

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(81)115  
11 November 1981

COPY NO 66

CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

REGIONAL DEVELOPMENT GRANTS: POSSIBLE CHANGES

Memorandum by the Secretary of State for Industry

Introduction

1 I have, as invited by E(81)33rd meeting, examined further possible changes to the Regional Development Grant (RDG) scheme as alternatives to the cut in grant rates proposed in my memorandum E(81)101. I once again invite my colleagues to agree that the rates of RDG should be cut by 2 per cent on the basis set out in E(81)101.

2 I do not propose any changes to make good the savings that would have resulted from a discretionary refusal of grant in respect of the oil terminals at Sullom Voe and Flotta. It has yet to be established that the terminals qualify for grant and for Sullom Voe at least grant payments, if any, may not arise before 1983/4. Planning offsetting savings now is premature.

Limits on Grant Payments

3 The Secretary of State for Wales proposed a number of ways for limiting grant payments on large, capital intensive projects. Similar ideas were in fact examined during the 1979 review of regional policy and proposed in the Secretary of State for Wales' paper E(EA)(79)14 which was discussed at E(EA)(79) 5th meeting. Although our 1979 election manifesto proposed that assistance should be related more closely to jobs, it was recognised in the subsequent review that such changes could not

CONFIDENTIAL

be made without major restructuring of the scheme's framework and new primary legislation.

4 Nevertheless, officials have considered again what could be done under existing powers. The first idea examined in detail would be to limit grant by reference to the number of persons employed on the premises, thus reducing grants paid on capital intensive projects. But this would have a very uneven effect on different kinds of project. The hardest hit would be major greenfield developments, which in fact offer the greatest opportunity for attracting new employment to the greatest Areas. Because the amount of grant would be crucially dependent on the achievement of employment forecasts, this would lead to considerable uncertainty for investors, especially inward investors. Major expansion projects would be similarly hard hit, with the risk that the timing of investment decisions could be distorted and hindering the planning of investment on an efficient basis.

5 In addition to these policy objections there would be extensive administrative implications. These could be overcome only at the cost of the manpower savings now being realised from improved efficiency in the administration of the RDG scheme. Furthermore, the Department's Solicitors have advised that a change of this kind may not be safe against challenge in the Courts. Whilst the discretion in the Act may be used to exclude particular kinds of asset from grant eligibility, it may be argued that its use to ensure that a particular class of applicants received a lower amount of grant was arbitrary.

6 A second idea would be to limit the grant that could be paid on any individual asset. But the cost of an asset may be no reliable guide to capital intensity. Wherever the limit was set, it would be likely to affect a number of labour intensive as well as capital intensive projects. The effects for any project would be highly unpredictable at the planning stage and would lead to considerable uncertainties for investors, especially inward investors. If we are to attract mobile projects to the UK, it is vital that potential investors know at an early stage what aid they can be confident of receiving.

7 Theoretically, a high limit on the grant to be paid on any individual asset would restrict administrative problems to relatively few cases but this would not be so in practice. To be workable a tight definition of "an asset" would be required so that related items were not regarded as separate items and numerous applications for assets allegedly below the limit would need to be examined in detail. The demands on the RDG offices in checking compliance with the new definition would be significant and would again jeopardise the planned manpower savings. And, as with the other option, there could be a risk

of a successful challenge in the Courts to using the discretion in the Act in this way.

### Exclusion of Capital Intensive Sectors

8 The possibility of excluding particular capital intensive sectors from grant entirely has been considered before. This could be done by Order, so there are no legal objections, and administrative problems (though not simple) could be overcome. However, as noted in E(81)101, this option was rejected earlier because of the effects it would have on the industries covered.

9 To achieve savings equivalent to a 2 per cent rate cut would mean excluding mineral oil refining and general chemicals. This would hinder our objective of maximising the benefits of downstream developments from North Sea oil and gas; the oil companies might choose to upgrade refineries on the continent rather than in the UK; and the chemical industry, already viewing investments in a European context, might also place more major investments on the continent. The Mossman cracker project would present a major difficulty in view of the commitments already given. Whilst selective assistance could be considered as an alternative for Mossman and for other projects which might otherwise be lost from the UK, selective assistance is much less certain for investors at the planning stage and our freedom may be restricted by the EC Commission.

10 There remains the possibility of a narrow exclusion of oil and gas terminals from RDG for the future but, since the 3 major terminals have been completed, this would save little. However, further consideration may need to be given by Treasury Ministers to eliminating the overlap of Petroleum Revenue Tax allowances and RDG and I will defer any action over oil and gas terminals in the meantime.

11 In addition I shall be considering further the possibility of a statement in the House making clear that in future very large projects which have little choice of location and provide few jobs may not receive RDGs on an automatic basis as they have in the past. This will, however, need careful consideration to ensure that it is not open to challenge as an improper fettering of my discretion under the Act. I will also want to assess the risk of such a declared change in policy damaging the effectiveness of RDG as an incentive to investment by causing uncertainty among potential inward investors and others planning major projects.

### Conclusion

12 I have reviewed the options available for reducing

expenditure on RDGs, including those suggested by the Secretary of State for Wales. The possible savings are shown in Annex 1. The only one that could realistically be adopted as an alternative to a cut in grant rates would be to exclude certain capital intensive sectors. But this would concentrate the effect on a relatively few projects. It could not therefore be contemplated without some transitional provisions to cover projects already in progress, which would delay the savings. Additional selective assistance would also need to be available again reducing the saving by maybe half.

13 I conclude, therefore, that the only sensible option remains the reduction of grant rates by 2 per cent on the basis that I proposed in E(81)101 and I invite my colleagues' agreement to that.

P J

Department of Industry  
123 Victoria Street

18 November 1981



## ESTIMATED SAVINGS FROM POSSIBLE CHANGES

	1982/3	1983/4	1984/5
£m cash			
Exclusion of capital intensive sectors:-			
Oil & Gas Terminals	0	5	5
Mineral Oil Refining and General Chemicals (see notes 1 and 2)		up to 40	60
Coal, Petroleum and Chemical Products (see notes 1 and 2)		up to 80	100-125
Ceiling on grant payments:-			
Cost per job limit)			
or			
Asset Value Limit )		up to 20	50 see note 3

Notes

1 Because of the effect on projects already in progress the savings are estimated on the basis of a 12 months transitional period in which assets could be provided and qualify for grant. This would be consistent with the 1979 policy changes.

2 These figures need to be reduced by one-half to provide for offsetting selective financial assistance.

3 These figures are equivalent to a 2 per cent cut in grant rates and the ceilings could be set at a level designed to achieve this. But the estimated saving could be open to variation by a factor of 2 up or down given the lack of data. Again the gross figure might need to be halved to allow for offsetting SFA.