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NDPM

AT 4/9

MR TURNBULL

6 September 1984

c Mr Redwood

REGIONAL POLICY REVIEW

DTI are due to present new regional policy recommendations for a probable meeting of E(A) late in September. Following three bouts of interdepartmental review, a White Paper (Cmnd 9111) and several hundred industry responses to the White Paper, officials have laboured long and hard over grant rates, criteria for designating assisted areas, and a new assisted area map.

My purpose in writing - and I am writing for your own information only - is to alert you to the fact that I foresee a good deal of Ministerial strife and dissension in the offing. Mr Younger's letter of 4 September to the Chancellor is, I believe, just a straw in a wind which will yet blow much more strongly.

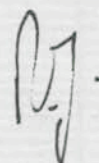
There is no question but that one of the objectives of this long-drawn out review was to save money - 'in the range from £150 million to £200 million' as Mr Younger correctly states. But Ministers did not make clear what base the savings should be calculated from, whether they were in cash or constant terms, how soon they should be achieved, and whether they should vary with rising or falling investment by industry. That is a lot of loopholes. The meetings of the Working Group which I have attended confirm to me that officials in DTI,

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Employment, Environment, Scotland and Wales will so pitch their advice to Ministers as to exploit the loopholes. Although a great many options will be paraded before Ministers, the weight of official push will be for modest reductions in grant rates and an increase in the proportion of GB population covered by assisted areas. (It is presently about 27%, whereas new proposals are tending towards 35%, which is the maximum blessed by the European Commission.) There is also the important subsidiary issue of whether Ministers will want to choose objective criteria for designating assisted areas so that the criteria can then be published, or whether they will want an expedient fudge which cannot be rationally defended or published. Officials are pushing for the latter.

In all this, Treasury are having a very hard time to keep public expenditure considerations to the fore. The drift in officials' thinking on regional policy will in my view become a further handicap to the Treasury during and beyond the PES bilaterals. While correspondence gathers pace ahead of E(A), it could be useful for the Prime Minister informally to remind spending Ministers, as and when she may see them over the next couple of weeks, that significant savings were expected from the review. She could also note that Ministers will have to work hard to resist the efforts of officials to keep intervening and spending.



ROBERT YOUNG

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