



PRIME MINISTER

REGIONAL POLICY

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The draft Cabinet paper in its present (Friday night) state is at flag A. It has not been seen by Sir Keith Joseph, but he will be working on it over the weekend. As you well know, much feeling has already been expressed on both sides. There will be time to incorporate any comments you may have on the paper.

am not prepared to take at Cabinet on Thursday which I know no one has not been briefed for. I have seen it

[minutes at B]

[C and D]

We had a long discussion in E(EA) on Thursday about this, on the basis of a paper, E(EA)(79)13, by the Minister of State, Department of Industry (Lord Trenchard). The main proposals in this paper were:-

- (i) to maintain the present structure of regional assistance;
- (ii) to reduce substantially the level of regional development grant in development areas and to abolish it, after a transitional period, in intermediate areas;
- (iii) to reduce the coverage of assisted areas generally, from the present 40 per cent of the population to about 25 per cent.

The paper also made a number of proposals about industrial development certificates, selective assistance which might have to carry greater weight in attracting particular investment projects activities of the Welsh and Scottish Development Agencies. The financial objective of the proposals would be to achieve savings of £236 million a year by 1982-83 - this being the target we agreed in Opposition. Because of the need for transitional arrangements to cushion the effects of the changes the savings would not begin to accrue until next year and the bulk would fall in 1981-82 and later years. In presenting his proposals the Minister

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of State stressed the need for an early, ie pre-summer recess, announcement if business was to know where it stood and the expected savings were not to be delayed.

[E]

There was considerable opposition to these proposals. The Secretary of State for Wales had already circulated a paper - E(EA)(79)14 - stating his objections. The Secretary of State for Scotland joined him in opposition at the meeting. The main arguments they advanced

- ① were that the changes proposed were too large and too sudden and
- ② thus inconsistent with our Manifesto commitment to avoid "sudden, sharp changes in the measures now in force". The effect would,
- ③ they feared, be to withdraw a considerable volume of new investment and new developments. They were also worried that the reduced
- ④ levels of assistance resulting from the proposed changes would put us at a disadvantage in attracting international investment against the strong competition of our EEC partners. More fundamentally however they felt that the political impact of the proposals would be very adverse, particularly in those marginal constituencies newly won from the Nationalists (in Scotland) or the Labour Party (in Wales). Other Ministers also had reservations of varying kinds. One thread of argument was that we should not rush into major changes in regional policy without a good deal of thought. Hasty action carried the danger of a later need to reverse engines. Another thread of argument was that concessions on the boundaries of assisted areas in Scotland and Wales would lead to demand for comparable treatment in the English regions, particularly in the North East and the South West, which would risk unstitching a major

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part of the package. But both the Secretaries of State for Scotland and Wales identified a small number of changes which they regard as crucial. Yet another thread, advanced notably by the Secretary of State for the Environment, was that the proposed changes would be much better received if they could be accompanied by announcements of new measures designed to stimulate industrial growth, especially by small businesses. Mr Heseltine had particularly in mind here various "accelerator" proposals such as those which I had told your recent meetings of Ministers with John Hoskyns that I was already working on and such as those he put forward to you in his minute of 22 June and in his letter to me of 27 June. These proposals are of course still at a fairly tentative stage. They include both fiscal changes and new expenditure commitments which might offset some or all of the savings to be had from the review of regional policy. There is of course as yet no provision for such measures in our public expenditure plans.

In the same vein a number of colleagues felt that the presentation of the package could be aided by decisions to safeguard the operations of the Welsh and Scottish Development Agencies and similar bodies in those areas which would lose assisted area status. The additional expenditure involved here would, it was thought, be very small. It was recognised that to wait for a full package of offsetting measures - assuming one can be agreed - might involve considerable delay. There was some division of view between those who felt that such delay would be worth while and those who felt that it would be enough to foreshadow our future intentions

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without being very specific about them. It is, I think, reasonably clear that only the latter course would enable us to make an announcement before the recess.

Later in the meeting the Sub-Committee also touched on a related problem concerning the proposed closure of steel-making at Shotton. Officials are preparing a draft Government statement to be issued at the time when the proposed closure becomes public knowledge. Clearly this would be much easier to handle if final decisions on regional policy had been taken before the Shotton announcement is made. The discussion in E(EA) on regional policy was in any case intended as a preview for discussion in Cabinet on 5 July. With your agreement, I propose to circulate a paper, summarising the discussion in E(EA) and listing the items on which decisions are now needed. The timing is fairly crucial. If an announcement is to be made before the recess and an Affirmative Resolution passed to alter the level of RDG, we need to allow a week for clearance in Brussels, and we cannot therefore slip beyond Cabinet on 5 July. (I understand that Cabinet on 12 July will be mainly concerned with the Public Expenditures Review). I hope you agree on changes in regional policy which could be announced before the recess, together with some indication of our more positive "accelerator" measures to help industry.

Context?
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for the
Cabinet
to decide?

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I am sending copies of this minute to the Secretaries of State for Employment, the Environment, Scotland, Wales, Trade, Minister of Transport, and to Sir John Hunt.

PJS

PP K J

29 June 1979

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

Department of Industry
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29 JUN 1979

