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*Mrs. Martin  
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The Rt Hon Jonathan Aitken MP  
Chief Secretary to the Treasury  
Parliament Street  
LONDON  
SW1P 3AG

October 1994

*Jonathan Aitken*

*Mr Gibson  
Mr M'Donnell  
Mr Monaghan JM  
1/11*

**PUBLIC EXPENDITURE: NORTHERN IRELAND**

Thank you for your letters of 28 September. I have withheld my reply to them so that I could take account of recent developments.

In the period since our earlier correspondence, the peace and political development processes have gathered momentum. The loyalist ceasefire was announced, and the Prime Minister's 21 October speech in Belfast has been widely acclaimed as a most significant milestone on the road to reconciliation, stability and prosperity.

I am, of course, extremely grateful to you for agreeing to two inclusions in the Prime Minister's speech which have been universally welcomed and which have made a very real contribution to creating an atmosphere more conducive to political progress. The first is the Prime Minister's assurance that this Government understands Northern Ireland's economic and social difficulties, including those resulting from the transition to peace, and that we will take full account of the Province's special needs in setting future levels of public spending. This assurance has relieved many anxieties, felt by the business sector as well as the community at large and their political representatives.

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The Prime Minister's second assurance was that new EU assistance to Northern Ireland will be in addition to our own expenditure plans - again this has created a most favourable impression on an issue where extreme scepticism is the normal reaction. The genuine warmth of the Prime Minister's reception, in places as different as Lisburn and Newry, reflected a deeply felt appreciation of his personal commitment to the well-being of the Northern Ireland community, and I have no doubt that his plainly expressed assurances on public expenditure and EU assistance have contributed greatly to Government's standing and credibility among all sections of the community.

I repeat my thanks to you for your sensitive and sympathetic approach on these issues, and I look forward to our giving effect to the letter and spirit of the Prime Minister's commitments and to the crucial contribution they will continue to make to the atmosphere which is essential to supporting the peace and encouraging political progress. We do not, of course, yet know how the package of new EU assistance to Northern Ireland will be assembled, and it may be a collection of measures rather than a discrete instrument. However the important thing is that all new EU money for Northern Ireland should be additional, and that we can say so without equivocation. Our officials will keep in touch on the details.

Looking forward to the 1995 Survey, we had earlier agreed that officials should conduct a joint study to determine the year for which convergence will be achieved. For the avoidance of doubt, my understanding of our agreement is that a replacement formula would be introduced to operate affecting that year (ie the year in which convergence has occurred) and retrospectively for 1997/98 if officials determined that convergence had occurred for that year or earlier.

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In undertaking this study and considering its implications, we will, of course, need to take account of the then prevailing circumstances in Northern Ireland and the Prime Minister's 21 October assurance. If the current ceasefires hold, the priority will be to use all available resources which can prudently be released from my Law and Order programme to help cement the peace and to encourage new economic activity to compensate for the run-down in security related employment. Clearly Government will need to be able to demonstrate that it is fulfilling the Prime Minister's commitment, and that its expenditure policies are consistent with the Prime Minister's wish that the Province should enjoy higher levels of economic growth and prosperity.

In your letter of 28 September you also referred to running costs. I am glad that we have been able to reach agreement on these, although at levels which will pose substantial problems for my departments in terms of service delivery. With public expenditure so tight, I am certainly anxious to explore every avenue to save running costs, using the Defence Costs Study approach if that is appropriate and useful, and also adopting relevant lessons from the recently published Treasury Fundamental Review. My officials will contact yours to ensure that the examination we undertake, which will of course need to take account of Northern Ireland's circumstances and structures, is consistent with the need for a thoroughgoing reappraisal.

Copies of this go to the Prime Minister, Douglas Hurd, Michael Heseltine and to Sir Robin Butler and Sir John Kerr.

*Handwritten signature: M. H. G. (Michael Heseltine)*  
*Handwritten signature: J. B. (John Butler)*

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