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SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1

Prime Minister ②
To note and await outcome
of meeting.

AT 4/5

4 May 1984

THE NORTHERN IRELAND BLOCK

I have, as you suggested in your letter of 5 March, been giving a good deal of thought to the ideas you set out in that letter, but I still find great difficulty with them.

I am quite sure that we would be unwise to do anything to undermine the present block arrangements. They have, as you say, saved us all a good deal of time over the years - though at the cost to me of some painful decisions on priorities within the block. I received no additional support during the 1983 Survey and I shall also be seeking to solve my problems unaided in the 1984 Survey. I have absorbed this year the consequences for the electricity subsidy of the low level of tariff increases in Great Britain and I have undertaken to cope with the costs of natural gas. It would be very retrogressive if we were to return to the system of annual horse trade which the present system has enabled us to avoid.

It should be remembered that my block includes the entire Trade, Industry, Energy and Employment programme. Unfortunately, investment (particularly inward investment) remains at a very depressed level. I have, therefore, switched into social programmes (particularly Housing, where we inherited an appalling problem) funds which would otherwise have been devoted to creating new viable employment opportunities in the trading sector, which is my top priority. In this way I have been able to bolster what would otherwise be an intolerably low level of economic activity and employment, whilst at the same time meeting genuine social needs. Until there is some prospect of a significant upturn in employment-creating investment in Northern Ireland, I see no credible alternative.

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The latest economic forecasts suggest - and the assumptions used are certainly not unduly pessimistic - that unemployment in Northern Ireland will rise to some 25% by 1988, during a period when unemployment nationally should be stabilising and diminishing. It will be very difficult for me even within the existing arrangements to deal with the problems to which this will undoubtedly give rise and it would certainly be indefensible politically to squeeze public expenditure, however covertly, at such a time. The savings would not even accrue in full to the Exchequer. They would be offset to the extent of the cost of consequent additional social security payments.

As you acknowledge, the report of the Needs Assessment Study itself states that because of admitted weaknesses in methods and data, NAS does not provide a means of determining allocations. Moreover, because of its limited coverage, the Study ignores significant areas of spending for which I am responsible and is not therefore a reliable indicator of whether the block as a whole is too large or too small. Employment needs, critically important not only in their own right but also because of their impact on the security and social problems of the Province, are not included in the Study, nor for example are Energy or Agriculture, which have consistently given rise to major issues in Northern Ireland.

I agree, of course, that need is a vital ingredient in arriving at public expenditure allocations, but the Needs Assessment Study does not offer a satisfactory approach to the calculation of Northern Ireland's needs and I could not accept an NAS update as the basis for a presumption that the provision in my block is greater than need. I would therefore have very considerable reservations about the usefulness of asking officials to embark on a joint study of the Treasury's figures, especially as recent work undertaken by your officials and mine on the new methodology for fixing the Northern Ireland regional rate using a well-tried method of establishing absolute need calls into question the validity of projections based on the NAS. It illustrated that in 1981/82 expenditure on rate relevant services constituted only 81% of grant related expenditure for Northern Ireland calculated on the Welsh formula.

I need not labour the wider political dimensions of changes in the block/formula regime. In Northern Ireland it would be perceived as evidence of a wider integrationist approach, with most unfortunate political consequences. In the context of the EC, which has a very active Information Office in the Province, withdrawal of resources from Northern Ireland would not sit well with our stance on such issues as the net UK Budgetary contribution and additionality.

Thus not only am I unable to accept the validity of the NAS approach in itself but I am forced by the political and economic circumstances of the Province to have regard to the key role which present levels of public spending play in maintaining the political, economic and social fabric of Northern Ireland. I believe, indeed, that they pre-empt the requirement for the higher levels of expenditure in the future which failure to tackle current problems would entail.

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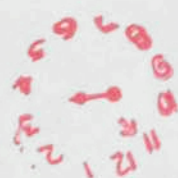
I am ready to meet you and I understand a date has been fixed. But you will have gathered from this letter that I do not regard the course which you propose as likely to have a useful outcome. I am convinced that the weight of the argument is very much in favour of the status quo.

I am sending the Prime Minister a copy of this letter.

*Yours
Truly
J. M.*

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CON P87: Public Expenditure A27



4 MAY 1988