



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

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M Gilbertson Esq  
PS/Secretary of State  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1

Dear Mike,

NBAM.

**RDGs**

As you know, in his speech tomorrow the Chancellor will be announcing the introduction of the two months delay in payment of RDGs under the new system.

I attach a draft passage on this, and would be grateful for any comments as soon as possible.

I am copying this letter to David Norgrove (10 Downing Street), Robert Gordon (Scottish Office), Colin Williams (Welsh Office), and Chris Copella (Paymaster General's Office).

Yours.

Alex

A C S ALLAN  
Principal Private Secretary

**RDGs**

Public expenditure provision for regional incentives in 1987-88 has been set at £418 million, an increase of 9 per cent on the provision in last year's Public Expenditure White Paper. This demonstrates the Government's continued commitment to cost-effective and carefully targeted regional incentives.

2. We are currently in a period of transition between two systems of regional development grants, following the changes introduced in 1984. The old system perversely encouraged firms to set up capital intensive plants in areas where unemployment was high; the new system provides an explicitly job-related structure of incentives and concentrates assistance where it is most needed. However, during the transition between the two systems, there has been a larger than expected bulge in payments. In order to keep expenditure within even the enlarged public expenditure provision we have agreed, it will be necessary to spread out the flow of payments under the new system, so that from now on grants will be paid two months after an application has been approved. There will be no change to the arrangements for the remaining grants under the old system, which will continue to be paid four months after applications have been approved.