

Prime Minister



Just arrived (10.45)

MCS 24/11

PRIME MINISTER

## E(81) 116: REGIONAL DEVELOPMENT GRANTS

I am extremely concerned about the implication of this paper by the Secretaries of State for Wales and Scotland that we should not make even a 2 per cent reduction in the rates of regional development grant. As you know, I believe that cuts of 3 per cent in the development areas and 4 per cent in the special development areas would be an entirely defensible way of achieving worthwhile savings of some £90 million in a full year.

2. The suggestion in E (81) 116 that we should be looking towards legislation to introduce a completely new system of regional incentives is irrelevant to the present exercise. We could not hope to have new legislation on the statute book before Spring 1983, and it must be doubtful whether there would be any significant savings before 1984-85.

3. If my colleagues are unwilling to make a cut in the rate of grant we must look carefully at the alternative, which would be to exclude certain sectors of industry by Order. Patrick Jenkin gave some examples in his paper E(81) 115, but he envisaged transitional arrangements which would mean no savings in 1982-83. I am advised that if we were to make an announcement very soon that expenses not already defrayed and assets not already provided would not attract grant it might be possible to achieve 30 per cent of a full year saving in 1982-83. We might think of excluding five industrial sectors, concentrating on those that are particularly capital-intensive and those we would not expect to make a great future contribution to the economy:-

1.

## CONFIDENTIAL

	<u>£ million</u>	
	<u>1982-83</u>	<u>1983-84</u>
IV Coal and petroleum	14	45
V Chemical and allied industries	27	90
VI Metal manufacture	10	33
X Shipbuilding	1	3
XIII Textiles	3	9
	<u>      </u>	<u>      </u>
Total Savings	<u>55</u>	<u>180</u>

4. Colleagues would no doubt wish to see these savings offset by some additional provision for selective financial assistance to attract internationally mobile projects: I have therefore pitched them high enough to allow for this.

5. These are rough estimates based on the assumption that proportions of RDG spend in future are the same as in the recent past. But they serve to indicate the sorts of exclusion we would have to contemplate to provide a sufficient alternative to my proposed rate cut.

6. I am sending copies to other Members of E Committee and to Sir Robert Armstrong.

L.B

LEON BRITTAN  
23 November 1981