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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Rees MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON

10 July 1985

Dear Peter,

File on B/U.

1985 PES REPORT: OPTION REDUCTIONS IN REGIONAL DEVELOPMENT GRANT (RDG) AND SELECTIVE FINANCIAL ASSISTANCE (SFA)

I have had drawn to my attention Norman Tebbit's suggestion in this year's PES Report that expenditure on RDG and SFA is a suitable candidate for option reductions. I am writing to you now to record my firm opposition to such a suggestion - though I understand this has already been registered with your officials.

Following tomorrow's general discussion at Cabinet you will be embarking on the usual round of bilateral discussions. Before you do so I must record my serious reservations about this particular proposal. I am in no doubt that RDG and SFA are of considerable importance in the improvement of regional economies. We recognised this in our White Paper of December 1983 and in the review of regional assistance which we brought into effect on 29 November last year. We have been able to rebut robustly criticism of the changes we made not only because they were, in themselves, sensible, but also because they were effected in the context of a meaningful framework of financial assistance. Even the announcement of the 4 month moratorium on payment of RDG has been received with relatively little fuss - although I believe there are now signs, as I forecast there would be, that smaller firms are beginning to have cash-flow problems as a result. However, if we were to announce an extension of the moratorium on RDG (and I am unclear how exactly this would work) and to suspend SFA for a period, it would be tantamount to an abandonment for a time of a regional financial assistance policy. Apart from the serious setback this would be to companies in the Region, it would be a very serious blow to our efforts in securing internationally mobile investments. These efforts have achieved some striking results in recent years, but we are in a strongly competitive situation with other European countries and if we are unable

to offer the present financial incentives even temporarily, the loss of momentum will gravely undermine our credibility in the eyes of foreign companies. I believe it would also have serious political repercussions, coming, as it would, within a year of our bringing into effect a new regional financial assistance policy.

I am copying this letter to the Prime Minister and the other members of E(A).

Yours truly,

George

