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CONFIDENTIAL

✓ NO

PRIME MINISTER

FUTURE REGIONAL INDUSTRIAL POLICY : DRAFT WHITE PAPER

*6? minutes attached*  
At E(A) on 7 October, I was invited to prepare a draft White Paper setting out the Government's proposals. This is ... enclosed.

2 The draft is about regional industrial policy. Our review ranged wider than that, but my aim has been to keep the White Paper crisp and to the point. The essential points are, of course, the proposed changes to the regional development grant scheme and revision of the Assisted Areas map.

3 Although White, the paper has "green" edges and invites views on all issues which are not yet decided. One of the advantages of the timetable dictated by the availability of data for producing the new AA map is that the consultation can be genuine - and seen to be so.

4 I hope to publish the White Paper the Wednesday before the legislation is introduced to the House - and certainly before Christmas. I am therefore asking you and the colleagues to whom this is copied, to let me have any comments by Monday, 21 November at the latest.



5 I am copying this to all other members of E(A) and to  
Sir Robert Armstrong.

NT

N T

14 November 1983

Encl

Department of Industry



JU802A

REGIONAL INDUSTRIAL DEVELOPMENT

DRAFT 11 NOVEMBER

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## Introduction

For over fifty years successive British Governments have tried to alleviate regional imbalances in employment opportunities. For the past twenty years we have had intensive regional industrial policies involving the expenditure of nearly £20 billion at 1982 prices. In addition there have been policies to stem the depopulation of rural areas and, more recently, policies to stem the decay of inner city areas. There has also been massive public investment in transport infrastructure since the war giving most areas a developed basic communication system.

2 Various academic studies have been made of the effectiveness of this expenditure. The estimates are subject to wide margins of error. However, these studies generally suggest that expenditure on regional industrial policies has had a significant impact on the economies of the Assisted Areas, and, in particular, that it has led to about half a million more jobs in these areas. It is estimated that in the 1970s the cost per additional job in the Assisted Areas was around £35,000 at 1982 prices. These estimates take account of regional multiplier effects. However, it must be recognised that most of these jobs, although additional to the Assisted Areas, would otherwise have been available elsewhere in the country. Despite this, there are still significant variations in unemployment levels between regions, and even sharper contrasts at local level.



3 Since 1972, when the present structure of regional industrial incentives was introduced, there have been important changes in our environment. The United Kingdom has become a member of the European Community and, along with other countries, we have experienced a decade of stagflation following the oil price rise.

Unemployment is now high throughout the country; there are fewer mobile investment projects and increasing competition for them.

4 The Government therefore consider it necessary to review the case for their regional industrial policies in the light of these factors.

#### THE GOVERNMENT'S APPROACH

5 Imbalance in employment opportunities between areas should in principle be corrected by the natural adjustment of labour markets. In the first place, this should be through lower wages and unit costs than comparable work commands elsewhere. Wage flexibility combined with a reputation for good work would increase the attractiveness to industry. Clearly labour costs are important to companies' ability to compete in world markets - particularly for companies in labour-intensive sectors. The Government would welcome views on how much geographical variations in wage rates affect companies' choice of location.

6 There is, however, little evidence that regional wage rates respond readily to variations in regional unemployment. Indeed, regional differentials in wage rates have tended to narrow over



the last twenty years. Various reasons have been put forward to explain this, including the ability of trades unions to maintain nationwide comparability, the spread of multi-plant firms paying the same wages across the country, and the growth of the public sector in which national wage bargaining is dominant. The Government believe that wage bargaining must become more responsive to local conditions; policies of privatisation and the reduction of the power of trade unions to act against their own members' interest should help to achieve this. But the Government recognise that it would be unrealistic to expect wage adjustment to eliminate regional imbalances in employment opportunities.

7 Natural adjustment can also occur through people moving from areas of persistently high unemployment to areas where employment prospects are better. Indeed there is already a great deal of adjustment in the labour market in this way, with significant movement to more prosperous areas. The Government continue to attach importance to increasing geographical and occupational mobility as exemplified by their policies on housing and pensions. Since, however, it tends to be the young, the more skilled and the more enterprising who are ready to move in search of work, there is a risk that reliance on more labour mobility would leave the less-favoured localities with a still more dependent population and a workforce even less able to climb out of disadvantage. The separation of younger members of families from the older members leads to loss of mutual support with increased social and public expenditure costs. In addition, it



would result in some under-use of expensive public facilities in the areas that were losing population and the need for investment to duplicate these facilities elsewhere.

8 The Government have therefore concluded that neither wage adjustment nor labour mobility can be relied on as the complete solution to regional imbalances in employment opportunities.

The case for regional industrial policy today

9 During the 1960s and early 1970s, when labour was scarce in some areas and less so in others, there were restrictive controls on industrial and office development as well as substantial regional incentives. It was then argued that regional industrial policy eased the pressure of demand in the prosperous areas by diverting activity to areas of high unemployment; and that more employment and output could thus be achieved nationally without unacceptable inflation. This argument is much weaker when there is a good supply of labour everywhere.

10 The economic case for regional industrial policy today is not self-evident. Clearly some parts of the country are able to adjust to changes in economic circumstances; while in others such changes lead to further decline. A business climate that is conducive to a high rate of innovation and successful new firm formation contributes to sustained economic growth. Regional industrial policy must not only aim at reducing disparities in employment opportunities by influencing the location of economic activity. It should also encourage the development of



indigenous potential of the Assisted Areas with the long term objective of self-generating growth.

11 As well as influencing the distribution of industry within the country, regional industrial incentives also enable the United Kingdom to compete effectively for internationally mobile investment. Inward investment in particular, can benefit the national economy not only through its contribution to output and employment, but also through the introduction of new technology and skills.

12 Although an economic case for regional industrial policy may still be made it is now much less clear cut, and the Government believe that the case for continuing the policy is now principally a social one.

The case for change

13 The arguments that regional industrial policy produces a net national economic benefit are open to debate. What is known is the cost imposed by that policy on the exchequer: expenditure on regional industrial incentives in 1983/84 is expected to be £643 million (see Annex A). The Government are therefore concerned to see whether changes can be made to make sure that the money spent on regional industrial policy is spent as effectively as possible; and in a way that contributes to the purposes of the policy.



14 Most of this expenditure represents transfer payments to companies; however there are real costs as well. Expenditure on regional measures means that other candidates for expenditure lose out or else it adds to the pressure for higher taxation or Government borrowing. In addition, industrial development controls and regional incentives may have encouraged production in locations that were not the best for the companies: the national economy may have suffered in consequence.

15 The present scheme of regional development grants is heavily biased towards capital intensive projects. Some of these receive very large amounts of grant although they would have gone ahead anyway in the same location without assistance. Nor are the grants linked in any way to the creation of jobs; they have also been criticised for aiding replacement investment. There is also over-concentration on the manufacturing sector in which employment is generally declining irrespective of cyclical economic patterns and too little for service activities.

16 The Government believe that regional industrial incentives still have an important role to play in influencing the location of new economic development. But they need to be made much more cost effective than at present, with greater emphasis on selectivity, job creation and less discrimination against service industries. They also need to focus on encouraging new and indigenous development in the Assisted Areas, rather than simply transferring jobs from one part of the country to another. The Government would welcome views on the balance between these factors which underlie regional industrial policy.



## The contribution of local communities

17 The Government welcome the increasing involvement of business in problems of local economic development including participation in local enterprise agencies providing assistance to start-ups and small businesses. The Government believe that the private sector has a very important role to play in helping to solve the problems of local communities, and hope that more companies will be able to contribute to this process in future.

18 Local authorities have an important role to play in creating a climate conducive to enterprise in their areas, both in the way that they discharge their functions and in minimising the burdens on business. [Local authorities also have a positive role to play in sustaining and fostering local economies.]

## Other Government policies

19 The review of regional industrial policy has been carried out in full recognition of the wider context of regional economic policies of which it forms a central part. Regional and local economic development is influenced by a wide range of central and local government policies, in particular those related to infrastructure and the employment and training policies of the Manpower Services Commission. The Government note the need to take account of the regional dimension in all work on such policies. The policies of the Manpower Service Commission are especially important in this context. Their employment and training programmes apply nationwide, and there is no explicit bias in favour of the Assisted Areas. However, a high proportion



of their expenditure is in areas with above average rates of unemployment.

20 There are two other areas of policy where inter-action with regional industrial policy is especially important; the urban programme and rural policies. In both Scotland and Wales the urban programmes and, for the most part, regional industrial policy, are administered by a single Government Department. In England, the urban programme and rural policies are both the responsibility of the Department of the Environment - in the case of rural policy by means of the Development Commission. Co-ordination of these policies with regional industrial policy calls for an effective partnership between the Departments of Trade and Industry and of the Environment. These Departments already co-operate at both regional and national level, and the Government have made arrangements for their respective regional offices to work even more closely in future on the diagnosis of economic problems, and on programmes for tackling them.

21 The problems of many of our inner cities stem largely from their dependence on declining industries, inadequate investment, and obsolete infrastructure. The measures that the Government are taking to combat these problems involve both regional industrial policy and the urban programme. The urban programme includes measures directed at environmental improvement, attracting private investment into the inner cities, and reviving the local economy: in all these ways it contributes to regional policy. In the Government's view, appropriate programmes qualify for assistance from the European Regional Development Fund.

#### European Community regional policy

22 The European Community's concern for reducing regional disparities is demonstrated by the 2,010 million European



Currency Units (about £1,160 million) set aside in the Community Budget in 1983 for expenditure on the European Regional Development Fund. The United Kingdom expects to receive £260m of this sum, of which about 20 per cent will be in support of aid to companies, and the remainder for passing on to local and other public authorities in support of a variety of infrastructure projects, mainly in the Assisted Areas. The European Regional Development Fund is expected to grow in real terms, and will therefore play an increasingly important part in the development of Member States' regional policies, including our own. The Government take this expected contribution fully into account in determining expenditure on regional policy.

23 Whilst the bulk of expenditure on the European Regional Development Fund has hitherto been given in support of national regional policies, a small but growing proportion is being devoted to special Community programmes under the "non-quota" section of the Fund. This aid is at present confined to giving special help to areas which have been or will be affected by Community policies or have a concentration of industries which have suffered excessively as a result of Community agreements to reduce over-capacity. In the United Kingdom, special Community measures to help shipbuilding and steel areas are already in operation, and further programmes for such areas together with a new programme for textile areas are close to agreement.

24 The Government strongly support the development of these Community regional policies along lines compatible with our national policies and play a full part in their formulation. The Government also support the Commission in ensuring that Member



States' national regional policies do not result in wasteful competition or "bidding-up", and that national aids are set at levels appropriate to the problems of the respective regions. The United Kingdom will naturally ensure that its own schemes respect these requirements.

#### A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES

25 The principal forms of regional industrial incentive are regional development grants under Part II, and selective financial assistance under Section 7 of the Industrial Development Act 1982. (These are described in Annex A). At present, the balance of expenditure is weighted heavily in favour of the more automatic regional development grants and is strongly biased towards manufacturing activities. The Government intend that, for the future, automatic assistance should account for a smaller proportion of expenditure; and should be targetted more closely on job creation both in the manufacturing sector and, where effective, the services sector.

26 Industry attaches considerable importance to a grant scheme which incorporates standard rates of grant, is predictable in its application and which, by virtue of its predictability, can be taken into account at all stages of making investment decisions. Consequently, although it is proposed that the regional development grants scheme should be substantially



revised in order to increase its cost effectiveness, a high degree of predictability will be retained and the scheme will continue as the major element in regional industrial incentives.

27 Legislation will be introduced immediately to provide the statutory framework for a new scheme which will:

- (a) relate to qualifying projects as opposed to qualifying premises as at present. Qualifying projects will be those which create new capacity; expand existing capacity; or modernise existing capacity by changing a product or process or service; and which consist wholly or mainly of qualifying activities;
- (b) provide for grant to be calculated at standard rates by reference to approved capital expenditure or, to the number of jobs provided directly by the project, which ever is more advantageous for the investor;
- (c) allow for grant to be limited so that it may be payable only in respect of projects which create jobs - by means of a cost-per-job ceiling, but this will not normally apply to small firms; and
- (d) extend the scope of qualifying activities.

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A detailed account of the proposals is at Annex B.



28 Every effort will be made to minimize the burden on applicants. The position of small firms is especially important in this respect and the revised scheme will be designed with their special needs in mind.

SS/Scotland wants to delete. Best keep?

29 The changes outlined above will enhance the cost-effectiveness of the scheme. [They will also result in a substantial reduction in expenditure. The extent of the reduction in public expenditure will depend primarily on the geographical coverage of the scheme (see paragraphs 31-33) and on the rates of grant to be applied.] For the scheme to be effective, it is necessary for the rates of grant and the cost-per-job ceiling to be set at levels which ensure that the incentive is taken into account when companies make their investment decisions. The Government believe that present grant levels exceed those sufficient for this purpose, but would welcome views on the levels of grant in respect of the prescribed percentage of capital expenditure, the job-related grant and the level at which the cost-per-job ceiling might be set. These changes would be expected to reduce the cost and therefore the burden on the exchequer. Together with changes in the geographical coverage of the scheme (see paras 31-33) these changes would be expected to offer opportunities for a reduction in public expenditure.

↓ I agree with Scotland  
The word "substantial" covers an enormous margin

This is a much better way

30 As for regional selective assistance, the Government believe that it is an effective and economical incentive. They intend to increase its share of expenditure relative to that on regional development grants. However, its effectiveness could be increased in certain respects. The Government propose to provide for greater parity of treatment between the manufacturing and service sectors; and to exclude from assistance those re-location projects where there is no increase in the number of



net jobs. Selective financial assistance will also provide a means, where appropriate, to assist those modernization projects which may not receive regional development grants but which, nevertheless, are essential to safeguard or maintain existing employment.

31 Within the proposed structure for regional industrial incentives, regional development grants will thus continue to be an important element, but their importance relative to regional selective assistance will be less than at present. The Government welcome views on how far the balance should shift from automatic to selective assistance.

#### Other regional industrial assistance

32 Self-generating growth requires a high rate of innovation and of company start-ups. There are indications that the Assisted Areas suffer from a poor innovation record (especially when compared with the South East), from an industrial milieu which is less conducive to new firm formation, and from a high level of dependence on branch plants of national and international manufacturing companies. The operation of regional industrial policy may itself have contributed to some of these weaknesses in the past. In the election manifesto, the Government made clear their commitment to diversify regional economies by encouraging the fullest use of their schemes for innovation. The Government welcomes views on whether special measures should be taken to encourage innovation, particularly by indigenous firms, and also to increase the rate at which new firms are created in disadvantaged areas. These might be



favourable terms or increased promotion of existing schemes that are available throughout the country.

33 The regional investment role of the British Technology Group (BTG) is relatively minor and is concentrated on smaller firms. The need for this may be expected to diminish in the future as private sector agencies become better able to fulfil the need for the kind of equity investment which it is designed to meet. The regional role, however, is now peripheral to the BTG's main role from which the Assisted Areas, as well as other areas, can benefit, particularly in terms of encouraging innovation. On the other hand, the Government would not wish to deprive the English Assisted Areas of the benefit of a form of regional assistance which is available in comparable areas of Scotland and Wales through the Scottish and Welsh Development Agencies. The Government would welcome comments on the value of the regional investment role of the BTG and on the continuing need for it.

The Assisted Areas map

34 The Assisted Areas map has been reduced since 1979 and now covers some 27.6% of the working population. However, large changes since then in the distribution of unemployment and structural problems mean that the map is now seriously out of date. For example, it includes areas whose problems are much less acute than some of those - such as parts of the West Midlands - which are excluded.



35 The Government intend to revise the Assisted Areas map. In the past relative unemployment has been the major criterion; other factors, such as industrial structure, have, however, also been taken into account (see Annex C). A balance must be struck between objective and subjective criteria. The Government welcome views on the criteria for designating Assisted Areas.

36 The Assisted Areas map is based on Travel-to-Work Areas. These will be revised in the light of data from the 1981 Census, taking into account criticism of the earlier method. The decision has still to be made whether there should continue to be three categories of Assisted Area with Regional Development Grant at different rates in the top two categories; or whether there should be only two categories with Regional Development Grant available in only one. A map with three categories of Assisted Area, as at present, allows finer distinctions to be drawn. It is doubtful, however, whether in practice these can be justified. Regional Selective Assistance will continue to be available in all categories of Assisted Area.

37 The coverage of the map, and the numbers of tiers, greatly affects the impact of the system of regional industrial incentives. A tightly drawn map would focus assistance on the areas of greatest need; a wider coverage would allow assistance to go to more areas with real, but untapped, potential for industrial development. The Government have to bear in mind that wider Assisted Areas coverage would dilute the effect of locational incentives. On the other hand, a reduced coverage



would allow higher rates of grant for a given total cost. The Government welcome views from all interested parties on the coverage of the map in the light of the considerations set out in this White Paper. A new map, taking into account submissions made, will be announced as soon as possible. This will not be before Autumn 1984.

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#### Transitional provisions

38 The Government recognise that the prospect of changes to regional development grants and to the Assisted Areas map are likely to give rise to uncertainty. To minimise uncertainty, it is intended that all changes should be introduced simultaneously. The precise timing for this will depend upon the passage of legislation through Parliament and also on consultation, but it is intended that the changes should be implemented in the Autumn of 1984. The Government recognise that these changes need to be accompanied in the relevant statutory instruments by transitional provisions which will avoid undermining investment undertaken on the basis of existing incentives.

39 The effect of transitional provisions will vary with the circumstances of applicants at the time changes are implemented. The new scheme will take immediate effect for those sectors of industry newly qualifying and for areas becoming eligible for regional development grants for the first time. In areas which may be excluded by the changes, or where the new scheme would result in a reduction in the amount of grant payable, grant will continue to be available under the terms of the present scheme on



new assets provided during the subsequent twelve months.  
Further details will be published when the changes are made.

40 One aspect of the transition which may cause particular concern is the position of projects in receipt of selective assistance. In these cases, the amount of selective assistance offered will have taken account of regional development grants, so that the selective assistance and regional development grants together represent the minimum incentive for the project to go ahead. Special provision will be made for these cases. For those projects currently in receipt of an offer of selective assistance, regional development grant will continue to be paid under the terms of the present scheme and map. These terms will also apply to projects for which an application has already been made, or is made by [31 January 1984], provided that an offer of assistance is made before changes to the legislation are brought into effect.

## CONCLUSION

41 The Government are committed to an effective regional industrial policy designed to reduce regional imbalances in employment opportunities. Legislation is being introduced to change the present scheme of regional development grants to make them more cost-effective. The Government will be looking for savings in the expenditure on regional economic policy from the combined effect of changes to the structure for regional industrial incentives and those to the Assisted Areas map.



42 The Government invite views on aspects of regional industrial policy which have yet to be decided in the light of the considerations set out above. Submissions should be made by 31 May 1984 addressed to:

Regional Policy and Development Grants Division  
Department of Trade and Industry  
Room 417  
Kingsgate House  
66-74 Victoria Street  
London SW1E 6SJ

The Department of Trade and Industry is publishing a background paper reviewing the effectiveness of regional economic policy and other issues raised during the Government's review. This can be obtained, price £ ? p (including postage and packaging) from:

The Library  
Department of Trade and Industry  
1 Victoria Street  
London SW1H 0ET



## THE INSTRUMENTS OF REGIONAL INDUSTRIAL POLICY

1. In Great Britain, the main component of regional economic policy is formed by the regionally differentiated industrial policies of the Department of Trade and Industry, together with the similar policies administered in Scotland by the Scottish Office and the Scottish Development Agency; and in Wales by the Welsh Office and the Welsh Development Agency. The geographical basis for the differentiation of regional industrial policies is areas of greatest need. At present, these are divided into three categories of Assisted Area: Special Development, Development (together known as development areas), and Intermediate. The basis for designating Assisted Areas and the present map are at Annex C.

2 Since 1972, the main instruments of regional industrial policy have been regional development grants, regional selective assistance, and advance factory building. Expenditure on these instruments in the six years to 1982/83 is given in Table 1; estimated expenditure in 1983/84 is given in Table 2.

3. Regional development grants are payable under the Industrial Development Act 1982 towards capital expenditure undertaken by manufacturing firms in the development areas. Grant is payable towards the provision of new assets on



qualifying premises, ie those used wholly or mainly for the manufacturing activities described in Orders III - XIX of the Standard Industrial Classification 1968 together with certain other directly related activities. The rate of grant depends on the location of the investment - at present 22% in Special Development Areas, and 15% in Development Areas. Since 1979, the same rate of grant is paid for capital expenditure on new buildings and works as on new machinery and plant. Grant is not paid on schemes of building or works costing less than £5000, or on individual items of plant and machinery costing less than £1000 (£500 on premises where less than 100 people are employed). The grant is tax-free. The scheme is administered through the Regional Development Grant Offices of the Department of Trade and Industry.

4. Regional selective assistance under Section 7 of the Industrial Development Act 1982 may be given to projects which:

have good prospects of viability;

create new jobs or safeguard existing ones [in the Assisted Areas];

strengthen the regional and national economy; and

need assistance to make them happen.



Assistance is discretionary and the level is negotiated as the minimum necessary for the project to go ahead. Assistance can take four forms:-

a grant to office and service industries for each new job created in the Assisted Areas;

project grants related to total project costs;

training grants where training is an essential part of the project;

exchange risk cover on foreign currency loans [for which a service charge is made] from the European Investment Bank and the European Coal and Steel Community.

Regional Selective assistance is administered in England by the Department of Trade and Industry, and in Scotland and Wales by the Scottish Office and the Welsh Office respectively. The Highland and Islands Development Board has similar powers, as has the Development Board for Rural Wales (using Welsh Development Agency Act powers) in non-assisted parts of its area.



5. Advance factory building covers a variety of activities, including provision of sites for private sector developers and the conversion or modernisation of offices, warehouses, factories and small nursery units. In England it is carried out, primarily in the assisted areas, by the English Industrial Estates Corporation (a body sponsored by the Department of Trade and Industry and also acting in rural areas for the Development Commission); in Scotland by the Scottish Development Agency and the Highland and Islands Development Board; and in Wales by the Welsh Development Agency and the Development Board for Rural Wales. These bodies are expected to adopt commercial letting policies and charge market rents, and they operate under financial duties which set a minimum average rate of return from initial rents. All the agencies have the same discretion to offer rent-free periods; any such assistance is taken into account in any application for regional selective assistance.

6. Other instruments of regional industrial policy are equity investment and the contracts preference schemes. The power to make equity investments in industrial undertakings lies with the British Technology Group for the English Assisted Areas, and with the Scottish and Welsh Development Agencies in Scotland and Wales. All these agencies also have other powers, including the ability to make loans. Under the contracts preference schemes, firms in the development areas receive preferential treatment when tendering for public contracts for the supply of goods and services.



7. Government grant aid to the Regional Development Organisations in England, which cover all the main Assisted Area regions, supports regional individual policy objectives. This grant aid, currently totalling about £1½ million a year, has been increased recently to secure more effective and better co-ordinated regional programmes of inward investment promotion. In Scotland and Wales there is a similar contribution to regional industrial policy objectives through promotional programmes funded mainly by the respective Development Agencies.

8. Other past instruments of regional industrial policy have included the regional employment premium office development permits and industrial development certificates. The first - which were a continuing job-related subsidy - were introduced in 1967, doubled in 1974, and abolished in 1977. Industrial development certificates, which date back to 1947, were introduced to divert mobile industrial development to the Assisted Areas by limiting individual development elsewhere. These were progressively eased in the last decade and finally removed in 1982. Office Development Permits were introduced in 1964 to restrict office development over a certain size in prescribed areas. This control had relatively little effect outside London and South East England; it was removed in 1979.



9. In addition, central Government also supports the reclamation of derelict land. In England, local authorities and the English Industrial Estates Corporation are eligible for derelict land grants of 100% of the approved costs in the assisted areas and other areas designated as Derelict Land Clearance Areas. Individuals, companies, public utilities and nationalised industries are eligible for grants of 80% of the approved costs. These grants are administered by the Department of the Environment. In Scotland, derelict land clearance is carried out directly by the Scottish Development Agency. In Wales, the Welsh Development Agency uses local authorities as its agents.



TABLE 1 REGIONAL INDUSTRIAL ASSISTANCE - GREAT BRITAIN

|                                  | 77/78      | 78/79      | 79/80      | 80/81      | 81/82      | 82/83            |
|----------------------------------|------------|------------|------------|------------|------------|------------------|
|                                  | £m         | £m         | £m         | £m         | £m         | £m               |
| 1. Regional Development Grants   | 393        | 417        | 331        | 491        | 617        | 690 <sup>1</sup> |
| 2. Regional Selective Assistance | 44         | 104        | 78         | 74         | 76         | 90               |
| 3. Land and Factories            | 52         | 85         | 110        | 141        | 161        | 137              |
| <b>TOTAL</b>                     | <b>489</b> | <b>606</b> | <b>519</b> | <b>706</b> | <b>854</b> | <b>917</b>       |

TABLE 2 BREAKDOWN BY REGION OF ESTIMATED REGIONAL INDUSTRIAL ASSISTANCE 1983/84

|                                  | England  | Scotland | Wales    | Great Britain |
|----------------------------------|----------|----------|----------|---------------|
|                                  | £m       | £m       | £m       | £m            |
| 1. Regional Development Grants   | n/a      | n/a      | n/a      | 440           |
| 2. Regional Selective Assistance | 53       | 29       | 16       | 98            |
| 3. Land and Factories            | 26       | 49       | 30       | 105           |
| <b>TOTAL</b>                     | <b>-</b> | <b>-</b> | <b>-</b> | <b>643</b>    |

Notes

- 1 Includes up to £150m arising from the ending, on 9 November 1982 of the four month's deferment of payment of grant on approved applications.



A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES: REGIONAL  
DEVELOPMENT GRANTS

The Government propose early legislation to provide a framework for a revised scheme of regional development grants. The principal features of the changes are described briefly in paragraphs 24-28 above and more fully in this annex.

2 It is proposed that grant should be payable towards qualifying projects rather than in respect of assets located on qualifying premises as at present. Projects will be considered eligible, which in any undertaking:

- create new capacity; or
- expand existing capacity; or
- modernise existing capacity by changing a product or process or service.

This will fulfil the Government's intention, stated in answer to a parliamentary question on 31 March 1981, that regional development grants would cease to be payable in respect of investment where no basic change in the scale or nature of a company's activities is involved.

3 To qualify for grant, projects will need to consist wholly or mainly of qualifying activities. Qualifying activities will be more widely defined than at present. In



addition to manufacturing, some service activities will qualify for grant. When considering those activities which should qualify for grant, the Government will be concerned to minimise the risk of displacement of local competitors and to avoid the payment of grant where this is unlikely to bring an increased overall level of activity in the locality. The qualifying activities will be specified in statutory instruments.

4 Grant will be payable at standard rates; and will be calculated by reference not only to approved capital expenditure undertaken as part of a qualifying project but also to the number of jobs provided directly by the project. The grant will be calculated as the higher of

- a prescribed percentage of capital expenditure subject, except for those projects undertaken by small firms, to a ceiling on the amount of grant payable for each job; or
- a prescribed amount for each job.

Applicants will not be required to opt between the two methods of calculating grant: grant will be paid on whichever basis is more advantageous to the applicant.

5 The number of jobs which will be treated as provided directly by a project will be limited to the net new jobs directly resulting from the project and located in the



development areas. As a result of the operation of a ceiling on grant payable per job, modernisation projects, although otherwise eligible for grant, would only receive grant if, and to the extent that, they provide additional jobs.

6 Regional development grants will continue to be tax-free and they will not reduce capital expenditure which qualifies for tax allowances.

7 Details of the arrangements for the revised scheme, including those for making applications, will be published prior to the implementation of the new scheme.



## ANNEX C

### THE ASSISTED AREAS MAP

1 Successive Governments have usually designated Assisted Areas mainly by reference to boundaries of Travel-to-Work-Areas, ie the smallest identifiable area in which a significant proportion (currently 75%) of those working within the area also live within it.

2 The present map, which covers some 27.6% of the working population, includes parts of Scotland and Wales, and the Northern, North West, Yorkshire and Humberside, East Midlands and South West English regions. In 1979, the coverage was some 44%.

3 In considering the designation of an Assisted Area the Government takes account of criteria first laid down in the Industrial Development Act 1966 (currently in Section 1(3) of the Industrial Development Act 1982), namely:

"all the circumstances actual and expected, including the state of employment and unemployment, population changes, migration and the objectives of regional policies".



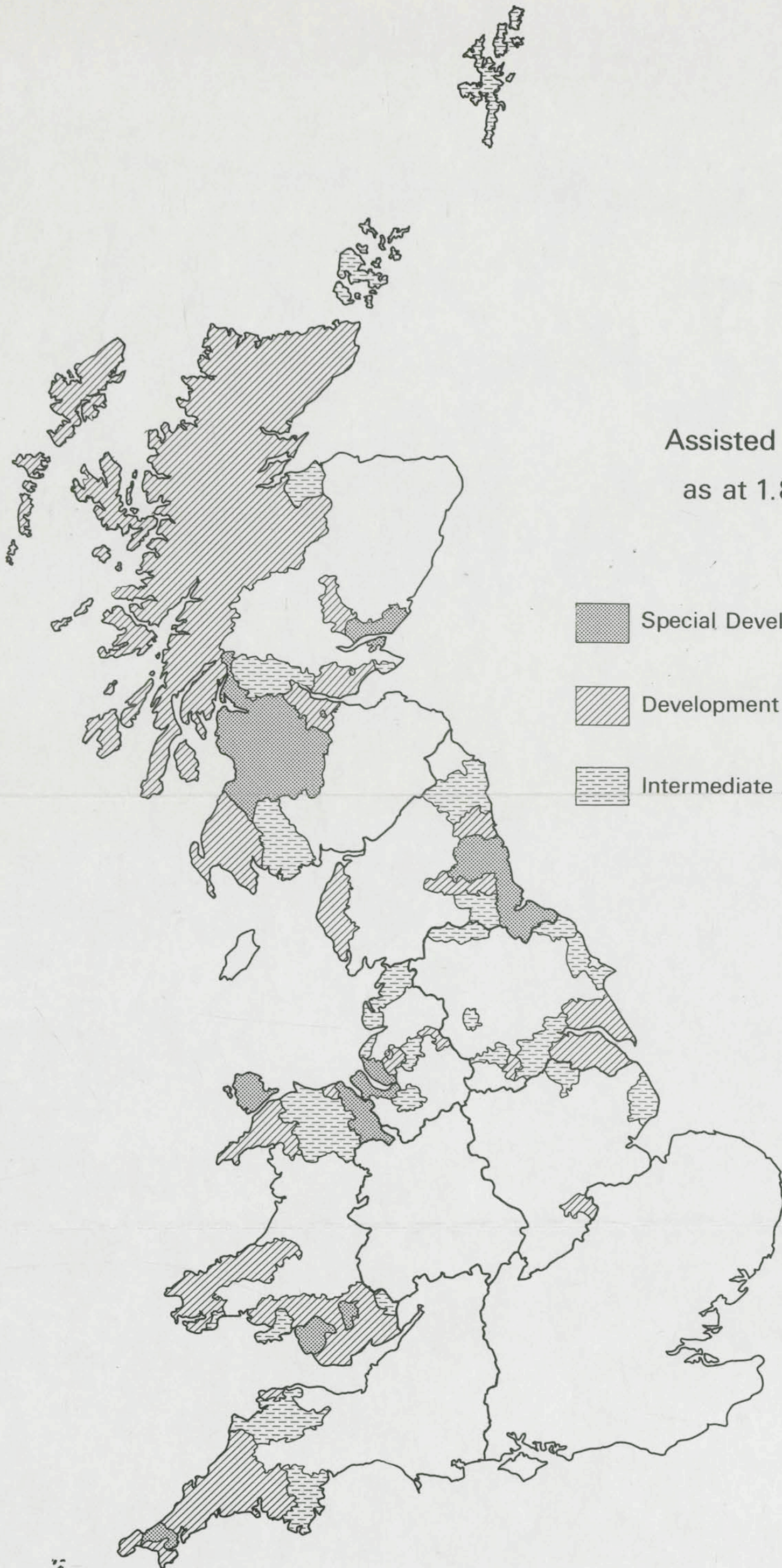
4 In applying these criteria, relative annual average unemployment rates have been the dominant factor, though industrial structure (especially over-dependence on one or more declining industries) and "peripherality" (essentially distances to markets) have also been important influences. There would be merit in widening the basis on which the map is drawn by taking more measured account of industrial structure and peripherality, together with such additional factors as long-term unemployment and occupational structure, though the Government do not see the procedure as being entirely suitable for statistical treatment.

5 The present Assisted Area map has three categories: Special Development; Development; and Intermediate. Key statistics in each category are:-




|  | Special<br>Development<br>Area | Development<br>Area | Intermediate<br>Area | Total in<br>Great Britain<br>Assisted Areas |
|--|--------------------------------|---------------------|----------------------|---|
|  | % GB                           | % GB                | % GB                 | % GB  |
| WORKING POPULATION                     |                                |                     |                      |   |
| - England                              | 7.0                            | 4.5                 | 4.5                  | 16.0  |
| - Scotland                             | 5.0                            | 1.6                 | 0.4                  | 4.0   |
| - Wales                                | 1.1                            | 2.7                 | 0.7                  | 4.5   |
| <hr/>                                  |                                |                     |                      |   |
| Great Britain                          | 13.1                           | 7.8                 | 5.6                  | 27.5  |
| LAND COVERAGE                          | 5.0                            | 24.8                | 7.7                  | 37.5  |
| AVERAGE UNEMPLOY-<br>MENT October 1983 | 18.1                           | 15.6                | 15.0                 | 16.7  |

\*Due to rounding working population figures do not add to the total for Great Britain Assisted Areas.





Assisted Areas  
as at 1.8.82

-  Special Development Areas
-  Development Areas
-  Intermediate Areas