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Part 6

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Confidential Filing

Review of Regional Policy
Creation of Enterprise Zones.

REGIONAL POLICY

Part 1: May 1979

Part 6: November 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 6

1984 Urban Policy and Programme Review can be
found in the folder at the back of this file

● PART 6 ends:-

E(A)(84) 55 28.9.84

PART 7 begins:-

E(A)(84) 56 1.10.84

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 13 December 1983, columns 847 to 860: Regional Industrial Policy

Signed

J. Gray

Date

16/7/2013

PREM Records Team

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PRIME MINISTER

28 September 1984

REVIEW OF REGIONAL INDUSTRIAL POLICY

E(A) ON 3 OCTOBER

1. The right way of judging Mr Tebbit's recommendations is to test them against questions which refuse to lie down:

i. What has the money spent on regional aid - £20 billion at 1982 prices over 20 years - actually bought? The appalling fact is that we don't know because we have no adequate monitoring mechanisms. (The 1983 White Paper estimated, cautiously, that about half a million jobs had been 'created' in the Assisted Areas. But it added that many of these would have arisen in the non-assisted areas anyway, so we have paid about £40,000 to transfer each job).

ii. Does regional aid square with the government's intentions to free up markets, to withdraw from industrial intervention, and to spread and lower the burden of taxation?

iii. If (as the White Paper said) the aim is to even up regional inequalities in employment opportunities, are grants to companies the right way of going about it? Don't regional handouts tend to reinforce labour market rigidities? The worst areas remain virulently anti-capitalist.

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D.B.

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- iv. Because Regional Development Grants are automatic, the taxpayer chips in more as industry is able to invest more. What is the point of that?
- v. Do grants really influence where companies invest, or are they just a handy contribution?
- vi. We promote regional aid in order to compete for 'mobile' overseas investment. How far should we be engaging in subsidy war? If we have to, do our efforts undermine established UK companies?

2. Mr Tebbit's recommendations address only some of these questions.

We strongly support:

- i. The reduction of bias towards capital investment in manufacturing; the inclusion of service industries; job grants as an alternative to capital grants; and limitations on capital grants if they do not yield a given level of jobs.
- ii. Reducing the present three tiers of assistance to two.
- iii. The intended reduction of public expenditure (but see 'debit' below).

On the 'debit' side

- iv. There is nothing about monitoring or controlling the expenditure. This is really a very serious omission.
- v. In the short term, expenditure actually rises. →

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E.R.

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- vi. The recommendations for a new Assisted Area map look costly and would be difficult to defend in public.
- vii. By leaving in place the essentials of the old policy, the new proposals ignore the philosophical weaknesses of its foundations.

ESG
Not Incl
Funding

You should remind spending Ministers of these deeper doubts. You could also remind them that regional aid comes on top of many more billions handed out through Rate Support Grant and nationalised industry funding. If Ministers put all this on one side (and they probably will) E(A) has to decide: →

- how to set and control levels of expenditure.
- how to draw the map.

3. Setting and Controlling Expenditure

Officials found genuine difficulty with E(A)'s earlier remit to 'find savings of £150 - 200 million' because it was not clear from what levels they should count.

We recommend that, this time round, E(A) should set levels of expenditure, not of savings. Pressures on public spending and the unsoundness of regional policy dictate that the expenditure should be set low.

We suggest £250 - 300 million cash per annum for each of the next three years, ie £200 - 250 million less than the current year's provision.

Controlling the expenditure is another matter. We cannot have the kind of open ended obligations on the taxpayer which Mr Tebbit's recommendations would perpetuate.

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He favours a 15% rate of Regional Development Grant in the inner tier, topped up with Regional Selective Assistance; and Regional Selective Assistance alone in a much larger outer tier.

We do not see the need for Regional Selective Assistance, either as a top up or on its own. It should be abolished. We like the proposal for 15% RDG in the inner tier, but suggest 10% RDG for the outer, provided that both tiers are more tightly drawn (see 'Map Coverage' below).

If RDG itself is to remain automatic, it should be cash limited. There will be some queueing, but we do not see that as serious. Alternatively, you could make the approval of RDG (but not the rates) discretionary. Either way, you have control.

We agree with Mr Tebbit's proposal for a £3,000 job grant as an alternative to capital grant, but suggest it be paid over three years. Some of the jobs 'created' in the regions do not last long.

Finally, you should insist on proper monitoring - not just a record of what has been paid out, but what it has bought. No private sector company ventures millions of pounds on a risky project without keeping close watch on the results. Yet Government does with regional aid. It is a scandal.

4. The Map

We dislike Mr Tebbit's proposal for extending the Assisted Areas coverage from its present 27.5% of working population to over 37%. It will be costly and, as proposed, is a fudge. He is reluctant to see much in the way of area downgrading - yet if Regional Policy 'works' at all that is precisely what should happen. We just cannot afford a ratchet.

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Worse, larger coverage conflicts with the need to save money, so we then have to play games between inner and outer tiers, and between outer tiers and non assisted areas. For instance, on objective unemployment criteria, parts of the West Midlands should qualify as inner tier areas, yet Mr Tebbit recommends no more than outer tier status. Similarly, parts of the South West and Scotland should drop down or out, yet he finds 'potential' reasons for keeping them in.

It is specious to argue that larger map coverage enables us to maximise our take from European regional funds. So it may, but it will still cost us more in nett terms.

When questions in Parliament and in the country arise as to how the new map was drawn, Mr Tebbit's recommendations will not be defensible. So on cost and presentation grounds we argue for an Assisted Area map which is drawn up strictly objectively, and covers no more than the present proportion of the working population. We suggest an inner tier of 10% and an outer tier covering 15%.

5. Summary

We recommend:

1. A two tier map, with 10% of working population in the inner tier and 15% in the outer.
2. The abolition of Regional Selective Assistance; and Regional Development Grant Rates set at 15% for the inner tier and 10% for the outer.
3. As an alternative to capital grant, a job grant of £3,000 maximum for the inner tier (pro rated to £2,000 for the outer) payable over three years.

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4. Limiting capital grants to the equivalent of £10,000 per job in the inner tier, pro rated to £6,700 in the outer.
5. Cash limits to be applied to RDG, set at £250 million per annum for each of the next three years.
6. An effective monitoring mechanism.

R.Y.

ROBERT YOUNG

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CC 1/0

NDPM

AT 18/5

Treasury Chambers, Parliament Street, SW1P 3AG

17 September 1984

Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

Dear Secretary of State,

REGIONAL POLICY REVIEW

Thank you for copying to me your letter of 4 September to Nigel about the level of savings to be achieved on regional policy. I note what you say. We will be able to take forward our consideration of this question when we discuss regional policy changes in E(A)

2 I am sending copies of this letter to other members of E(A) and to Sir Robert Armstrong.

Yours Sincerely,
Paul Rees

PETER REES

(Approved by the Chief Secretary and signed in his absence)



From the Minister of State for Industry

NDSM
RT 12/19
2/10

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

The Rt Hon Kenneth Baker MP
Minister of State for Local Government
Department of the Environment
2 Marsham Street
LONDON
SW1

12 September 1984

Dear Ken

When Irwin Bellwin wrote to Nigel Lawson on 15 August, commenting on Norman Tebbit's letter of 6 August about the handling of the new Assisted Area Map, he referred to the question of transitional ERDF arrangements for those areas losing AA status.

On the previous occasion, when some 18% of the population lost AA coverage, the Commission paid on projects which were 50% completed at the time of descheduling; this is therefore now presumably an acceptable precedent, and one could reasonably expect the same thing to happen again. We might therefore simply ask the Commission to confirm that this is so, and if you agree, we will put it in hand. It is just possible, however, that they may want to know the scale of the problem before committing themselves; in that case, we would not want to give them chapter and verse until we had made our final decision and confirmed that DGIV would not make serious difficulties. This is because, unlike DGIV, the Directorate responsible for the ERDF is constantly receiving deputations from our local authorities about ERDF aid, and might give something away inadvertently.

I find it difficult to envisage how this issue might influence the timing of our announcement, especially since the areas losing AA status seem likely to be outnumbered by those gaining it, at least on the outer tier.

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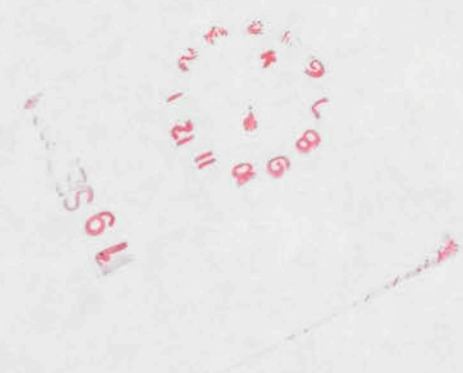


I am sending copies of this letter to members of E(A), the Lord Privy Seal, members of L Committee, Sir Robert Armstrong, and the First Parliamentary Counsel.

Yours etc.
Norman

NORMAN LAMONT

RECOMMEND
PULLY
Review
MCC





NBPM
AT 7/9
SCNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

6 September 1984

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Whitehall
LONDON SW1A 2AU

D George

REVIEW OF REGIONAL POLICY: EC CONSULTATION

Thank you for your letter of 17 August.

I must say that I do not see what point there would be in telling the Commission of the work on synthetic indices without giving them the results of applying them to the individual TTWAs. The whole purpose is to save time when we come to negotiate our final proposals. At that time, the Commission will in any case require the results of applying the index, together with our justification for departures from it; so that insisting on concealing the results now is not going to influence their attitude except, perhaps, to make them more suspicious and hostile.

2 Our advice is that the Commission will not accept the index as a mere "starting point"; they see it as the whole basis of AA designation, and they will accept departures from it only exceptionally. Thus, if our decisions reflect another approach, we shall need to beware of enforced downgradings at the end of the day. As an example of what we may face, we understand that, after 2½ years, and despite four personal letters from the French Prime Minister to the President of the Commission, the Commission will have before it for approval on 6 September an order requiring the descheduling of French Assisted Areas.

3 Unless you or others raise any further objections, I propose to let the Commission have - informally, in strict confidence, and without cut-off points - the results of applying the various

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indices that may be before us on 3 October, so that our decisions on that day will be sufficiently well-informed. It will be made quite clear that the consultation is without any kind of commitment whatsoever, and that the Government itself has not yet considered the matter.

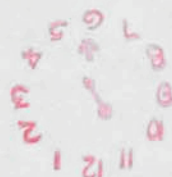
4 I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

y- m
Norman

NORMAN TEBBIT

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- 7 SEP 1984

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NDPM

AT 4/9

MR TURNBULL

6 September 1984

c Mr Redwood

REGIONAL POLICY REVIEW

DTI are due to present new regional policy recommendations for a probable meeting of E(A) late in September. Following three bouts of interdepartmental review, a White Paper (Cmnd 9111) and several hundred industry responses to the White Paper, officials have laboured long and hard over grant rates, criteria for designating assisted areas, and a new assisted area map.

My purpose in writing - and I am writing for your own information only - is to alert you to the fact that I foresee a good deal of Ministerial strife and dissension in the offing. Mr Younger's letter of 4 September to the Chancellor is, I believe, just a straw in a wind which will yet blow much more strongly.

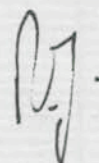
There is no question but that one of the objectives of this long-drawn out review was to save money - 'in the range from £150 million to £200 million' as Mr Younger correctly states. But Ministers did not make clear what base the savings should be calculated from, whether they were in cash or constant terms, how soon they should be achieved, and whether they should vary with rising or falling investment by industry. That is a lot of loopholes. The meetings of the Working Group which I have attended confirm to me that officials in DTI,

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Employment, Environment, Scotland and Wales will so pitch their advice to Ministers as to exploit the loopholes. Although a great many options will be paraded before Ministers, the weight of official push will be for modest reductions in grant rates and an increase in the proportion of GB population covered by assisted areas. (It is presently about 27%, whereas new proposals are tending towards 35%, which is the maximum blessed by the European Commission.) There is also the important subsidiary issue of whether Ministers will want to choose objective criteria for designating assisted areas so that the criteria can then be published, or whether they will want an expedient fudge which cannot be rationally defended or published. Officials are pushing for the latter.

In all this, Treasury are having a very hard time to keep public expenditure considerations to the fore. The drift in officials' thinking on regional policy will in my view become a further handicap to the Treasury during and beyond the PES bilaterals. While correspondence gathers pace ahead of E(A), it could be useful for the Prime Minister informally to remind spending Ministers, as and when she may see them over the next couple of weeks, that significant savings were expected from the review. She could also note that Ministers will have to work hard to resist the efforts of officials to keep intervening and spending.



ROBERT YOUNG

- 2 -
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NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

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NB
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SLG

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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON
SW1P 3AG

HL
4 September 1985

Dear Chancellor of the Exchequer,

REGIONAL POLICY REVIEW

Thank you for sending me a copy of your letter of 16 August to Norman Tebbit about the regional policy review. The new level of savings which you now propose goes beyond the decision about savings which we took in October last year. What we decided then was that overall, partly as a consequence of changes to the RDG arrangements, and partly as a consequence of other changes, including grant levels and, possibly, coverage, we should aim at net savings "in the range from £150 to 200 million a year". This was on the basis that expenditure in 1984/85 was expected to be £495 million.

I gather that officials have agreed the methodology underlying these figures and that the savings calculated on the £495 million base in the current year will automatically work through at a higher level, pro rata, as expenditure increases. But it would be going much too far to argue that there is a commitment to holding expenditure at a constant £300 million over the survey period whatever the level of investment demand. We certainly never agreed to that and the consequences of such an approach in terms of grant rates and map coverage would be much too severe.

I am sending copies of this letter to the other members of E(A), and to Sir Robert Armstrong.

Yours sincerely,
John S. Graham

Private Secretary
(Approved by the Secretary of
State but signed in his absence)

12/27/20

12/27/20



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NARM
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C/NO



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

3 September 1984

Dear Norman,

REVIEW OF REGIONAL INDUSTRIAL POLICY

I have seen your letter of 6 August to Nigel Lawson and his subsequent reply, together with those of other colleagues.

I certainly agree that we should open up discussions with the European Commission now about the basis on which we propose to proceed on revision of the assisted areas map. I look forward to our discussion of other substantive issues on 3 October.

My main concern at present, however, lies in your final request for a waiver of the 2 month period between Royal Assent and the coming into force of the Act. I understand your reasons for wishing to dispense with the delay but I do think it important, both in terms of equity and presentation, that this should only be done if you are issuing adequate publicity about the scope and range of the new scheme as soon as the Act comes into force. I imagine that you have this well in hand and you may therefore take it that you have agreement to dispense with the 2 month rule on that basis.

I am copying this letter to the other members of E(A) and of L Committee, Sir Robert Armstrong and First Parliamentary Counsel.

John Biffen

JOHN BIFFEN

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

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Reg. PN

PT 6

Review



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

NIA
OK

17 August 1984

Dear Norman,

REVIEW OF REGIONAL POLICY

File With OL

Thank you for sending me a copy of your letter of 6 August to Nigel Lawson about arrangements for implementing decisions on the review of regional policy. My comments below refer to your points in the order in which they occur in your letter.

EC Approval

I agree on the desirability of keeping the Commission informed of our thinking on the map. I think it is important however to be clear on how far we need (or should) bring them in at this stage. While I accept that we should inform them of current work on the synthetic index - including the components of the index and their relative weightings - I would be against letting them know the results of applying the index to individual areas until these have been considered by Departments and by Ministers. We should also make it clear to the Commission that we see any index of this kind as subject to limitations, and that it is only a starting point for decisions which will take account of a variety of other factors, not all of them amenable to statistical treatment.

Staffing Changes

I understand the administrative reasons which have led you to suggest that we should take a decision in principle at E(A) on the inclusion of the West Midlands in the Assisted Area map. I fully appreciate that on the evidence available so far AA status may be justified, but I have reservations about the idea of deciding that any one part of the country should figure in the map before we have seen the results of applying the synthetic index to the new Travel-to-Work Areas as a whole, and have been able to assess these in a comprehensive way. I do not think that any such decision can be divorced for example from a decision on what overall proportion of AA coverage we wish to see; and I would suggest that, at the least, any consideration of the position of the West Midlands at E(A) should be put in this wider context. There is also the practical point that the build-up of a regional office in the West Midlands would be difficult to manage without avoiding leaks; these would then lead to awkward pressures on Ministers from both the West Midlands and other areas.

Enabling Legislation

I have noted what you say about the need to dispense with the usual two months' interval between enactment and coming into force in the case of the CDA/IDA Bill if your intention of implementing the new scheme in November is to be achieved. I have no objection to this should it be necessary.

I am copying this letter to the other members of E(A), the Lord Privy Seal, Members of L Committee, Sir Robert Armstrong and the First Parliamentary Counsel.

*Yours very
Came*

GEORGE YOUNGER

Regional Policy
Review Pt 6

21 AUG 1984





file *WTO*
AT: to see o/v

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

16 August 1984

The Rt. Hon. Norman Tebbit MP
 Secretary of State for Trade & Industry

Norman

REGIONAL POLICY

file with Oh.

Thank you for your letter of 6 August about developments on regional policy.

Like you, I think it vital for us to make as much progress as possible at our meeting on 3 October. I should like to think that we could reach broad decisions then on everything but the precise make-up on the new assisted areas map.

One of our main concerns then will be the total savings we are aiming to achieve. We agreed last year on aiming at net savings of up to £200 million a year. However, this was against a background of expenditure on regional development grant and regional selective assistance of around £500 million a year over the next 4-5 years. We envisaged an annual spend on regional assistance of around £300 million. At that time the investment profile looked pretty flat. Since then, however, as a result of economic recovery and the improved outlook for company profitability the present expenditure levels on regional assistance show a significant increase. As a result, in the absence of policy changes, expenditure by 1986-87 might be as high as £650 million. Savings of around £200 million would still mean an unacceptably high level of expenditure even under the new policy. Moreover, with the economy more buoyant than we expected the need for special investment incentives must be much reduced. In my view, therefore, we should aim to establish a level of spend nearer what we had in mind last year - around £300 million a year, compared with about £500 million in 1983-84 and 1984-85. This means we should need to go much further than our earlier savings target and aim for savings of £350 million by 1986-87.

In taking our decisions about total savings, therefore, we shall need to have information that will allow us to see how the various grant and map options would affect future expenditure. I understand that the range of options to be prepared by officials can be presented so as to allow us to assess their effects over the PES period. This will clearly be crucial for our deliberations.

In order to achieve these savings at an early date, it is important that we should seek every means of bringing the new regime into operation as soon as possible. I am therefore content to open up discussions with the European Commission now about the basis on which we propose to proceed on revision of the assisted areas map. I hope that it will be possible for you to give us on 3 October some preliminary report of the EC reaction. I am also glad to hear that you no longer think it may be necessary to delay implementation for two months in order to set up a West Midlands office, provided that on 3 October we can arrive at an agreed

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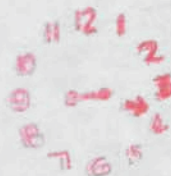
view on the principle of assisted area status for some parts of the West Midlands. And, of course, I share your view about the desirability of dispensing, if necessary, with the customary two month period between Royal Assent and the coming into force of the enabling legislation.

I am copying this letter to the other members of E(A), the Lord Privy Seal, members of L Committee, Sir Robert Armstrong and First Parliamentary Counsel.

NIGEL LAWSON

*Yours -
Nigel*

21 AUG 1984





10 DOWNING STREET

David ^{Dub}
17/8

REGIONAL POLICY

Oliver Letwin
and Bob Tang
are currently
working on a
"radical" (sic) Policy
Paper. It should
be ready on 1.10.84
Oliver ∴ has file,
but will return
it if you need it.
Se.

cc NO



Department of the Environment
2 Marsham Street London SW1

Telephone 01-212 3434

J/PSO/16085/84

15 August 1984

Minister of State
for Local Government

File with
Oliver

Dear Nigel,

I have seen Norman Tebbit's letter to you dated 6 August about the handling of the new Assisted Area Map.

I have no comments on what Norman proposes, though the timetable does look extremely tight.

There is one additional point on the EC aspects however. Whatever changes we decide to make to the map are going to have considerable impact from the point of view of eligibility for ERDF grant - a point not likely to be lost on the losers.

I think it would be useful therefore if we start sounding out the Commission also on how precisely they would propose to treat authorities losing status during the transitional phase. (There could even be implications here for the precise timing of our eventual announcement).

My officials will be ready to join DTI's in discussion on this point to cover the complications on the infrastructure side.

/ I am copying this letter to other members of E(A), the Lord Privy Seal, members of L Committee, Sir Robert Armstrong, and the First Parliamentary Counsel.

Yours sincerely,
Gwin

LORD BELLWIN

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The Rt Hon Nigel Lawson MP

Reg PD Review
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SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



The Rt Hon Nicholas Edwards MP

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

K August 1984

Secretary of State

N 15/8

Thank you for copying to me your letter of 6 August 1984 to Nigel Lawson.

I am sure it is right that we should now authorise officials to explain the work which has been done to prepare and apply the synthetic index to the EC Commission subject to the qualifications you mention. It is clearly very important that we should eliminate any risk of having to make belated, and enforced, changes to the map after it has been settled. I also accept that we should make every effort, consistent with arriving at a map and scheme which fully reflects both our objectives and conditions on the ground, to introduce the new arrangements with the minimum of delay. I am, therefore, content that the customary two month delay between the Royal Assent and the Act coming into effect should be dispensed with.

On the other issues on which progress is sought, I have to say that, while I accept the desirability of advancing as quickly as possible with the aim of meeting our November target, I have considerable doubts that we shall be able to reach conclusions on all the matters bound up with the new grant arrangements and the assisted area map itself.

From past experience, where the issues involved were much less complex and interwoven than they are in the present exercise, I believe we shall have to be prepared for a longer period of consideration than your letter allows for. In this context I am personally very concerned since I shall be out of the country on an inward investment visit while discussions about the effects of the new arrangements on Wales are taking place.

/On the question ...

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
London
SW1



On the question of taking an advance decision in principle on admitting the West Midlands into the assisted area map, I am not opposed to this provided that the evidence available to us at E(A) supports the decision and that questions of the nature and extent of any designation should be taken in the context of the map exercise as a whole.

/ I am copying this to the other members of E(A), the Lord Privy Seal, members of the Committee, Sir Robert Armstrong and the first Parliamentary Counsel.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'C. M. Stephens'.

Approved by the Secretary of State
and signed in his absence



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01- 233 6161

WBM
or
CAJ

CONFIDENTIAL

Reference No E 0104

M C McCarthy Esq,
Private Secretary,
Secretary of State for Trade and Industry,
Victoria Street,
LONDON SW1

10 August, 1984

Dear Callum,

REVIEW OF REGIONAL INDUSTRIAL POLICY.

Your Secretary of State's letter of 6 August to the Chancellor of the Exchequer about discussions of regional industrial policy which will be needed in early Autumn refers to a meeting of E(A) on 24 September.

2. As I mentioned to Andrew Lansley, a meeting of E(A) will not be possible on that date because both the Prime Minister and the Chancellor of the Exchequer will be abroad.

3. I have arranged a meeting of E(A) to take this item on Wednesday, 3 October at 11am. That will mean circulating papers by Wednesday 26 September. Perhaps you would let us know how things are shaping up when you respond later this month to Michael Buckley's letter of 24 July about the three-monthly forward look.

4. I am copying this to Private Secretaries to recipients of your Secretary of State's letter of 6 August.

Yours,
John Stoker.

JOHN STOKER

CONFIDENTIAL

Rev. Percy

Review
No.

10 AUG 1984

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

Secretary of State for Trade and Industry

6 August 1984

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

NBPM
DM
7/8

D Nigel

REVIEW OF REGIONAL INDUSTRIAL POLICY

At E(A) last October, colleagues invited me to prepare alternative packages of regional industrial incentives. I hope we shall be able to consider alternative packages, prepared by a working group of officials from all the Departments concerned, at E(A) on 24 September.

2 Once decided, the new RDG scheme and Assisted Area map should be introduced as soon as possible - partly in order to avoid unnecessary speculation and partly in order to avoid postponing the achievement of the savings in public expenditure which we expect to achieve (at the rate, roughly speaking, of £15million per month). But the implementation of our decisions, once made, will not be without difficulties, particularly with respect to the European Commission and the staffing changes. We have always been aware of these problems. Colleagues will wish to consider how to meet them.

3 EC Approval. Formally, we are supposed to notify the Commission 60 days in advance of any changes to regional policy, and they have powers to extend their decision period. In practice, we can go ahead immediately if we are prepared to risk having to revoke parts of our decision and recover money. There is virtually no risk of our having to change the revised RDG scheme, judging from informal discussions between officials. However there could be a real risk with the map, depending on the nature of the decisions. Recently both the Dutch and the Germans have had to revoke part of their revised maps. It therefore seems important not only to inform the Commission of our decisions quickly but also to take them along with us as far as possible as our thinking develops, if only to avoid any traps. I therefore propose that officials here be authorised to tell Commission officials about their work on the synthetic index - which will elicit many

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technical questions which will have to be answered before the Commission will give an opinion - but not about our own discussions of it. So as to minimise the risk of leaks, I suggest that when providing the Commission with alternative listings of areas' scores there should be no indication of possible 'cut-off' points.

4 Staffing Changes. The changes to the RDG scheme require major organisational and staffing changes in DTI regional offices and in the territorial departments to administer both the new RDG scheme and the likely resulting increase in regional selective assistance. Where areas become eligible for regional incentives for the first time, it is essential that the organisation is in place from the very first day. This relates particularly to the West Midlands, where there are no Assisted Areas at present and if substantial parts of the region receive AA status it will take 2 months at least to get the Regional Office ready. It is thus most important that we arrive at an agreed view at least on the principle of AA status for some parts of the West Midlands (though almost certainly not on specifics) when we discuss the regional policy package at E(A) on 24 September.

5 I hope that we can agree now on keeping the Commission informed of the progress of work on the synthetic index since this will reduce the risk that we shall be forced to delay the savings for Community reasons. Provided that we decide on 24 September the detailed timetable for EC notification, on the principle of whether AA status should be given to the West Midlands and make substantial progress on other issues, then I think that we can keep to our target for implementation of the whole package in mid to late November. If this level of agreement is not reached, then I fear that we shall have to rethink the timetable for implementation, which would almost certainly slip.

6 We must clearly advance our thinking on the whole package as far as possible at our 24 September meeting, and I think we must therefore aim to get as near as possible to settling the total savings which we expect to achieve, our preferred balance between different regional policy instruments, and the basis on which we will make decisions on the AA map, as well as narrowing down considerably the range of possible RDG options, especially the rates of grant. All these issues will of course have been considered in some detail by officials before we meet, with a view to having before us an agreed range of options.

7 There is one further gloss to put on all this. As you know, it is customary for there to be a 2 month delay between Royal Assent and an Act coming into force. On present plans we will not receive Royal Assent to the CDA/IDA Bill much before the end of October and consequently, if we are to introduce the revised scheme in November - or indeed at any time earlier than, say, 1 January 1985 - we shall need to dispense with the customary 2 months' interval between enactment and coming into force.

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8 The delay is usually required to enable those who may be adversely affected by the legislation in question to develop a full understanding of its effects before it is implemented. As regards the CDA provisions of the Bill, I do not regard this as important since their principal purpose is to increase the agency's funding and there are therefore no adverse effects. As to the RDG provisions, not only did we announce our intentions in the White Paper last December, but we intend to have a 12 months transitional period following the introduction of the new scheme during which RDG will continue to be available on the basis of the present scheme and map. In addition, waiving the 2 months "rule" will enable those who are newly qualified for RDG to benefit from the new scheme 2 months earlier than would otherwise be the case.

9 I hope that, should it prove necessary, colleagues will see no difficulty, therefore, with dispensing with the 2 month period between Royal Assent and coming into force; and hence with proceeding with the earliest possible introduction of the new scheme.

10 I am copying this letter to the other members of E(A), the Lord Privy Seal, members of L Committee, Sir Robert Armstrong and the First Parliamentary Counsel.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

JH1ASS

010.

CCSO



NSM

AS

17/7

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/15068/84

Your ref:

16 July 1984

Dear George,

URBAN POLICY AND PROGRAMME REVIEW *with AT?*

Thank you for your letter of 29 June about the timing of decisions on the Urban Policy and Programme Review.

You will by now have received a copy of the report, and seen copies of the first set of papers for discussion in MISC 104. The timetable for announcements on the UPPR is clearly a matter for collective decision, but I am sure your concern has been noted. Like you, I see advantages in these coming sooner rather than later.

In my view the report confirms the need for a sustained commitment to the urban programme in England, with clarified objectives, improved management arrangements and better co-ordination between Departments. Many of the report's recommendations on co-ordination will have no major implications for Scotland, because of the Scottish Office's across the board responsibilities. Your inclusion on the circulation list for MISC 104 papers will ensure that you are kept in touch with overall progress. We may need to keep in closer touch as announcements become imminent.

I am copying this letter to the Prime Minister, Peter Rees, Nicholas Edwards and Sir Robert Armstrong.

*Yours
Patrick*

PATRICK JENKIN



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TORONTO

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MR TURNBULL

13 July 1984

MISC 104 - THE URBAN PROGRAMME AND POLICY

1. The recent scrutiny of the UP was commissioned mainly because the Urban Programme was thought to lack clear objectives. The Review team confirmed that this was so and suggested some remedies. Yet Patrick Jenkin's paper of 11 July, despite some laudable points, carried no conviction about what he wants to do with the recommendations.

We support:

Paras 6 and 10 - the importance of quantifiable outputs

Para 12 - annual performance reviews

But these excellent 'nuts and bolts' aims will not be met without a will and a means to determine priorities as between different geographical areas and different types of project (broadly defined as economic, environmental or social).

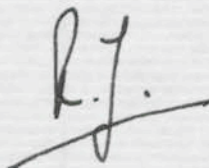
Mr Jenkin's paper offers nothing in these large respects.

Nor is he clear on the organisation issues. Although they ought to be considered last, it is far too vague to say, 'This certainly has marked attractions, but other arrangements are possible and have to be well related to the needs and resources of each area'. (para 16). What does Mr Jenkin actually want to do, and how does he want to do it?

We suggest that MISC 104 should ask Mr Jenkin for more specific proposals.

We urge (as in our brief of 28 June):

- that the economic/industrial/job creation component of the UP should be dropped;
- that the PES levels of expenditure on the Urban Programme be left intact but should be aimed at the relief of housing and land dereliction and the encouragement of social projects involving the voluntary sector.



ROBERT YOUNG

JMHAAQ

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Ref. A084/2017

PRIME MINISTER

At your meeting on 2 July you invited me to do further work on a possible structure for managing the urban programme and urban policy. I thought you would find it helpful to have a preliminary report before the first meeting of MISC 104 on 16 July.

2. There seems to be general agreement that Sir Robin Ibbs's idea of a new executive agency has too many practical and presentational disadvantages (including the need for legislation) to commend it as a way to implement the Government's policy objectives. You were also not attracted by the idea of taking the lead in urban policy away from the Department of the Environment. But there seems to be scope for adapting the interdepartmental Task Force approach, which we have used successfully on Merseyside, to the development and management of policy both in other inner areas and at national level.

3. One way to get the basic elements of a National Task Force (and some modest arrangements at local level) in place without too much difficulty or delay would be to relabel some existing staff within the Department of the Environment and establish some interdepartmental committee machinery. The present leader of the Merseyside Task Force would be available to lead the new national task force, and would be well qualified to do so. This is the solution favoured by the Department of the Environment.

4. If Ministers simply wanted a cosmetic response to the review, then I would not advise anything more elaborate than that. If, however, you accept Sir Robin Ibbs's view that the arrangements at both national and local level need to be much more effective, not simply in terms of the management of £350 million or so now spent on the urban programme, but also in meeting the wider objectives of urban policy, then we should need something more radical. To get that right needs more

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clarity than yet exists about the problems and tasks the new structure will have to tackle.

5. If Ministers want more than the cosmetic (as I hope they do), I should like to carry out further work, in consultation with Sir Robin Ibbs and with the Permanent Secretaries of the Departments concerned, with a view to letting you have detailed proposals in good time before the second meeting of MISC 104 after the Recess. That assumes that MISC 104 will decide on Monday against immediate publication of the report of the review. If Ministers opted for publication before the Recess, we should need to produce a less than perfect outline of a structure.

ReA

ROBERT ARMSTRONG

13 July 1984

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PRIME MINISTER

OBJECTIVES OF URBAN POLICY AND THE URBAN PROGRAMME

(MISC 104(84) 2)

BACKGROUND

1. The inner cities suffer from severe concentrations of economic, social and environmental problems. In theory, the main expenditure programmes managed by local and central government ought to be able to address these programmes, in so far as resources are available. For example, the mechanisms built into the rate support grant arrangements assess local need. But in practice, the targetting of resources through such mechanisms is insufficiently precise to have the desired impact. Furthermore the ordinary institutional arrangements (local authorities, etc, pursuing their own policies) produce an unco-ordinated approach.

2. As a consequence, the Urban Programme (UP) and Partnership and other organisational arrangements have been developed to supplement resources and improve targetting to co-ordinate existing agencies and programmes, and to help mobilise private sector and voluntary activity. Urban Programme expenditure now takes place in areas containing 28 per cent of the population, but 70 per cent of the most severe concentrations of deprivation. It currently disposes of £348m. Basically grants at a rate of 75 per cent are given to local authorities in support of projects which may be categorised as social, economic or environmental. From 1979 there has been a greater emphasis on economic projects, on capital expenditure and on involving the private sector. A major advantage is to encourage local authorities that may be politically hostile to authorise expenditure in a way consistent with central government policies. (Further details are in Misc 104(84)1).

3. Urban policy describes the totality of organisational and programme arrangements (including main Departmental expenditure programmes) which bear on inner city problems. In much discussion there is considerable looseness about whether it is Urban Policy in general or the Urban Programme in particular that is under consideration.

The Report

4. It was disquiet about the cost effectiveness of the UP that led to the commissioning of the Urban Policy and Programme Review in February 1984. Its Report has been circulated with MISC 104(84)1. Its terms of reference were:

"to examine the Urban Programme in England with the aim of clarifying its objectives and relationship to other programmes. It will examine the programme's scope, methods and priorities, and the resources devoted to the various parts, considering whether it achieves its objectives efficiently and cost effectively, and is giving good value for money".

5. The Report confirms the continuing need for a UP and the advantages it gives central government in influencing local authority expenditure. The Review did not discover evidence of significant waste, but did feel that there was a need for better targetting, better co-ordination with other programmes and improvements in management. Its major recommendations are:

a. National economic recovery is of prime importance to the inner cities. Nothing should be done in the name of urban policy which would tend to weaken the discipline on local authority expenditure.

b. Clear and realistic objectives for urban policy as a whole need to be formulated. Targets should be set for the Inner Area Programmes of individual authorities, and for individual projects within these Programmes.

c. UP Resources should be concentrated on those areas where the most severe problems continue to be found.

d. There should be proper project appraisal, clear responsibility for management and more stability in the allocation of funds over time.

e. A more discriminating approach to 'economic' projects is needed, which should concentrate on removing the impediments to enterprise.

- f. The voluntary sector gives good value and deserves special support.
- g. Other Government Departments besides the Department of the Environment, (DoE), especially the Department of Trade and Industry (DTI) and the Manpower Services Commission (MSC) need to be brought fully into the management of urban policy.
- h. It is time to re-write Labour's 1977 White Paper and re-launch the Urban Programme. The organisation needs to be reconsidered. This may be by evolution of the existing arrangements or by the establishment of a new executive agency.

Your earlier discussion

- 6. You held a meeting to discuss the Review on 2 July. It was decided that the present MISC Group should be set up to consider four issues which arose immediately, any others which might arise and to oversee the continuing development of urban policy. The four issues are:
 - a. The objectives of Urban Policy and the Urban Programme. The Report suggested that these should be more clearly defined. MISC 104(84) 2 contains the Secretary of State for the Environment's view. It forms the basis for the first meeting of the Group.
 - b. Management structure of the UP. This needs to be considered at two levels; that of management in particular areas and at the centre. The choice presented in the Report is between:
 - i. A continuation of the existing partnerships at local level between local and central government, but with the extension of the task force concept used in Liverpool. These would be under DoE leadership and DoE would continue to be responsible at the centre for the urban programme.
 - ii. An executive agency, operating both central policy under Ministerial guidelines and local operation with staff from both the local and central government and the private sector.

There is a further option:

iii. To extend the task force concept to the central direction of the UP as well as to its local operation. The central task force could be responsible to a designated Minister who would in turn report to MISC 104.

These organisational issues are touched on in the Environment Secretary's Memorandum. Your meeting asked Sir Robert Armstrong to examine these issues in greater depth and it would be premature to discuss them in MISC 104. What is best may in any case be affected by decisions taken about objectives.

c. Methods to be used when local authorities are unhelpful. This could involve more use of the Development Corporation concept or the channelling of grants directly to the private sector, as alternatives to the partnership model. Your meeting asked the Environment Secretary to consider the scope for paying urban development and derelict land grants direct to the public sector.

d. Publication of the Report. The fact that the review has been undertaken is public knowledge, and the Select Committee on the Environment has asked if it may see the Report. There will be pressure to publish the Report and the Secretary of State for the Environment favours early publication, subject to some editorial amendments. It will be best to consider this further when the Government is closer to establishing its position.

In addition, at some stage the Group will need to consider the question of:

e. Resources. What level of resources are to be allocated to the Urban Programme; are further resources to be devoted to urban policy through other programmes; how should resources be allocated to objectives. The question of resource levels should await the public expenditure bilaterals, but resource allocation would be a suitable topic to follow on from discussion of objectives.

MISC 104(84)2: OBJECTIVES

7. Discussion starts logically with consideration of objectives. The Secretary of State for the Environment's memorandum distinguishes three categories:-

a. Policy objectives. He suggests that the broad aim of urban policy is "to help the inner cities through a process of necessary economic and social adjustment to a position in which they have a future in which people want to live, work and invest". (Paragraph 8 of MISC 104(84)2). The Report itself does not have an aim for urban policy as such but it suggests the following as an objective for the Urban Programme (para 34 of the Report):

"The objective of the Urban Programme should be, within the framework of the Government's overall economic and social policies, to assist local authorities to deal with the special concentrations of social need associated with the decline of the inner cities, and to find a new economic and social equilibrium. The Urban Programme aims to do this both, in the short term, by helping them to tackle some of the extra social needs directly and, in the longer term, by helping the local economy to redress its disadvantages and fit itself for the demands of modern industry and commerce."

Though not identical, there is probably not much between these formulations. Discussion at this level of generality can easily become too philosophical and unless anyone wishes to suggest something radically different it is probably best to accept these provisionally and go on to the second, more concrete, level.

b. Programme objectives. The objectives set for each programme and for individual projects should be specific both in terms of priorities and performance targets. Objectives for each area will generally include:

- (i) Increasing local job opportunities, improving employment skills and fostering local business confidence and private enterprise.
- (ii) Improving the physical environment and housing stock.
- (iii) Reducing the causes of social stress and improving the delivery

and cost effectiveness of essential public services whilst reducing dependence on them.

These objectives should be of a continuing nature and may be translated into quantifiable objectives for each year's programme - eg area of waste land to be reclaimed, number of training opportunities, scale of housing improvements etc. (Paragraphs 10 to 12 of MISC 104(84)2).

c. Project objectives. Annex B of the memorandum contains examples of individual projects, illustrating the types of specific objectives which can be attached to them and the kind of performance measures or criteria that can be applied. At this level performance measures and criteria can be more easily applied. (Paragraphs 13 and 14 of MISC 104(84)2).

HANDLING

8. Before asking the Secretary of State for the Environment to introduce his memorandum you may wish to remind the Group that the review was commissioned by Ministers, the Report speaks of the need to re-write the 1977 White Paper and relaunch the Urban Programme and so there is a need to take stock of the priority and thrust the Government attaches to its urban policy ie. the Government's overall attitude towards the problems of the inner cities as well as the Urban Programme - which is one instrument in carrying out that policy.

9. After the Secretary of State for the Environment's introduction, the Group should first consider briefly the most general level of objective (the so-called Policy objective - Paragraph 8 of the memorandum). It is important debate does not become too discursive. It might concentrate on just one point which has implications for the appropriate level of expenditure -

Is the policy objective, at least for now, to assist the localities concerned to adjust to their decline or is it, more positively but also no doubt more expensively, to assist in the renewal of their economic and social viability?

10. The Group might then go on to the second (so-called Programme) level of objective (Paragraphs 10 to 12 of the memorandum). It needs to be clarified whether these are in fact objectives for urban programme expenditure in particular,

or for urban policy (ie. all relevant programmes) more generally. In so as it is the latter it is probably impossible to make them more specific, but Departmental ministers might be asked to produce papers for subsequent discussion on how their particular policies and resource allocations address the objectives and what more they can do.

11. So far as the urban programme is concerned -

- Can the objectives be made more precise?
- How far can sensible quantified value for money judgments be made? Especially in the short term?
- Can anything sensible be said about relative priorities between them? For example, should urban programme expenditure be concentrated on eg. (a) dealing with derelict sites and empty buildings where progress can be measured, and (b) support to voluntary sector activity which the Report considers to have been productive expenditure, while leaving the concentration of effort on eg. job opportunities and employment skills to MSC and DTI programmes.

12. Depending on the discussion the Secretary of State for the Environment might be asked (a) to revise the objectives for further discussion/final approval by the Group and (b) depending on the priorities' identified and role seen for the UP, to discuss resource requirements with the Chief Secretary and colleagues (the Report - subsidiary recommendation 19 - recommends that the Home Office and DTI should make contributions) and to report back to the Group.

13. Future work of the Group.

Of the four subjects already identified for the attention of the Group, only objectives will have been dealt with at this meeting. Management structure of the Urban Programme and methods to deal with unhelpful local authorities require further work. Sir Robert Armstrong is already considering the former; the Secretary of State for the Environment might be asked to put in a memorandum on the latter. That leaves the presentation and publication of the Report. The alternatives are:

- a. Publish the Report, subject to some editorial amendments, soon.
- b. Publish the Report later, together with a Government statement of its views on urban policy (possibly a White Paper).

- c. Do not publish the Report, but publish a White Paper or other statement.

Much will depend on how far there is a need to "re-launch" urban policy. Does the Group feel that a re-launch is appropriate - if so on what time-scale?

14. It might also be useful to put work in hand on (a) whether there is scope to give more help to the inner cities through reviewing the Grant Related Expenditure (GRE) methodology of the Rate Support Grant (this is the Report's subsidiary recommendation No. 1); and (b) other lesser aspects of the Report mostly arising from the subsidiary recommendations (eg. the size and role of the "traditional" urban programme). The Secretary of State for the Environment might be invited to prepare papers on these matters.

CONCLUSIONS

15. You will wish the Group to reach conclusions on:-

- a. The general objective for urban policy.
 - b. The "programme" objectives for urban policy, possibly asking Departmental ministers to provide papers and how their policies and resource allocations relate to the objectives.
 - c. Priorities and targets for the Urban Programme, possibly asking the Secretary of State for the Environment for papers on revised objectives and resource aspects.
 - d. Whether or when to publish the Report and whether to issue a White Paper or some other Government policy statement.
 - e. The future work of the group:
 - i. organisation (advice to come from the Head of the Civil Service)
 - ii. unhelpful local authorities;
 - iii. conclusions on the subsidiary recommendations.
- } possibly commission papers from the Secretary of State for the Environment.

U.D.G.



C J S BREARLEY

13 July 1984

MC

CENO.

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Department of Employment
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Parliamentary Under
Secretary of State

Norman
AT 4/7

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

6 July 1984

Alan Clark

REVIEW OF TRAVEL TO WORK AREAS

In view of the considerable interest being shown in this review Tom King and I have decided that we should let all colleagues in the House individually know the results for their own areas as soon as possible. Our aim is to do this by the end of next week. We shall also be informing the local authorities and their associations.

This exercise will of course make no difference to our intention to publish national details of the new TTWA map with an accompanying explanatory article, in the September "Employment Gazette".

I am sending copies of this letter to members of E(A) and to Sir Robert Armstrong.

Alan Clark

Alan Clark

ALAN CLARK

MC



Parliamentary Under
Secretary of State

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NBPM AT 417

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

3 July 1984

Dear Norman

REVIEW OF TRAVEL TO WORK AREAS

Thank you for your letter of 27 June. I do very much understand your concerns because the review has of course, raised important and difficult issues for us all. As I said in my letter of 21 June to Nicholas Edwards, although I have reservations about his arguments, in the light of the strong political case he made, and of the best assessment possible of the statistical implications, I instructed my officials to carry out the work necessary to ensure that the new TTWA boundaries will not straddle the Wales/England border.

While as you know this decision has meant a short delay in finalising the review, we are still on course for completing the exercise on the newly agreed date of 9 July.

This was one of the issues on which we received considerable representation from local authorities. Barry Jones has tabled a question for written answer today which asks, amongst other things, for reconsideration of the original proposals. Given the interest in the issue my reply (of which I enclose a copy) makes clear that the border will in fact be respected.

I am sending copies of this letter to recipients of yours.

Yours ever

ALAN CLARK

DEPARTMENT OF EMPLOYMENT

WRITTEN REPLY

MONDAY 2 JULY 1984

TUESDAY 3 JULY 1984

137

MR BARRY JONES (ALYN AND DEESIDE): To ask the Secretary of State for Employment, what plans he has to change the travel-to-work areas for Wales; what consultations he has had with local authorities; if he has had consultations with Alyn and Deeside Council concerning the change in the existing boundary; and if he will reconsider his proposals to link Deeside with parts of Cheshire.

MR ALAN CLARK:

Pursuant to his reply [Official Report 2 July, Vol 63 Col 41-42] The current review of Travel to Work Areas in Wales, as in the rest of Great Britain, uses ward-based data on travel to work patterns obtained from the 1981 Census of Population. Local authorities, including Alyn and Deeside Council, have been consulted about the provisional results of this statistical exercise, and where appropriate, their comments are being taken into account in finalising the new areas. However, it has been decided that the new areas should not straddle the Wales-England border and Deeside will not, therefore, be linked with parts of Cheshire.

REGIONAL Pouch: Review

Pt 6

UNIVERSITY OF
SOUTH ALABAMA

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cc MARRIN 851

10 DOWNING STREET

From the Private Secretary

2 July 1984

URBAN POLICY AND PROGRAMME REVIEW: REPORT

The Prime Minister held a meeting today to discuss the review of the urban programme. Present were your Secretary of State, the Chief Secretary, Sir Robert Armstrong, Sir Robin Ibbs and Mr Redwood.

The Prime Minister said it was important, before discussing how Government organised itself to implement the programme, to establish its objectives. As the report itself acknowledged, these were far from clear at present. Without objectives it was not possible to substantiate the claim that there had been little waste.

The Secretary of State for the Environment undertook, as the first stage in ministerial consideration of the review, to prepare a paper on objectives. An important part of the UP's role was to ease the process of economic and social transition affecting the inner cities without obstructing inevitable forces of change. To have provided additional resources to the cities through RSG would have been less effective as it would have left the councils to spend on their own and would have failed to engage the private and voluntary sectors. The programme had supported projects in the social, economic and environmental areas; the evidence suggested that social projects had been more beneficial than spending in the other two areas.

There was a discussion of how best to make progress when the local authority was unhelpful. One approach would be a Development Corporation but there were political objections to giving this extensive powers where large numbers of people were affected. Secondly, partnerships could be set up between the authorities, the Government and other agencies. Finally efforts could be made to channel help directly to the private sector; one possibility was to pay Derelict Land Grant and Urban Development Grant directly to the private sector rather than via the local authorities.

/ The discussion

The discussion then turned to organisation at ministerial level. It was agreed that the Prime Minister should chair a MISC Group comprising the Lord President, the Home Secretary, the Secretaries of State for Education and Science, Environment, Social Services, Trade and Industry, Employment and the Chief Secretary. The Manpower Services Commission should also be represented on the Committee. The Secretary of State for Transport could be invited to attend for specific meetings and papers could be circulated to the Secretaries of State for Scotland and Wales. The Prime Minister hoped the group could hold its first meeting before the Recess.

Sir Robin Ibbs said that he favoured the establishment of an Executive Agency. The partnership was fine for bringing parties together for discussion and coordination but it could not produce clear executive action at local level in pursuit of specific objectives. If the political objections to such an agency were overwhelming it would nevertheless be essential to ensure that the managerial style of an agency was injected into the inter-departmental team approach favoured by the Secretary of State for the Environment. The Secretary of State said that while the Department of the Environment had the main responsibility it was essential to secure greater commitment from other departments. He thought that the Task Force approach adopted in Liverpool could be extended more widely and could adopt the managerial style sought by Sir Robin Ibbs. Sir Robert Armstrong offered to examine these machinery of Government questions in greater depth.

The Secretary of State for the Environment said he favoured publishing the report as soon as possible - its existence would soon be known and there would be pressure from Select Committees and elsewhere to see it. The Chief Secretary feared that, on its own, the report would merely generate pressure for greater expenditure which in the Public Expenditure Survey he would have to resist. He favoured delaying publication until the Government's view on the programme was better defined.

Summing up, the Prime Minister said she would establish a ministerial group with the composition indicated above. The first meeting would take a paper on objectives from the Secretary of State for the Environment. Sir Robert Armstrong was invited to study the management structure of the programme. The Secretary of State for the Environment should consider the scope for paying urban development and derelict land grants direct to the private sector. The question of publication should be considered further when the Government was closer to establishing its position.

/ I am

I am copying this letter to John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.

Andrew Turnbull

John Ballard, Esq.,
Department of the Environment



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The Rt Hon Norman Tebbit MP
Secretary of State
Department of Trade and Industry
1 Victoria Street
LONDON SW1

CC/JO
NAPM
AT 29/6

29th June 1984

Dear Norman,

REVIEW OF TRAVEL TO WORK AREAS

Your letter of 21 June re-emphasises the importance of the timetable for the review of travel-to-work areas because of the intention to use these areas in the review of the Assisted Area map.

As you know, for the reasons set out in Alan Clark's letter of 21 June to Nicholas Edwards, we have reluctantly accepted the request that travel-to-work areas should not straddle the border between England and Wales. As was discussed between our officials, this will cause a delay in the finalising of the travel-to-work area boundaries, we estimate by not more than a week.

There has indeed been a considerable volume of comment on our draft boundaries from other sources, but we are regarding the timetable - extended to accommodate the Welsh border point - as placing a strict limit on the time available to consider such comments.

The week's delay in finalising the boundaries will have a knock-on effect on the timing of the availability of employment and unemployment data, which was scheduled to become progressively available between mid-July and mid-August, but my officials will be making every effort to keep this to the absolute minimum.

I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

Let me know if you have any worries about delay hereafter. I will certainly try and see there is no slippage.

Zur

REGIONAL POL: Review of Regional Pol: P

29 JUN 1984

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10 DOWNING STREET

Prime Minister

Before taking up the question of organisation the meeting needs to discuss what spending in the inner cities can achieve and how the programme needs to be structured to be effective. The question of how the Government organises itself comes at the end.

There are dangers here of concentrating on the form and missing the substance.

The main findings and recommendations are summarised in pages 7-11 of Volume 1 of the Report

AT 29/6

Ref. A084/1861

PRIME MINISTER

*This is not
the main
issue*

You are meeting the Secretary of State for the Environment, the Chief Secretary and Sir Robin Ibbs on 2 July to discuss the handling of the report of the Urban Policy and Programme Review. The main issue is whether, as Sir Robin Ibbs has suggested, the arrangements for managing the programme need radical change. But you may also want to discuss the broad timetable for decisions and publication. And you will want to decide the best forum for subsequent collective discussion.

2. Sir Robin Ibbs believes that the Government's attempts to tackle the problems of urban renewal will never be fully effective as long as they are embedded in the present loosely knit and variously motivated grouping of central and local government agencies. His solution, Option D of the report, is the establishment of a new executive agency on the model of the Manpower Services Commission. This would have a budget and clear objectives from Government and then be left to get on with the job. The Secretary of State for the Environment and the Chief Secretary disagree on practical and political grounds. Mr Jenkin argues that an agency of this kind could not tackle effectively the diversity of inner city problems, all of which need the close co-operation of the local authorities. Mr Rees points to the dangers of putting a politically sensitive programme into the hands of a third party, and the likely pressure for higher public expenditure.

3. An executive agency has obvious operational advantages. The review found that the effectiveness of the urban programme can suffer from the variety of procedures and management reporting lines involved in the present arrangements. The Manpower Services Commission has shown how an agency can often operate more flexibly than a Whitehall Department and more easily involve non-government sectors. But an agency would mean that Ministers would have to distance themselves from potentially politically sensitive decisions.

I am not sure either that an agency would find it easy to get the necessary co-operation of the local authorities. They could take strong objection to a proposal to replace the existing arrangements with an agency - even if they had secondees on the staff of the agency. That opposition could put at risk not only the agency's eventual effectiveness, but would make the necessary legislation difficult and controversial.

4. On the other hand Option C, the development of the existing arrangements, may not go far enough. It would not signal clearly the Government's determination to find a new approach to the problems of urban renewal, although careful presentation could probably build up its impact. If the Government actually want to improve the chances of effectively tackling the very serious problems of economic and social adjustment which the inner cities now face, Sir Robin Ibbs may well be right in thinking that a more radical institutional change than Option C is needed to break the mould of existing attitudes and practices. There is also a practical argument. As long as the lead responsibility lies with the Secretary of State for the Environment, his heavy workload on local government and housing matters will compete for the commitment of energy and resources which a more effective urban programme will need.

5. You may therefore want to think about alternatives to both Options C and D which might give the advantages of the 'agency' option without the disadvantages of a new statutory agency. Some possibilities are:

- a. To give responsibility for the urban programme to a senior Minister with his own team responsible for launching and managing the programme. The Lord President of the Council might be an appropriate Minister. He would have the necessary seniority to handle the co-ordination of departmental programmes and to demonstrate the Government's determination to deal with the problems. The team, which would consist of seconded civil servants and people brought in on contract from outside, could be attached to the Cabinet Office (as the CPRS was, for instance).

b. To switch responsibility from the Secretary of State for the Environment to another Minister with an interest in the programme but less heavy responsibilities - for example the Secretary of State for Employment - and establish a team in his Department.

c. To strengthen the arrangements within the Department of the Environment by giving full responsibility for the programme to a new Minister of State on the model of the Minister for Information Technology.

6. You might like to consider instructing officials in the Cabinet Office to carry out, in collaboration with the Efficiency Unit, a quick study of these options, and to report to you on them before the report goes to a wider Ministerial group.

7. As far as that wider Ministerial group is concerned, what it should be turns very much on whether you wish to chair these discussions yourself. If you do not, then I suggest that the Home and Social Affairs Committee (H), under the Lord President's chairmanship, would be the right Committee. Urban policy falls broadly within its terms of reference, and all the Ministers concerned are members except for the Secretary of State for Trade and Industry and the Secretary of State for Defence (who would contribute valuably to discussions from his Merseyside experience). If, on the other hand, you do wish to chair the discussions yourself, then I suggest that an ad hoc Ministerial Group on Urban Policy should be established under your chairmanship. As to membership, I recommend it should include the Ministers with responsibilities in the urban field:

- Home Secretary
- Secretary of State for Education and Science
- Secretary of State for the Environment
- Secretary of State for Social Services
- Secretary of State for Trade and Industry
- Secretary of State for Employment
- Secretary of State for Transport



plus Lord President of the Council
Secretary of State for Defence, for his past experience
Secretary of State for Scotland
Secretary of State for Wales
Chief Secretary, Treasury

RTA

ROBERT ARMSTRONG

29 June 1984

PRIME MINISTER

28 June 1984

THE URBAN PROGRAMME - POLICY REVIEW

1. The Study itself shows that:

- i. policies should never be put beyond economic analysis because they are called social;
- ii. a scrutiny performed by a small but expert team to a tight timetable is commendable practice (compare this with the three year agony of the Regional Policy Review).

2. Key Facts from the Study

We are dealing here with six loosely related expenditure headings and an assortment of characteristics, not a single programme with precise objectives. (Para 3, page 8).

The Urban Group of programmes will cost around £350 million in the current year - around 1% of total local authority expenditure, and about the same as expenditure on Regional Development Grants. Urban Group expenditure has grown faster than public expenditure as a whole, having doubled in cash terms between 1979/80 and 1983/84. Nearly all of it is spent through Local Authorities and it is a net addition to their block grants. (Table 1, page 19).

Some 40% of the money goes to the old Lancashire/Yorkshire industrial belt running from Liverpool eastwards across to Leeds and Sheffield. London receives 25%, and the West Midlands and the North East between 15% and 20% each.

There are three spending tiers (Table 6, page 82):

- i. Seven Partnership Authorities, receiving more than a third of the expenditure, tackle areas of greatest apparent need: Islington, Hackney and Lambeth; Liverpool, Manchester/Salford, Birmingham and Newcastle/Gateshead.
- ii. 23 Programme Authorities cover smaller cities or large towns, including some outer London boroughs and (for instance) Coventry and Nottingham.
- iii. Other Designated Districts cover a further 16 areas of lower perceived need.

All this apart there is roughly £50 million available through the 'traditional' Urban Programme to 143 other Local Authorities in England who come up with worthwhile schemes.

The Review Team draws a rough and ready distinction between three categories of expenditure - social (nearly half the expenditure), economic (one third) and environmental (one fifth). The number of new projects started each year runs into the hundreds.

(Table 3, page 39 and para 46, page 29).

Taken as a whole, Urban Group expenditure is a thin spread of jam.

3. What does the Review reveal?

We perceive five key points among the many which the Review Team make.

- i. City populations will go on declining as market forces shift employment elsewhere. We should spend wisely on the social consequences of economic adjustment, not weaken the recovery by squandering huge sums on frustrating markets. (Paras 10-11. pp 13-14).
- ii. Social Projects - especially those involving voluntary organisations - give the best value for money because they act quickly and directly. Economic projects - especially those which give capital grants to industry - are often questionable. (Para 54 p 31).
- iii. Clear objectives are indispensable. To some extent, the search for political goodwill has been at odds with value for money. Project appraisal is for the most part poor - not surprisingly if the ultimate objective is obscure. (Paras 57-58, p 33).
- iv. Finite resources should be aimed at the worst problems. Precise objectives can and should be set for:
 - the relief of "housing stress"
 - eliminating derelict land
 - creating employment opportunities
 - "strengthening the social fabric of the inner cities." (Para 40, p 25).
- v. Structural arrangements are not as good as they should be. Aside from central/local government tensions, central government itself could act more coherently. DoE's relationships with MSC and DTI need improvement. (Paras 147 and 140, pp 69 and 71).

4. Policy Unit Views

We strongly agree that:

- i. Urban Policy needs precise objectives, which must be agreed before administrative structures are debated. (Your meeting on 2 July must not become just a machinery of government discussion.)
- ii. The Policy should work with, not against, the grain of market forces.

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- iii. Areas of worst deprivation should continue to command most of the available funding. A few drastic improvements will have exemplary effects which a little bit of leavening, however widely spread, does not.

We accept the evidence that social projects, especially those which involve the voluntary sector, offer the best value for money.

This Review confirms convictions we developed in our April "Jobs Paper", that land assembly and housing development are vital to the revival of inner cities. Bad housing and derelict land will always spread because neither individuals nor businesses like to be adjacent to it. Furthermore, building or improving homes is not distortionary in the sense that paying inducements to companies to locate jobs in one place rather than another is. And the simple truth is that, for many who have neither, a decent home is more important than a job.

The London Docklands project tells us that imaginative programmes of land and housing improvement do not merely help the least well off, but draw in middle and higher income families too - people who can turn their skills in leading and organising to community benefit. In this way run-down areas have a better chance of stepping off the downward spiral of depopulation, dereliction and dependence and of clambering aboard a virtuous circle of improvement, investment, owner-occupation and repopulation.

To do this apace on a larger scale is a politically charged objective. Not every local authority will cooperate. So for central government it becomes tempting - especially if speed of action is of overriding importance - to create one or more separate agencies, unfettered by local authority regulation, along the lines of the London and Merseyside Development Corporations. Robin Ibbs is for this approach but Patrick Jenkin and Peter Rees prefer to modify existing arrangements - Option C, "Building on the Partnership Approach".

We judge that DoE and Treasury are right to want to try to build on Partnerships, but we add the important provisos that:

- i. precise targets for housing and derelict land improvements must be set.
- ii. Patrick Jenkin should create separate agencies if he judges that Partnerships are not delivering. He has powers to do so under the Local Government Planning and Land Act 1980.

As to funding levels, we see no clear-cut case for a change from the levels set out in the Public Expenditure White Paper - £348 million in 1984/5, £366 million and £371 million for the next two years. Shifting the emphasis of the programme and getting the

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Partnerships to perform will be contentious enough without altering the expenditure. Patrick Jenkin wishes to commit to these levels: we think ^{he} should.

Patrick also wishes to publish an edited version of the Study. The existence of the Review was made public and aroused interest, so we agree.

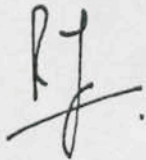
5. Summary of Recommendations

5.1 Keep an Urban Programme, but confine it to, and set clear objectives for, housing, the elimination of derelict land, and the support of voluntary social projects in the worst areas.

5.2 Attempt to build on the Partnership Authorities, but create separate agencies if the Partnerships do not perform.

5.3 Leave the overall funding level at Public Expenditure White Paper levels.

5.4 Publish an edited version of the Study.



ROBERT YOUNG



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Secretary of State for Trade and Industry

27 June 1984

NBPM

AT
28/2

Alan Clark Esq MP
Parliamentary Under Secretary of
State for Employment
Caxton House
Tothill Street
London SW1

D Alan.

REVIEW OF TTWAS

Thank you for copying to me your letter of 21 June to Nicholas Edwards, which crossed with mine to Tom King. *will request if req'd*

2 As I made clear in my letter, I see considerable danger in basing TTWAs on considerations other than data on people's actual travel to work journeys. If a considerable number of people living in Wales work in England and vice versa, it is not defensible for TTWAs to observe the country boundary: I understand this is also your view. Given that Nicholas had not convinced you by his arguments, I was surprised that you had instructed your officials to redraw TTWAs so that they do not cross the boundary between England and Wales.

3 I know that your concern is to keep to the timetable so far as possible. The best way in which the work on drawing the TTWAs may be completed is to stick to the results of the statistical exercise; complying with Nicholas' requests could add yet a further delay. I do not think that Nicholas and I will see eye-to-eye on this. Perhaps we should simply forswear our respective objections and leave it in your hands to proceed as you feel is justified by the arguments, and not necessarily by the heat of debate.

4 I am copying this letter to Tom King, other members of E(A), and Sir Robert Armstrong.

Norman Tebbit

JH4ACG

NORMAN TEBBIT

REGIONAL POLICY —

(Review of Regional Policy) Pt 6.



PRIME MINISTER

URBAN POLICY AND PROGRAMME REVIEW - REPORT

I understand that you have agreed to hold a preliminary meeting on the handling of this report, with Peter Rees and Robin Ibbs (as co-sponsors of the review) on 2 July. I am glad that we will have this opportunity for an initial discussion since the report is wide ranging and we need to assess its general implications before it is put to colleagues collectively and before I can consult Departmental Ministers on some of the more detailed proposals.

I should like to say at this point that I do not agree with Robin Ibbs (his minute to you of 11 June) that the right approach would be to hive off the management of the Urban Programme to a new QUANGO. Although the report offers this as one of four possible options (Option D at paras 162-166), I do not think that it makes a convincing case and I do not consider it to be a realistic or practical proposition. An executive agency can be an effective instrument in dealing with large areas of substantially derelict or abandoned land - as we have found with the London and Merseyside Urban Development Corporations. There may well be scope for such agencies operating on a more free ranging basis to tackle major areas of dereliction (EIEC and SDA can operate in this way). The Stockbridge Village Trust on Merseyside shows that such an agency can function outside the public sector to deal with problem council estates and I am considering the possibility of extending that method to other aspects of urban decay. All these types of agency, however, require substantial injections of public funds, and those that involve existing communities cannot function effectively without the co-operation of the local authorities.

In the case of the Urban Programme, the nature of the problems to which it is addressed, and the scope and diversity of the programme, inevitably involve the local authorities. UP touches on nearly every aspects of the inner city and its distinctive

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feature is the attempt to integrate a variety of projects, services and voluntary and private sector resources. The Option D, as described in the report, barely acknowledges the role of the local authorities and assumes that the programme could be managed with or without their co-operation. It also virtually removes UP from the close Ministerial control that the present system affords.

The report shows that there is scope for improving the effectiveness of the present arrangements but also that those arrangements work quite well and we can best make progress by building on them. That is the report's Option C and I think it is the one to go for.

I am copying this minute to Peter Rees, Robin Ibbs and Sir Robert Armstrong.

PJ

P J

22 June 1984

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JU597

Secretary of State for Trade and Industry

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21 June 1984

The Rt Hon Tom King MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

D Tom,

- see Pt 5 at flag.

You will recall that at E(A) last October, we agreed that the map of Assisted Areas should be revised as quickly as possible. This was because the revised RDG scheme cannot be introduced until the revised map is ready for simultaneous introduction. As we made clear in the White Paper "Regional Industrial Development", we hope to go over to the new scheme and map in the autumn. This is so that we can achieve the major savings in public expenditure as soon as possible. This timetable was repeatedly and publicly confirmed by DTI Ministers in the Committee and Report Stages of the CDA and Industrial Development Bill. Devising the new TTWA boundaries is critical to achieving this timetable.

2 However, I understand that the timetable is now under threat from the heavy response to your consultation on draft boundaries. I also understand that most of the comments do not consist solely of factual observations but are attempts to ensure that the boundaries maximise certain areas' chances of AA designation. I think we are all agreed that TTWAs are the most suitable basis for the assisted areas map as they are the closest approximations to self-contained labour markets. This approximation could only be weakened if we were to take account of subjective considerations and special pleadings. I hope, therefore, that the timetable will not be endangered by considering at length comments that do not relate to recent changes in commuting patterns which directly affect travel-to-work patterns.

3 I see from Nicholas Edwards' letter of 19 June that he feels that TTWA boundaries should not cross the border between England and Wales. There is the clear danger in such a proposal that it gets away from seeking TTWAs which are as statistically valid as we can make them - which is the only way we can avoid damaging



anomalies. I do not understand why it should be felt that a statistical measure should do anything other than reflect what it is intended to measure. If TTWAs cross territorial boundaries, all that means is that people travel across those borders on their way to work!

4 I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT



10 DOWNING STREET

Prime Minister ⁽²⁾

At the meeting of the
small group on 2 July
Mr Jenkin will be
seeking a general steer
from you on the future
of the urban programme,
its size and its organization.

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FROM: CHIEF SECRETARY
DATE: 15 June 1984

Prime Minister

PRIME MINISTER

URBAN POLICY AND PROGRAMME REVIEW: REPORT

File with AT
Patrick Jenkin and Sir Robin Ibbs have sent me copies of their minute to you of 11 June about the Urban Policy and Programme Review. I understand we are to meet to discuss this on 2 July: I will not therefore comment at length now. But you may find it helpful to have one or two preliminary thoughts.

The Review Team have produced a useful report. They covered a lot of ground in a short time. This was an experiment in applying to major programme expenditure some of the techniques developed in the scrutiny approach. I should like to see similar methods taken further in other suitable areas.

The Report provides, in my view, a good basis for a leaner and tauter programme, giving better value for money. I would expect to see significant reductions in the level of expenditure over the next three years.

The Report correctly identifies the Partnership Authorities as the areas of greatest need. We must ensure that we do not enter into an open-ended commitment, in terms of either expenditure or time, to these authorities, but I would not wish to press now for more than minor trimming of the existing level of expenditure in this part of the Urban Programme.

Expenditure on the Programme Authorities, the Traditional Programme and Urban Development Grants is identified by the

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Report as of lower priority. Not all of it is concentrated on the core problems of multiple deprivation in inner cities and I would certainly see scope for reining back here and concentrating effort more effectively.

Patrick suggests that we should aim to publish the report together with a statement of government policy before the summer recess. There is much expenditure at stake - over £400m a year for the United Kingdom as a whole. This will have to be looked at as part of the Public Expenditure Survey. Moreover, as Patrick recognises, the public interest manifested by David Sheppard's Dimpleby lecture means that we need to think through carefully what our response should be in relation to our overall policies. We need to be quite sure how we define our future objectives in the urban policy area. This should not be rushed.

Finally, a word of comment on the organisational options discussed by Sir Robin Ibbs. I agree that the existing arrangements fall short of what is necessary to tackle the essential problems decisively and effectively. But I have doubts about his choice of a new quango as the best way forward. That would put a politically sensitive programme into the hands of a third party. There would be great dangers of pressure for higher expenditure. I would prefer to see the existing arrangements improved by seconding staff from other relevant government departments, local authorities and the private sector. The programme would then remain under direct Ministerial supervision, with no essential loss of control.

I am copying this minute to Patrick Jenkin, Sir Robert Armstrong and Sir Robin Ibbs.

Jst. Greiv

Jr PETER REES

[Approved by the Chief Secretary]

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Prime Minister

Agree X?

12 June 1984

MR ~~TURNBULL~~

c Mr Redwood

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URBAN PROGRAMME REVIEW

We commend Patrick Jenkin's courage in having instructed so searching a Review, and feel that he has been well served by the Treasury/Environment/Efficiency Unit team which undertook it.

Like Robin Ibbs, we believe that the formation of a separate agency to manage the Urban Programme is the most promising of the four options suggested by the Review Team - because it is the most likely way of getting things done. But this is not a uniquely right solution which makes all others wrong. It is beset with some political hazard. It could amount to the creation of "no-go" areas for local authorities - much as the London Docklands and Merseyside Development Corporations already are, but on a much larger scale.

At this stage, Patrick is wisely seeking handling advice only. We agree that the Prime Minister should hold an early preparatory meeting with Departments represented on the Steering Committee (Treasury, Environment, Efficiency Unit - and Policy Unit).

X

RJ.

ROBERT YOUNG

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PRIME MINISTER

URBAN PROGRAMME REVIEW

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I have seen the final draft of the Urban Programme Review report. The Efficiency Unit has been involved in the review which has provided a good opportunity for seeking better value for programme money. The review used "scrutiny" methods and started by establishing the real facts on the ground, rather than relying on desk work.

The report contains much of interest. However one important message does not come out as clearly as it might: although there is no conspicuous waste in the programme as administered at present, the existing structure for dealing with urban problems is failing to focus expenditure where it can be used to best effect.

The report argues convincingly that the problems of inner cities are very bad and likely to get worse. There is a need, therefore, to seek radical ways of making improvements.

Of the four options put forward in the report (paragraphs 158-166, pages 73-77) two are worth careful consideration. Option C recommends reorganising the existing structure to co-ordinate and focus Government expenditure better. Option D recommends the establishment of an executive agency to bring together the work of central and local government and the private sector in a new organisation.

In my view Option D is the one to go for. It is the only option which really offers the opportunity of putting the available money to much better use and achieving Ministers' priorities. Option C offers the best way forward within the existing structure but, being based on established compromise, will inevitably fall short of what is really needed.

The executive agency would have to be set up carefully with the right person in charge, so that it was not sabotaged by local authority and other interests who find the present arrangements comfortable. But a new organisation would signal clearly the Governments' determination to find a solution to the issues of urban renewal.

This approach will probably not be popular, either with the local authorities, or with Whitehall, for the very reasons which I consider to be its strengths. It is a way of breaking the existing mould and ensuring a new attack on the problem. It will not be easy to set up, nor in its first years easy to run. It will need strong clear support from you if it is to succeed.

I am copying this to Patrick Jenkin and Peter Rees, and also to Sir Robert Armstrong.

R. Ibbs
Rob. Robin Ibbs
11 June 1984

(Approved by Sir Robin Ibbs and signed in his absence.)

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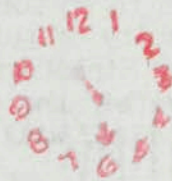
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cc RY



Prime Minister

URBAN POLICY AND PROGRAMME REVIEW: REPORT

1. In the last 3 months a team of officials has carried out a Review of Urban Policy and the Urban Programme (UPPR), working on the basis of a "scrutiny-style" approach, and with particular emphasis on the principles of the Financial Management Initiatives. Copies of the Report are in Nol0, as your Policy Unit was represented on the small interdepartmental Steering Committee - the other members were from my Department, the Efficiency Unit and the Treasury. The Review Team was led by a Treasury Assistant Secretary, backed by officials from my Department and the Efficiency Unit.

2. This minute seeks your views - and those of Peter Rees and Sir Robin Ibbs only at this stage - on the handling of the Report and its recommendations.

3. The starting point must be our Manifesto commitment which listed as one of the "five great tasks for the future to improve the quality of life in our cities". I believe that the Report gives us the opportunity to carry through that task in a cost-effective, and politically effective, manner. We now have the chance to take the initiative in an area of major and perhaps rising concern - David Sheppard's Dimpleby lecture is one manifestation - by positively reaffirming our commitment, backed up by more tightly defined objectives, better management, and a value-for-money approach.

4. As you will see from the Report, the assessment and conclusions are set firmly within the framework of our policies to control public spending, and to ensure that the spending which is necessary is properly directed and controlled. The report starkly confirms the severity of the problems in the inner cities and shows that the Urban Programme is generally well directed to those needs. The scale of those problems

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would warrant increased resource allocation, and we may have to consider that in the future; but the report also shows that the immediate need is to ensure that the present resources are used as effectively as possible and that other Departmental programmes make an effective contribution. This is the aspect that I would want to emphasise in following up the report, both in relation to my own programme and in discussion with colleagues.

5. I attach a note which might serve as the basis for an early discussion. Many Cabinet colleagues have an interest, and I have, of course, an obligation to consult them in due course. But to start the process, I would suggest that you might consider convening a meeting with Peter Rees, Sir Robin Ibbs and myself as co-sponsors of the Review. If there was a broad agreement on the way forward, I would then circulate the Report to our Cabinet colleagues, seeking comments, and with a view to a wider collective discussion - perhaps in H Committee - in July.

6. I suggest this timetable because there will be pressure to publish the Report (from the press and from the Environment Committee) - and I would favour doing so. This would enable us to keep the initiative and to follow-up the Report in a positive way. In that case we should aim to publish before the summer recess. It would need to be accompanied by a Government statement reaffirming our commitment to tackling the problems of the inner cities but giving firm direction to the ways in which that is done and the way in which those resources are used. The Report provides a good opportunity to do this.

7. I should add that the authors of the report were given a free hand to reach their own conclusions - in the best "scrutiny" tradition. They offer some fairly critical observations on some Departmental programmes. We will need

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to consider those comments, but I would want to see them modified or omitted if the report is published (along with some other editing). I well appreciate that my colleagues have many other demands on their programmes but I believe that there is scope, within existing resources, to present more convincingly what the Government is already doing to deal with the problems of the inner cities and to focus that effort more effectively on those needs.

8. I am copying this minute to Peter Rees, Sir Robin Ibbs, and to Sir Robert Armstrong.

A.H. Davis

for
P J

11 June 1984

(Approved by the Secretary of
State and signed in his absence)

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URBAN POLICY AND PROGRAMME REVIEW: REPORT

Note by the Secretary of State for the Environment

INTRODUCTION

1. Many of the Report's recommendations relate to the management of the Urban Programme and are for DOE to implement. They reinforce measures already taken to ensure cost-effective management of projects and the wider development of value-for-money techniques. Others require discussions between DOE and other Departments. The first priority, however, is to decide on the general thrust of the Government's policy towards the inner cities and on the ways in which that can be carried forward effectively both in the management of the Urban Programme and in the contribution that other Departments can make. This note concentrates on the main collective policy issues, and each section ends with the question to which I suggest we address ourselves.

ANALYSIS AND OBJECTIVES

2. The Report finds that the inner city problem is rooted in economic adjustment, which leads to concentration of dependent and disadvantaged groups, placing exceptional demands on the local authorities concerned. Acceleration of national economic adjustment in recent years has hit employment in the inner cities particularly hard. The Report proposes that the Urban Programme should henceforth be seen, not as a poverty programme, nor as an interventionist attempt to prevent necessary economic adjustment in the cities, but as a way of reinforcing main programmes and helping inner city authorities to cope, financially and managerially, with the consequences of the rapid adjustment which they are experiencing. It concludes that these inner city problems are likely to get worse, even while the economy at large recovers.

3. Is the analysis and restatement of objectives for urban policy (para 34 of the Report) acceptable to colleagues?
Can we also agree that the Urban Programme should be managed

so as to meet those objectives and to reinforce main programmes?

CO-ORDINATION, COST-EFFECTIVENESS, VALUE FOR MONEY

4. The Report calls for better co-ordination between the activities of Government Departments and agencies in the inner cities. In particular, the Report shows that DTI's programmes and MSC services can make a most important contribution to the needs of these areas and must do so if the economic component of urban policy is to be managed effectively. The Report suggests that this can be done by involving those Departments more directly in the management of the programme at the local level in the regions. This involves building on the present Partnership and Programme arrangements and developing a stronger inter-departmental "Team" approach to tackling the most severe inner city problems. This is Option C in the report. The other options identified in para 158 are to leave things as they are, to wind up the Urban Programme or to hive it off to a new Agency: none of these seems as politically relevant as maintaining the programme under direct Ministerial supervision and ensuring well integrated use of existing resources.

5. The Report proposes, under Option C, setting up small teams in DOE Regional Offices staffed jointly with DTI and MSC. This would certainly be an effective way of developing the inter-departmental approach and I would welcome the views of colleagues on that proposal. Whether or not it proves possible to adopt that idea, the essential thing is to ensure that all Departments involved in this work, both at the centre and in the regions, are seized of the fact that we are committed to tackling these problems and that this requires "affirmative action" in ensuring that Departmental policies and programmes are properly responsive to those needs. Much can be done, within existing resources, by co-operative working, flexibility and initiative.

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6. Are colleagues able to give support to developing this positive and innovative approach to programme management?

RESOURCES

7. The Report makes no recommendation on the overall level of resources to be allocated to the Urban Programme. Nevertheless, as it does vividly record the deteriorating conditions in our inner cities, and found no evidence of significant waste, it could be argued that an increase in resources was justified. In the current PESC round, DOE has concentrated on seeking improvements in efficiency rather than entering a bid for an increase on the baseline for 1985/6. However, the stability of the baseline at the 1985/6 level in real terms is absolutely essential, and the question of a further bid may need to be considered in the future, in the light of the Report's analysis of the scale of urban deprivation. This is particularly so in view of the imposition of VAT on building alterations and conversions. After several years of increasing private sector activity in this area - especially the conversion of public sector housing stock into private sector development - the VAT change has severely diminished our credibility with the private sector as well as prejudicing many schemes which were previously planned.

8. Can we ensure at least stability in the planned (and published) expenditure line for the Urban Programme? Without that it will be very difficult to secure improvements in programme management and cost effectiveness.

PUBLICATION: A GOVERNMENT STATEMENT

9. There is much to be said for publishing the Report, subject to a small amount of editing out of particularly sensitive points. Publication is the norm for "scrutinies" and it would be helpful in bringing home to local authorities and the public some of the hard realities of the situation.

CONFIDENTIAL

The Review's existence is public knowledge and there are already demands for publication. The Environment Committee will want to see it. It would be better to publish with good grace than reluctantly, taking a positive line rather than a reactive one.

10. If the report is published it should be accompanied by a Government statement preparing the way for more detailed follow-up. It is for consideration whether a White Paper or Green Paper approach would be appropriate, either at the publication of the Report, or after a consultation period. Whichever course is adopted, the Government should retain the initiative.

11. Should the Report be published together with a restatement of the Government's commitment to an effective urban policy and firm direction of the programme?

DOE

June 1984

11 JUN 1984



PERSONAL AND CONFIDENTIAL

URBAN POLICY
AND PROGRAMME REVIEW

*A copy of this report will be
found on Department of the
Environment files*

G. Gray

16/7/2013



Report
to the Secretary of State
for the Environment,
May 1984

MAIN REPORT

Copy No.002

THIS COPY HAS BEEN ISSUED FOR THE EXCLUSIVE USE OF

Prime Minister

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PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

URBAN POLICY AND PROGRAMME REVIEW

Summary

The inner cities are bearing the brunt of economic adjustment. The dependent sections of society - the unemployed, the single elderly, the single-parent families - are becoming increasingly concentrated in them. Their firms are in a weak condition and are losing employment. All these trends are likely to continue to worsen in the foreseeable future.

The consequences for local government are serious. The normal redistribution of resources through the rate support grant and the capital allocation system is not adequate to deal with adjustment on this scale. Yet it would be senseless simply to put more money into the hands of local authorities in whom the Government has no confidence.

The role of the Urban Programme is to supplement the resources of the inner city authorities in a controlled way. Its machinery enables central government to help them both financially and managerially to cope with their acute social problems, to improve the environment and to enable the local economy to re-stabilise at the highest level that market forces will support.

This Review adopted 'Scrutiny' methods, and much of the Team's time was devoted to direct inspection of a sample of projects. The Team found little evidence of wasteful expenditure: money is tight enough at present to ensure that efforts are made to obtain good value for it. There are, however, ways in which the management structure could, and should, be tightened up.

Urban policy is not something that can be left to the DOE. Major aspects of it are the responsibility of other Departments. DTI and the MSC, in particular, need to be fully involved, especially in the economic component of the Programme. The Team puts forward suggestions as to how the policy might be better co-ordinated.

200

AT to note!

Jr

14/2



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Jr
18/2

David Heyhoe Esq
Private Secretary to the Lord Privy Seal
68 Whitehall
LONDON
SW1A 2AT

14 February 1984

Dear David,

SHIPPING SUBSIDIES FOR THE SCOTTISH ISLANDS

My Secretary of State plans to make an announcement shortly concerning subsidies in the coming year for shipping services to the Scottish islands. Since the announcement covers his decision not to pursue further the move towards a system based on Road Equivalent Tarriff, to which a commitment was given in the Scottish Manifesto in 1979, the announcement is likely to be controversial. Mr Younger believes that if possible it should take the form of an oral statement. An early announcement is necessary to enable the operators to fix fares for the coming summer and if it is convenient we would like to make the statement on Tuesday or Wednesday of next week. I would be grateful if you could seek the Lord Privy Seal's agreement to this.

I am attaching an early draft of the proposed statement to explain the background. I am copying this letter to Tim Flesher (No 10), John Gieve (Treasury), Murdo Maclean (Chief Whips Office) and David Beamish (Lord President's Office).

Yours sincerely

John Graham

J S GRAHAM
Private Secretary

SCOTTISH SHIPPING SUBSIDIES: DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on my proposals for financial assistance in 1984/85 for shipping services to the Scottish islands, and also to announce my conclusions on the future system of shipping subsidy.

I propose to give deficit grants of £7.2m to Caledonian MacBrayne and of £0.9m to the Orkney Islands Shipping Company. These grants will imply a need in both cases for the companies to increase their fares by approximately 5 per cent overall for the year. I propose also to increase support offered to P & O and to the various bulk shipping companies with whom I have Undertakings, to allow them to continue to rebate the fares and charges on their services. I propose to leave unchanged the percentage rates of rebate, except that in the case of P & O's services provision will be made to allow a 60 per cent rebate on fares for students and all schoolchildren cases for the companies to increase their fares by approximately 5 per cent overall for the year. I propose also to increase support offered to P & O and to the various bulk shipping companies with whom I have Undertakings, to allow them to continue to rebate the fares and charges on their services. I propose to leave unchanged the percentage rates of rebate, except that in the case of P & O's services provision will be made to allow a 60 per cent rebate on fares for students and all schoolchildren resident on the islands. The rebates are estimated to cost £3.65m in the case of P & O and £1.6m in the case of the bulk shippers.

In total, Government revenue support in 1984/85 will amount to some £13.35m, an increase of 9.9 per cent over the sum which I estimate will be required in the current financial year. I am therefore once again increasing in real terms the resources available for shipping subsidy, and I hope this will be recognised as an excellent deal for the users of these services. It is also worth recalling that since 1979 I have increased these resources threefold from £4.14m to the figures I have just announced.

I do not propose a radical change in the basis for distributing subsidy. We undertook in 1979 to re-examine the structure of shipping subsidies and to "increase them in real terms as part of the process of moving closer to road equivalent tariffs". Our re-examination resulted in early progress in extending subsidies to the North Isles services and to the bulk shippers and overall subsidy has been increased substantially in real terms in each year since 1979. I have however concluded that a change to an RET-based system of subsidy should not be pursued.

There are several reasons for this. First, I estimate that full RET implemented on a basis that would be acceptable to the more remote island communities, would produce a subsidy bill of at least £23m, without allowing for the extra investment costs that would be generated by increased demand. In the light of our overall objective to contain public expenditure it is unrealistic to expect such increases in financial provision. I am also conscious that since under RET the subsidy requirement each year would arise from the automatic application of formula, unrelated to shipping costs, that requirement could change dramatically from one year to the next. Sudden increases in subsidy could only be achieved at the expense of other services for which I am also responsible.

Second, it has become particularly clear in the last two or three years that a period of major new capital investment for our shipping services lies ahead. Caledonian MacBrayne's new Arran vessel was launched last December and is now being fitted out for the 1984 season. I have recently approved the Company's investment proposals for a further new vessel to replace the MV Hebrides. I am giving substantial financial assistance to P & O for the refurbishment of the St Clair. A decision will be required soon on the replacement of the MV Orcadia, which provides internal Orkney Islands services. Forthcoming terminal developments include expenditure of around £5m at Uig, Tarbert and Lochmaddy and major reconstruction of the ferry terminal at Scrabster. Work has recently been completed on pier improvements on Tiree, and further financial assistance will be required to improve the steamer berth at Mallaig and the pier at

Tobermory. There is therefore substantially more public expenditure on our shipping services than is indicated by the annual revenue grants alone. Third, I have given weight to the Monopolies and Mergers Commission's general recommendation that fares should, in the interests of efficiency, be related to costs incurred. It is inevitable that under RET, where fares would be unrelated to costs and Government simply obliged to pick up the balance of costs, operators would tend to become inefficient. Since there will always be only a finite sum available for support of shipping services, inefficiency of operation could only endanger future investment in new vessels and terminals, to the detriment of the quality of services in the longer-term.

I am however conscious of the desirability of having a fares system that is clearly understood. P & O and the bulk shippers are private sector operators who fix their fares and charges on a commercial basis, the charges being rebated with the benefit of subsidy. These arrangements will continue. In the case of Caledonian MacBrayne the Monopolies and Mergers Commission noted the company's policy that fares on one route should be comparable with those on another, and that a standard fare scale should be adopted consisting of three elements, pier dues, toll charges (reflecting the cost of loading) and distance charges. Such a system should produce a structure of fares tapering with distance. The Commission noted that no recent progress had been made with this system and that as a result significant anomalies now exist in the fare structure. They recommended that Caledonian MacBrayne should make renewed progress towards such a system, starting with an up to date examination of the structure of costs. I have asked the Company to proceed on this basis. The new fares system will take some years to implement fully, but a start will be made in fixing the charges for 1984/85, which the Company will be announcing shortly. The result will be a standard fares system which should be more equitable than at present.

I am aware that my decision not to proceed with road equivalent tariff will cause disappointment in some quarters. However the

question I have had to address is how, in the light of some significant developments since 1979, we can offer the best long term guarantee of services to the Scottish Islands. My subsidy proposals for 1984/85 and the substantial capital commitments which I have mentioned, confirm my continuing commitment to the maintenance and improvement of these services.



Secretary of State for Industry

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ON THE GOVERNMENT'S REVIEW OF REGIONAL ECONOMIC POLICY.

I HAVE TODAY LAID BEFORE THE HOUSE A WHITE PAPER ENTITLED "REGIONAL INDUSTRIAL DEVELOPMENT", AND MY DEPARTMENT WILL PUBLISH SHORTLY A FACTUAL BACKGROUND PAPER ON THE EFFECTIVENESS OF REGIONAL POLICY AND OTHER REGIONAL ISSUES.

File



Secretary of State for Industry

THE GOVERNMENT REMAIN FIRMLY COMMITTED TO AN EFFECTIVE REGIONAL POLICY.

ALTHOUGH THE ECONOMIC CASE FOR REGIONAL INDUSTRIAL POLICY TODAY IS NOT CLEAR CUT, AND THE ECONOMIC COSTS OF SUCH POLICIES MUST BE SET AGAINST THE BENEFITS, THERE REMAINS A SOCIAL CASE FOR REGIONAL INDUSTRIAL POLICY TO REDUCE REGIONAL IMBALANCES IN EMPLOYMENT OPPORTUNITIES.

THE GOVERNMENT BELIEVE THAT THERE IS SCOPE TO INCREASE THE EFFECTIVENESS OF REGIONAL POLICY AND TO ACHIEVE BETTER VALUE FOR MONEY IN THE REGIONS WITH LESS ADVERSE EFFECTS ON THE ECONOMY AS A WHOLE.



Secretary of State for Industry

HOWEVER, RDG WILL IN FUTURE BE PAYABLE ONLY TOWARDS PROJECTS WHICH PROVIDE OR MODERNISE CAPACITY AND SIMPLE REPLACEMENT INVESTMENT WILL NOT QUALIFY FOR RDG.

GRANT WILL BE PAYABLE AS A PROPORTION OF CAPITAL EXPENDITURE, OR AS AN AMOUNT FOR EACH NEW JOB CREATED BY A PROJECT, WHICHEVER IS THE MORE ADVANTAGEOUS TO THE INVESTOR; BUT, WHERE GRANT IS PAID IN RESPECT OF CAPITAL EXPENDITURE, IT WILL BE LIMITED BY A COST PER JOB CEILING.



Secretary of State for Industry

THE WHITE PAPER SETS OUT A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES INVOLVING MAJOR CHANGES TO THE REGIONAL DEVELOPMENT GRANTS SCHEME.

AT PRESENT RDGS OVER-CONCENTRATE ON CAPITAL INTENSIVE PROJECTS AND ON MANUFACTURING INDUSTRIES.

IN FUTURE WE PROPOSE RDGS SHOULD BE AIMED MORE PRECISELY AT JOB CREATION.

THE NEW RDG SCHEME WILL BE WIDENED IN SCOPE TO COVER PARTS OF THE SERVICE SECTOR IN ADDITION TO MANUFACTURING.



Secretary of State for Industry

FOR THE SAKE OF SIMPLICITY SMALL FIRMS WILL BE EXEMPT FROM THIS LIMIT.

THESE CHANGES SHIFT THE PAYMENT OF AUTOMATIC GRANT ASSISTANCE TO PROJECTS WHICH CREATE JOBS.

IN ADDITION THE IMPORTANCE OF SELECTIVE ASSISTANCE RELATIVE TO RDGs WILL BE INCREASED; AND RE-LOCATION PROJECTS WHICH OFFER NO NET INCREASE IN JOBS WILL NOT NORMALLY BE ELIGIBLE FOR REGIONAL SELECTIVE ASSISTANCE.

5



Secretary of State for Industry

INDUSTRY ATTACHES GREAT IMPORTANCE TO THE AUTOMATIC AND PREDICTABLE NATURE OF THE RDG SCHEME.

THEREFORE GRANT WILL CONTINUE TO BE PAID AT STANDARD RATES AND BY REFERENCE TO PUBLISHED CRITERIA.

TO AVOID DISRUPTION OR UNCERTAINTY ARISING FROM THESE CHANGES THERE WILL BE A TWELVE MONTH TRANSITION PERIOD FROM THE INTRODUCTION OF THE SCHEME BEFORE THEY TAKE FULL EFFECT.

FOR PROJECTS WHICH HAVE ALREADY BEEN OFFERED SLECTIVE ASSISTANCE, RDG WILL CONTINUE TO BE PAID UNDER THE OLD RULES, NOT THE NEW.

6



Secretary of State for Industry

THE OLD RULES, NOT THE NEW, WILL APPLY FOR PROJECTS FOR WHICH APPLICATION HAS ALREADY BEEN MADE, OR IS MADE BEFORE 31 JANUARY 1984, PROVIDED AN OFFER IS MADE BEFORE CHANGES TO THE LEGISLATION ARE BROUGHT INTO EFFECT.

THE REGIONAL INVESTMENT ROLE OF THE BRITISH TECHNOLOGY GROUP - WHICH DOES NOT RELATE TO ITS PRIMARY TASK OF ENCOURAGING THE TRANSFER OF TECHNOLOGY - WILL BE DISCONTINUED.

7



Secretary of State for Industry

THE WHITE PAPER INVITES VIEWS ON A NUMBER OF ISSUES.

IN RESPECT OF GRANT, WHICH ACTIVITIES SHOULD QUALIFY FOR RDG, WHAT THE RATES OF GRANT SHOULD BE, AND WHAT THE BALANCE SHOULD BE BETWEEN AUTOMATIC AND SELECTIVE ASSISTANCE.

ON THE ASSISTED AREA MAP, VIEWS ARE INVITED ON BOTH THE CRITERIA FOR DESIGNATION AND ON MAP COVERAGE.

THE GOVERNMENT ALSO WELCOME VIEWS ON WHETHER SPECIAL MEASURES SHOULD BE TAKEN IN THE ASSISTED AREAS TO ENCOURAGE INNOVATION AND NEW FIRM FORMATION.

8



Secretary of State for Industry

I WOULD WELCOME WRITTEN SUBMISSIONS,
BEFORE THE END OF MAY 1984, IN ORDER THAT
THEY MAY BE CONSIDERED BEFORE DECISIONS
ARE REACHED.

CONSULTATION HAS ITS PRICE.

A NUMBER OF IMPORTANT DECISIONS ABOUT
REGIONAL POLICY WILL REMAIN TO BE TAKEN
UNTIL AFTER THE CONSULTATION PERIOD.

IN PARTICULAR, IT IS NOT POSSIBLE NOW TO
ANNOUNCE THE FUTURE GEOGRAPHICAL COVERAGE
OF REGIONAL ASSISTANCE OR THE AMOUNT OF
FUTURE REGIONAL EXPENDITURE.



Secretary of State for Industry

SO FAR AS COVERAGE IS CONCERNED, THE NEW
MAP WHEN IT IS PUBLISHED WILL BE BASED UPON
MORE UP TO DATE DATA CONCERNING TRAVEL TO
WORK AREAS NOW BECOMING AVAILABLE FROM THE
1981 CENSUS RETURNS.

THE GOVERNMENT WILL INTRODUCE LEGISLATION
AS SOON AS POSSIBLE TO PROVIDE FOR THE NEW
SCHEME OF RDGs OUTLINED IN THE WHITE PAPER.

ONCE THE CONSULTATION PROCESS IS COMPLETE,
AND THE REMAINING DECISIONS TAKEN, THE
GOVERNMENT PROPOSE TO LAY THE NECESSARY
ORDERS, IMPLEMENTING ALL THE CHANGES
SIMULTANEOUSLY IN AUTUMN 1984.



Secretary of State for Industry

IN SHORT THE NEW POLICY WILL EASE THE PRESENT UNJUSTIFIED BIAS AGAINST SERVICE INDUSTRIES; IT WILL END THE UNJUSTIFIED PAYMENT OF EXPENSIVE AID TO PROJECTS WHICH CREATE FEW JOBS IN THE ASSISTED AREAS; IT WILL MINIMISE MERE JOB SHIFTING AT TAXPAYERS' EXPENSE; AND IT WILL CONCENTRATE ON BETTER VALUE FOR MONEY IN JOB CREATION IN THE AREAS OF GREATEST NEED.

I AM CONFIDENT THAT THE NEW FRAMEWORK WILL PROVIDE A FIRM BASIS FOR A MORE COST EFFECTIVE REGIONAL INDUSTRIAL POLICY, BENEFITING THE ASSISTED AREAS MORE EFFECTIVELY WITH LESS ADVERSE EFFECTS ELSEWHERE.



JH 351

PS/ Secretary of State for Trade and Industry

David Heyhoe Esq
Private Secretary to
the Lord Privy Seal
Privy Council Office
Whitehall
London SW1

Dear David,

STATEMENT: REGIONAL POLICY WHITE PAPER

When I wrote to you on Friday, I said that I would circulate the statement which my Secretary of State intends to make on Tuesday 13 December, on regional policy, as soon as I could. I am therefore now circulating a copy of that statement. As well as copying this letter and its attachment to those who received my letter of 9 December, I am also sending it to the Private Secretaries of all those who serve on E(A) and to Richard Hatfield in the Cabinet Office.

Yours ever

Colin McCarthy

M C McCARTHY
Private Secretary

Total DTI PM content

AT 13/12

DEPARTMENT OF TRADE AND INDUSTRY

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12 December 1983

Prime Minister ②

To note.

AT 12/12

mt

1 With permission, Mr Speaker, I should like to make a statement on the Government's review of regional economic policy.

2 I have today laid before the House a White Paper entitled "Regional Industrial Development", and my Department will publish shortly a factual background paper on the effectiveness of regional policy and other regional issues.

3 The Government remain firmly committed to an effective regional policy. Although the economic case for regional industrial policy today is not clear cut, and the economic costs of such policies must be set against the benefits, there remains a social case for regional industrial policy to reduce regional imbalances in employment opportunities.

4 The Government believe that there is scope to increase the effectiveness of regional policy and to achieve better value for money in the regions with less adverse effects on the rest of the country.

5 The White Paper sets out a new structure for regional industrial incentives involving major changes to the regional development grants scheme. At present RDGs over-concentrate on capital intensive projects and on manufacturing industries. In future we propose RDGs should be aimed at job creation.

6 The new RDG scheme will be widened in scope to cover parts

of the service sector in addition to manufacturing. However, RDG will in future be payable only towards projects which provide or modernize capacity and simple replacement investment will not qualify for RDG.

7 Grant will be payable as a proportion of capital expenditure or as an amount for each new job created by a project, whichever is the more advantageous to the investor, but, where grant is paid in respect of capital expenditure, it will be limited by a cost per job ceiling. For the sake of simplicity small firms will be exempt from this limit. These changes shift the payment of automatic grant assistance to projects which create jobs.

8 In addition the importance of selective assistance relative to RDGs will be increased; and re-location projects offering no net increase in jobs will not normally be eligible for regional selective assistance.

9 Industry attaches great importance to the automatic and predictable nature of the RDG scheme. Therefore grant will continue to be paid at standard rates and by reference to published criteria. To avoid disruption or uncertainty there will be a twelve month transition period from the introduction of the scheme before the changes take full effect. For projects which have already been offered selective assistance, RDG will continue to be paid under the old rules, not the new. And for projects for which application has already been made, or is made before 31 January 1984, and where an offer is made before changes to the legislation become effective, the old rules, not the new, will apply.

10 The British Technology Group's regional investment role - which does not relate to its primary task of encouraging the transfer of technology - will be discontinued.

11 The White Paper invites views on a number of issues. In respect of grant, which activities should qualify for RDG, what rates of grant should be, and what the balance should be between automatic and selective assistance? On the Assisted Area map, views are invited on both the criteria for designation and on map coverage. The Government also welcome views on whether special measures should be taken in the Assisted Areas to encourage innovation and new firm formation. I would welcome written submissions, before the end of May 1984, in order that they may be considered before decisions are reached.

12 Consultation has its price. A number of important decisions about regional policy will remain to be taken until after the consultation period. In particular, it is not possible now to announce the future geographical coverage of regional assistance or the amount of future regional expenditure. The new map when it is published will be based upon more up to date data concerning travel to work areas now becoming available from the census returns. The Government will introduce legislation as soon as possible to provide for the new scheme of RDGs outlined in the White Paper. Once the consultation process is complete, and the remaining decisions take, the Government propose to lay the necessary orders, implementing all the changes simultaneously in Autumn 1984.

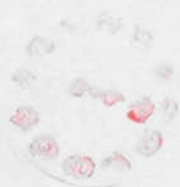
13 In short the new policy will ease the present unjustified bias against service industries, it will end the unjustified payment of expensive aid to projects which create few jobs in the assisted areas; it will minimise mere job shifting at taxpayers' expense; and it will concentrate on better value for money in job creation in the areas of greatest need.

14 I am confident the new framework will provide a firm basis for a more cost effective regional industrial policy, benefiting the assisted areas more effectively with less adverse effects elsewhere.

December 1983

Reg Por Review Pt 6

12 DEC 1988



cc NO

NRPm
AT 12/12



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Tel. 01-233 3000 (Switchboard)
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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

12 December 1983

Dear Norman

FUTURE REGIONAL INDUSTRIAL POLICY: DRAFT WHITE PAPER

I have seen your letter of today and George Younger's of 2 December on this subject.

This is simply to confirm that, on the understanding that the compromise you have reached with George is neutral and that the issues he has raised can be settled later, I am content with the rewording you propose.

I am copying this letter to E(A) colleagues and Sir Robert Armstrong.

Yours ever

Norman

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry



JU183

Secretary of State for Trade and Industry

ASDM AT 9/12
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File with Press.

9 December 1983

CONFIDENTIAL

David Heyhoe Esq.
Private Secretary to the
Lord Privy Seal
Privy Council Office
68 Whitehall
London SW1A 2AT

Dear David,

STATEMENT - REGIONAL POLICY WHITE PAPER

When we spoke on the telephone, I warned you that my Secretary of State wishes to make a statement on Tuesday, 13 December on Regional Policy. The present aim is that a White Paper will be published on 13 December to coincide with the Secretary of State's statement. The White Paper, as you know only too well, has been the subject of extensive discussions and is now agreed by all Ministers involved. The statement will announce the publication of the White Paper on future regional industrial policy which sets out a new structure for regional incentives and invites views on a range of related issues including rates of grant and assisted area map coverage.

2 The future of regional policy has engendered much national interest and as you know there has been considerable pressure in the House for an early statement. I shall circulate a draft of the paper as soon as possible next week.

3 Copies of this letter go to Tim Flesher (No 10), Murdo Maclean (No 12), David Beamish (Chief Whip's Office, House of Lords) and to Bernard Ingham (No 10).

Yours ever

M C McCarthy

M C MCCARTHY
Private Secretary

29 DEC 1983

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JF5053
Secretary of State for Trade and Industry

CCNO

NBPM AT 7/12

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7 December 1983

CONFIDENTIAL

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

D. George,

FUTURE REGIONAL INDUSTRIAL POLICY : DRAFT WHITE PAPER

We spoke today about your letter to me of 2 December.

2 For the purposes of the White Paper we agreed on a compromise of inserting the word "normally" before the words "to exclude from regional selective assistance those re-location projects where there is no net increase in jobs" in paragraph 34 of the draft White Paper attached to my minute of 30 November to the Prime Minister.

3 Our agreement was on the understanding that we both regarded this outcome as neutral in relation to the issues raised in your letter — *They can be settled later - and I do not think there is much between us.*

4 I am copying this letter to E(A) colleagues and Sir Robert Armstrong.

NORMAN TEBBIT



22NO

NORM AT 8/12

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU157

Secretary of State for Trade and Industry

7 December 1983

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

D. P. L. k.

- will request if required

Thank you for your letter of 6 December. It is difficult to accept changes at this late stage.

2 I appreciate your difficulties over changes in Green Belt policy but, on the other hand, I consider we should claim credit for our efforts to ease planning procedures. I therefore propose to substitute the following words for the phrase to which you object:

"making the planning system more sensitive to changing needs".

As I am sure you will agree, this wording is more positive and is also in the spirit of the request made in the PS/Prime Minister's letter of 21 November.

3 We are already at a very late stage to be making further changes to the draft: I will not be able to make any changes after 11.00am on 8 December without jeopardising the target date of publication, 14 December, which the Prime Minister has approved (PS/Prime Minister's letter of 5 December). I do hope therefore that you will feel able to agree to my proposed redraft and I would be grateful if your office could contact mine to confirm this as soon as possible tomorrow morning.

4 I am copying this letter and yours to the Prime Minister, members of E(A), and Sir Robert Armstrong.

NORMAN TEBBIT

Reg P81 Review P+6

From THE PRIVATE SECRETARY

NBPM

AT 6/12

[Handwritten initials]



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

Callum McCarthy Esq
Private Secretary to the
Rt Hon Norman Tebbit MP
Department of Trade and Industry
Victoria Street
LONDON
SW1

6 December 1983

Dear Callum

WHITE PAPER ON REGIONAL POLICY

The Secretary of State ^{TPM} was grateful for the copy of Mr Tebbit's memorandum of 30 November to the Prime Minister, enclosing the draft White Paper on Regional Industrial Development. As he said in his letter of 21 November he believes it would be right to indicate in the White Paper that the Review that has been conducted applies primarily to Great Britain, and is not intended to tackle the somewhat different circumstances of Northern Ireland (though it has obvious implications for policy there). Officials had agreed on the incorporation of a sentence making this point, but it does not seem to be included in the latest text.

The Secretary of State would be grateful if you could incorporate in paragraph 7 (or some other part of the text if you think this would be better) a sentence on the following lines:-

"This Review has been primarily concerned with regional industrial policies in Great Britain and does not deal explicitly with the different circumstances of Northern Ireland".

I am copying this letter to the private secretaries to the Prime Minister, members of E(A) and Sir Robert Armstrong.

Yours ever

Derek

D A HILL

ssd

Regel,
Revised!
pt 6



U 6 DEC 1983

Prime Minister ^①
CONFIDENTIAL

MR TURNBULL

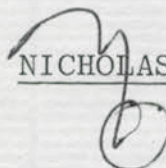
To see note below
AT 6/12

6 December 1983

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DRAFT WHITE PAPER ON REGIONAL INDUSTRIAL POLICY: MR YOUNGER'S
PROPOSED AMENDMENT


Mr Younger is persisting with his efforts to get back into the White Paper an exemption for rationalisations involving the closure of one or more plants from the condition in paragraph 34 of the latest draft that no assistance would be given to "relocation projects where there is no increase in the number of net jobs". His preferred wording - "relocation projects which simply transfer existing facilities without any net increase in employment" - is in my view, an empty box: what firm is likely to "simply transfer existing facilities" from non-assisted to assisted areas? Mr Younger's wording would leave section 7 assistance available for most investment which involved relocation. The inwardness of this proposal is that the Scots and the Welsh want to retain control of the decisions on such investments, rather than allow the DTI to decide them under section 8. It would strengthen the DTI's hand in negotiating the operating guidelines with the territorials if the existing wording were retained. I have urged DTI officials to recommend as much to Mr Tebbit.


NICHOLAS OWEN

A late protest by Mr Younger. A compromise has been agreed, subject to colleagues, which keeps existing wording but inserts "normally" into the sentence at the end of para 34. Copy of revised text attached.

Content?

AT 6/12

Yes 

Note - Told DTI Private Office by phone that PM is content
AT 7/12

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10 DOWNING STREET

From the Private Secretary

5 December 1983

White Paper on Regional Policy

The Prime Minister has seen the latest draft of the White Paper on Regional Policy, circulated under your Secretary of State's minute of 30 November. She is content with the draft and is also content for the White Paper to be published on 14 December.

I am copying this letter to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

MR. A. TURNBULL

Callum McCarthy Esq
Department of Trade and Industry.

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AH

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The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
London
SW1H 0ET

2 December 1983

Dear Secretary of State,

FUTURE REGIONAL INDUSTRIAL POLICY: DRAFT WHITE PAPER

Thank you for copying to me your minute of 30 November enclosing your final draft of the White Paper. I am concerned that my proposal to amend the wording in paragraph 34, relating to the availability of assistance when a firm proposes a local project in an assisted area without any net increase in jobs, has not been taken up and that colleagues' comments thereon suggest that my purpose is not fully understood.

I accept the proposition that regional assistance should not be used simply to shunt production facilities around the country at the taxpayers' expense and without benefit to the economy. My amendment was intended to achieve this but without excluding, as the original formulation seemed to do, two special cases which arise when a firm has existing factories in both assisted and non-assisted areas:-

- a. Rationalisation involving substantial new investment in modernised equipment or new product, in the plant in the non-assisted area and radical reduction in employment at, or closure of, the plant in the assisted area (this is the classic case of retreat from the branch factory in times of recession). I would wish to see regional assistance available to influence the firm towards retaining a more substantial measure of employment in the assisted area.
- b. In a multi-plant situation, where concentration to a single location is proposed and regional assistance could influence the firm's choice of the location in which to base its concentration.

I have had recent examples where regional assistance has been used in both types of case, to good effect in terms not only of preserving regional employment, but also of enabling the firms in question to invest more than they could otherwise have afforded on a higher and more up-to-date level of productive capacity and with an enhanced expectation of viability. Nationally, employment is higher than it would otherwise have been, as is national

productive capacity and competitiveness. I also note that selective assistance under section 8 of the 1982 Act would remain available for the purpose which you propose to exclude from regional assistance and that the effect is therefore to concentrate exclusively in DTI powers at present available to me and to Nick Edwards.

I appreciate that Nick Edwards' wording goes some way towards meeting my point, but even it leaves a presumption that regional assistance will not be available in such highly desirable applications, thus deterring prospective applicants and sowing the seeds of inter-Departmental dissent and delay when a specific case comes forward. I therefore propose the following, which seems to me to meet your intention and the support expressed for it by other colleagues while avoiding the exclusion, perhaps unintentionally, of cases of the kind I have illustrated:-

Para 34, fourth sentence, to read:-

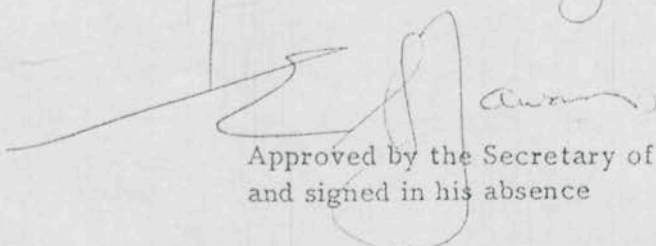
"The Government propose to provide for greater parity of treatment between the manufacturing and service sectors; and to exclude from assistance those relocation projects which simply transfer existing facilities without any net increase in employment."

This formula would still provide a clear statement of our intent to tighten up on the availability of selective assistance in this area and, in deference to my colleagues' comments, no longer reflects my own belief that service industry should be treated more favourably. It would ensure that assistance was used only in cases where there was some demonstrable overall benefit and would offer officials an unequivocal instruction in drawing up the subsequent operational Guidelines.

I am afraid that I consider the principle of Regional Policy involved here to be of sufficient importance to persuade me to object to publication of the White Paper in its present form. If colleagues find my alternative proposal unattractive, I would welcome early collective discussion of the issues, even at the expense of delaying publication of the White Paper.

I am copying this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

Yours sincerely



Approved by the Secretary of State
and signed in his absence

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NBPM AT 2/12

CS AD

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/Secretary of State for Trade and Industry

2 December 1983

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*Dear Andrew
with AT/PM*

On 30 November, my Secretary of State wrote to the Prime Minister enclosing a revised draft White Paper on regional policy.

2 Since then we have heard that the Chancellor of the Exchequer has made a few suggestions for amendments and officials here and in the Treasury have therefore had further discussions about possible further changes. As a consequence, Mr Lamont, in the absence of my Secretary of State, has suggested a rewording of paragraphs 4-7 and 12. Attached are copies of the relevant pages with the changes in square brackets.

3 I hope that the Prime Minister will be content with these additional proposals.

4 I am copying this letter to the Private Secretaries of members of E(A) and to Richard Hatfield (Cabinet Office).

*Yours etc
Steve*

STEPHEN NICKLEN
Private Secretary

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INTRODUCTION

The Government are committed to maintaining an effective regional policy to ease the process of change in areas which have been dependent on declining industries and to encourage new businesses in those areas.

2 Hitherto the main measures in support of regional policy have been directed towards alleviating imbalances in employment opportunities. Nearly £20 billion (at 1982 prices) has been spent on them over the past twenty years.

3 But other expenditure programmes have also contributed to this aim. Our modern communication system, which has enjoyed massive public investment since the war, has opened up opportunities for substantial new industrial and commercial development in the regions hitherto associated with the basic industries. There have been policies to stem depopulation of rural areas. More recently attention has been given to stemming the decay of inner city areas; and the urban programme and, latterly, the use of urban development grant is encouraging private sector involvement in industrial and commercial development.

4 There are other national policies which are of special value [in a local context.] These include training schemes to equip the labour force for new technologies; assistance to the development of tourism; encouragement of private sector contribution to regional economic development, notably through organisations such as local enterprise agencies; and also experiments to examine other ways in which local economies can be stimulated, particularly the twenty-five enterprise zones and latterly the proposal to establish a limited number of duty-free trading zones (freeports).

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5 Together with our national policies to stimulate innovative development; to upgrade technology; our support for new firm formation and expansion throughout the country; and our policies for reducing the burdens on business, these all help to create confidence [so that] industry and commerce can flourish with less dependence on public expenditure.

6 [Since 1972, when the present structure of regional industrial incentives was introduced, there have been important changes in our environment. The United Kingdom has become a member of the European Community. Along] with other countries, we have experienced a period of recession and inflation following the oil price rise. Unemployment is now high throughout the country and not just in the Assisted Areas; there are fewer mobile investment projects and increasing competition for them.

7 It is essential to ensure that regional policies are economic and effective in creating genuine jobs. The time is right to review the efficacy of our present system of regional industrial incentives.

Estimates of its effectiveness, though subject to wide margins of error, generally suggest that expenditure on regional industrial policies has had a significant impact on the economies of the Assisted Areas and, in particular, that it has led to about half a million more jobs in these areas. Despite this, there are still significant variations in unemployment levels between regions, and sometimes even sharper contrasts at local level. Taking account of regional multiplier effects, it is estimated that the cost per additional job created in the Assisted Areas in the 1970s was around £35,000 at 1982 prices. Many of the jobs said to be "created" would otherwise have come into existence elsewhere in this country and should thus be described as "transferred".

the planning system, through their housing policies, and through their approach to portable pensions. However, these initiatives will take time to have effect. But labour mobility cannot be relied on as a complete solution as it tends to be the young, the more skilled and the more enterprising who are ready to move in search of work, possibly leaving the less-favoured localities with a still more dependent population and a workforce even less able to climb out of disadvantage.

11 The Government therefore conclude that wage adjustment and labour mobility cannot be relied on to correct regional imbalances in employment opportunities.

The Case for Regional Industrial Policy Today

12 During the 1960s and early 1970s, when labour was scarce in some areas and less so in others, there were restrictive controls on industrial and office development, as well as substantial regional incentives. It was argued at that time that regional industrial policy eased the pressure of demand in the prosperous areas by diverting activity to areas of high unemployment; and that more employment and output could thus be achieved nationally without unacceptable inflation. This argument is *[much weaker]* when there is no general shortage of labour in any region.

13 By influencing the distribution of industry within the country, regional industrial policy helps to reduce regional imbalances in employment opportunities. Regional industrial incentives also enable the United Kingdom to compete effectively for internationally mobile investment. Inward investment projects have brought notable benefits, particularly to Scotland and Wales. They can improve the national economy through their contribution to output and employment, provided that the incentives are not excessive in relation to the contribution of these projects.

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MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

2 December 1983

Dear Norman,

WHITE PAPER ON REGIONAL POLICY

I am content with the references to matters of direct interest to DOE in paras 21-25 of the draft White Paper, subject to one reservation.

The last sentence of para 23 implies a commitment on the part of our two Departments to producing work on "the diagnosis of economic problems in particular areas and on programmes for tackling them." While I welcome the close co-operation that now exists between our Departments in this field, I suspect that this reference will arouse both expectations of something more substantial than is intended (a revival of regional economic planning) and demands from local authorities and others both to be involved in the process and to see the results. I suggest deleting "on the diagnosis tackling them" and substituting "on matters of common interest".

I am copying this to the Prime Minister, members of E(A) and Sir Robert Armstrong.

Your ever
Patrick

PATRICK JENKIN

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PRIME MINISTER

WHITE PAPER ON REGIONAL POLICY

The Secretary of State for Trade and Industry has re-circulated his draft White Paper. For the most part he has taken on board the comments you made. In only two areas did he not feel able to accept - the suggestion to tighten up the concept of modernisation and the suggestion that replacement investment should be phased out earlier.

On the former, he feels that the cost per job limit will ensure that most modernisation projects are in practice excluded. On the latter, he has provided a satisfactory explanation as to why the change on replacement investment should be made at the same time as the rest.

One of the other disputed points was the suggestion in paragraph 34 that selective assistance should be payable for re-location projects provided re-structuring on rationalisation was involved. It was noted that this would make virtually all applications eligible. The formula adopted is that suggested by the Welsh, "To exclude from Regional Selective Assistance those re-location projects where there is no increase in the number of net jobs."

Policy Unit now consider the White Paper is in good shape. Agree it be published on 14 December?

Yes me *AT*

1 December 1983

cc: Mr. Owen

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✓CNO

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PRIME MINISTER

WHITE PAPER ON REGIONAL POLICY

On 14 November I sent you a draft of my White Paper on regional industrial development. I now enclose a draft which has been substantially changed in the light of your and other E(A) members' comments.

2 This draft retains the same structure as before. However, I have made several additions within that structure drawing upon Nick Edwards' alternative introduction. In particular there is an explicit reference to our manifesto commitment to open the section on the Government's approach. I have in addition amended the reference to the role of the BTG on the lines you suggested; and have incorporated other suggestions.

3 I have not, however, followed one line advocated namely the suggested change to paragraph 27(a) concerning modernisation investment, since such a change would present us with difficulty. The introduction of the concept "fundamental" modernisation into the new scheme would add a further level of complexity and selectivity which would be inconsistent with an automatic incentive. The term "fundamental" derives from the European Commission, but is incompatible with our proposed legislation which uses the more stringent criterion of jobs created. The



operation of the cost-per-job ceiling will automatically ensure that projects which do not create new jobs will not be eligible for grant. This means in practice that most modernisation investment, including all routine modernisation investment, will be excluded from automatic grant (except when undertaken by small firms to whom the cost-per-job ceiling will not apply). I have amended paragraph 5 of Annex B to make this clearer.

4 You also enquired whether replacement investment could be excluded from RDGs earlier than the main changes which will flow from the legislation. This is a matter we have considered in some detail at the Treasury's request, but I have concluded that I do not see it as workable. Under the present RDG scheme neither the legislation nor the administrative rules provide for any consideration to be given to the nature of the investment being assisted. The need to exclude replacement investment to meet our EC obligations was one of the factors which led us to conclude that some form of project test needed to be introduced.

However, under the new scheme it is envisaged that the project test will be integrated with the consideration of the eligibility of the project as a whole. The final determinant of eligibility in most cases will be whether or not the project creates jobs, a requirement simple replacement investment would not fulfil. To seek to exclude replacement investment in advance of the introduction of the new scheme would therefore mean that we would need to introduce a different kind of test, since the jobs approach would not be available. It would be very difficult to



ensure the necessary consistency of treatment and perhaps even more difficult to convince the EC Commission that this interim approach would work, short of adopting the full project-based, employment-linked scheme. In any case our resource problems in devising rules for the new scheme, considering its organisation and training staff to operate it are already considerable and the prospect of making an interim major modification to the existing scheme would add substantially to those problems.

5 Equally importantly it would have a significant impact on our proposed transitional provisions which are already likely to be exceedingly complex. When the changes to the scheme, together with the changes to the map, are brought into effect there will be three substantive classes of assisted area: (i) those that are newly eligible; (ii) those that continue to be eligible and (iii) those that cease to be eligible (ignoring for the moment changes of category between AAs although this would be an added complication). New assisted areas will come straight into the new scheme on a project basis so that grant will not be payable on replacement or modernisation investment which does not create jobs. For areas that continue to be eligible we propose that assets provided during the transitional period should receive grant under the terms of the existing scheme. If we were to adopt the further proposal for replacement investment we would need to run two sets of transitional provisions simultaneously. The same applies to areas ceasing to be eligible but here we would be tampering with the existing scheme at the same time as phasing it out altogether. Such a course embarked upon at the



same time as we are consulting over the White Paper and taking through legislation to implement changes to the scheme cannot be expected to be well received by industry. It would be bound to create great confusion among applicants. For all of these reasons therefore I have concluded that, although earlier exclusion of replacement investment would bring forward some of the savings, it is simply not practicable.

6 Unless there is a major objection to this revised draft, I will send the White Paper to the printers on 5 December.

7 I am copying this minute to the members of E(A) and to Sir Robert Armstrong.

NT

N T

30 November 1983

Department of Trade & Industry

REGIONAL INDUSTRIAL DEVELOPMENT

29 November 1983

Paragraph

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INTRODUCTION

The Government are committed to maintaining an effective regional policy to ease the process of change in areas which have been dependent on declining industries and to encourage new businesses in those areas.

2 Hitherto the main measures in support of regional policy have been directed towards alleviating imbalances in employment opportunities. Nearly £20 billion (at 1982 prices) has been spent on them over the past twenty years.

3 But other expenditure programmes have also contributed to this aim. Our modern communication system, which has enjoyed massive public investment since the war, has opened up opportunities for substantial new industrial and commercial development in the regions hitherto associated with the *basic* industries. There have been policies to stem depopulation of rural areas. More recently attention has been given to stemming the decay of inner city areas; and the urban programme and, latterly, the use of urban development grant is encouraging private sector involvement in industrial and commercial development.

4 There are other national policies which are of special value to regional development. These include training schemes to equip the labour force for new technologies; assistance to the development of tourism; encouragement of private sector contribution to regional economic development, notably through organisations such as local enterprise agencies; and also experiments to examine other ways in which local economies can be stimulated, particularly the twenty-five enterprise zones and latterly the proposal to establish a limited number of duty-free trading zones (freeports).

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5 Together with our national policies to stimulate innovative development; to upgrade technology; our support for new firm formation and expansion throughout the country; and our policies for reducing the burdens on business, these all help to create confidence in the regions where industry and commerce can flourish with less dependence on public expenditure.

6 There have been important changes in our environment since the present structure of regional industrial incentives was introduced. The United Kingdom has become a member of the European Community and, along with other countries, we have experienced a period of recession and inflation following the oil price rise. Unemployment is now high throughout the country and not just in the Assisted Areas; there are fewer mobile investment projects and increasing competition for them.

7 It is essential to ensure that regional policies are economic and effective in creating genuine jobs. The time is right to review the efficacy of our present system of regional industrial incentives which was introduced in its present form in 1972. Estimates of its effectiveness, though subject to wide margins of error, generally suggest that expenditure on regional industrial policies has had a significant impact on the economies of the Assisted Areas and, in particular, that it has led to about half a million more jobs in these areas. Despite this, there are still significant variations in unemployment levels between regions, and sometimes even sharper contrasts at local level. Taking account of regional multiplier effects, it is estimated that the cost per additional job created in the Assisted Areas in the 1970s was around £35,000 at 1982 prices. Many of the jobs said to be "created" would otherwise have come into existence elsewhere in this country and should thus be described as "transferred".

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THE GOVERNMENT'S APPROACH

8 Imbalances between areas in employment opportunities should in principle be corrected by the natural adjustment of labour markets. In the first place, this should be through lower wages and unit costs than comparable work commands elsewhere. Wage flexibility, combined with a reputation for good work and a constructive attitude to productivity and industrial relations, would increase the attractiveness to industry of areas with high unemployment. Clearly labour costs are important to companies' ability to compete in world markets - particularly for companies in labour-intensive sectors. The Government would welcome views on how much geographical variations in wage rates affect companies' choice of location.

9 There is, however, little evidence that regional wage rates respond readily to variations in regional unemployment. Indeed, regional differentials in wage rates have tended to narrow over the last twenty years. Various reasons have been put forward to explain this, including the ability of trade unions to maintain nationwide comparability, the spread of multi-plant firms paying the same wages across the country, and national wage bargaining. The Government believe that wage bargaining must become more responsive to the circumstances of the individual enterprise including its location. Their policies of privatisation, together with a reduction in the power of trade unions to act against their own members' interests, should help to achieve this. But the Government recognise that it would be unrealistic to expect wage adjustment alone to eliminate regional imbalances in employment opportunities.

10 Natural adjustment can also occur through people moving from areas of persistently high unemployment to areas where employment prospects are better. Indeed there has already been a great deal of adjustment in the labour market in this way, with significant movement to *more* prosperous areas. The Government wish to facilitate greater geographical and occupational mobility by removing some of the rigidities in

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the planning system, through their housing policies, and through their approach to portable pensions. However, these initiatives will take time to have effect. But labour mobility cannot be relied on as a complete solution as it tends to be the young, the more skilled and the more enterprising who are ready to move in search of work, possibly leaving the less-favoured localities with a still more dependent population and a workforce even less able to climb out of disadvantage.

11 The Government therefore conclude that wage adjustment and labour mobility cannot be relied on to correct regional imbalances in employment opportunities.

The Case for Regional Industrial Policy Today

12 During the 1960s and early 1970s, when labour was scarce in some areas and less so in others, there were restrictive controls on industrial and office development, as well as substantial regional incentives. It was argued at that time that regional industrial policy eased the pressure of demand in the prosperous areas by diverting activity to areas of high unemployment; and that more employment and output could thus be achieved nationally without unacceptable inflation. This argument is less relevant when there is no general shortage of labour in any region.

13 By influencing the distribution of industry within the country, regional industrial policy helps to reduce regional imbalances in employment opportunities. Regional industrial incentives also enable the United Kingdom to compete effectively for internationally mobile investment. Inward investment projects have brought notable benefits, particularly to Scotland and Wales. They can improve the national economy through their contribution to output and employment, provided that the incentives are not excessive in relation to the contribution of these projects.

14 It can also be argued that, while some parts of the country are able to adjust to changes in economic circumstances, in others such changes have led to further decline. A business climate that is conducive to a high rate of innovation and successful new firm formation contributes to sustained economic growth. Therefore regional industrial policy should encourage the development of indigenous potential within Assisted Areas: the long term objective is self-generating growth in these areas.

15 Although an economic case for regional industrial policy may still be made, it is not self-evident. The Government believe that the case for continuing the policy is now principally a social one with the aim of reducing, on a stable long-term basis, regional imbalances in employment opportunities.

The Case for Change

16 The argument that regional industrial policy produces a net national economic benefit is open to debate. What is known is the cost imposed by that policy on the exchequer. Expenditure on regional industrial incentives in 1983/84 is expected to be £643 million (see Table 2 of Annex A). The Government are therefore concerned to see whether changes can be made to make sure that expenditure on regional industrial policy is as effective as possible.

17 Most of this expenditure represents transfer payments to companies; however there are real costs as well. Expenditure on regional measures imposes a burden on taxpayers throughout the country through either higher taxation or increased Government borrowing which crowd out other activities in the economy generally. In addition, industrial development controls (which the Government have already suspended) and regional incentives may have encouraged investment in locations that were not the best for the companies: the national economy may have suffered in consequence.

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18 The present scheme of regional development grants is heavily biased towards capital-intensive projects. Some of these receive very large amounts of grant although they might well have gone ahead anyway in the same location without assistance. Nor are the grants linked in any way to the creation of jobs. They have also been criticised for aiding replacement investment, in particular by the European Commission; the Government have given the Commission a *commitment that* expenditure on replacement investment will be excluded. There is also over-concentration on the manufacturing sector in which employment has been generally tending to decline since 1966, and too little support for the growing service activities.

19 The Government believe that regional industrial incentives still have an important role to play in influencing the location of new economic development, and they recognise the need for the United Kingdom to be able to compete effectively for internationally mobile investment. But the incentives must be made much *more* cost-effective than at present, with greater emphasis on job creation and selectivity, and less discrimination against service industries. They also need to focus on encouraging new and indigenous development in the Assisted Areas, rather than simply transferring jobs from one part of the country to another. the Government welcome views on these aspects of regional industrial incentives.

The Contribution of Local Communities

20 The Government welcome the increasing involvement of business in solving problems of local economic development, including participation in local enterprise agencies which provide assistance to new and small businesses. The Government believe that the private sector has a very important role to play in helping to solve the problems of

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local communities, and hope that more companies will contribute to this process in future.

21 Local authorities also have an important role to play in creating a climate conducive to enterprise in their areas, both in the way that they discharge their functions and in minimising the burdens on business.

Other Government Policies

22 The review of regional industrial policy has been carried out in full recognition of the wider context of regional economic policies of which it forms a central part. Regional and local economic development is influenced by a wide range of central and local government policies, in particular those related to infrastructure. The Government recognise the need to take account of the regional dimension in such policies. The policies of the Manpower Services Commission are especially important in this context. Their employment and training programmes apply nationwide, and there is no explicit bias in favour of the Assisted Areas. However, a high proportion of expenditure by the Manpower Services Commission is in areas with above average rates of unemployment.

23 There are two other areas of policy where interaction with regional industrial policy is especially important: the urban programme and rural policies. In both Scotland and Wales the urban programme and some parts of regional industrial policy are administered by a single Government department. In England, the urban programme and rural policies are both the responsibility of the Department of the Environment. Co-ordination of these policies with regional industrial policy calls for an effective partnership between the Departments of Trade and Industry and of the Environment. These Departments already co-operate at both regional and national level, and the Government have made arrangements for their respective regional offices to work even more closely in future on the diagnosis of economic problems in particular areas and on programmes for tackling them.

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24 The problems of many of our inner cities stem largely from their dependence on declining industries, inadequate investment, and obsolete infrastructure. The measures that the Government are taking to combat these problems involve both regional industrial policy and the urban programme. The urban programme includes measures directed at environmental improvement, attracting private investment into the inner cities, and reviving the local economy: in all these ways it contributes to regional industrial policy. The Department of the Environment is reviewing the effectiveness of projects carried out under the urban programme, including those related to the local economy, to assess the benefits generated by expenditure on different types of project. *Appropriate* programmes qualify for assistance from the European Regional Development Fund.

25 A wide range of social and economic factors underlie rural policies. They were developed largely to stem depopulation and to encourage an adequate supply and variety of employment opportunities. Depopulation is no longer a serious problem in most rural areas: the emphasis now is on improving their economic viability and social infrastructure. The economic objectives of rural policies are complementary to those of regional industrial policy and urban policy, while the measures are tailored to the specific problems of rural areas.

European Community Regional Policy

26 The European Community's concern for reducing regional disparities is demonstrated by the 2,010 million European Currency Units (about £1,160 million) set aside in the Community Budget in 1983 for expenditure on the European Regional Development Fund. Almost all the Fund is given in support of member countries' regional policies through fixed "quotas". This year, the United Kingdom expects to receive

CONFIDENTIAL

£260 million in this way. About 20 per cent of this will be in support of Government aid to companies, and the remainder for passing on to local and other public authorities for a variety of infrastructure projects, mainly in the Assisted Areas. A small but growing proportion of the Fund is being devoted to special Community programmes under the "non-quota" section. This aid is at present confined to giving special help to areas which have been or will be affected by Community policies and to areas which have a concentration of industries which have suffered excessively as a result of Community agreements to reduce over-capacity. In the United Kingdom, special Community measures to help shipbuilding and steel areas are already in operation, and further programmes for such areas, together with a new programme for textile areas, are close to agreement.

27 The European Regional Development Fund is expected to grow in real terms, and will therefore play an increasingly important part in the development of member countries' regional policies, including our own. The Government take the expected contribution fully into account in determining expenditure on regional policy. They strongly support the development of Community regional policies along lines compatible with our own policies and will play a full part in their formulation. The Government also support the Commission in ensuring that member countries' national regional policies do not result in wasteful competition or "bidding-up", and that national aids are set at levels appropriate to the problems of the respective regions. The United Kingdom will, of course, ensure that its own schemes respect these requirements.

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A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES

28 The principal forms of regional industrial incentive are regional development grants under Part II of the industrial Development Act 1982, and selective financial assistance under Section 7 of the same Act. (These are described in Annex A). At present, the balance of expenditure is weighted heavily in favour of the more automatic regional development grants and is strongly biased towards manufacturing activities. The Government intend that, for the future, automatic assistance will account for a smaller proportion of expenditure; will be targeted more closely on job creation; and will be extended to include appropriate service activities.

29 Industry attaches considerable importance to a grant scheme which incorporates standard rates of grant, is predictable in its application and which, by virtue of its predictability, can be taken into account at all stages of making investment decisions. Consequently, although it is proposed that the regional development grants scheme should be substantially revised in order to increase its cost-effectiveness, a high degree of predictability will be retained and the scheme will continue as the major element in regional industrial incentives.

30 Legislation will be introduced to provide the statutory framework for a new scheme which will:

- (a) relate to approved projects as opposed to qualifying premises as at present. Approved projects will be those which create new capacity; expand existing capacity; or effect a change in a product or process or service; and which consist wholly or mainly of qualifying activities;
- (b) provide for grant to be calculated at standard rates by reference either to approved capital expenditure, or to the number of jobs provided directly by the project in the Development Areas, whichever is more advantageous for the investor;

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- (c) allow for grant to be limited by means of a cost-per-job ceiling, so that it may be payable only to the extent that a project creates jobs - but this will not normally be applied to small firms; and
- (d) extend the scope of qualifying activities.

A more detailed account of *these* proposals is at Annex B.

31 When considering which activities should qualify for regional development grant, the Government will be concerned to minimise the risk of displacement of local competitors and to avoid the payment of grant where this is unlikely to bring an increased overall level of activity to the locality. It would not be appropriate for all services to qualify because many are for local *markets* and do not have a choice of location. The Government welcome views on which service activities should qualify in addition to manufacturing activities.

32 Every effort will be made to minimise the burden on applicants. The position of small firms is especially important in this respect: the revised scheme will be designed with their special needs in mind.

33 The changes outlined above will enhance the cost-effectiveness of the scheme. They will also result in a substantial reduction in expenditure. The extent of the reduction in public expenditure will depend primarily on the geographical coverage of the scheme (see paragraphs 39-43) and on the rates of grant to be applied. But for the scheme to be effective, it is necessary for the rates of grant to be high enough to ensure that the incentive is taken into account when companies make their investment decisions and for the cost-per-job ceiling to be set so that only those projects which are capital-intensive are affected. The Government welcome views on the rates of grant.

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34 As for regional selective assistance, the Government believe that it is an effective and economical incentive. They intend to increase its share of expenditure relative to that on regional development grants. However, its effectiveness could be increased in certain respects. The Government propose to provide for greater parity of treatment between the manufacturing and service sectors; and ^{normally} to exclude from regional selective assistance those re-location projects where there is no increase in the number of net jobs.

Selective financial assistance will also provide a means, where appropriate, to assist those modernisation projects which do not receive regional development grants but which, nevertheless, are essential to safeguard or maintain existing employment.

35 Regional development grants will thus continue to be an important element within the proposed structure for regional industrial incentives, but their importance relative to regional selective assistance will be less than at present. The Government welcome views on how far the balance should shift from automatic to selective assistance.

Other Regional Industrial Assistance

36 In addition to the regional industrial incentives already described, the Government through publicity funded development programmes make available, primarily in the Assisted Areas, suitable accommodation for businesses wishing to set up, relocate, or expand (see Annex A). The Government also encourage both private sector investment in new industrial and commercial property and joint ventures between the public and private sectors.

37 Self-generating growth requires a high rate of innovation and new firm formation. There are indications that the Assisted Areas suffer from a poor innovation record (especially when compared with the South East), and from a high level of

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dependence on branch plants of national and international manufacturing companies which gives an industrial milieu which is less conducive to new firm formation. The operation of regional industrial policy may itself have contributed to some of these weaknesses in the past. In their election manifesto, the Government made clear their commitment to diversify regional economies by encouraging the fullest use of their schemes for innovation. The Government welcome views on whether special measures should be taken in the Assisted Areas to encourage innovation, particularly by indigenous firms, and also to increase the rate at which new firms are created. These might be relaxed criteria for, or increased promotion of, existing schemes that are available throughout the country.

38 The regional investment role of the British Technology Group is relatively minor and is concentrated on smaller firms. The need for this may be expected to diminish in the future as private sector agencies become better able to fulfil the need for the kind of equity investment which it is designed to meet. Moreover, the regional role is now peripheral to the British Technology Group's main role: encouraging the transfer of technology. The Assisted Areas, as well as other areas, will benefit from this, particularly in terms of encouraging innovation. These considerations and the desirability that henceforth the British Technology Group should concentrate on its primary task have led the Government to conclude that it should not maintain a regional investment role. The Government welcome views on ways in which the British Technology Group can assist innovation in the Assisted Areas through its technology transfer role.

The Assisted Areas Map

39 The Assisted Areas map has been reduced since 1979 and now covers some 27.6 per cent of the working population. However, large changes in the distribution of unemployment and structural

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problems mean that the map is now seriously out of date. For example, it includes areas whose problems are much less acute than some of those - such as parts of the West Midlands - which are excluded.

40 The Government intend to revise the Assisted Areas map. In the past relative unemployment has been the major criterion. through factors such as industrial structure and peripherality have also been taken into account, Annex C describes the existing practice and poses questions about the extent to which a more measured approach could be adopted using these and other factors. The Government welcome views on the criteria for designating Assisted Areas.

41 The Assisted Areas map is based on Travel-to-Work Areas. These will be revised in the light of data from the 1981 Census, taking into account criticism of the earlier method. The decision has still to be made whether there should continue to be three categories of Assisted Area with regional development grant at different rates in the top two categories; or whether there should be only two categories with regional development grant available in only one. It can be argued that a map with three categories of Assisted Area, as at present, allows finer distinctions to be drawn. Equally it can be argued that such distinctions complicate the policy and its operation. Regional selective assistance will continue to be available in all categories of Assisted Area.

42 The coverage of the map, and the number of its categories, greatly affects the impact of the system of regional industrial incentives. A tightly drawn map would focus assistance on the areas of greatest need; a wider coverage would allow assistance to go to more areas with real, but untapped, potential for industrial development. The Government have to bear in mind that wider Assisted Area coverage would dilute the effect of locational incentives. On the other hand, a reduced coverage

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would allow higher rates of grant for a given total cost. The Government welcome views from all interested parties on the coverage of the map in the light of the considerations set out in this White Paper.

43 A new map, taking into account submissions made, will be announced in Autumn 1984.

Transitional provisions

44 The Government recognise that the prospect of changes to regional development grants and to the Assisted Areas map are likely to give rise to uncertainty. To minimise uncertainty, it is intended that all changes should be introduced simultaneously. The precise timing of this will depend upon the passage of legislation through Parliament and also on consultation, but it is intended that the changes should be implemented in the Autumn of 1984.

45 The Government recognise that these changes need to be accompanied in the relevant statutory instruments by transitional provisions which will avoid undermining investment undertaken on the basis of existing incentives. The effect of transitional provisions will vary with the circumstances of applicants when the changes are implemented. The new scheme will take immediate effect for those sectors of industry newly qualifying and for areas becoming eligible for regional development grants for the first time. In areas which would be excluded by the changes, or where the new scheme would result in a reduction in the amount of grant payable, grant will continue to be available under the terms of the present scheme on new assets provided during the subsequent twelve months. Further details will be published when the changes are made.

46 One aspect of the transition which may cause particular concern is the position of projects in receipt of selective assistance. In these cases, the amount of selective assistance

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offered will have taken account of regional development grants. so that the selective assistance and regional development grants together represent the minimum incentive for the project to go ahead. Special provision will be made for these cases. For those projects currently in receipt of an offer of selective assistance, regional development grant will continue to be paid under the terms of the present scheme and map. These terms will also apply to projects for which an application has already been made, or is made by [31 January 1984], provided that an offer of assistance is made before changes to the legislation are brought into effect.

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CONCLUSION

47 The Government are committed to an effective regional industrial policy designed to reduce, on a stable long term basis, regional imbalances in employment opportunities.

48 Legislation will be introduced to change the present scheme of regional development grants to make them more cost-effective. The Government expect that the combined effect of this change and those to the geographical coverage of the scheme would offer opportunities for a reduction in public expenditure.

49 The Government invite views on how much geographical variations in wage rates affect companies' choice of location (paragraph 8). They also invite views, in the light of the considerations set out above, on aspects of regional industrial policy which have yet to be decided:

- the aspects of regional industrial incentives described in paragraph 19;
- which activities should qualify for regional development grant (paragraph 31);
- the rates of regional development grant (paragraph 33);
- the balance between automatic and selective assistance (paragraph 35);
- measures in the Assisted Areas to encourage innovation and new firm formation (paragraph 37);
- ways in which the British Technology Group can assist innovation in the Assisted Areas through its technology transfer role (paragraph 38);

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- the criteria for designating Assisted Areas (paragraph 40);
- the coverage of the Assisted Areas map (paragraph 42).

Written submissions should be made by 31 May 1984 addressed to:

Regional Policy and Development Grants Division
Department of Trade and Industry
Room 417
Kingsgate House
66-74 Victoria Street
London SW1E 6SJ

The Department of Trade and Industry is publishing a background paper reviewing the effectiveness of regional economic policy and other issues raised during the Government's review. This can be obtained, price £2.00p (including postage and packaging) from:

The Library
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

THE INSTRUMENTS OF REGIONAL INDUSTRIAL POLICY

1. In Great Britain, the main component of regional economic policy is formed by the regionally differentiated industrial policies of the Department of Trade and Industry, together with the similar policies administered in Scotland by the Scottish Office and the Scottish Development Agency; and in Wales by the Welsh Office and the Welsh Development Agency. The geographical basis for the differentiation of regional industrial policies is areas of greatest need. At present, these are divided into three categories of Assisted Area: Special Development, Development (together known as development areas), and Inter mediate. A description of the basis for designating Assisted Areas and the present map are at Annex C.

2. Since 1972, the main instruments of regional industrial policy have been regional development grants, regional selective assistance, and advance factory building. Expenditure on these instruments in the six years to 1982/83 is given in Table 1; estimated expenditure in 1983/84 is given in Table 2.

3. Regional development grants are payable under the Industrial Development Act 1982 towards capital expenditure undertaken by manufacturing firms in the development areas. Grant is payable towards the provision on qualifying premises, of new assets used wholly or mainly for the manufacturing activities described in Orders III - XIX of the Standard Industrial Classification 1968 together with certain other directly related activities. The rate of grant depends on the location of the investment - at present 22% in Special Development Areas, and 15% in Development Areas.

Grant is not paid on building or works costing less than £5,000, or on individual items of plant and machinery costing less than £1,000 (£500 on

premises where less than 100 people are employed). The grant is tax-free. The scheme is administered through the Regional Development Grant Offices of the Department of Trade and Industry.

4. Regional selective assistance under Section 7 of the Industrial Development Act 1982 may be given to projects which:

have good prospects of viability;

create new jobs or safeguard existing ones [in the Assisted Areas];

strengthen the regional and national economy; and

need assistance to make them happen.

Assistance is discretionary and the level is negotiated as the minimum necessary for the project to go ahead. Assistance can take four forms:-

a grant to office and service industries for each new job created in the Assisted Areas;

project grants related to total project costs;

training grants where training is an essential part of the project;

exchange risk cover (for which a service charge is made) on foreign currency loans from the European Investment Bank and the European Coal and Steel Community.

Regional selective assistance is administered in England by the Department of Trade and Industry, and in Scotland and Wales by the Scottish Office and the Welsh Office respectively. The Highlands and Islands Development Board has similar powers, as has the Development Board for Rural Wales (using Welsh Development Agency Act powers) in non-assisted parts of its area.

5. Advance factory building covers a variety of activities, including provision of sites for private sector developers and the conversion or modernisation of offices, warehouses, factories and small nursery units. In England it is carried out, primarily in the assisted areas, by the English Industrial Estates Corporation (a body sponsored by the Department of Trade and Industry and also acting in rural areas for the Development Commission); in Scotland by the Scottish Development Agency and the Highlands and Islands Development Board; and in Wales by the Welsh Development Agency and the Development Board for Rural Wales. These bodies are expected to adopt commercial letting policies and charge market rents, and they operate under financial duties which set a minimum average rate of return from initial rents. All the agencies have the same discretion to offer rent-free periods; any such assistance is taken into account in any application for regional selective assistance.

6. Government grant aid to the Regional Development Organisations in England, which cover all the regions with substantial Assisted Areas; supports regional industrial policy objectives. This grant aid, currently totalling about £1½ million a year, has been increased recently to secure more effective and better co-ordinated regional programmes of inward investment promotion. In Scotland and Wales there is a similar contribution to regional industrial policy objectives through promotional programmes funded mainly by the respective Development Agencies.

7. Other past instruments of regional industrial policy have included the regional employment premium, office development permits, and industrial development certificates. The first - which was a continuing job-related subsidy - was introduced in 1967, doubled in 1974, and abolished in 1977. Industrial development certificates, which date back to 1947, were introduced to divert mobile industrial development to the Assisted Areas by limiting industrial development elsewhere. These were progressively eased in the last decade and finally removed in 1982. Office Development Permits were introduced in 1964 to restrict office development over a certain size in prescribed areas. This control had relatively little effect outside London and South East England; it was removed in 1979.

8. In addition, central Government also supports the reclamation of derelict land. In England, local authorities and the English Industrial Estates Corporation are eligible for derelict land grants of 100% of approved costs in the Assisted Areas and other areas designated as Derelict Land Clearance Areas. Individuals, companies, public utilities and nationalised industries are eligible for grants of 80% of the approved costs. These grants are administered by the Department of the Environment. In Scotland, derelict land clearance is carried out directly by the Scottish Development Agency. In Wales, the Welsh Development Agency uses local authorities as its agents.

TABLE 1: REGIONAL INDUSTRIAL ASSISTANCE, GREAT BRITAIN; OUTTURN PRICES

	77/78	78/79	79/80	80/81	81/82	82/83
	£m	£m	£m	£m	£m	£m
1. Regional Development Grants	393	417	331 ¹	491	617	690 ¹
2. Regional Selective Assistance	44	104	78	74	76	90
3. Land and Factories	52	85	110	141	161	137
TOTAL	489	606	519	706	854	917

TABLE 2: ESTIMATED REGIONAL INDUSTRIAL ASSISTANCE, 1983/84

	England	Scotland	Wales	Great Britain
	£m	£m	£m	£m
1. Regional Development Grants	n/a	n/a	n/a	440
2. Regional Selective Assistance	53	29	16	98
3. Land and Factories	26	49	30	105
TOTAL	-	-	-	643

Notes

- 1 From 12 June 1979 to 9 November 1982 there was a four month deferment of payment of grant on approved applications - this reduced the 1979/80 figure by about £110 million and raised the 1982/83 figure by up to £150 million.

A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES: REGIONAL DEVELOPMENT GRANTS

The principal features of the changes are described briefly in paragraphs 26-34 above and more fully in this annex. Those wishing to obtain details of the statutory changes to regional development grants should refer to the primary legislation when published; this annex is not an exhaustive account, but indicates how the powers given by the legislation will be exercised when the scheme is introduced.

2 It is proposed that grant should be payable towards approved projects rather than in respect of assets located on qualifying premises as at present. Projects may be approved which in any undertaking:

- create new productive capacity; or
- expand existing productive capacity; or
- effect a change in a product or process or service.

This will fulfil the Government's intention, stated in answer to a parliamentary question on 31 March 1981, that regional development grants would cease to be payable in respect of investment where no basic change in the scale or nature of a company's activities is involved.

3 To be approved for grant, projects will need also to consist wholly or mainly of qualifying activities. Qualifying activities will be more widely defined than at present. In addition to manufacturing, some service activities will qualify for grant which meet the criteria described in paragraph [] above. The qualifying activities will be specified in statutory instruments.

4 Grant will be payable at standard rates and will be calculated as the higher of either:-

- (a) a prescribed amount for each new job that the qualifying project creates in the development areas; or
- (b) a prescribed percentage of approved capital expenditure on the project, subject to a ceiling (higher than the amount in (a)) on the amount payable for each new job. This ceiling will not normally apply to projects undertaken by small firms.

Applicants will not be required to opt between these two methods; grant will be paid on whichever basis is more advantageous to the applicant.

5 The number of jobs which will be treated as created by a project will be those which result directly from the project in the Development Areas, net of any related reductions in employment in the Development Areas which also result directly from the project. The ceiling on grant payable for each job created (in 4(b) above) means that modernisation projects will receive grant only if, and to the extent that, they create jobs (except for modernisation projects undertaken by small firms which are not subject to this ceiling). Modernisation projects that safeguard employment in the Assisted Areas will continue to be eligible for regional selective assistance.

6 The Government invite views on the rates of grant that should be set for the revised scheme and will take submissions into account in reaching their decisions. These rates will also have to take account of EC limits on regional aid.

7 Regional development grants will continue to be tax-free and they will not reduce capital expenditure which qualifies for tax allowance.

8 Full details of the arrangements for the revised scheme, including those for making applications, will be published at the time the new scheme is implemented.

THE ASSISTED AREAS MAP

1. Recent Governments have usually designated Assisted Areas to comprise Travel-to-Work-Areas. These are the smallest identifiable areas in which most people (at least 75% of the working population) both live and work. The present map, which covers some 27.6% of the working population, includes parts of Scotland and Wales, and the Northern, North West, Yorkshire and Humberside, East Midlands, and South West English regions. In 1979, the coverage was some 44% of the working population.

2. In considering the designation of an Assisted Area the Government have regard to the criteria first laid down in the Industrial Development Act 1966 (currently in Section 1(3) of the Industrial Development Act 1982), namely:

"all the circumstances actual and expected, including the state of employment and unemployment, population changes, migration and the objectives of regional policies".

3. In applying these criteria, relative annual average unemployment rates have been the dominant factor, though industrial structure (especially over-dependence on one or more declining industries) and "peripherality" (essentially distances to markets) have also been important influences. There would be merit in widening the basis on which the map is drawn by taking more measured account of industrial structure and peripherality, together with such additional factors as long-term unemployment, occupational structure, and other forms of assistance available. However the Government do not see the procedure as being entirely suitable for statistical treatment.

4. The present Assisted Area map has three categories: Special Development; Development; and Intermediate. Key statistics in each category are:-

	Special Development Area	Development Area	Intermediate Area	Total* in Great Britain Assisted Areas
	% GB	% GB	% GB	% GB
WORKING POPULATION				
- England	7.0	4.5	4.5	16.0
- Scotland	5.0	1.6	0.4	7.0
- Wales	1.1	2.7	0.7	4.5
<hr/>				
Great Britain	13.1	8.8	5.6	27.5
LAND COVERAGE	5.0	24.8	7.7	37.5
AVERAGE UNEMPLOY- MENT October 1983	18.0	15.6	15.0	16.7

* Due to rounding working population figures do not add to the total for Great Britain Assisted Areas.

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cc NO

NBPM 24/11

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 November 1983

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry
1-19 Victoria Street
LONDON SW1H 0ET

Dear Secretary of State

FUTURE REGIONAL INDUSTRIAL POLICY:
DRAFT WHITE PAPER

You copied to me your minute of 14 November to the Prime Minister, enclosing a draft of the White Paper on regional policy. I have seen the responses from the Prime Minister and from George Younger, Nick Edwards and Jim Prior.

I hope it will be possible to publish the White Paper as soon as possible: speculation about its content is increasing and we should not prolong the uncertainty.

I understand my officials have been in touch with yours about a number of detailed drafting points. Provided you can accept these, I am content with the draft as it now stands.

I have a few comments on the suggestions put forward by George Younger and Nick Edwards. While I understand George's position, I think that the existing reference to the effects of regional policy (paragraph 2) is an accurate reflection of the evidence available and I would not wish to see it changed. I am, however, attracted by the way in which Nick has proposed that the opening section should be reformulated and I would be content with that, subject to some small qualifications. First, I would delete the second sentence of his fifth paragraph: this is a White Paper about regional industrial incentives,

/and I think

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and I think it would be inappropriate to make such a far-reaching commitment to continue all the other activities mentioned in the earlier paragraphs as part of the general background. Second, for the same reason, in the first line of his sixth paragraph, I would replace "these", with "regional". Third, on a drafting point, the reference in the fourth paragraph to innovation and small firms measures seems to me misplaced: such measures undoubtedly help in the assisted areas, as elsewhere, but are by no means "of special value for regional development" in the same way as support for tourism, for example. If these measures are to be mentioned at all, I suggest they should be included in the fifth paragraph.

Finally, on paragraph 30, I am in favour of the proposition to exclude from assistance those relocation projects where there is no net increase in jobs: I see no point in paying simply to transfer jobs around the country. For the purpose of a consultative White Paper, I could however accept the formulation Nick proposes.

I am copying this to all other members of E(A) and to Sir Robert Armstrong.

Yours sincerely,

Margaret O'Hara

NIGEL LAWSON

*(approved by the Chancellor and signed in
his absence)*

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NBPM
AT 22/11

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

22 November 1983

Dear Mr Tebbit

FUTURE REGIONAL INDUSTRIAL POLICY: DRAFT WHITE PAPER

Thank ^{attached} you for sending me your minute to the Prime Minister of 14 November attaching a copy of the draft White Paper on Regional Industrial Development.

I am generally content with the draft, and I suggest that the last sentence of para 18 (in square brackets) can be omitted since the previous sentence already refers to local authority functions.

On paragraph 20, I understand that it is proposed to add a reference to the objectives of rural policy on the lines "Rural policies have been developed largely to stem depopulation and to encourage an adequate supply and variety of employment. The economic objectives underlying rural policies are consistent with regional industrial policy". Although the aim of stemming depopulation was the original objective of rural policy, this is no longer a serious problem in most rural areas and the emphasis now is on improving the economic viability of rural areas and their social infrastructure. I suggest that the draft might be amended to reflect this.

I am copying this letter to members of E(A) and Sir Robert Armstrong.

Yours sincerely

A.H. Davis

PP PATRICK JENKIN

Approved by the Secretary of State
and signed in his absence

The Rt Hon Norman Tebbit MP

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23 NOV 1983



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NBPM AT 22/11 *CEVO*



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Norman Tebbit MP
Secretary of State for
Trade and Industry
1 Victoria St
LONDON
SW1H QE1

21 November 1983

Dear Secretary of State

FUTURE REGIONAL INDUSTRIAL POLICY: DRAFT WHITE PAPER

Thank you for sending me a copy of your minute of 14 November to the Prime Minister enclosing a copy of the draft White Paper.

I believe early publication of the White Paper will serve as an important contribution to the public debate on regional policy and as a statement of intent by Government.

I note that the White Paper will apply only to Gt Britain and I believe that this is correct given the particular difficulties of Northern Ireland. Nevertheless I recognise the wider United Kingdom framework set by the document and in this context we will of course be examining our own system of aids. I understand that my officials have been in touch with yours and have agreed to the addition of a sentence making it clear that the proposals in the paper have been drawn up principally with Gt Britain in mind.

My officials will be in touch with yours once the likely date of your announcement is known to provide you with defensive briefing material with regard to the reference to Northern Ireland.

I am also asking my special adviser to get in touch with your office to pass on some detailed points on the general issues which I hope

/...

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you will take into account.

I am copying this letter to recipients of your minute of
14 November.

Yours sincerely

Derek Hill

Approved by the Secretary of State
and signed in his absence



22 NOV 1983

FILE

EA: HMT
NIO
D. Energy
SO
WO
DOE
LPSDTI
CDL
D. Emp
MAFF
Chief Sec
D. Trans
CO

10 DOWNING STREET

S/C: MR OWEN

From the Private Secretary

21 November, 1983

DRAFT WHITE PAPER ON REGIONAL INDUSTRIAL POLICY

The Prime Minister is generally content with the structure of the draft. She would, however, like a number of drafting suggestions to be considered. These are set out in the attached note.

She has noted that in paragraph 38 it is intended to make all the changes simultaneously. She wonders whether replacement investment could be excluded from automatic RDGs from 1 January, 1985, without legislation. This would release savings at the rate of £70 million a year, 6 - 12 months before the new arrangements are finally in operation. While she recognises that this would complicate the transitional arrangements it would simultaneously fulfil a Community commitment, remove deadweight from regional support and accelerate expenditure savings.

The Prime Minister has commented on the lack of any specific reference in the draft to the service activities which would henceforth be allowed to qualify. She feels there ought to be an explicit welcome to the public's views on which service activities might be suitable.

She doubts whether the White Paper should invite comments on the regional investment role of the BTG, as in paragraph 33. It has been agreed that the BTG should henceforth concentrate on its primary, technology transfer role and its investment should be disposed of as soon as possible. The invitation should instead relate to ways in which the BTG can assist innovation in the assisted areas through its technology transfer role.

The Prime Minister has also seen the comments of the Secretary of State for Scotland. She feels that any reference to the incentives for inward investment, as in paragraph 11, need to be counter-balanced by a reference to the need to ensure that these incentives are cost-effective. She agrees that in paragraph 29 the square bracketed sentences can be omitted as the point is adequately expressed later in the paragraph.

- 2 -

In paragraph 30, she feels that the amendment suggested by the Secretary of State for Scotland would, in effect, make all re-location projects eligible for selective assistance as virtually all re-location will involve some element of re-structuring and rationalisation.

I am sending a copy of this letter to the Private Secretaries to the members of EA and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry

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DRAFTING SUGGESTIONS ON WHITE PAPER ON REGIONAL INDUSTRIAL POLICY

Paragraph 5: third sentence: insert after "good work":
"and a constructive attitude to productivity
and industrial relations". ✓

Paragraph 7: delete from fourth sentence onwards and replace
by: "The Government wish to facilitate greater
mobility, by removing some of the rigidities ✓
in the planning system, through their housing
policies, and their approach to portable pensions.
However, these initiatives will take time to have
effect. They cannot be relied upon, at least
in the foreseeable future, as the complete
solution to regional imbalances in employment
opportunities."

Paragraph 11: last sentence: replace by: "Inward investment
in particular, can improve national wellbeing
through its contribution to output and employment,
provided that the incentives are not excessive
in relation to the net contribution of these
projects."

Paragraph 14: second sentence: add: "which crowd out other
activities in the economy generally."

Paragraph 27(a): the reference to modernising should be
tightened up in some way, possibly along the
lines of "fundamental modernisation of an
existing business."

21 November, 1983

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NBAM

ce *[initials]*

AT 2/11

Y SWYDDFA GYMREIG
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WELSH OFFICE
GWYDYR HOUSE
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Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

18 November 1983

[Handwritten signature]

FUTURE REGIONAL INDUSTRIAL POLICY: DRAFT WHITE PAPER *with AT*

Thank you for sending me a copy of your minute of 14 November to the Prime Minister.

I agree that the White Paper should concentrate in the main on the proposals for change in the Industry Act measures. But these still have to be related to the wider aspects of regional policy, as we ourselves did in the 1983 Manifesto. Otherwise the consultative exercise - which I welcome from the point of view of handling these difficult proposals in Wales - may start on the wrong foot. Inevitably the draft White Paper, by explaining the reasons for change, calls into question the efficacy of present policies. I fear that many readers of this White Paper will conclude that the Government would like to abandon regional industrial policy altogether and that our Manifesto message - that we will keep a good regional industrial policy but make it more cost effective - will be forgotten. It would be especially regrettable if potential inward investors misunderstood the position. Moreover, I would be very reluctant to see any changes in the text which suggested that the Government did not set high store by inward investment. Industry in Wales is also very concerned about the Government's intentions towards regional policy. I would accordingly like to propose a more positive opening to the White Paper (as at the Annex) which would enable us to show that our commitment to improving the regions is not diluted. The redraft includes wording from the Manifesto, and I hope that colleagues will agree that we should use it.

/My

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry



My officials have proposed drafting points. I would like to mention 3:-

(a) add to paragraph 27(g):

"The Government have already given a commitment that straightforward replacement investment will no longer qualify for automatic grant".

I would prefer not to give a date for the cut-off in what is essentially a consultative document.

(b) The penultimate sentence of paragraph 30 should read:

"The Government propose ... service sectors; and normally to exclude from assistance those relocation projects where there is no increase in the number of net jobs".

My officials advise me that this is a complex matter and that unless the SFA guidelines are carefully redrafted there is risk of excluding valuable projects which could fairly be assisted on regional grounds. In particular they (and I) would like to see the guidelines rewritten on the basis that SFA can be paid to transfer jobs into an Assisted Area where the alternative would be for the jobs to be completely lost. More work is I believe needed on this. I would prefer to qualify the White Paper by saying "normally" at this point.

(c) We have not ourselves considered the case for and against a map with 3 tiers and are therefore not really in a position to judge whether the justification for such a scheme is strong or weak. Since this is a consultative document we should, I believe, either refer to it neutrally or omit the reference altogether.

Finally, I wonder whether the White Paper has the European dimension exactly right. In my view the significance of membership of the EC for regional policy is the attractiveness of the United Kingdom as a base for inward investors who seek markets in Europe. Membership also requires our industry to be competitive in European markets and this is important for industry in the Assisted Areas as well as nationally.

Moreover, our regional policies need to ensure maximum leverage of European funds, especially where recourse to them is necessary to secure a favourable budget effect. It might be helpful to include these points in the White Paper.

/ I am sending a copy of this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

J. M.
W. A.



ANNEX

REVISED INTRODUCTION TO DRAFT WHITE PAPER

The Government are committed to maintaining an effective regional policy to ease the process of change in areas which have been dependent on declining industries and to encourage new businesses in those areas.

Hitherto the main measures in support of regional policy have been directed towards alleviating imbalances in employment opportunities. Nearly £20 billion (at 1982 prices) has been spent on them over the past 20 years.

But other expenditure programmes have also contributed to this aim. Our modern communication system, which has enjoyed massive public investment since the war, has opened up opportunities for substantial new industrial and commercial development in the regions hitherto associated with the primary industries. There have been policies to stem the depopulation of rural areas. More recently attention has been given to stemming the decay of inner city areas; and the urban programme and latterly the use of Urban Development Grant is encouraging private sector involvement in industrial and commercial development. Various development agencies, some of them operating nationally, contribute to regional development by supplying industrial property for new businesses and expansions, while also helping to create a more attractive environment for investment and growth and supplying financial and advisory services.

There are other policies of national significance which are of special value for regional development. These include measures to stimulate innovative development and to upgrade technology throughout the economy; and support for small firm formation and expansion. The Government's assistance to the development of
Considerable effort has also gone into training schemes to equip the labour force for new technologies.



tourism is often important for regional development. At the same time, the Government has encouraged private sector contribution to regional economic development, notably through organisations such as Business in the Community and local enterprise agencies which are concerned to promote self-help initiatives among businessmen, local authorities and the local community generally. There are also experiments to examine other ways in which local economies can be stimulated, particularly the 25 enterprise zones and latterly the proposal to establish a limited number of duty free trading zones (freeports).

All these, together with our policies for reducing the burden of cost and administration on business, help to create confidence in the regions where industry and commerce can flourish with less dependence on public expenditure. The Government intend to continue to use them to bring about beneficial industrial and commercial change in the regions.

But it is essential to ensure that these policies are economic and effective in creating genuine jobs. The time is right to review the efficacy of our present system of regional industrial incentives which was introduced in its present form in 1972. Estimates of its effectiveness, though subject to wide margins of error, generally suggest that expenditure on regional industrial policies has had a significant impact on the economies of the Assisted Areas, and in particular has led to about half a million more jobs. Despite this there are still significant variations in unemployment levels between regions, and even sharper contrasts at local level. Taking account of regional multiplier effects, it is estimated that the cost per additional job created in the Assisted Areas in the 1970s was around £35,000 at 1982 prices. Many of the jobs said to be "created" would otherwise have come into existence elsewhere in this country and should thus be described as transferred.



There have been important changes in our environment since the present structure of regional industrial incentives was introduced. The United Kingdom has become a member of the European Community and, along with other countries, we have experienced a period of recession and inflation following the oil price rise. Unemployment is now high throughout the country; there are fewer mobile investment projects and increasing competition for them.

THE GOVERNMENT'S APPROACH TO REGIONAL INDUSTRIAL POLICY

(Then continue as from paragraph 5 onwards.)

REGIONAL FOR: Review
Pt 6.

21 NOV 1983
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ce NO
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

18 November 1983

Dear Secretary of State,

FUTURE REGIONAL INDUSTRIAL POLICY: DRAFT WHITE PAPER

Thank you for copying to me your minute of 14 November inviting comments on the draft White Paper.

I am broadly content with the draft, which I think forms a good basis for consultation on the outstanding issues. As you say, the delay imposed on us by the need to await the data for the map review allows the consultation to be seen as genuine, and this should be helpful in putting across our policy.

I do, however, have difficulty with some points as follows:

- with ATD
- (1) I am unhappy with the statement in the penultimate sentence of paragraph 2 that the jobs created by regional policy "would otherwise have been available elsewhere in the country". I think it is wrong to talk of regional policy in terms of diverting existing jobs from the non-assisted areas to the assisted areas. More new jobs in Scotland resulting from regional incentives have been associated with inward investment or the growth of indigenous firms rather than with movements from other parts of the UK. To say that in the absence of regional policy these would have been available elsewhere is to make a number of assumptions about how the economy would have responded, all of which are very much open to question.
 - (2) Indeed, more generally, I think the White Paper fails to place sufficient emphasis on the importance of regional incentives in attracting inward investors and of our incentives being competitive internationally. This could be remedied to some extent by the following amendments to the draft:-

Conflicts directly
with PU suggestion.

- (i) Paragraph 11, amend the first sentence to read "As well as influencing the distribution of industry within the country, regional industrial incentives also enable the United Kingdom to compete effectively for internationally mobile investment which has made notable contributions to the economies of particular regions."
- (ii) Paragraph 16, amend the first sentence to read "The Government believe that regional industrial incentives still have an important role to play in influencing the location of new economic development and recognise the need for the United Kingdom to be able to compete effectively for internationally mobile investments."
- (3) The square-bracketed sentence at the end of paragraph 18 could be read as encouraging local authorities (whether or not in the assisted areas) to pursue an independent role which might not necessarily be consistent with Government policies. I am quite clear that it should be omitted.
- (4) In paragraph 29, I would certainly wish the square-bracketed sentence to be deleted. Later on in the paragraph the words "The Government believe that present grant levels exceed those sufficient for this purpose" prejudice decisions on one element in the proposed new RDG Scheme. I would prefer the sentence in question simply to say "The Government would welcome views".
- (5) I am particularly concerned about the practical consequences of the proposal in paragraph 30 (for which I can find no authority in the E(A) minutes) to exclude from regional assistance those relocation projects where there is no increase in the number of net jobs. (I assume this means no net increase in the number of jobs.) While I agree that RSA should not be used simply to transfer an existing production facility from one area to another, the proposal as it stands would exclude relocation of jobs in the service sector and would prevent assistance being given to manufacturing projects involving necessary rationalisation and restructuring and cases of this sort, though not frequent, do arise from time to time. It is, I think, relevant that you have, with the endorsement of the Prime Minister, agreed in the case of Fisher

Controls to use national selective assistance for precisely this purpose, involving concentration at Rochester (a non-Assisted Area) of manufacture formerly conducted at both Rochester and Cowdenbeath (an Assisted Area) with an overall reduction in employment. I would suggest, therefore, that the passage in question should read "and to exclude from assistance those relocation projects in manufacturing, not involving restructuring and rationalisation of the enterprise, where there is no net increase in the number of jobs".

This would open
the floodgates since
all relocation
involves
restructuring

(6)

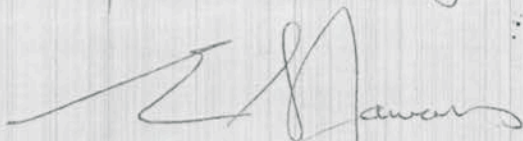
I am also unhappy about the implication in paragraph 32 about the dependence of assisted areas on branch plants and consequential vulnerability to closure. So far as Scotland is concerned there is no evidence that branch plants or plants of multi-national companies have a greater tendency to close than locally-owned companies. I think that paragraph 32 should be amended to read:-

There are indications that the Assisted Areas suffer from a poor innovation record (especially when compared to the South East) and from an industrial milieu which is less conducive to new firm formation."

My officials are writing to yours with a note of some more detailed points.

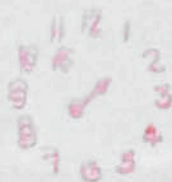
I am copying this letter to the Prime Minister and other recipients of your minute.

Yours sincerely,



Approved by the Secretary of State
and signed in his absence

18 NOV 1967



Region
with
AT 2/1



10 DOWNING STREET

Prime Minister ①

Mr Younger's views as expected.

There are two points where you might want to oppose his suggestions.

No. (i) The 2 square bracketed sentences in para 29 are important and should be retained

(ii) The proposed amendment to para 30 would let in all relocation projects for not selective assistance.

AT

18/11

It is not the policy change which leads to cash reduction but the extent of the areas & the % grants - ~~the extent of the areas & the % grants~~
~~2.2.11 - 1.1.11 - 1.1.11 - 1.1.11~~
p. 10

The point is much
better put later in
the same para. - and I
would keep that. The
same budget sentence
can go. ~~not~~

①

PRIME MINISTER

In general the White Paper draft seems satisfactory though Nick Owen has suggested a number of points at which the draft could be more forceful in support of change. The main need at present is to stop the territorial departments dragging regional policy back to its present structure - pro manufacturing and pro big incentives for capital intensive inward investment. The Treasury are likely to be resisting this.

Agree the Policy Unit draft suggestions be put to DTI, together with the suggestion at X.

→ ?
Turning &
expenditure
savings?

AT

Yes

ms

18 November 1983

PS: (i) No need to study Annexes.

(ii) Mr Younger's views attached

DRAFT WHITE PAPER ON REGIONAL INDUSTRIAL POLICYThe pros and cons of Regional Policy

Despite two very lengthy official reports, which pointed towards the conclusion that there is no economic benefit to be gained from regional economic policy - the message of the first fifteen paragraphs of the paper - we have ended up with the mixture much as before - automatic grants, biased towards capital-intensive investment, selective assistance on the woolliest of criteria, and the heavy emphasis on manufacturing. The proposed changes - reduced grant levels, capping the cost-per-job, and admission of a few (unmentioned) service activities - are pretty modest.

The paper goes in pretty hard on regional policy in the first fifteen paragraphs. There will be those who would say that this leads to an unbalanced paper - one that demolishes the case for a regional policy at all, and then going on to propose a revised one. Our view is that the paper needs to be blunt about regional policy, notwithstanding the Manifesto commitment, in order to win the argument for a substantial reduction in its provisions. To this end the paragraphs 5 to 9 might be sharpened further:

Paragraph 5, third sentence: insert after "good work":

"and a constructive attitude to productivity and industrial relations".

There is no point in inviting views on the effect of variations in wage rates if, in the next sentence, we point out that there are hardly any!

Paragraph 7: delete from fourth sentence onwards. There is no real evidence to support the need for this kind of "social engineering"; Bournemouth might also be said to have a "dependent" population in the sense implied here, but it poses no regional problem. And why should people be persuaded to live where infrastructure already exists? Surely infrastructure should respond to demographic changes? We would prefer a more positive statement here, along the lines of:

wish to facilitate

"the Government are determined to promote greater mobility, by removing some of the rigidities in the planning system, through their housing policies, and their approach to portable pensions. However, these initiatives will take time to have effect. They cannot be relied upon, at least in the foreseeable future, as the complete solution to regional imbalances in employment opportunities".

Paragraph 11, last sentence: replace by:

"Inward investment in particular, can improve national wellbeing through its contribution to output and employment, provided that the incentives, [which represent transfers to foreign managements,] are not excessive in relation to the net contribution of these projects."

Point can be made without []

Paragraph 14, second sentence: add:

" which crowd out other activities in the economy generally".

The Proposals

As to the proposed changes themselves, our main reservations are first that the new scheme will continue to offer an open-ended support for "modernisation" as distinct from "replacement". This distinction lies largely in the eye of the DTI: it is difficult to imagine a management replacing its equipment without modernising it, unless it was lovingly restoring Victorian industrial museums! We would suggest that in

Paragraph 27 (a) the reference to modernising should be tightened up in some way, possibly along the lines of "fundamental modernisation of an existing business".

Services

Our second misgiving concerns the lack of any specific reference in the draft to the service activities which would henceforward be allowed to qualify. Regional policy is fixated on manufacturing, even though service industries are likely to be a more substantial source of new jobs, and are, we believe, more footloose than the DTI is prepared to allow. There ought to be an explicit welcome to the public's views on which service activities might be suitable.

British Technology Group

Lastly, we do not think that the paper should invite comments on the regional investment role of the British Technology Group, at Paragraph 33. It was agreed that the BTG should henceforward

concentrate on its primary, technology transfer role, and that its investments should be disposed of as soon as possible. The invitation should instead relate to ways in which the BTG can assist innovation in the assisted areas through its technology transfer role.

Timing and Expenditure Savings

X The draft closes off an option to accelerate the savings which the proposals make possible. At paragraph 38, it announces that all changes should be introduced simultaneously. It is open to the Government to exclude replacement investment from automatic RDGs from 1 January 1985, without legislation, in fulfilment of a commitment to the Commission to do so. This would realise savings at the rate of £70 million a year, 6-12 months before the new arrangements are finally in operation.

If the Prime Minister agrees, this suggestion might be put to Mr Tebbit. It would complicate the transitional arrangements but it would simultaneously fulfil a Community commitment, remove dead weight from regional support, and accelerate expenditure savings.

NICHOLAS OWEN



JF4801

CONFIDENTIAL

✓ NO

PRIME MINISTER

FUTURE REGIONAL INDUSTRIAL POLICY : DRAFT WHITE PAPER

6? minutes attached
At E(A) on 7 October, I was invited to prepare a draft White Paper setting out the Government's proposals. This is

... enclosed.

2 The draft is about regional industrial policy. Our review ranged wider than that, but my aim has been to keep the White Paper crisp and to the point. The essential points are, of course, the proposed changes to the regional development grant scheme and revision of the Assisted Areas map.

3 Although White, the paper has "green" edges and invites views on all issues which are not yet decided. One of the advantages of the timetable dictated by the availability of data for producing the new AA map is that the consultation can be genuine - and seen to be so.

4 I hope to publish the White Paper the Wednesday before the legislation is introduced to the House - and certainly before Christmas. I am therefore asking you and the colleagues to whom this is copied, to let me have any comments by Monday, 21 November at the latest.



5 I am copying this to all other members of E(A) and to
Sir Robert Armstrong.

NT

N T

14 November 1983

Encl

Department of Industry

JU802A

REGIONAL INDUSTRIAL DEVELOPMENT

DRAFT 11 NOVEMBER

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Introduction

For over fifty years successive British Governments have tried to alleviate regional imbalances in employment opportunities. For the past twenty years we have had intensive regional industrial policies involving the expenditure of nearly £20 billion at 1982 prices. In addition there have been policies to stem the depopulation of rural areas and, more recently, policies to stem the decay of inner city areas. There has also been massive public investment in transport infrastructure since the war giving most areas a developed basic communication system.

2 Various academic studies have been made of the effectiveness of this expenditure. The estimates are subject to wide margins of error. However, these studies generally suggest that expenditure on regional industrial policies has had a significant impact on the economies of the Assisted Areas, and, in particular, that it has led to about half a million more jobs in these areas. It is estimated that in the 1970s the cost per additional job in the Assisted Areas was around £35,000 at 1982 prices. These estimates take account of regional multiplier effects. However, it must be recognised that most of these jobs, although additional to the Assisted Areas, would otherwise have been available elsewhere in the country. Despite this, there are still significant variations in unemployment levels between regions, and even sharper contrasts at local level.

3 Since 1972, when the present structure of regional industrial incentives was introduced, there have been important changes in our environment. The United Kingdom has become a member of the European Community and, along with other countries, we have experienced a decade of stagflation following the oil price rise.

Unemployment is now high throughout the country; there are fewer mobile investment projects and increasing competition for them.

4 The Government therefore consider it necessary to review the case for their regional industrial policies in the light of these factors.

THE GOVERNMENT'S APPROACH

5 Imbalance in employment opportunities between areas should in principle be corrected by the natural adjustment of labour markets. In the first place, this should be through lower wages and unit costs than comparable work commands elsewhere. Wage flexibility combined with a reputation for good work would increase the attractiveness to industry. Clearly labour costs are important to companies' ability to compete in world markets - particularly for companies in labour-intensive sectors. The Government would welcome views on how much geographical variations in wage rates affect companies' choice of location.

6 There is, however, little evidence that regional wage rates respond readily to variations in regional unemployment. Indeed, regional differentials in wage rates have tended to narrow over

the last twenty years. Various reasons have been put forward to explain this, including the ability of trades unions to maintain nationwide comparability, the spread of multi-plant firms paying the same wages across the country, and the growth of the public sector in which national wage bargaining is dominant. The Government believe that wage bargaining must become more responsive to local conditions; policies of privatisation and the reduction of the power of trade unions to act against their own members' interest should help to achieve this. But the Government recognise that it would be unrealistic to expect wage adjustment to eliminate regional imbalances in employment opportunities.

7 Natural adjustment can also occur through people moving from areas of persistently high unemployment to areas where employment prospects are better. Indeed there is already a great deal of adjustment in the labour market in this way, with significant movement to more prosperous areas. The Government continue to attach importance to increasing geographical and occupational mobility as exemplified by their policies on housing and pensions. Since, however, it tends to be the young, the more skilled and the more enterprising who are ready to move in search of work, there is a risk that reliance on more labour mobility would leave the less-favoured localities with a still more dependent population and a workforce even less able to climb out of disadvantage. The separation of younger members of families from the older members leads to loss of mutual support with increased social and public expenditure costs. In addition, it

would result in some under-use of expensive public facilities in the areas that were losing population and the need for investment to duplicate these facilities elsewhere.

8 The Government have therefore concluded that neither wage adjustment nor labour mobility can be relied on as the complete solution to regional imbalances in employment opportunities.

The case for regional industrial policy today

9 During the 1960s and early 1970s, when labour was scarce in some areas and less so in others, there were restrictive controls on industrial and office development as well as substantial regional incentives. It was then argued that regional industrial policy eased the pressure of demand in the prosperous areas by diverting activity to areas of high unemployment; and that more employment and output could thus be achieved nationally without unacceptable inflation. This argument is much weaker when there is a good supply of labour everywhere.

10 The economic case for regional industrial policy today is not self-evident. Clearly some parts of the country are able to adjust to changes in economic circumstances; while in others such changes lead to further decline. A business climate that is conducive to a high rate of innovation and successful new firm formation contributes to sustained economic growth. Regional industrial policy must not only aim at reducing disparities in employment opportunities by influencing the location of economic activity. It should also encourage the development of

indigenous potential of the Assisted Areas with the long term objective of self-generating growth.

11 As well as influencing the distribution of industry within the country, regional industrial incentives also enable the United Kingdom to compete effectively for internationally mobile investment. Inward investment in particular, can benefit the national economy not only through its contribution to output and employment, but also through the introduction of new technology and skills.

12 Although an economic case for regional industrial policy may still be made it is now much less clear cut, and the Government believe that the case for continuing the policy is now principally a social one.

The case for change

13 The arguments that regional industrial policy produces a net national economic benefit are open to debate. What is known is the cost imposed by that policy on the exchequer: expenditure on regional industrial incentives in 1983/84 is expected to be £643 million (see Annex A). The Government are therefore concerned to see whether changes can be made to make sure that the money spent on regional industrial policy is spent as effectively as possible; and in a way that contributes to the purposes of the policy.

14 Most of this expenditure represents transfer payments to companies; however there are real costs as well. Expenditure on regional measures means that other candidates for expenditure lose out or else it adds to the pressure for higher taxation or Government borrowing. In addition, industrial development controls and regional incentives may have encouraged production in locations that were not the best for the companies: the national economy may have suffered in consequence.

15 The present scheme of regional development grants is heavily biased towards capital intensive projects. Some of these receive very large amounts of grant although they would have gone ahead anyway in the same location without assistance. Nor are the grants linked in any way to the creation of jobs; they have also been criticised for aiding replacement investment. There is also over-concentration on the manufacturing sector in which employment is generally declining irrespective of cyclical economic patterns and too little for service activities.

16 The Government believe that regional industrial incentives still have an important role to play in influencing the location of new economic development. But they need to be made much more cost effective than at present, with greater emphasis on selectivity, job creation and less discrimination against service industries. They also need to focus on encouraging new and indigenous development in the Assisted Areas, rather than simply transferring jobs from one part of the country to another. The Government would welcome views on the balance between these factors which underlie regional industrial policy.

The contribution of local communities

17 The Government welcome the increasing involvement of business in problems of local economic development including participation in local enterprise agencies providing assistance to start-ups and small businesses. The Government believe that the private sector has a very important role to play in helping to solve the problems of local communities, and hope that more companies will be able to contribute to this process in future.

18 Local authorities have an important role to play in creating a climate conducive to enterprise in their areas, both in the way that they discharge their functions and in minimising the burdens on business. [Local authorities also have a positive role to play in sustaining and fostering local economies.]

Other Government policies

19 The review of regional industrial policy has been carried out in full recognition of the wider context of regional economic policies of which it forms a central part. Regional and local economic development is influenced by a wide range of central and local government policies, in particular those related to infrastructure and the employment and training policies of the Manpower Services Commission. The Government note the need to take account of the regional dimension in all work on such policies. The policies of the Manpower Service Commission are especially important in this context. Their employment and training programmes apply nationwide, and there is no explicit bias in favour of the Assisted Areas. However, a high proportion

of their expenditure is in areas with above average rates of unemployment.

20 There are two other areas of policy where inter-action with regional industrial policy is especially important; the urban programme and rural policies. In both Scotland and Wales the urban programmes and, for the most part, regional industrial policy, are administered by a single Government Department. In England, the urban programme and rural policies are both the responsibility of the Department of the Environment - in the case of rural policy by means of the Development Commission. Co-ordination of these policies with regional industrial policy calls for an effective partnership between the Departments of Trade and Industry and of the Environment. These Departments already co-operate at both regional and national level, and the Government have made arrangements for their respective regional offices to work even more closely in future on the diagnosis of economic problems, and on programmes for tackling them.

21 The problems of many of our inner cities stem largely from their dependence on declining industries, inadequate investment, and obsolete infrastructure. The measures that the Government are taking to combat these problems involve both regional industrial policy and the urban programme. The urban programme includes measures directed at environmental improvement, attracting private investment into the inner cities, and reviving the local economy: in all these ways it contributes to regional policy. In the Government's view, appropriate programmes qualify for assistance from the European Regional Development Fund.

European Community regional policy

22 The European Community's concern for reducing regional disparities is demonstrated by the 2,010 million European

Currency Units (about £1,160 million) set aside in the Community Budget in 1983 for expenditure on the European Regional Development Fund. The United Kingdom expects to receive £260m of this sum, of which about 20 per cent will be in support of aid to companies, and the remainder for passing on to local and other public authorities in support of a variety of infrastructure projects, mainly in the Assisted Areas. The European Regional Development Fund is expected to grow in real terms, and will therefore play an increasingly important part in the development of Member States' regional policies, including our own. The Government take this expected contribution fully into account in determining expenditure on regional policy.

23 Whilst the bulk of expenditure on the European Regional Development Fund has hitherto been given in support of national regional policies, a small but growing proportion is being devoted to special Community programmes under the "non-quota" section of the Fund. This aid is at present confined to giving special help to areas which have been or will be affected by Community policies or have a concentration of industries which have suffered excessively as a result of Community agreements to reduce over-capacity. In the United Kingdom, special Community measures to help shipbuilding and steel areas are already in operation, and further programmes for such areas together with a new programme for textile areas are close to agreement.

24 The Government strongly support the development of these Community regional policies along lines compatible with our national policies and play a full part in their formulation. The Government also support the Commission in ensuring that Member

States' national regional policies do not result in wasteful competition or "bidding-up", and that national aids are set at levels appropriate to the problems of the respective regions. The United Kingdom will naturally ensure that its own schemes respect these requirements.

A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES

25 The principal forms of regional industrial incentive are regional development grants under Part II, and selective financial assistance under Section 7 of the Industrial Development Act 1982. (These are described in Annex A). At present, the balance of expenditure is weighted heavily in favour of the more automatic regional development grants and is strongly biased towards manufacturing activities. The Government intend that, for the future, automatic assistance should account for a smaller proportion of expenditure; and should be targetted more closely on job creation both in the manufacturing sector and, where effective, the services sector.

26 Industry attaches considerable importance to a grant scheme which incorporates standard rates of grant, is predictable in its application and which, by virtue of its predictability, can be taken into account at all stages of making investment decisions. Consequently, although it is proposed that the regional development grants scheme should be substantially

revised in order to increase its cost effectiveness, a high degree of predictability will be retained and the scheme will continue as the major element in regional industrial incentives.

27 Legislation will be introduced immediately to provide the statutory framework for a new scheme which will:

- (a) relate to qualifying projects as opposed to qualifying premises as at present. Qualifying projects will be those which create new capacity; expand existing capacity; or modernise existing capacity by changing a product or process or service; and which consist wholly or mainly of qualifying activities;
- (b) provide for grant to be calculated at standard rates by reference to approved capital expenditure or, to the number of jobs provided directly by the project, which ever is more advantageous for the investor;
- (c) allow for grant to be limited so that it may be payable only in respect of projects which create jobs - by means of a cost-per-job ceiling, but this will not normally apply to small firms; and
- (d) extend the scope of qualifying activities.

A detailed account of the proposals is at Annex B.

28 Every effort will be made to minimize the burden on applicants. The position of small firms is especially important in this respect and the revised scheme will be designed with their special needs in mind.

SS/Scotland wants to delete. Best keep?

29 The changes outlined above will enhance the cost-effectiveness of the scheme. [They will also result in a substantial reduction in expenditure. The extent of the reduction in public expenditure will depend primarily on the geographical coverage of the scheme (see paragraphs 31-33) and on the rates of grant to be applied.] For the scheme to be effective, it is necessary for the rates of grant and the cost-per-job ceiling to be set at levels which ensure that the incentive is taken into account when companies make their investment decisions. The Government believe that present grant levels exceed those sufficient for this purpose, but would welcome views on the levels of grant in respect of the prescribed percentage of capital expenditure, the job-related grant and the level at which the cost-per-job ceiling might be set. These changes would be expected to reduce the cost and therefore the burden on the exchequer. Together with changes in the geographical coverage of the scheme (see paras 31-33) these changes would be expected to offer opportunities for a reduction in public expenditure.

↓ I agree with Scotland
The word "substantial" covers an enormous margin

This is a much better way

30 As for regional selective assistance, the Government believe that it is an effective and economical incentive. They intend to increase its share of expenditure relative to that on regional development grants. However, its effectiveness could be increased in certain respects. The Government propose to provide for greater parity of treatment between the manufacturing and service sectors; and to exclude from assistance those re-location projects where there is no increase in the number of

net jobs. Selective financial assistance will also provide a means, where appropriate, to assist those modernization projects which may not receive regional development grants but which, nevertheless, are essential to safeguard or maintain existing employment.

31 Within the proposed structure for regional industrial incentives, regional development grants will thus continue to be an important element, but their importance relative to regional selective assistance will be less than at present. The Government welcome views on how far the balance should shift from automatic to selective assistance.

Other regional industrial assistance

32 Self-generating growth requires a high rate of innovation and of company start-ups. There are indications that the Assisted Areas suffer from a poor innovation record (especially when compared with the South East), from an industrial milieu which is less conducive to new firm formation, and from a high level of dependence on branch plants of national and international manufacturing companies. The operation of regional industrial policy may itself have contributed to some of these weaknesses in the past. In the election manifesto, the Government made clear their commitment to diversify regional economies by encouraging the fullest use of their schemes for innovation. The Government welcomes views on whether special measures should be taken to encourage innovation, particularly by indigenous firms, and also to increase the rate at which new firms are created in disadvantaged areas. These might be

favourable terms or increased promotion of existing schemes that are available throughout the country.

33 The regional investment role of the British Technology Group (BTG) is relatively minor and is concentrated on smaller firms. The need for this may be expected to diminish in the future as private sector agencies become better able to fulfil the need for the kind of equity investment which it is designed to meet. The regional role, however, is now peripheral to the BTG's main role from which the Assisted Areas, as well as other areas, can benefit, particularly in terms of encouraging innovation. On the other hand, the Government would not wish to deprive the English Assisted Areas of the benefit of a form of regional assistance which is available in comparable areas of Scotland and Wales through the Scottish and Welsh Development Agencies. The Government would welcome comments on the value of the regional investment role of the BTG and on the continuing need for it.

The Assisted Areas map

34 The Assisted Areas map has been reduced since 1979 and now covers some 27.6% of the working population. However, large changes since then in the distribution of unemployment and structural problems mean that the map is now seriously out of date. For example, it includes areas whose problems are much less acute than some of those - such as parts of the West Midlands - which are excluded.

35 The Government intend to revise the Assisted Areas map. In the past relative unemployment has been the major criterion; other factors, such as industrial structure, have, however, also been taken into account (see Annex C). A balance must be struck between objective and subjective criteria. The Government welcome views on the criteria for designating Assisted Areas.

36 The Assisted Areas map is based on Travel-to-Work Areas. These will be revised in the light of data from the 1981 Census, taking into account criticism of the earlier method. The decision has still to be made whether there should continue to be three categories of Assisted Area with Regional Development Grant at different rates in the top two categories; or whether there should be only two categories with Regional Development Grant available in only one. A map with three categories of Assisted Area, as at present, allows finer distinctions to be drawn. It is doubtful, however, whether in practice these can be justified. Regional Selective Assistance will continue to be available in all categories of Assisted Area.

37 The coverage of the map, and the numbers of tiers, greatly affects the impact of the system of regional industrial incentives. A tightly drawn map would focus assistance on the areas of greatest need; a wider coverage would allow assistance to go to more areas with real, but untapped, potential for industrial development. The Government have to bear in mind that wider Assisted Areas coverage would dilute the effect of locational incentives. On the other hand, a reduced coverage

would allow higher rates of grant for a given total cost. The Government welcome views from all interested parties on the coverage of the map in the light of the considerations set out in this White Paper. A new map, taking into account submissions made, will be announced as soon as possible. This will not be before Autumn 1984.

802.4

Transitional provisions

38 The Government recognise that the prospect of changes to regional development grants and to the Assisted Areas map are likely to give rise to uncertainty. To minimise uncertainty, it is intended that all changes should be introduced simultaneously. The precise timing for this will depend upon the passage of legislation through Parliament and also on consultation, but it is intended that the changes should be implemented in the Autumn of 1984. The Government recognise that these changes need to be accompanied in the relevant statutory instruments by transitional provisions which will avoid undermining investment undertaken on the basis of existing incentives.

39 The effect of transitional provisions will vary with the circumstances of applicants at the time changes are implemented. The new scheme will take immediate effect for those sectors of industry newly qualifying and for areas becoming eligible for regional development grants for the first time. In areas which may be excluded by the changes, or where the new scheme would result in a reduction in the amount of grant payable, grant will continue to be available under the terms of the present scheme on

new assets provided during the subsequent twelve months.
Further details will be published when the changes are made.

40 One aspect of the transition which may cause particular concern is the position of projects in receipt of selective assistance. In these cases, the amount of selective assistance offered will have taken account of regional development grants, so that the selective assistance and regional development grants together represent the minimum incentive for the project to go ahead. Special provision will be made for these cases. For those projects currently in receipt of an offer of selective assistance, regional development grant will continue to be paid under the terms of the present scheme and map. These terms will also apply to projects for which an application has already been made, or is made by [31 January 1984], provided that an offer of assistance is made before changes to the legislation are brought into effect.

CONCLUSION

41 The Government are committed to an effective regional industrial policy designed to reduce regional imbalances in employment opportunities. Legislation is being introduced to change the present scheme of regional development grants to make them more cost-effective. The Government will be looking for savings in the expenditure on regional economic policy from the combined effect of changes to the structure for regional industrial incentives and those to the Assisted Areas map.

42 The Government invite views on aspects of regional industrial policy which have yet to be decided in the light of the considerations set out above. Submissions should be made by 31 May 1984 addressed to:

Regional Policy and Development Grants Division
Department of Trade and Industry
Room 417
Kingsgate House
66-74 Victoria Street
London SW1E 6SJ

The Department of Trade and Industry is publishing a background paper reviewing the effectiveness of regional economic policy and other issues raised during the Government's review. This can be obtained, price £ ? p (including postage and packaging) from:

The Library
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

THE INSTRUMENTS OF REGIONAL INDUSTRIAL POLICY

1. In Great Britain, the main component of regional economic policy is formed by the regionally differentiated industrial policies of the Department of Trade and Industry, together with the similar policies administered in Scotland by the Scottish Office and the Scottish Development Agency; and in Wales by the Welsh Office and the Welsh Development Agency. The geographical basis for the differentiation of regional industrial policies is areas of greatest need. At present, these are divided into three categories of Assisted Area: Special Development, Development (together known as development areas), and Intermediate. The basis for designating Assisted Areas and the present map are at Annex C.

2 Since 1972, the main instruments of regional industrial policy have been regional development grants, regional selective assistance, and advance factory building. Expenditure on these instruments in the six years to 1982/83 is given in Table 1; estimated expenditure in 1983/84 is given in Table 2.

3. Regional development grants are payable under the Industrial Development Act 1982 towards capital expenditure undertaken by manufacturing firms in the development areas. Grant is payable towards the provision of new assets on

qualifying premises, ie those used wholly or mainly for the manufacturing activities described in Orders III - XIX of the Standard Industrial Classification 1968 together with certain other directly related activities. The rate of grant depends on the location of the investment - at present 22% in Special Development Areas, and 15% in Development Areas. Since 1979, the same rate of grant is paid for capital expenditure on new buildings and works as on new machinery and plant. Grant is not paid on schemes of building or works costing less than £5000, or on individual items of plant and machinery costing less than £1000 (£500 on premises where less than 100 people are employed). The grant is tax-free. The scheme is administered through the Regional Development Grant Offices of the Department of Trade and Industry.

4. Regional selective assistance under Section 7 of the Industrial Development Act 1982 may be given to projects which:

have good prospects of viability;

create new jobs or safeguard existing ones [in the Assisted Areas];

strengthen the regional and national economy; and

need assistance to make them happen.

Assistance is discretionary and the level is negotiated as the minimum necessary for the project to go ahead. Assistance can take four forms:-

a grant to office and service industries for each new job created in the Assisted Areas;

project grants related to total project costs;

training grants where training is an essential part of the project;

exchange risk cover on foreign currency loans [for which a service charge is made] from the European Investment Bank and the European Coal and Steel Community.

Regional Selective assistance is administered in England by the Department of Trade and Industry, and in Scotland and Wales by the Scottish Office and the Welsh Office respectively. The Highland and Islands Development Board has similar powers, as has the Development Board for Rural Wales (using Welsh Development Agency Act powers) in non-assisted parts of its area.

5. Advance factory building covers a variety of activities, including provision of sites for private sector developers and the conversion or modernisation of offices, warehouses, factories and small nursery units. In England it is carried out, primarily in the assisted areas, by the English Industrial Estates Corporation (a body sponsored by the Department of Trade and Industry and also acting in rural areas for the Development Commission); in Scotland by the Scottish Development Agency and the Highland and Islands Development Board; and in Wales by the Welsh Development Agency and the Development Board for Rural Wales. These bodies are expected to adopt commercial letting policies and charge market rents, and they operate under financial duties which set a minimum average rate of return from initial rents. All the agencies have the same discretion to offer rent-free periods; any such assistance is taken into account in any application for regional selective assistance.

6. Other instruments of regional industrial policy are equity investment and the contracts preference schemes. The power to make equity investments in industrial undertakings lies with the British Technology Group for the English Assisted Areas, and with the Scottish and Welsh Development Agencies in Scotland and Wales. All these agencies also have other powers, including the ability to make loans. Under the contracts preference schemes, firms in the development areas receive preferential treatment when tendering for public contracts for the supply of goods and services.

7. Government grant aid to the Regional Development Organisations in England, which cover all the main Assisted Area regions, supports regional individual policy objectives. This grant aid, currently totalling about £1½ million a year, has been increased recently to secure more effective and better co-ordinated regional programmes of inward investment promotion. In Scotland and Wales there is a similar contribution to regional industrial policy objectives through promotional programmes funded mainly by the respective Development Agencies.

8. Other past instruments of regional industrial policy have included the regional employment premium office development permits and industrial development certificates. The first - which were a continuing job-related subsidy - were introduced in 1967, doubled in 1974, and abolished in 1977. Industrial development certificates, which date back to 1947, were introduced to divert mobile industrial development to the Assisted Areas by limiting individual development elsewhere. These were progressively eased in the last decade and finally removed in 1982. Office Development Permits were introduced in 1964 to restrict office development over a certain size in prescribed areas. This control had relatively little effect outside London and South East England; it was removed in 1979.

9. In addition, central Government also supports the reclamation of derelict land. In England, local authorities and the English Industrial Estates Corporation are eligible for derelict land grants of 100% of the approved costs in the assisted areas and other areas designated as Derelict Land Clearance Areas. Individuals, companies, public utilities and nationalised industries are eligible for grants of 80% of the approved costs. These grants are administered by the Department of the Environment. In Scotland, derelict land clearance is carried out directly by the Scottish Development Agency. In Wales, the Welsh Development Agency uses local authorities as its agents.

TABLE 1 REGIONAL INDUSTRIAL ASSISTANCE - GREAT BRITAIN

	77/78	78/79	79/80	80/81	81/82	82/83
	£m	£m	£m	£m	£m	£m
1. Regional Development Grants	393	417	331	491	617	690 ¹
2. Regional Selective Assistance	44	104	78	74	76	90
3. Land and Factories	52	85	110	141	161	137
TOTAL	489	606	519	706	854	917

TABLE 2 BREAKDOWN BY REGION OF ESTIMATED REGIONAL INDUSTRIAL ASSISTANCE 1983/84

	England	Scotland	Wales	Great Britain
	£m	£m	£m	£m
1. Regional Development Grants	n/a	n/a	n/a	440
2. Regional Selective Assistance	53	29	16	98
3. Land and Factories	26	49	30	105
TOTAL	-	-	-	643

Notes

- 1 Includes up to £150m arising from the ending, on 9 November 1982 of the four month's deferment of payment of grant on approved applications.

A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES: REGIONAL
DEVELOPMENT GRANTS

The Government propose early legislation to provide a framework for a revised scheme of regional development grants. The principal features of the changes are described briefly in paragraphs 24-28 above and more fully in this annex.

2 It is proposed that grant should be payable towards qualifying projects rather than in respect of assets located on qualifying premises as at present. Projects will be considered eligible, which in any undertaking:

- create new capacity; or
- expand existing capacity; or
- modernise existing capacity by changing a product or process or service.

This will fulfil the Government's intention, stated in answer to a parliamentary question on 31 March 1981, that regional development grants would cease to be payable in respect of investment where no basic change in the scale or nature of a company's activities is involved.

3 To qualify for grant, projects will need to consist wholly or mainly of qualifying activities. Qualifying activities will be more widely defined than at present. In

addition to manufacturing, some service activities will qualify for grant. When considering those activities which should qualify for grant, the Government will be concerned to minimise the risk of displacement of local competitors and to avoid the payment of grant where this is unlikely to bring an increased overall level of activity in the locality. The qualifying activities will be specified in statutory instruments.

4 Grant will be payable at standard rates; and will be calculated by reference not only to approved capital expenditure undertaken as part of a qualifying project but also to the number of jobs provided directly by the project. The grant will be calculated as the higher of

- a prescribed percentage of capital expenditure subject, except for those projects undertaken by small firms, to a ceiling on the amount of grant payable for each job; or
- a prescribed amount for each job.

Applicants will not be required to opt between the two methods of calculating grant: grant will be paid on whichever basis is more advantageous to the applicant.

5 The number of jobs which will be treated as provided directly by a project will be limited to the net new jobs directly resulting from the project and located in the

development areas. As a result of the operation of a ceiling on grant payable per job, modernisation projects, although otherwise eligible for grant, would only receive grant if, and to the extent that, they provide additional jobs.

6 Regional development grants will continue to be tax-free and they will not reduce capital expenditure which qualifies for tax allowances.

7 Details of the arrangements for the revised scheme, including those for making applications, will be published prior to the implementation of the new scheme.

ANNEX C

THE ASSISTED AREAS MAP

1 Successive Governments have usually designated Assisted Areas mainly by reference to boundaries of Travel-to-Work-Areas, ie the smallest identifiable area in which a significant proportion (currently 75%) of those working within the area also live within it.

2 The present map, which covers some 27.6% of the working population, includes parts of Scotland and Wales, and the Northern, North West, Yorkshire and Humberside, East Midlands and South West English regions. In 1979, the coverage was some 44%.

3 In considering the designation of an Assisted Area the Government takes account of criteria first laid down in the Industrial Development Act 1966 (currently in Section 1(3) of the Industrial Development Act 1982), namely:

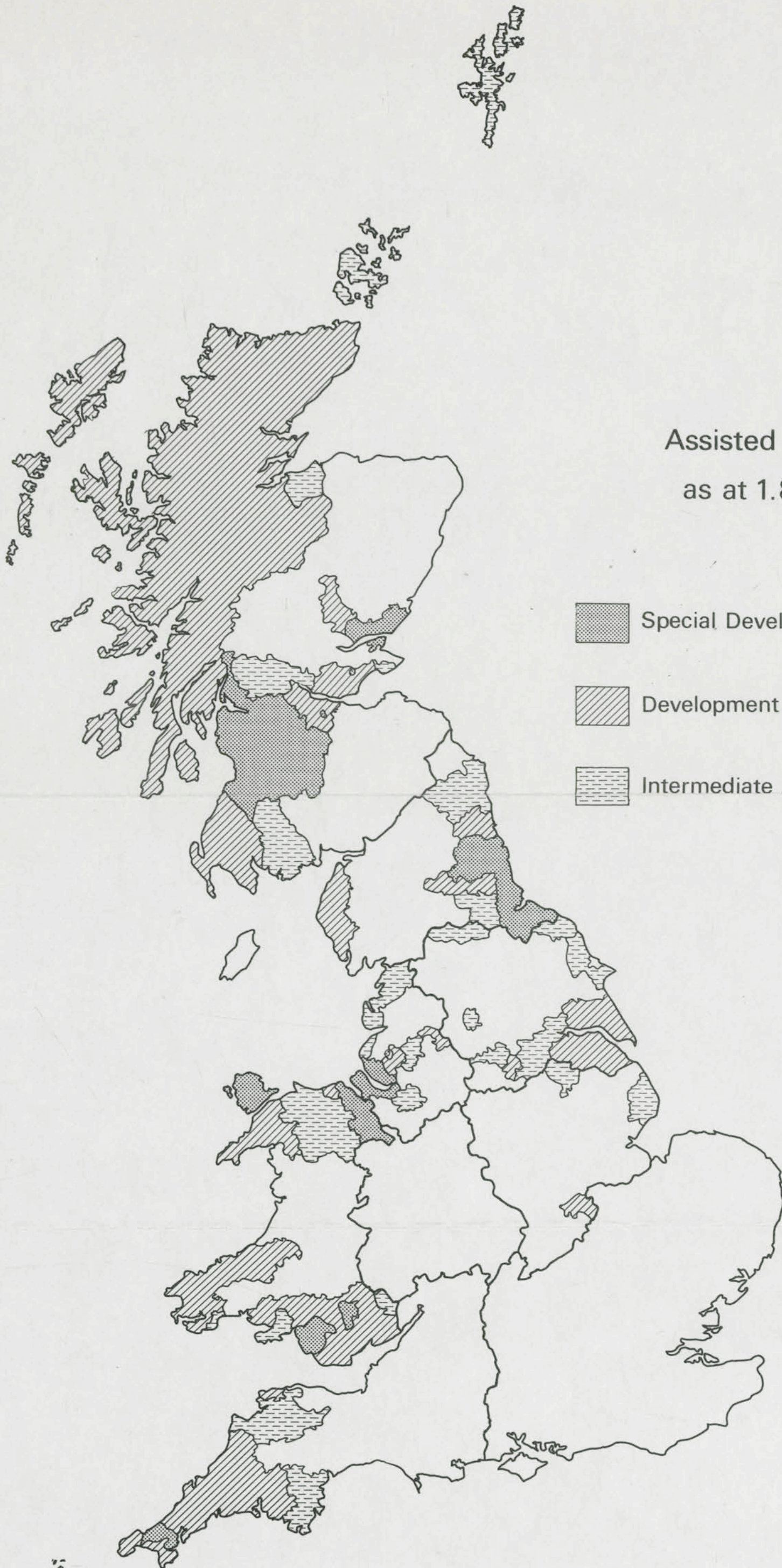
"all the circumstances actual and expected, including the state of employment and unemployment, population changes, migration and the objectives of regional policies".

4 In applying these criteria, relative annual average unemployment rates have been the dominant factor, though industrial structure (especially over-dependence on one or more declining industries) and "peripherality" (essentially distances to markets) have also been important influences. There would be merit in widening the basis on which the map is drawn by taking more measured account of industrial structure and peripherality, together with such additional factors as long-term unemployment and occupational structure, though the Government do not see the procedure as being entirely suitable for statistical treatment.




5 The present Assisted Area map has three categories: Special Development; Development; and Intermediate. Key statistics in each category are:-

	Special Development Area	Development Area	Intermediate Area	Total in Great Britain Assisted Areas
	% GB	% GB	% GB	% GB
WORKING POPULATION				
- England	7.0	4.5	4.5	16.0
- Scotland	5.0	1.6	0.4	4.0
- Wales	1.1	2.7	0.7	4.5
<hr/>				
Great Britain	13.1	7.8	5.6	27.5
LAND COVERAGE	5.0	24.8	7.7	37.5
AVERAGE UNEMPLOY- MENT October 1983	18.1	15.6	15.0	16.7

*Due to rounding working population figures do not add to the total for Great Britain Assisted Areas.



Assisted Areas
as at 1.8.82

-  Special Development Areas
-  Development Areas
-  Intermediate Areas



JF4740

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

ce No

CONFIDENTIAL

7 November 1983

The Rt Hon Patrick Jenkin MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Prime Minister ②

NT's case seems sound on this

mf

AT
7/11

R Patrick,

see Pt 5

Thank you for your letter of 31 October. You will have seen John Biffen's letter to me of the same date; and will know that he has now agreed to introduction of the regional legislation as rapidly as possible.

2 I will be circulating a draft White Paper on future regional industrial policy very soon. I fully appreciate your concern over the long time that will elapse before we can both implement the new scheme and announce a new Assisted Areas map; but I do not see how the position would be exacerbated by early publication of the White Paper. There is already much uncertainty over regional industrial incentives and their availability. The White Paper will do much to contain this uncertainty. Not only will it describe the proposed changes to the structure of regional industrial incentives, but it will also make clear that there will be transitional provisions to safeguard those who have made investments on the basis of the present map and scheme.

3 One of the advantages of the timetable is that it will allow real consultation on the Assisted Areas map: the basis for designation; total coverage; number of tiers; as well as the future status of areas. Obviously map coverage and grant levels will be the major determinants of what savings we achieve with the new scheme. It is precisely because these key factors are for decision later that it is possible for us to have consultation on the map.

4 I am copying this letter to the Prime Minister, other members of E(A), First Parliamentary Counsel, and Sir Robert Armstrong.

ef
Norman

NORMAN TEBBIT

Renowned Power
Old Review
pt 6



11/11/19
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11/11/19



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

~~CNO~~

NBPM AT 4/11

The Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry
1 Victoria Street
LONDON

3 November 1983

Dear Norman,

REVIEW OF REGIONAL ECONOMIC POLICY

Thank you for copying to me your minute of 26 October to the Prime Minister setting out your proposals for the publication of the White Paper and the introduction of legislation.

I was generally content with the timetable you proposed, and in particular with your proposal to announce at NEDC the intention to publish the White Paper, with a view to early legislation.

I am copying this letter to the Prime Minister and the other recipients of your minute.

Yours ever,

George

PE 5

Relevant
Policy
Review
Part 6.

4 NOV 1993

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5 6 7 8 9 10
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JU815

Secretary of State for Trade and Industry

N GP M 45 3/6
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

2 November 1983

David Heyhoe Esq
Private Secretary
Lord Privy Seal
Privy Council Office
Whitehall SW1

Dear David,

REGIONAL POLICY: LEGISLATION AND WHITE PAPER - TIMING

We spoke on the telephone earlier today about the discussion that had taken place yesterday afternoon between the Lord Privy Seal and my Secretary of State on this subject. In that discussion, the Lord Privy Seal said that he was prepared, in the light of my Secretary of State's explanation of the problems associated with delaying legislation until the revised Assisted Areas map became available, to agree to as rapid introduction of the regional legislation as was possible. He was therefore prepared to withdraw the reservation he had expressed in his letter of 31 October.

2 I am copying this letter, the contents of which we agreed between us, to Andrew Turnbull (No 10), to the Private Secretaries of other Members of E(A), to Murdo Maclean, to the Private Secretary of the First Parliamentary Council, and to Richard Hatfield.

Yours ever

Colin McCarthy

M C McCARTHY
Private Secretary

PP requested

Regional Policy: Review A 6

3 NOV 1983





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cf no
NBPM AT 3/11

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and
Industry
1 Victoria Street
LONDON

2 November 1983

Dear Norman,

Thank you for copying to me your minute of 21 October to the Prime Minister about the revision of the assisted area map.

I appreciate your difficulties over the availability of suitable TTWA data and it is clearly right that you should have explored other possible options as a basis for revision of the map. The use of local authority boundaries, for example, could produce fewer anomalies in Scotland than elsewhere and I am not convinced that the TTWA system is entirely suited to Scottish circumstances. I agree however that until we have explored fully the merits of alternative systems we should adhere to TTWAs, and on that basis I accept that it would be prudent to defer work on the review until the new TTWA boundaries are available, though the delay is regrettable, in that it will prolong uncertainty.

I am copying this letter to the Prime Minister and the other recipients of your minute.

Yours sincerely,
George

Big Pet
Review
PT5

3 NOV 1983

12 1 2 3 4
9 8 7 6 5

11 10 9 8 7 6 5 4 3 2 1

PART 5 ends:-

AT to PM 31/10

PART 6 begins:-

s/s Scottish Office to s/s DTI

2/11

