cf NO

DEPARTMENT OF TRADE AND INDUSTRY
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JF5085
Secretary of State for Trade and Industry

12 December 1983

Prime Minister (2)
Legislation by end January now looks feasible
AT 12/12

The Rt Hon Viscount Whitelaw
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1

MT

Dear Willie,

CO-OPERATIVE DEVELOPMENT AGENCY AND REGIONAL DEVELOPMENT GRANTS

Thank you for your letter of 2 December. I too regret that we are unable to meet our original timetable.

2 I fully understand that, for the present, you cannot give unqualified agreement to the inclusion of the combined CDA/RDG Bill in the programme. I am advised that introduction by the end of January as you now propose should be possible and we are proceeding on that basis. We will try to bring the Bill to L Committee in the week commencing 16 January as you ask. However, I understand that introduction by end January is still possible even if we cannot come to L Committee before the week commencing 23 January, and that this too would be acceptable to you.

3 As to the White Paper, it contains no express statement as to the timing of legislation. However it is implicit from our stated intention to introduce the new RDG scheme in Autumn 1984 that legislation this Session would be necessary. If asked, I shall have to say that introduction of the scheme on this timetable entails early legislation, but I shall of course give no commitment on timing.

4 I am copying this letter to the recipients of yours.

Yours ever
Norman

NORMAN TEBBIT

Parliament: Legislation pt 11

Reg Pol Review Pt 6

CONFIDENTIAL

CQ/NO

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

LORD PRESIDENT OF THE COUNCIL

Prime Minister (2)

To note. You earlier requested that legislation should follow the White Paper reasonably quickly. Reports of delay in legislation therefore disturbing.

AT 5/12

2 December 1983

Dear Norman

MG

CO-OPERATIVE DEVELOPMENT AGENCY AND REGIONAL DEVELOPMENT GRANTS

Following discussion with John Biffen on 1 November, you wrote to me on 10 November seeking agreement to inclusion of regional development grant provisions in the Bill on the Co-operative Development Agency which has a place in the "essential" category of the current legislative programme. you went on to confirm that the objective was to introduce the combined legislation as soon as possible, and that it seemed likely that the addition of the RDG provisions would not delay introduction of the Bill by more than a month - ie from November to December.

Despite the reservations which John Biffen outlined to you, he and I were disposed to regard that as an acceptable proposition. But I now understand that the combined Bill is not likely to be fully drafted before mid to late January - whereas it would just about be possible to introduce before Christmas a Bill dealing with CDA alone. It does therefore seem that the addition of the RDG provisions is holding us back, and you will appreciate that the combined effect of enlargement of the Bill to cover a more controversial subject and delay in its introduction could cause problems for the business managers. Given the uncertainty about your timetable, I do not think it would be right for me to give unqualified agreement to the inclusion of a combined Bill in the programme. I think therefore that we must leave it like this: if a combined Bill can be brought before L Committee and introduced in Parliament before the end of January - which means in practice aiming for a Legislation Committee meeting not later than the week of 16 January - I am content that it should be proceeded with. If it cannot be made ready by then, we will have to seriously consider proceeding with legislation on CDA alone. I am content that you should meanwhile issue a White Paper provided no commitment is made about the timing of legislation.

I am copying this letter to the Prime Minister, members of QL and E(A), First Parliamentary Counsel and to Sir Robert Armstrong.

Yours ever

Willie

The Rt Hon Norman Tebbit MP

CONFIDENTIAL

Parliament: Legislative Prog: Pt 4

- 2 DEC 1983

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DEPARTMENT OF TRADE AND INDUSTRY
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JU885
Secretary of State for Trade and Industry

10 November 1983

CONFIDENTIAL

The Rt Hon Viscount Whitelaw
Lord President of the Council
Privy Council Office
Whitehall
London SW1

Prime Minister
To note.
AT 11/11

D Willie,

CO-OPERATIVE DEVELOPMENT AGENCY AND REGIONAL DEVELOPMENT GRANTS

Following correspondence and discussion with colleagues, I now believe that we are agreed that the proposed CDA Bill should also be the vehicle for legislation to change regional development grants, and that the combined legislation should be introduced as quickly as possible. I should be grateful if you would accept the combined Bill into the legislative programme.

2 In the light of First Parliamentary Counsel's view on the timing of the drafting, introduction of the combined legislation cannot be before December, whereas that for the CDA Bill was due this month. I hope, however, that you see no difficulty in introduction in December. The subsequent timetable need not differ substantially from that foreseen for the CDA Bill alone.

3 I am copying this to the Prime Minister, Members of QL and E(A), Sir Robert Armstrong and First Parliamentary Counsel.

Yours
Norman

NORMAN TEBBIT

Parliament: Legislation Pt 11

020

File

CONFIDENTIAL

Ref. No: T & I (84)5
Date: 2.2.84

THE CO-OPERATIVE DEVELOPMENT AGENCY

and

INDUSTRIAL DEVELOPMENT BILL

Second Reading

House of Commons
Tuesday 7th February 1984

Contents — Page

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000 x 2526

Enquiries on this brief to:
RICHARD EHRMAN

The Bill has two parts:

The Co-Operative Development Agency (CDA)

THE BILL - Part I is concerned with the future of the Co-operative Development Agency. It will raise from £1.5 million to £3 million the cumulative amount of grants which the Secretary of State for Trade & Industry may make available to the Agency. The Bill does not specify the annual rate of grant, but the Government intends to continue it at the current level of £200,000 per annum for the next six years.

The Bill also widens the powers of the Agency, principally by allowing it to make grants or loans for the establishment or development of co-operatives. The Agency will not, however, be allowed to use grants from the Department of Trade & Industry or loans for this purpose, but it will be possible for the European Social Fund or other organisations to provide money for it.

The Bill extends the Agency's powers to provide training courses for those involved in the co-operative movement, and removes the current prohibition on its engaging in commercial activities or forming partnerships.

The Secretary of State will be empowered to issue directions to the Agency about the exercise of its functions; and since the 1978 Act that established it made no provisions for winding it up, the Secretary of State will also be able, under this Bill, to dissolve it by Order. Any such order, however, will be subject to affirmative resolution in both houses.

Background of the CDA

The CDA was set up in September 1978 under the Co-operative Development Agency Act of that year. This followed the recommendations of a working group drawn from the Co-operative movement. Its basic purpose is to promote the principles and practices of the movement and to act as its representative body. Its Board consists of a chairman and five members, and it has twelve staff. The original Act allowed for public funding to the CDA of up to £1½ million. This has now been exhausted, which is why the present Bill is necessary. The CDA also receives about £100,000 per annum from industry - mainly in the form of secondments.

In 1983 there were estimated to be about 8000 co-operatives in this country, up from 500 in 1982. The largest single group is in retailing, where there are about 150 co-operatives, and the majority are in service trades. Co-operatives are generally acknowledged to be a different animal to other small business organisations and the CDA prides itself that it has developed the special skills necessary to advise and help them. This help is particularly important in their early years, when their initial funding is usually organised on a hand-to-mouth basis. Their founders often put up their redundancy pay and take out mortgages to help them get established, and growth is initially financed by self-generated funds. Later on co-operatives can usually gain access to more conventional sources of funds and advice.

Regional Industrial Development

THE BILL - Part II of the Bill provides for an amended scheme of Regional Development Grants, and follows the publication in December of the White Paper on 'Regional Industrial Development'. It does not, however, specify the rates of grant, the activities that will qualify for it or the boundaries of the Assisted Area map that will accompany the new scheme. These will be determined later by Order, following a period of public consultation on the White Paper which will last until 31st May.

The provisions of Part II of the Bill will put the RDG scheme on to a project basis. RDG will only be payable, under the new scheme, to projects which provide or modernise capacity. Simple replacement investment will no longer qualify. RDG will be calculated either as a proportion of capital expenditure, or according to the number of jobs created by it (which ever gives the better result). However it may be abated, and the Government intend to use this power to abate grants on capital expenditure so that a cost per job ceiling will be applied. This is in order to ensure that RDG is payable only to the extent that a project creates jobs. This abatement will not normally be applied to small firms.

The Bill also provides for the designation of Assisted Areas by reference to wards, the Travel-to-Work Areas of the Department of Employment or other areas for legislative purposes. This provision is made necessary by forthcoming changes in the way that Travel-to-Work Areas, by which Assisted Areas are now defined, are themselves put together. This is being revised and it is intended in future to define them by local authority wards rather than Employment Office Areas.

The Government intends to bring the new scheme into effect in Autumn 1984, and to make changes to qualifying activities, rates of grant and the map of Assisted Areas at the same time. This changeover will be accompanied by appropriate transitional arrangements. (Details of all these changes are given on P5 below).

Background to Regional Policy

The Government is pledged, by last year's election Manifesto, to maintain 'an effective regional policy' and to avoid 'sudden changes' in it. The Department of Trade & Industry is budgeted to spend £640 million this year on regional policy, and the total bill for all departments' regional spending will, according to the Public Expenditure White Paper, be over £1 billion. The Sunday Times estimated (20.2.83) that in total £20 billion has been spent over the years on aid for the regions. So regional policy is an expensive item in the Government's budget. The main problem with the policy has always been to make sure that it is, in practice, effective. Some of the resons why the present policy (see appendix) is widely considered to be unsaitsfactory are given below.

a) It appears to have had 'little discernible impact upon the relative economic performance of the regions themselves. Unemployment at 1.6 per cent in Northern England and 15.4 per cent in the North West is still on an altogether higher plane than in the South East, where it stands at 9.2 per cent' (Financial Times, 18th October 1983).

b) Regional policy had been unable to play any part in alleviating the problems of the West Midlands, the region where unemployment has risen fastest during the recession. Indeed by directing investment towards other areas during the 1960s and 1970s regional policy probably aggravated the West Midland's difficulties.

c) The current policy is based upon automatic entitlement to grants for capital expenditure and has tended to be biased towards capital intensive projects. Because of this the cost per job has been high - £35,000 according to the White Paper. The most often quoted example of a capital intensive project that received massive regional aid but created comparatively few jobs, is the Sullom Voe oil terminal for which BP and its partners received £93 million in regional development grants. Furthermore this project would have had to go ahead in the Shetlands anyway, whether or not it received public money (see below).

d) It is thought that regional aid has created a disappointing number of new jobs, hence the very high estimate of the cost per job (see above). The White Paper gave a figure of 500,000 jobs since 1960.

e) The problem of assessing the economic impact of regional policy, as opposed to its social effects, is made more difficult by the fact that many of the jobs 'created' by it are not new to the UK economy but have merely been shifted from areas that do not receive aid to those that do. A recent example of this was Lucas' plan to move production involving 3,000 jobs from the West Midlands to South Wales in order to take advantage of the grants offered in the assisted areas.

f) Much of the investment that now qualifies for regional grants would have gone ahead in the same place anyway, such as the Sullom Voe terminal. It is argued by many that Government grants to projects like this are a waste of regional aid.

g) Regional policy has not led to greater flexibility of labour costs, though many, as the Financial Times pointed out on 18th October 1983, regard this 'as the first condition of industrial renewal and employment growth'. Instead national wage bargaining has tended to impose uniform rates of pay etc, throughout the country. Government figures show, according to the Financial Times, that average male manual wages range from £134 a week in the South West to £151 a week in the prosperous South East. Manual wages in the depressed North, however, at an average of £143.60 a week are little different from those in the South East (excluding London) at £144.50. (All figures are as quoted in the Financial Times).

h) Regional policy seems to run counter to the Government's stated intention of encouraging greater mobility of labour.

i) Current regional policy gives only a tiny proportion of its available aid to the services. They do not qualify for regional development grants despite the fact that they offer the best hope for increased employment in the future.

j) The traditional economic rationale of regional policy is that by directing new investment to the depressed regions it relieves the pressure on the infrastructure and labour market of the booming areas. But at a time when unemployment is high in all areas this argument is no longer relevant.

Advantages of Regional Policy

Despite this long list of reservations there can be no doubt that regional policy does have worthwhile advantages:

a) It has created jobs in those regions that need them most, and by doing so it has undoubtedly helped alleviate their considerable social problems.

b) In order to qualify for grants from the European Regional Fund it is necessary for Britain to have its own regional policy and a map of those areas that qualify under it. Since the Fund's inception in 1975 the Uk has received £1,147 million from it, and this accounts for an important part of the rebates on its contributions that Britain has received from the EEC.

c) Regional aid, and particularly selective assistance under Section 7 of the Industrial Development Act 1982 (formerly the Industry Act 1972), has played a very important part in attracting vital inward investment to Britain, especially from advanced countries outside the EEC such as Japan and the USA. EEC rules would prohibit the UK from offering aid to these projects on an ad hoc basis; grants have to be given under a scheme approved by the Commission. The Economist pointed out (19th February 1983) 'that Scotland...would not have an electronics industry if it were not for regional aid', and the same is true of South Wales concentration of Japanese investment.

The White Paper on 'Regional Industrial Development'

The Government's long awaited White Paper on regional industrial policy was published on 13th December 1983, following a comprehensive review of the subject. It set out the Government's approach to the policy and put forward proposals for a new structure of regional incentives. It also initiated a period of public consultation (see p 5 below) on a number of the issues concerned, including the rates of grant and the coverage of the Assisted Areas map.

When he announced the White Paper in the House, Mr Tebbit, Secretary of State for Trade & Industry, summarised the Government's approach thus:

> 'The Government remain firmly committed to an effective regional policy. Although the economic case for regional industrial policy today is not clear cut, and the economic costs of such policies must be set against the benefits, there remains a social case for regional industrial policy to reduce regional imbalances in employment opportunities.
>
> 'The Government believes that there is scope to increase the effectiveness of regional policy and to achieve better value for money in the regions with less adverse effects on the economy as a whole' (Hansard, 13th December 1983, Col. 847).

The White Paper outlined a new framework for regional policy aimed at making the system more cost-effective, putting greater emphasis on selective, rather than automatic, assistance and to gearing RDG more specifically to projects involving job creation. More aid will also be directed towards service industries in the future.

The Main Points

Regional Development Grant Scheme

The Regional development Grant Scheme will continue as the major element in regional industrial incentives. Grant will continue to be paid at standard rates and by reference to published criteria, in order that the automatic and predictable nature of the scheme can be maintained. Under the new scheme:

* Regional Developm ent Grant will relate to approved projects as opposed to qualifying premises as at present. Approved projects will be those which provide new productive capacity, modernise or expand existing capacity, or effect a change in a product or process or service. They will consist wholly or mainly of qualifying activities. Simple replacement investment will not qualify.

* RDG will be calculted at standard rates by reference either to a proportion of approved capital expenditure, or as an amount for each new job created, whichever is best for the investor.

* Where grant is paid in respect of capital expenditure, it will be limited by a 'cost-per-job' ceiling, so that it is payable only to the extent that a project creates jobs. This ceiling will not normally be applied to small firms.

* The scope of qualifying activities will be increased, particularly to include some service industries.

* The importance of selective assistance relative to RDG's will be increased. But re-locationprojects which do not provide a net increase in jobs will not normally be eligible.

- Views are sought on which service activities should qualify for RDG, what the rates of grant should be, and on how far the balance should shift from automatic to selective assistance.

The Assisted Areas

The Paper makes clear that the Government intends to revise the Assisted Area map, which is now out of date. A decision has still to be taken as to whether there should continue to be three categories of Assisted Area status, with RDG payable at different rates in the top two categories, or whether there should be only two categories with RDG payable in only one.

In the past, relative unemployment has been the major criterion, although factors such as industrial structure and location have also been taken into account.

Present map coverage is also based on Travel-to-Work areas, which will be revised in line with the more up-to-date data now becoming available from the 1981 Census returns, taking account of criticisms of the earlier method.

- Views are invited on both the criteria for designation and on map coverage.

Other Regional Industrial Assistance

The Paper emphasises that regional aid policies should focus to a greater extent on encouraging new and indigenous development in the Assisted Areas which would lead to self-generating growth rather than simply the transfer of jobs from one part of the country to another.

- Views are invited on whether special measures should be taken to encourage innovation and new company formation in the Assisted Areas.

- Views are also sought on the ways in which the British Technology Group can encourage innovation in the Assisted Areas through its technology transfer role.

- Views are sought on how much geographical variations in wage rates effect companies choice of location.

Transitional Arrangements:

To avoid disruption and uncertainty arising from these changes, there will be a twelve month transition period from the introduction of the scheme before they take full effect. For projects which have already been offered selective assistance, RDG will continue to be paid under the old rules, not the new. The old rules will also apply for projects for which application has already been made, or are made before January 31st 1984, provided an offer is made before changes to the legislation are brought into effect.

/APPENDIX ...7

Conservative Research Dept
32 Smith Square LONDON SW1

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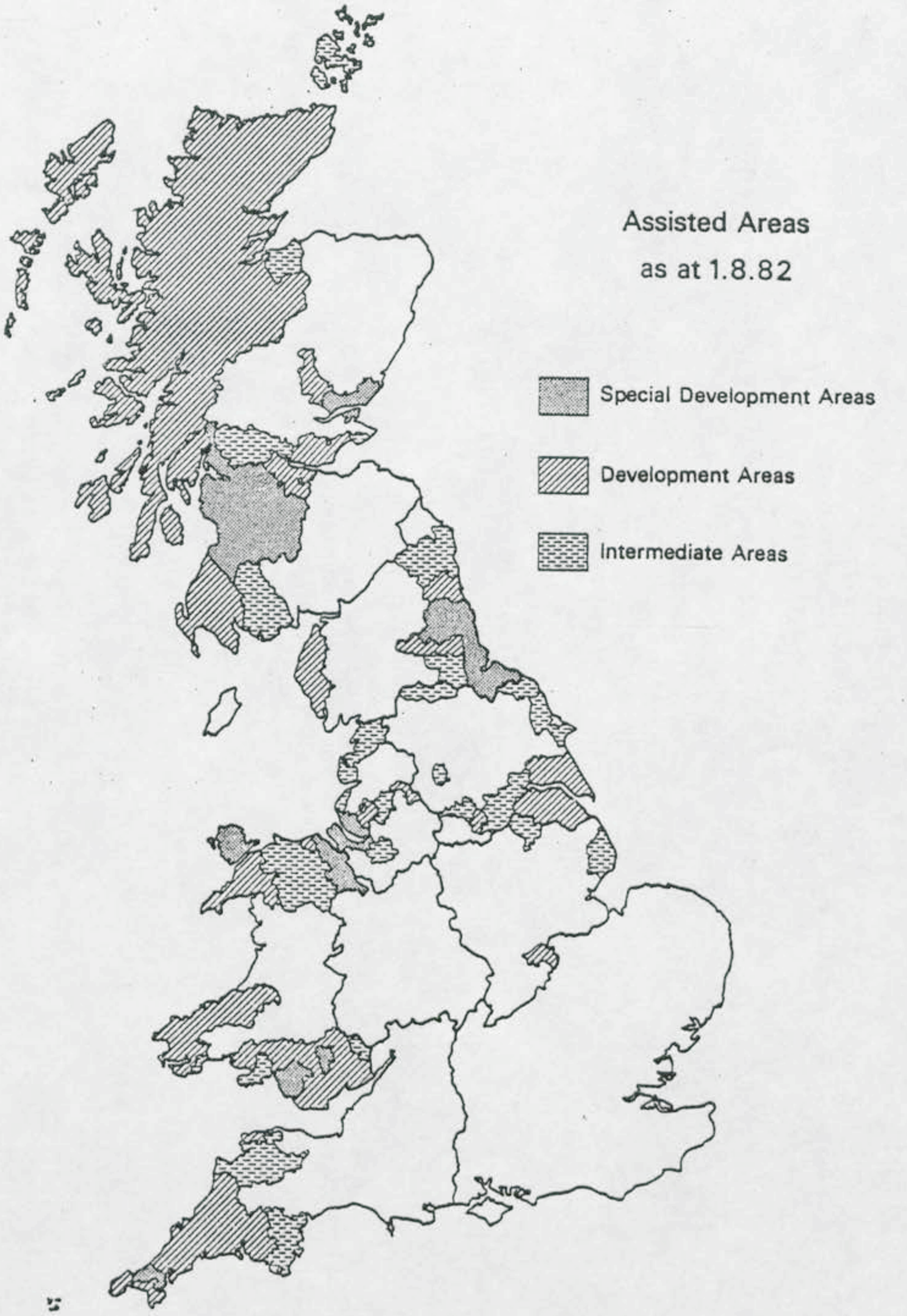
MONEY FOR THE REGIONS (£m)

	1982-83	1983-84
Regional Development Grant	600	474
Other Industry Department Aid	218	168
Urban Programme	200	263
Urban Development Corporation	64	67
Derelict Land Improvement	59	75
	1,141	1,047

(Source: Public Expenditure White Paper Cmnd 8789)



	Special Development Area % GB	*Development Area* % GB	*Intermediate Area* % GB	*Total* in Great Britain Assisted Areas* % 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
Great Britain	13.1	8.8	5.6	27.5
LAND COVERAGE	5.0	24.8	7.7	37.5
AVERAGE UNEMPLOYMENT 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.

Source: Regional Industrial Development Cmnd 9111

Summary of Incentives

Under the Current Policy

REGIONAL AID	Special Development Areas (SDAs)	Development Areas (DAs)	Intermediate Areas (IAs)	Other areas
Regional Development Grants Available for capital expenditure:				
a on new building works (other than mining works);	22%	15%	NIL	NIL
b on new plant and machinery — provided chiefly for manufacturing industry.	22%	15%	NIL	NIL
Regional Selective Assistance				
i *For manufacturing, mining and construction industries* Section 7 or Project Grants based on the fixed costs of a project.	Negotiable as the minimum necessary for the project to proceed			NIL
ii *Office and Service Industries Scheme* Grants based on the number of jobs a project is expected to create over three years.	Negotiable as the minimum necessary for the project to proceed within the following maxima: £8,000 per job	£5,000 per job	£2,500 per job	NIL
iii *In-plant Training Scheme* Grants towards training costs.	80% of eligible training costs			NIL
iv *Loans from Europe* Fixed interest loans from the European Investment Bank (EIB) for projects creating or safeguarding jobs.	Available in all Assisted Areas			NIL
Similar loans from the European Coal and Steel Community (ECSC).	Available in all coal and steel closure areas			NIL
v *Exchange Risk Guarantee Scheme* Covers firms against the exchange risk on foreign currency loans.	Available on loans from the EIB and ECSC			

NATION-WIDE AID	
i *Support for Innovation* To encourage industrial research and development and the application of new technologies in products and processes.	Up to 33⅓% in all Areas
ii *National Selective Assistance (Section 8)* Available to manufacturing industries for major projects involving new investments of at least £0.5 million.	Negotiable as the minimum necessary for the project to proceed
iii *Coal-firing Scheme* Assistance is available in the agricultural, manufacturing and most service industries towards the cost of switching gas and/or oil fired industrial equipment to coal-firing.	Up to 25% in all Areas
Loans are also available from the ECSC. Borrowers can be covered under the Exchange Risk Guarantee Scheme against exchange rate fluctuations.	Up to 50% of project costs in all Areas

(Source: 'A Summary of Incentives for Industry', Department of Trade & Industry)