

JU859

*MS*

PRIME MINISTER

REGIONAL DEVELOPMENT GRANTS (RDGs)

Your Private Secretary has told me that you do not think we should go ahead this week with an oral statement about the question of savings on the RDG scheme. I wonder if I might take your mind as a matter of urgency on the wider issue, which is causing me increasing unease, of whether we should go ahead with any proposal to alter the RDG scheme other than to disqualify the Sullom Voe type of project.

2 You will remember that, when Cabinet considered public spending, a group of Ministers was asked to work out proposals to go as far as possible to meet the Chief Secretary's objective of a saving of up to £50 million a year on RDGs, net of any extra discretionary payments needed to fulfil undertakings etc which had been, or might have to be, given to secure major projects.

3 It was clear that my original suggestion of 2 percentage points off the higher and the lower rates of grant was quite unacceptable to George Younger and Nick Edwards and has been dropped. We have therefore been studying proposals which would put a ceiling on the amount of grant payable on individual investments. The RDG scheme is not project-related (payments are made in respect of qualifying expenditures at qualifying premises) so we cannot sensibly impose a cost per job limit. At the moment (our proposals have not yet been fully worked out) it looks as if we shall propose that investments at any given premises up to a ceiling of around £10 million in any year would continue to qualify for RDG, but RDG would not be paid on investments in any year above that figure. This would leave unaffected the vast number of investments qualifying for the full grant but would disqualify perhaps around 50 major projects a year (apart of course from the grant on the first £10 million in



any year). Above this level, discretionary grants under Section 7 of the Industry Act would have to be payable to cover those cases which would otherwise be at risk of not taking place at all or of going, say, overseas. I fear, however, that the expectation of saving £50 million in a year in this way is based on the false presumption that there are and will continue to be a relatively large number of capital intensive projects around which will not be put at risk by loss of RDG.

4 The problem I face is that if George Younger, Nick Edwards and I are to secure the fair number of labour-intensive projects which might be attracted from overseas or from elsewhere in the country, and if we are to honour assurances which have already been given about the availability of Government assistance, the amount of discretionary grant that would have to be given could well swallow up the greater part of the savings on RDGs achieved by introducing the ceiling. It simply does not seem possible on this basis to achieve the level of savings sought by the Chief Secretary. If, however, we are bound to secure savings of around £50 million a year by 1983/84, it is inevitable that quite a number of projects (including labour-intensive projects) which would have qualified for full RDGs under the present system cannot be offered special financial assistance instead. In other words, there is no way that we can achieve the Chief Secretary's savings without demonstrably depriving manufacturing industry of up to £50 million a year support which they are at present getting.

5 I sense a change of atmosphere since the Chancellor's recent statement and the Debate in the House on 8 December. This may lie behind your own suggestion that we should avoid an oral statement. I believe there is much anxiety among our supporters that there was nothing in the package for industry; indeed, the



increase in NIC and consequent increase in NIS imposed additional burdens on industry. I am also aware of your recent discussion with John Wakeham about looking for ways of helping industry. I am genuinely apprehensive that if, in this new climate, the Government proposes what will be seen as a further significant cut in the help given to industry, it will be received very badly indeed. When I originally put a cut in RDGs forward, I made it clear that to be acceptable this cut would need to be accompanied by a package to help industry (including a cut in NIS). In the event, no such package has materialised and we are left with the cut.

6 Before I tackle the Chancellor of the Exchequer on this subject, I would be most grateful to know if you share my unease. There is, I am afraid, no alternative to a public announcement if we make any changes in the RDG scheme. My preferred course would be to announce that grants over the £10 million ceiling would be discretionary (so as to avoid having to pay grants on future projects such as Sullom Voe and Flotta and a few other very capital-intensive projects which would have taken place anyway). If we adhere to present proposals, and announce that the change was intended to secure savings of up to £50 million a year, I would have to admit under questioning that I could not identify any capital-intensive projects currently in view which have not already been given assurances (e.g. Mossmorran and the potential Nissan project). Accordingly, it would be immediately evident that a substantial number of major industrial projects, many of them labour-intensive, would in future be denied most of the support to which they are currently entitled. I am far from clear that, in the present mood, the Party would support this.

PERSONAL AND CONFIDENTIAL



7 I would be most grateful if you could let me have your reaction. For the present I am not copying this minute to anyone else.

PJ

P J

14 December 1981

Department of Industry
Ashdown House
123 Victoria Street

PERSONAL AND CONFIDENTIAL

JU859



PRIME MINISTER

REGIONAL DEVELOPMENT GRANTS (RDGs)

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*It looks to me as if we cannot agree by the method I should be looking for with P.T. is preferable in place of...
I should be looking for with P.T. is preferable in place of...
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You have, I believe, the top

copy of this minute. Mr Jenkin's

office ask whether you have

Mr Jenkin be asked to discuss with

Your Private Secretary has told mine that you do not think we should go ahead this week with an oral statement about the question of savings on the RDG scheme. I wonder if I might take your mind as a matter of urgency on the wider issue, which is causing me increasing unease, of whether we should go ahead with any proposal to alter the RDG scheme other than to disqualify the Sullom Voe type of project.

*Dec 2 package
does not
fall apart?
MS 18/2*

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** particularly in the light of
Lean
Brittan's
minute of
18/12,
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