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PRIME MINISTER

WHITE PAPER ON REGIONAL POLICY

On 14 November I sent you a draft of my White Paper on regional industrial development. I now enclose a draft which has been substantially changed in the light of your and other E(A) members' comments.

2 This draft retains the same structure as before. However, I have made several additions within that structure drawing upon Nick Edwards' alternative introduction. In particular there is an explicit reference to our manifesto commitment to open the section on the Government's approach. I have in addition amended the reference to the role of the BTG on the lines you suggested; and have incorporated other suggestions.

3 I have not, however, followed one line advocated namely the suggested change to paragraph 27(a) concerning modernisation investment, since such a change would present us with difficulty. The introduction of the concept "fundamental" modernisation into the new scheme would add a further level of complexity and selectivity which would be inconsistent with an automatic incentive. The term "fundamental" derives from the European Commission, but is incompatible with our proposed legislation which uses the more stringent criterion of jobs created. The



operation of the cost-per-job ceiling will automatically ensure that projects which do not create new jobs will not be eligible for grant. This means in practice that most modernisation investment, including all routine modernisation investment, will be excluded from automatic grant (except when undertaken by small firms to whom the cost-per-job ceiling will not apply). I have amended paragraph 5 of Annex B to make this clearer.

4 You also enquired whether replacement investment could be excluded from RDGs earlier than the main changes which will flow from the legislation. This is a matter we have considered in some detail at the Treasury's request, but I have concluded that I do not see it as workable. Under the present RDG scheme neither the legislation nor the administrative rules provide for any consideration to be given to the nature of the investment being assisted. The need to exclude replacement investment to meet our EC obligations was one of the factors which led us to conclude that some form of project test needed to be introduced.

However, under the new scheme it is envisaged that the project test will be integrated with the consideration of the eligibility of the project as a whole. The final determinant of eligibility in most cases will be whether or not the project creates jobs, a requirement simple replacement investment would not fulfil. To seek to exclude replacement investment in advance of the introduction of the new scheme would therefore mean that we would need to introduce a different kind of test, since the jobs approach would not be available. It would be very difficult to



ensure the necessary consistency of treatment and perhaps even more difficult to convince the EC Commission that this interim approach would work, short of adopting the full project-based, employment-linked scheme. In any case our resource problems in devising rules for the new scheme, considering its organisation and training staff to operate it are already considerable and the prospect of making an interim major modification to the existing scheme would add substantially to those problems.

5 Equally importantly it would have a significant impact on our proposed transitional provisions which are already likely to be exceedingly complex. When the changes to the scheme, together with the changes to the map, are brought into effect there will be three substantive classes of assisted area: (i) those that are newly eligible; (ii) those that continue to be eligible and (iii) those that cease to be eligible (ignoring for the moment changes of category between AAs although this would be an added complication). New assisted areas will come straight into the new scheme on a project basis so that grant will not be payable on replacement or modernisation investment which does not create jobs. For areas that continue to be eligible we propose that assets provided during the transitional period should receive grant under the terms of the existing scheme. If we were to adopt the further proposal for replacement investment we would need to run two sets of transitional provisions simultaneously. The same applies to areas ceasing to be eligible but here we would be tampering with the existing scheme at the same time as phasing it out altogether. Such a course embarked upon at the



same time as we are consulting over the White Paper and taking through legislation to implement changes to the scheme cannot be expected to be well received by industry. It would be bound to create great confusion among applicants. For all of these reasons therefore I have concluded that, although earlier exclusion of replacement investment would bring forward some of the savings, it is simply not practicable.

6 Unless there is a major objection to this revised draft, I will send the White Paper to the printers on 5 December.

7 I am copying this minute to the members of E(A) and to Sir Robert Armstrong.

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N T

30 November 1983

Department of Trade & Industry

## REGIONAL INDUSTRIAL DEVELOPMENT

29 November 1983

Paragraph

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## INTRODUCTION

The Government are committed to maintaining an effective regional policy to ease the process of change in areas which have been dependent on declining industries and to encourage new businesses in those areas.

2 Hitherto the main measures in support of regional policy have been directed towards alleviating imbalances in employment opportunities. Nearly £20 billion (at 1982 prices) has been spent on them over the past twenty years.

3 But other expenditure programmes have also contributed to this aim. Our modern communication system, which has enjoyed massive public investment since the war, has opened up opportunities for substantial new industrial and commercial development in the regions hitherto associated with the *basic* industries. There have been policies to stem depopulation of rural areas. More recently attention has been given to stemming the decay of inner city areas; and the urban programme and, latterly, the use of urban development grant is encouraging private sector involvement in industrial and commercial development.

4 There are other national policies which are of special value to regional development. These include training schemes to equip the labour force for new technologies; assistance to the development of tourism; encouragement of private sector contribution to regional economic development, notably through organisations such as local enterprise agencies; and also experiments to examine other ways in which local economies can be stimulated, particularly the twenty-five enterprise zones and latterly the proposal to establish a limited number of duty-free trading zones (freeports).

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5 Together with our national policies to stimulate innovative development; to upgrade technology; our support for new firm formation and expansion throughout the country; and our policies for reducing the burdens on business, these all help to create confidence in the regions where industry and commerce can flourish with less dependence on public expenditure.

6 There have been important changes in our environment since the present structure of regional industrial incentives was introduced. The United Kingdom has become a member of the European Community and, along with other countries, we have experienced a period of recession and inflation following the oil price rise. Unemployment is now high throughout the country and not just in the Assisted Areas; there are fewer mobile investment projects and increasing competition for them.

7 It is essential to ensure that regional policies are economic and effective in creating genuine jobs. The time is right to review the efficacy of our present system of regional industrial incentives which was introduced in its present form in 1972. Estimates of its effectiveness, though subject to wide margins of error, 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. Despite this, there are still significant variations in unemployment levels between regions, and sometimes even sharper contrasts at local level. Taking account of regional multiplier effects, it is estimated that the cost per additional job created in the Assisted Areas in the 1970s was around £35,000 at 1982 prices. Many of the jobs said to be "created" would otherwise have come into existence elsewhere in this country and should thus be described as "transferred".

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## THE GOVERNMENT'S APPROACH

8 Imbalances between areas in employment opportunities 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 and a constructive attitude to productivity and industrial relations, would increase the attractiveness to industry of areas with high unemployment. 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.

9 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 trade unions to maintain nationwide comparability, the spread of multi-plant firms paying the same wages across the country, and national wage bargaining. The Government believe that wage bargaining must become more responsive to the circumstances of the individual enterprise including its location. Their policies of privatisation, together with a reduction in the power of trade unions to act against their own members' interests, should help to achieve this. But the Government recognise that it would be unrealistic to expect wage adjustment alone to eliminate regional imbalances in employment opportunities.

10 Natural adjustment can also occur through people moving from areas of persistently high unemployment to areas where employment prospects are better. Indeed there has already been a great deal of adjustment in the labour market in this way, with significant movement to *more* prosperous areas. The Government wish to facilitate greater geographical and occupational mobility by removing some of the rigidities in



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the planning system, through their housing policies, and through their approach to portable pensions. However, these initiatives will take time to have effect. But labour mobility cannot be relied on as a complete solution as it tends to be the young, the more skilled and the more enterprising who are ready to move in search of work, possibly leaving the less-favoured localities with a still more dependent population and a workforce even less able to climb out of disadvantage.

11 The Government therefore conclude that wage adjustment and labour mobility cannot be relied on to correct regional imbalances in employment opportunities.

## The Case for Regional Industrial Policy Today

12 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 argued at that time 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 less relevant when there is no general shortage of labour in any region.

13 By influencing the distribution of industry within the country, regional industrial policy helps to reduce regional imbalances in employment opportunities. Regional industrial incentives also enable the United Kingdom to compete effectively for internationally mobile investment. Inward investment projects have brought notable benefits, particularly to Scotland and Wales. They can improve the national economy through their contribution to output and employment, provided that the incentives are not excessive in relation to the contribution of these projects.

14 It can also be argued that, while some parts of the country are able to adjust to changes in economic circumstances, in others such changes have led 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. Therefore regional industrial policy should encourage the development of indigenous potential within Assisted Areas: the long term objective is self-generating growth in these areas.

15 Although an economic case for regional industrial policy may still be made, it is not self-evident. The Government believe that the case for continuing the policy is now principally a social one with the aim of reducing, on a stable long-term basis, regional imbalances in employment opportunities.

#### The Case for Change

16 The argument that regional industrial policy produces a net national economic benefit is 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 Table 2 of Annex A). The Government are therefore concerned to see whether changes can be made to make sure that expenditure on regional industrial policy is as effective as possible.

17 Most of this expenditure represents transfer payments to companies; however there are real costs as well. Expenditure on regional measures imposes a burden on taxpayers throughout the country through either higher taxation or increased Government borrowing which crowd out other activities in the economy generally. In addition, industrial development controls (which the Government have already suspended) and regional incentives may have encouraged investment in locations that were not the best for the companies: the national economy may have suffered in consequence.

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18 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 might well 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, in particular by the European Commission; the Government have given the Commission a *commitment that* expenditure on replacement investment will be excluded. There is also over-concentration on the manufacturing sector in which employment has been generally tending to decline since 1966, and too little support for the growing service activities.

19 The Government believe that regional industrial incentives still have an important role to play in influencing the location of new economic development, and they recognise the need for the United Kingdom to be able to compete effectively for internationally mobile investment. But the incentives must be made much *more* cost-effective than at present, with greater emphasis on job creation and selectivity, 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 welcome views on these aspects of regional industrial incentives.

#### The Contribution of Local Communities

20 The Government welcome the increasing involvement of business in solving problems of local economic development, including participation in local enterprise agencies which provide assistance to new and small businesses. The Government believe that the private sector has a very important role to play in helping to solve the problems of

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local communities, and hope that more companies will contribute to this process in future.

21 Local authorities also 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.

## Other Government Policies

22 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. The Government recognise the need to take account of the regional dimension in such policies. The policies of the Manpower Services 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 expenditure by the Manpower Services Commission is in areas with above average rates of unemployment.

23 There are two other areas of policy where interaction with regional industrial policy is especially important: the urban programme and rural policies. In both Scotland and Wales the urban programme and some parts of 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. 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 in particular areas and on programmes for tackling them.

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24 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 industrial policy. The Department of the Environment is reviewing the effectiveness of projects carried out under the urban programme, including those related to the local economy, to assess the benefits generated by expenditure on different types of project. *Appropriate* programmes qualify for assistance from the European Regional Development Fund.

25 A wide range of social and economic factors underlie rural policies. They were developed largely to stem depopulation and to encourage an adequate supply and variety of employment opportunities. Depopulation is no longer a serious problem in most rural areas: the emphasis now is on improving their economic viability and social infrastructure. The economic objectives of rural policies are complementary to those of regional industrial policy and urban policy, while the measures are tailored to the specific problems of rural areas.

## European Community Regional Policy

26 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. Almost all the Fund is given in support of member countries' regional policies through fixed "quotas". This year, the United Kingdom expects to receive

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£260 million in this way. About 20 per cent of this will be in support of Government aid to companies, and the remainder for passing on to local and other public authorities for a variety of infrastructure projects, mainly in the Assisted Areas. A small but growing proportion of the Fund is being devoted to special Community programmes under the "non-quota" section. This aid is at present confined to giving special help to areas which have been or will be affected by Community policies and to areas which 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.

27 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 countries' regional policies, including our own. The Government take the expected contribution fully into account in determining expenditure on regional policy. They strongly support the development of Community regional policies along lines compatible with our own policies and will play a full part in their formulation. The Government also support the Commission in ensuring that member countries' 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, of course, ensure that its own schemes respect these requirements.

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## A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES

28 The principal forms of regional industrial incentive are regional development grants under Part II of the industrial Development Act 1982, and selective financial assistance under Section 7 of the same Act. (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 will account for a smaller proportion of expenditure; will be targeted more closely on job creation; and will be extended to include appropriate service activities.

29 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.

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

- (a) relate to approved projects as opposed to qualifying premises as at present. Approved projects will be those which create new capacity; expand existing capacity; or effect a change in 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 either to approved capital expenditure, or to the number of jobs provided directly by the project in the Development Areas, whichever is more advantageous for the investor;

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- (c) allow for grant to be limited by means of a cost-per-job ceiling, so that it may be payable only to the extent that a project creates jobs - but this will not normally be applied to small firms; and
- (d) extend the scope of qualifying activities.

A more detailed account of *these* proposals is at Annex B.

31 When considering which activities should qualify for regional development 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 to the locality. It would not be appropriate for all services to qualify because many are for local *markets* and do not have a choice of location. The Government welcome views on which service activities should qualify in addition to manufacturing activities.

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

33 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 39-43) and on the rates of grant to be applied. But for the scheme to be effective, it is necessary for the rates of grant to be high enough to ensure that the incentive is taken into account when companies make their investment decisions and for the cost-per-job ceiling to be set so that only those projects which are capital-intensive are affected. The Government welcome views on the rates of grant.



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34 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 <sup>normally</sup> to exclude from regional selective 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 modernisation projects which do not receive regional development grants but which, nevertheless, are essential to safeguard or maintain existing employment.

35 Regional development grants will thus continue to be an important element within the proposed structure for regional industrial incentives, 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

36 In addition to the regional industrial incentives already described, the Government through publicity funded development programmes make available, primarily in the Assisted Areas, suitable accommodation for businesses wishing to set up, relocate, or expand (see Annex A). The Government also encourage both private sector investment in new industrial and commercial property and joint ventures between the public and private sectors.

37 Self-generating growth requires a high rate of innovation and new firm formation. There are indications that the Assisted Areas suffer from a poor innovation record (especially when compared with the South East), and from a high level of

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dependence on branch plants of national and international manufacturing companies which gives an industrial milieu which is less conducive to new firm formation. The operation of regional industrial policy may itself have contributed to some of these weaknesses in the past. In their election manifesto, the Government made clear their commitment to diversify regional economies by encouraging the fullest use of their schemes for innovation. The Government welcome views on whether special measures should be taken in the Assisted Areas to encourage innovation, particularly by indigenous firms, and also to increase the rate at which new firms are created. These might be relaxed criteria for, or increased promotion of, existing schemes that are available throughout the country.

38 The regional investment role of the British Technology Group 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. Moreover, the regional role is now peripheral to the British Technology Group's main role: encouraging the transfer of technology. The Assisted Areas, as well as other areas, will benefit from this, particularly in terms of encouraging innovation. These considerations and the desirability that henceforth the British Technology Group should concentrate on its primary task have led the Government to conclude that it should not maintain a regional investment role. The Government welcome views on ways in which the British Technology Group can assist innovation in the Assisted Areas through its technology transfer role.

## The Assisted Areas Map

39 The Assisted Areas map has been reduced since 1979 and now covers some 27.6 per cent of the working population. However, large changes in the distribution of unemployment and structural

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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.

40 The Government intend to revise the Assisted Areas map. In the past relative unemployment has been the major criterion. through factors such as industrial structure and peripherality have also been taken into account, Annex C describes the existing practice and poses questions about the extent to which a more measured approach could be adopted using these and other factors. The Government welcome views on the criteria for designating Assisted Areas.

41 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. It can be argued that a map with three categories of Assisted Area, as at present, allows finer distinctions to be drawn. Equally it can be argued that such distinctions complicate the policy and its operation. Regional selective assistance will continue to be available in all categories of Assisted Area.

42 The coverage of the map, and the number of its categories, 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 Area coverage would dilute the effect of locational incentives. On the other hand, a reduced coverage

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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.

43 A new map, taking into account submissions made, will be announced in Autumn 1984.

## Transitional provisions

44 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 of 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.

45 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. The effect of transitional provisions will vary with the circumstances of applicants when the 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 would 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.

46 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

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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.

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## CONCLUSION

47 The Government are committed to an effective regional industrial policy designed to reduce, on a stable long term basis, regional imbalances in employment opportunities.

48 Legislation will be introduced to change the present scheme of regional development grants to make them more cost-effective. The Government expect that the combined effect of this change and those to the geographical coverage of the scheme would offer opportunities for a reduction in public expenditure.

49 The Government invite views on how much geographical variations in wage rates affect companies' choice of location (paragraph 8). They also invite views, in the light of the considerations set out above, on aspects of regional industrial policy which have yet to be decided:

- the aspects of regional industrial incentives described in paragraph 19;
- which activities should qualify for regional development grant (paragraph 31);
- the rates of regional development grant (paragraph 33);
- the balance between automatic and selective assistance (paragraph 35);
- measures in the Assisted Areas to encourage innovation and new firm formation (paragraph 37);
- ways in which the British Technology Group can assist innovation in the Assisted Areas through its technology transfer role (paragraph 38);

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- the criteria for designating Assisted Areas (paragraph 40);
- the coverage of the Assisted Areas map (paragraph 42).

Written 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 £2.00p (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. A description of 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 on qualifying premises, of new assets 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.

Grant is not paid on building or works costing less than £5,000, or on individual items of plant and machinery costing less than £1,000 (£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 (for which a service charge is made) on foreign currency loans 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 Highlands 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 Highlands 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. Government grant aid to the Regional Development Organisations in England, which cover all the regions with substantial Assisted Areas; supports regional industrial 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.

7. Other past instruments of regional industrial policy have included the regional employment premium, office development permits, and industrial development certificates. The first - which was a continuing job-related subsidy - was 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 industrial 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.

8. 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 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; OUTTURN PRICES

	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 <sup>1</sup>	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: 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 From 12 June 1979 to 9 November 1982 there was a four month deferment of payment of grant on approved applications - this reduced the 1979/80 figure by about £110 million and raised the 1982/83 figure by up to £150 million.

## A NEW STRUCTURE FOR REGIONAL INDUSTRIAL INCENTIVES: REGIONAL DEVELOPMENT GRANTS

The principal features of the changes are described briefly in paragraphs 26-34 above and more fully in this annex. Those wishing to obtain details of the statutory changes to regional development grants should refer to the primary legislation when published; this annex is not an exhaustive account, but indicates how the powers given by the legislation will be exercised when the scheme is introduced.

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

- create new productive capacity; or
- expand existing productive capacity; or
- effect a change in 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 be approved for grant, projects will need also 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 which meet the criteria described in paragraph [ ] above. The qualifying activities will be specified in statutory instruments.

4 Grant will be payable at standard rates and will be calculated as the higher of either:-

- (a) a prescribed amount for each new job that the qualifying project creates in the development areas; or
- (b) a prescribed percentage of approved capital expenditure on the project, subject to a ceiling (higher than the amount in (a)) on the amount payable for each new job. This ceiling will not normally apply to projects undertaken by small firms.

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

5 The number of jobs which will be treated as created by a project will be those which result directly from the project in the Development Areas, net of any related reductions in employment in the Development Areas which also result directly from the project. The ceiling on grant payable for each job created (in 4(b) above) means that modernisation projects will receive grant only if, and to the extent that, they create jobs (except for modernisation projects undertaken by small firms which are not subject to this ceiling). Modernisation projects that safeguard employment in the Assisted Areas will continue to be eligible for regional selective assistance.

6 The Government invite views on the rates of grant that should be set for the revised scheme and will take submissions into account in reaching their decisions. These rates will also have to take account of EC limits on regional aid.

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

8 Full details of the arrangements for the revised scheme, including those for making applications, will be published at the time the new scheme is implemented.

## THE ASSISTED AREAS MAP

1. Recent Governments have usually designated Assisted Areas to comprise Travel-to-Work-Areas. These are the smallest identifiable areas in which most people (at least 75% of the working population) both live and work. 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% of the working population.

2. In considering the designation of an Assisted Area the Government have regard to the 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".

3. 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, occupational structure, and other forms of assistance available. However the Government do not see the procedure as being entirely suitable for statistical treatment.



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

	Special Development Area	Development Area	Intermediate Area	Total* in Great Britain Assisted Areas
	% GB	% GB	% GB	% GB
WORKING POPULATION				
- England	7.0	4.5	4.5	16.0
- Scotland	5.0	1.6	0.4	7.0
- Wales	1.1	2.7	0.7	4.5
<hr/>				
Great Britain	13.1	8.8	5.6	27.5
LAND COVERAGE	5.0	24.8	7.7	37.5
AVERAGE UNEMPLOY- MENT October 1983	18.0	15.6	15.0	16.7

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