

CCBG

CONFIDENTIAL



Prime Minister

at 11.15

PUBLICATION OF 1987 PUBLIC EXPENDITURE WHITE PAPER

I have seen the letters of 5 January from the Chief Secretary's Private Secretary and the reply of 6 January from your Private Secretary.

I entirely agree that the plans should be presented actively and positively. I am conscious, however, that a particularly difficult issue presentationally will be the introduction of the 4 month moratorium on payment of new Regional Development Grant. We decided, during the 1985 PES round, that such a moratorium was likely to be necessary and the decision was reluctantly confirmed during the last round even though we recognised that its introduction would cause difficulties for the cash flow of grant recipients in the assisted areas 95% of whom in Scotland are likely to be small firms. The grant supports job creation.

As colleagues will appreciate, the publicity this week about job losses in the regions creates an atmosphere in which the announcement next week of the new moratorium will be very badly received in the assisted areas.

I am copying this minute to Cabinet colleagues and to Sir Robert Armstrong.

MR

9 January 1987

RDG2 MORATORIUMWhite Paper says

"The transitional bulge in total RDG awards resulting from the overlap of the 2 schemes [RDGI and RDGII] have proved to be of a greater magnitude and extending over a greater period than anticipated. In order to spread this expenditure, further moratoria have been imposed on payments of RDG, to cover new RDG as well as old."

Facts

A four month moratorium on payments of RDGI has been in force since 1985. A four month moratorium on payments of RDGII will come into force immediately after Mr Channon's announcement of it in a written reply to a PQ on the afternoon of 14 January. The new moratorium is expected to yield savings of £20-25m in 1987-88.

Line to Take

- New moratorium does not signal any change in Government's commitment to an effective regional policy.
- Provision for Regional Assistance expenditure by DTI/SO/WO in 1987-88 some £36m up on previous plans (£419m as against £383m). But transitional bulge in total RDG awards larger than anticipated; and moratorium intended to help spread payments.
- (If pressed) Secretary of State for Trade and Industry will announce details later today (14 January).
- (Regional Assistance inadequate given current levels of unemployment and differences between North and South). 1984 review of regional policy took full account of the employment patterns. As a result of the review, assistance is now more clearly linked to job creation producing a higher number of

jobs for given level of spend. But targetting has allowed reduction in overall level of regional assistance expenditure over past 2 years. Now plan to maintain in real terms between 1987-88 and 1989-90. Important to remember that this is just one of range of Government programmes which help generate employment.