606	2726	2622	2650	2645	2586	2562

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Table 6

NI DEPTS	EXPENDITURE BY TERRITORY									
	N. IRELAND CONSTANT PRICES									
	Outturn					Estimated Outturn Plans				
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	£ million
Ag. fish. food	68	65	74	79	78	75	75	76	74	
Ind. En. Emp. etc	435	419	379	373	403	397	424	403	397	
Roads/Transport	154	146	121	129	122	116	109	108	108	
Housing	308	273	310	329	337	340	323	319	305	
Oth Environ Svs	157	151	153	160	158	156	158	152	149	
Law, Order etc	13	14	15	16	18	19	19	18	18	
Education										
Arts/Libraries	590	583	583	589	591	598	607	599	600	
Health and PSS	623	638	643	662	666	667	672	675	684	
Other PS	21	19	21	21	23	24	27	27	26	
Common Services	23	26	25	30	33	39	41	46	44	
Total(ex SS)	2392	2334	2323	2389	2429	2431	2455	2423	2404	
Social Security	922	1011	1085	1133	1172	1221	1240	1280	1286	
Total N.I. Depts	3314	3346	3408	3519	3599	3652	3695	3707	3696	
NI OFFICE										
Law, Order etc	396	396	388	389	401	414	423	417	415	
Total Block	3710	3742	3796	3908	4000	4067	4118	4124	4111	
Total-SS	2788	2731	2711	2775	2828	2846	2878	2844	2825	

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Table 7

CHANGES IN TERRITORIAL EXPENDITURE

SCOTLAND	Percentage Change 1985/86 cf 1980/81	Percentage Change 1988/89 cf 1985/86
Industry, energy trade, emp (tourism)	50.0	8.3
Roads/Transport	42.7	7.7
Housing	-20.7	13.1
Oth Environ Svcs	32.9	3.1
Law, Order etc	68.7	12.5
Education	31.4	-1.1
Arts/Libraries	32.7	2.7
Health and PSS	48.3	13.4
Other PS	40.5	10.6
LA na to S		
Total Block	32.0	8.0
Ag, fish, food	35.7	-10.0
Ind, En etc	144.6	-19.3
EFL's	132.1	-149.0
Total non-block	97.4	-60.0
Total for SoS	36.7	1.0

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Table 8

CHANGES IN TERRITORIAL EXPENDITURE

WALES	Percentage Change 1985/86 cf 1980/81	Percentage Change 1988/89 cf 1985/86
Industry, energy trade, emp(tourism)	75.0	14.3
Roads/Transport	23.2	17.8
Housing	-38.0	13.4
Oth Environ Svs	25.9	3.6
Education	30.0	3.4
Arts/Libraries	36.4	3.3
Health and PSS	50.4	15.7
Other PS	59.1	8.6
 Total Block	 29.3	 10.6
Ag. fish, food	76.7	-24.5
Ind, En etc	75.9	-9.6
EFL's	0.0	-51.9
 Total non-block	 64.1	 -19.4
 Total for SoS	 32.2	 7.7

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Table 9

CHANGES IN TERRITORIAL EXPENDITURE

N. IRELAND	Percentage Change 1985/86 cf 1980/81	Percentage Change 1988/89 cf 1985/86
NI DEPTS		
Ag, fish, food	49.1	10.1
Ind, En, Emp. etc	23.4	11.3
Roads/Transport	1.7	3.3
Housing	49.4	0.0
Oth Environ Svs	34.4	6.1
Law, Order etc	100.0	5.0
Education		
Arts/Libraries	37.1	11.8
Health and PSS	44.6	14.3
Other PS	56.3	20.0
Common Services	127.8	26.8
Total(ex SS)	37.4	10.2
Social Security	79.1	17.4
Total N.I.Depts	49.0	12.8
NI OFFICE		
Law, Order etc	41.2	11.7
Total Block	48.2	12.6
Total-SS	38.0	10.6

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Table 10

PERCENTAGE CHANGES IN BLOCK EXPENDITURE

	1985/86 cf 1980/81		1988/89 cf 1985/86	
	Actual	Average Annual	Actual	Average Annual
Scotland	32.0	5.7	8.0	2.5
England	31.3	5.6	6.3	2.1
Wales	29.3	5.3	10.6	3.4
England	27.5	5.0	6.2	2.0
N. Ireland	48.2	8.2	12.6	4.0
Great Britain	30.5	5.5	4.0	1.3
N. Ireland-SS	38.0	6.6	10.6	3.4

NOTES 1: Each territory compared with comparable programme

2: Outturn figures and plan figures are not strictly comparable and therefore the percentage change figures shown which compare 1988/89 with 1985/86 need to be used with caution. In particular, because of local authority current overspending in both England and Scotland in all outturn years (1980-81 to 1985-86), the apparent growth of the Wales and Northern Ireland blocks is overstated throughout this table.

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Annex C

Potential Candidates for Transfer to the Scottish Block

Scottish Arts Council: £12.8m 1985/86

Currently being explored by SED and OAL. SAC has had declining share of ACGB funds (£105m) during abolition of GLC/MCCs. SO has helped out and SAC might hope to gain from formal transfer. Remaining ACGB funds would become comparable for formula purposes. SED would need extra staff to sponsor SAC and maintain policy links with OAL eg in respect of National companies. Value for money from the change is open to doubt since no administrative savings at OAL. Would require legislation.

Scottish Universities: £225m 1985/86

Recommended by recent Report from Scottish Tertiary Education Advisory Council (STEAC). Consultation proceeding and responses as mixed as during pre-devolution consideration. Represents about 15 per cent of UGC Budget (not 10/85 so comparability difficult to apply). More non-Scots at Scottish Universities than Scots going elsewhere. Produce 18 per cent of UK medical and dental graduates whereas NHS in Scotland only requires about 11 per cent. SED would require considerable extra staff to carry out DES and/or UGC functions. Would require legislation.

Forestry Commission: £126.9m gross (£53.42m net) 1985/86

More than 60 per cent of FCs activities in Scotland. Could legislate for SO to become sole sponsoring department (despite FC activities in other territories) and remove present confusion of commissioners and three sponsoring Ministers. Alternatively SO could fund Scottish activities separately but leads to split Accounting Officer responsibilities and comparability difficult when majority of expenditure is in territories. Alternatively 3 separate commissions but poor value for money in breaking up intergrated operation and forestry industry bound to be puzzled.

Nature Conservancy Council - Approximately £8m in 1985/86

Legislation not essential; links would need to be established between SO and NCC with management and manpower consequences for both. Remainder of NCC Budget would become comparable. Divergence of policy priorities likely if NCC in Scotland sponsored by Scottish Office.

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Manpower Services Commission - £134m - 1985/86

Already on a Scottish Vote but PES with Department of Employment who insist (with Treasury support) that absolute uniformity is very important. Separation of MSC (Scotland) would assist greater co-ordination with distinctive Scottish education system and with industrial and economic framework eg integration with activities of SDA/HIDB. Legislation not required since tripartite Ministerial responsibility already. In previous considerations, MSC claimed that separation would require significant additional manpower for them and sponsoring departments.

Dounreay: £70-80m (Treasury Estimate)

Transfer implies share of policy responsibility for UK fast reactor research so need to give SO powers. Would involve shared responsibilities with Department of Energy Ministers and Accounting Officer even under trading fund arrangements. Legislation still likely to be needed. Problems of monitoring UKAEA's expenditure and accounting for it to PAC. Scottish electricity industry has no more advantageous access to UKAEA research than does CEGB. Dounreay's electricity not essential to Scottish boards, cannot be offered as firm capacity and UKAEA can do nothing else with it.

Scottish Development Agency (£100m) and Highlands and Islands Development Board (£25m)

These agencies are at present funded from the non-block programmes of the Scottish Office. If they were transferred into the block the size of the total Scottish Office programme could be reduced accordingly. The position of the Welsh Development Agency and the Development Board for Rural Wales would have to be considered.

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