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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

REGIONAL DEVELOPMENTS GRANTS: POSSIBLE CHANGES

Memorandum by the Secretary of State for Wales  
and the Secretary of State for Scotland

1. We have considered further the renewed proposal made by the Secretary of State for Industry in his Memorandum (E(81)115) for across-the-board reductions of two percentage points in the rates of Regional Development Grant (RDG). It remains our view that such cuts would be extremely damaging, and we invite our colleagues to agree that the proposal should be rejected and that instead we should now consider legislation aimed at securing savings in RDG expenditure in a more defensible and rational way.
2. The political repercussions of across-the-board cuts would be very damaging. Our objections to the proposal are however as much based on the economic and industrial consequences as on the political effects. Inward investment is one of the few positive features in the Welsh and Scottish economies, and it is vital that we should consolidate and exploit the success we have achieved. In the face of intense competition from other countries it is essential not only to maintain the overall value of the incentives we offer to internationally mobile projects, but also to preserve the elements of automaticity and stability to which overseas investors attach great importance. The many meetings that we have had with American and Japanese companies contemplating developments in the United Kingdom have convinced us that they attach crucial importance to stability and predictability in assessing the value of our regional assistance package. Across the board cuts in RDG rates would undermine confidence in our regime, leading to an inevitable reconsideration of some finely balanced projects and more generally to a

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disenchantment with what will be seen as a capricious and unpredictable range of inducements. The damage inflicted on our crucially important inward investment activities would be out of proportion to the savings obtainable.

3. Reduced rates of RDG would also hit existing firms in the Development and Special Development Areas at a most critical time, when they are beginning to emerge from the worst recession since the war. Pressures on cash flow are widely anticipated, and a cut in RDG rates could nip in the bud many of the investment plans now being worked up.

4. We entirely agree that the present RDG arrangements are far from being wholly cost-effective, but within the parameters of existing legislation little can be done to eliminate the weaknesses of the present scheme. Rather than impose most damaging across-the-board cuts in RDG rates, however, it seems to us necessary to legislate to remedy the present deficiencies by providing for example for tapering rates of grant above defined thresholds on differentially lower rates of grant for certain capital intensive industries. Until we grasp this nettle any upturn in investment is likely to bring with it a need to consider, again at short notice, measures to keep RDG expenditure within bounds.

5. We therefore invite our colleagues to reject the proposals for cuts in RDG made by the Secretary of State for Industry in E(81)115, and to agree instead that we should look to new legislative arrangements which would yield savings in RDG expenditure on a more defensible and rational basis.

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20 November 1981  
Welsh Office