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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
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London
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NBPM

7 July 1986

Dear Paul,

REGIONAL ASSISTANCE

WILL REQUEST IF REQUIRED

I have seen Malcolm Rifkind's letter to you of 27 May and your reply of 6 June. I have also seen Nicholas Edwards' letters of 9 and 19 June.

As suggested in your letter of 6 June, officials of our Departments have met to discuss forecasting methodologies and to clarify the figures. On the forecasting techniques, I understand that our officials have agreed on the need to remove inconsistencies in some of the key, underlying assumptions. Important differences, however, remain over the adjustments to the models required to predict territorial spend under the new regional assistance map accurately. This is something which is only likely to be settled by experience in running the models.

Nonetheless, I must underline my great concern at the figures emerging as a result of the meeting. They present a serious threat to our ability to control expenditure on regional assistance. Against the current expenditure background for both this year and the Survey period, I must stress that I can offer no prospect of increasing the provision for regional assistance for 1986-87 or beyond unless deliverable off-setting savings are offered up on the cash limited provisions of the Departments concerned.

The possible scale of projected overspends underlines the need for effective monitoring and control mechanisms for these programmes. Apart from the possibility of raising thresholds of eligibility for assistance or extending moratoria, I think there are three areas which need addressing. First,

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we need to be sure that RSA cases are scrutinised with equal rigour and consistency in the three countries. I attach importance to this being investigated thoroughly and the results reported to Ministers. This suggests that it should be part of the review of the administration of regional policy, which the three Departments will be conducting in the next few weeks. I would wish my officials to be fully involved in the work.

Second, I would also wish to improve control and monitoring mechanisms; this means pursuing commitment limiting for RSA, on which our officials did some work last year, and developing commitment monitoring for RDG.

Third, it appears that effective control under the new territorial administration of regional assistance will remain elusive while the notion of a common pool persists. We must either have one Department responsible for the overall provision in all three countries, or, subject to a review of the distribution of the current provision (see below), totally separate funds for the three Departments.

In his letter to you Malcolm presses for a review of the division of the existing provision as a basis for seeking agreement for redistribution between the three Departments. I understand that you and Nicholas accept that there should be a review, though differences remain between the three Departments on the appropriate timing. As I said in my letter to you of 27 March, I have been prepared to contemplate inter-departmental transfers, subject to a firm undertaking that the Department transferring out regional assistance provision would be able to offset any overspending in other areas by savings elsewhere in its programme. I would be prepared to agree to a review, provided the outcome was accepted as binding by all three Departments; there was no increase in the overall provision; and there was no question of further redistribution thereafter. It would be for you to agree on the timing of the review between yourselves. From my point of view, I would see merit in this taking place soon as to remove uncertainty. Any resulting transfer would ideally need to be effected in the context of the appropriate Survey to avoid compromising in-year control totals. Until, however, a review takes place and any changes are agreed, my position on redistribution remains as set out in my letter of 27 March.

Finally, I note what you and Nick Edwards have to say about postponing the moratorium on RDG2 payments. I do not see how we can set aside a decision agreed only last October in the Survey discussions, particularly in the light of the very difficult expenditure prospects. Whatever the political considerations, I could only begin to contemplate a postponement if I was satisfied that the costs (for all three Departments) could be absorbed within the existing baselines for each of the three departments.

I am sending copies of this letter to Malcolm Rifkind and Nicholas Edwards.



Yours ever,
JH

JOHN MacGREGOR

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