



(c) crown copyright

DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(79) 23

COPY NO 80

3 July 1979

CABINET

REGIONAL INDUSTRIAL POLICY

Memorandum by the Secretary of State for Industry

1. We agreed in Opposition that expenditure on regional policy, especially in its industrial aspects, was excessive and far from cost effective. Expenditure under the Industry Act 1972 now runs at about £575 million a year. We thought that it should be possible to save some £240 million of this. Accordingly, on taking office, I and the other Ministers most closely concerned set in hand a review of regional policy in order to identify in detail the ways in which expenditure could be cut and other improvements made. The Ministerial Committee on Economic Strategy, Sub-Committee on Economic Affairs (E(EA)) discussed the results of that review on 28 June. We did so on the basis of a paper by the Minister of State, Department of Industry (Lord Trenchard) covering a full report by officials (E(EA)(79) 13), which is summarised in the Annex attached. We also had before us a paper by the Secretary of State for Wales (E(EA)(79) 14) expressing his concern that we were being asked to go too far, too fast and that the proposals as they stood carried heavy political and economic penalties and should be modified. His view was strongly supported in discussion by the Secretary of State for Scotland.
2. Most other members of the Sub-Committee, on the other hand, felt that given our objective to reduce public expenditure and eliminate waste, the proposed changes in regional policy were about right. A number of colleagues, however, were concerned about the timing and presentation of any announcement of the changes envisaged. A number of Ministers felt that the regional policy changes, on their own, were essentially negative. It would help considerably, they thought, if they could be presented in the context of a more positive Government programme to encourage enterprise and stimulate investments, particularly in small firms. One possibility here would be the scheme put forward by the Secretary of State for the Environment in his letter to me of 27 June, for substantial temporary inducements for new investment this year. Other accelerator proposals have also been suggested and others are being developed. These could involve tax rebates, additional grants, guarantees or a mixture of all these. All these schemes require to be worked out in detail before Ministers can consider them. And I am now advised that it is too late to work out and include any complicated new scheme in the present Finance Bill.

3. This leaves open the possibility of announcing the Government's intentions in very broad terms and putting flesh on them later in the year. But this course is risky. Even a very general statement at this stage would commit us to taking some sort of action before we are sure we can work out a viable scheme or schemes and, because of its imprecision, it might not be very convincing. I believe that the real choice lies between announcing our regional package now, without any offsetting measures (other than our future approach to section 8 of the Industry Act 1972 including the Selective Investment Scheme) or postponing a decision to the autumn while the other possibilities are examined. It goes without saying that delay beyond the summer recess involves a cash penalty in savings forgone. The advice I have is that a three-months' delay in announcing our new regional measures might result in the loss of £20-£30 million of savings in 1980-81 and some further loss perhaps on a smaller scale in the two succeeding financial years. Even more important there is a serious risk that firms may postpone their investment decisions until our announcement.

4. Against this background I would suggest that our discussion in Cabinet should seek to answer the following questions:-

- a. Do we confirm that regional policy must make a substantial contribution to the cuts in public expenditure we are seeking? Is the scale of the proposed cuts and their effect on industry acceptable?
- b. If so, do we accept the basic proposal (paragraph 2 of the Annex) that the rate of Regional Development Grant (RDG) in Development Areas (DAs) should be reduced, after 12 months notice, from its present level of 20 per cent to 10 per cent? Or do we prefer the Secretary of State for Wales' proposal that the rate of RDGs in these areas should be set at 15 per cent - with a consequent reduction in savings based on the 1978 Expenditure White Paper, after the necessary transitional period, of £60 million? If account is taken of changed forecasts since the 1978 Expenditure White Paper the net cost would be £30 million, assuming boundary changes are accepted as proposed.
- c. Do we accept that RDGs in intermediate areas should be abolished after 12 months notice? ~~after a transitional period?~~
- d. Do we accept that the Assisted Area map should be redrawn after a transitional period of one to three years as proposed in paragraph 1 of the Annex with a consequential saving of £40 to £50 million a year and a reduction in the proportion of the population residing in Assisted Areas from 40 to 25 per cent? Any map of Assisted Area boundaries gives rise to criticism and difficulties which is one reason why the 1972 boundaries were drawn generously, although experience since then suggests that such generosity increases the resentment of those who remain excluded. The new map, while it represents a degree of

compromise between Departments, is broadly based on objective criteria. Within it the most difficult problem identified by the Secretary of State for Wales is the status to be accorded to the Merthyr, Pontypridd and Aberdare travel to work areas which are at present Special Development Areas (SDAs) but which, on the proposals, would become DAs. The Secretary of State also asks that largely rural parts of Dyfed, Gwynedd and Powys that are scheduled, on the proposals, to lose their Development Area status should become Intermediate rather than non-Assisted Areas. A strong political case can of course be made to support these suggestions. The problem however is that there are many areas in England which have a strong claim, on objective criteria, to be treated on a par with these areas. Significant redrawing of the boundaries in Wales would therefore be likely to lead to substantial pressure for redrawing of the boundaries in the rest of Great Britain.

e. Do we accept the transitional arrangements for the changes described in paragraphs 1 and 2 of the Annex or do we introduce the major modification as suggested by the Secretary of State for Wales, eg by ruling out downgrading of any Assisted Area by more than one step on this occasion? Such an outcome would be bitterly resented in those parts of the present North West and Yorkshire Intermediate Areas which are to be downgraded.

f. Do we accept the proposed relaxation, though not the abolition of the Industrial Development Certificate controls?

g. Do we accept the other, relatively minor and so far as I am aware completely uncontroversial, proposals in paragraphs 3, 5 and 7 of the Annex on such matters as the administration of regional selective assistance, the factory building programme and policy towards Inner Cities, New Towns and Local Authority powers to assist industry?

h. Should the Scottish and Welsh Development Agencies and the Highlands and Islands Development Board and the Development Board for Rural Wales, continue to operate throughout their present territories subject to such adjustments as are necessary to provide for broadly comparable treatment to that to be given to the English non-Assisted Areas? And should there be greater attention to these institutions and, in England, by the Development Commission, and the Council for Small Industries in Rural Areas (COSIRA) to the rural ~~powers~~ of the new non-Assisted Areas? (Detailed study of any necessary adjustments can be made during the transitional period).

i. Do we aim to define and announce our new policies before the summer recess (bearing in mind that the approval of the European Commission is required; because almost all the changes involve reductions in aid we hope to obtain the Commission's reactions far more quickly than is normally the case) or do we defer final decisions and announcements until the House reassembles in the autumn?

j. How can we improve the presentation of our new policy and are there any specific measures to assist industry which we should either foreshadow or seek to decide before the regional announcement is made?

K J

Department of Industry

3 July 1979

REGIONAL INDUSTRIAL POLICY : SUMMARY OF MAIN PROPOSALS
CHANGES IN THE ASSISTED AREAS

1 The present structure of the Assisted Areas (AAs) should be maintained but the boundaries revised in accordance with Map 2* (attached). This has been drawn up on the basis of objective, defensible criteria and seeks to avoid the criticisms which have been made of the present AA boundaries. The up grading should take effect immediately. The down gradings should take effect after one year, but where an area is to be downgraded by more than one step it should go down only one step after one year and only move to the final grading after a further two years, and where an Intermediate Area (IA) is to become a non-Assisted Area this should only be after 3 years not 1 year.

REGIONAL DEVELOPMENT GRANTS

2 Regional Development Grants (RDGs) should be abolished in the IAs; the rate payable in the Development Areas (DAs) should be reduced from 20% to 10%; and the minimum value requirement for individual assets on which grant is paid should be increased from £1,000 to £5,000 for buildings or works and from £100 to £500 for machinery or plant. The last change should take effect immediately; the first two after one year, in order to delay the impact on industry's cash flow and profitability.

* Footnote: A few small amendments to Map 2 are necessary: Maesteg EOA in the Port Talbot TTWA should be shown as a DA; Abergavenny EOA in the Pontypool TTWA should continue as a mixed IA/DA (rather than becoming a DA throughout); and the whole of the Dundee TTWA should be shown as an SDA i.e including that part south of the Firth of Tay.

REGIONAL SELECTIVE ASSISTANCE

3 The operating guidelines for regional selective assistance should be tightened to make such assistance more cost effective.

INDUSTRIAL DEVELOPMENT CERTIFICATES

4 Industrial Development Certificates should be abolished in the IAs and the exempting limit in the non-Assisted Areas should be raised to 30,000 square feet.

FACTORY BUILDING

5 The objective should be to secure as near as possible a self-financing factory building and management operation by 1983/84.

OTHER AGENCIES & POLICIES

6 Ministers should take steps to ensure in due course, in the light of the decision on AA boundaries, that the operations of the Scottish and Welsh Development Agencies outside the AAs would be broadly equivalent to those of comparable English institutions, notably the NEB, Development Commission and COSIRA.

7 Account should also be taken by the Ministers concerned of the changes in regional industrial policy, including the revision of the AAs, in their review of policies towards inner cities, New Towns and local authority powers to assist industry.

NORTHERN IRELAND

8 Because of its special circumstances Northern Ireland's industrial policies should continue to be treated separately, though decisions reached for Great Britain will need to be taken into account.

TIMING OF ANNOUNCEMENT

9 The changes in regional assistance to industry and the AA boundaries should be announced and the necessary Order made before the beginning of the Summer Recess, in order to minimise the period of uncertainty for industrial investors.

FINANCIAL IMPLICATIONS

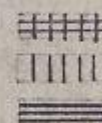
10 The proposed changes in RDGs, RSA and AA boundaries would provide savings of up to about £240 million (1979 summer prices) in 1982/83.

PROVISIONAL

ASSISTED AREAS
as defined by
THE DEPARTMENT OF INDUSTRY

Compiled by the Department of the Environment

SPECIAL DEVELOPMENT AREAS
DEVELOPMENT AREAS
INTERMEDIATE AREAS



**EMPLOYMENT SERVICES
AGENCY
LOCAL OFFICE AREAS**

Compiled by the Department of the Environment from information supplied by the Department of Industry

THIRTIETH OF EMPLOYMENT BEGINS

INTERMEDIATE AND SPECIAL

LOCAL OFFICE AREAS

0 10 20 30 40 50 60 70 80
MILES
0 10 20 30 40 50 60 70 80
KILOMETRES