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E(A)(83)11

29 September 1983

COPY NO 71

CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY
SUB COMMITTEE ON ECONOMIC AFFAIRS

REVIEW OF REGIONAL ECONOMIC POLICY

Memorandum by the Chief Secretary,
Treasury

In our Election Manifesto we said that we would continue to maintain an effective regional policy but we would make sure that it was economical and effective in creating genuine jobs. We had already set in hand a review of regional economic policy, and in February and March of this year MISC 14 considered a first report by officials. They instructed officials to do some further work, including the elaboration of a revised scheme for regional development grants (RDGs).

2. I attach a copy of the official group's second report.* We have already exchanged some preliminary views on this subject in the context of the 1983-84 legislative programme. We now need to take the matter forward.

3. The report is summarised in Chapter 1 (pages 1-6). I set out below the main issues which need to be settled at this stage.

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A Revised Scheme for RDGs

4. Chapter 2 of the report offers a blueprint for a revised scheme of automatic RDGs. The recommendations are summarised in paragraphs 1.6-1.9.
5. Whatever the social and political arguments may be for regional policy, I believe the case for it in net national economic terms is much less clear. An important aim of the revised scheme should therefore be to reduce the overall cost of regional policy and improve its cost-effectiveness. It would shift the balance towards job-creating (rather than capital-intensive) projects by moving, so far as possible, towards neutrality between labour and capital; by imposing an overall cost-per-job ceiling; and by extending the coverage of RDGs to suitable service industries. It must be consistent with EC rules and it should maximise receipts from the European Regional Development Fund (ERDF).
6. The new framework proposed by officials would go a long way to meet these aims. In particular, the revised scheme of automatic RDGs would be a significant step (within the EC constraints) towards favouring job-creating rather than highly capital-intensive projects. It would implement our EC commitment that replacement expenditure should no longer qualify for automatic grant; but would enable selective assistance to be provided for desirable modernisation projects to be the same maximum as for projects qualifying for both automatic and selective assistance (paragraph 2.12). RDGs would also be extended to a range of service industries, chosen on the basis that they are nationally or internationally tradeable services whose location is not determined by local factors such as proximity to markets or access to raw materials; and Ministers would be empowered to designate further qualifying activities by Order (paragraph 2.15 and Annex B). The new scheme would significantly enhance our ability to claim our entitlement from the ERDF (paragraph 8.4).
7. Within the proposed framework, paragraph 2.26 of the report provides costed illustrative options for the levels of the new grants, but it indicates that many other combinations are also

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possible. I believe that when we come to consider the levels of grants we should look at a wider range of options. We should examine carefully the further option proposed in Mr Sparrow's letter of 19th July, viz. a cost-per-job ceiling of £7,000, a capital grant rate of 10%, and the alternative, job-related, grant set at £3,000 per job. We could also consider whether to go further in the direction of favouring job-creating projects, for example by limiting automatic RDGs to the flat-rate job-related grant.

8. We do not need to make a final choice between particular options now, and it would be inappropriate to do so until we are also in a position to decide the areas to which the grants apply and whether there should be two tiers of automatic grant or one. For the present, I propose that we should endorse the proposed broad framework as a basis for consultation and further work.

Assisted Areas Map

9. MISC 14 decided in March that no work should be put in hand at that stage on redrawing the regional assistance map. The map was last revised in 1979, and currently covers 27% of the working population. It does not take account of the latest developments in unemployment. The 1981 censuses of employment and population will furnish new data round the turn of the year which would provide a better basis for a thorough revision. But the map is of critical importance to our other decisions. We should ask officials to start work on the matter now if we are to avoid the risk of delay in introducing the scheme later on.

10. I propose that we should ask officials to start work at once on revising the map, initially on present data but taking account of the 1981 census data when it becomes available. To make the scheme cost-effective, the revised map should restrict automatic grants to the areas of most need. Officials should provide a range of costed options, so that we can decide on the most cost-effective combination of grant levels and map. They should also make proposals for the transitional arrangements.

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Innovation and New Firm Formation

11. Chapter 3 of the report identifies for our consideration a number of proposals designed to stimulate further innovation and the formation of new firms in the assisted areas. If these were all adopted, they would significantly reduce the net savings, by up to some £60-70 million a year. While some modest measures of this nature might help to give our proposed changes in regional policy a more positive aspect, they cannot be considered separately from the overall cost of the new scheme. My colleagues may wish at this stage to express their views on the relative merits of individual proposals. But it would be premature to give firm endorsement to any of them until we have made more progress with the central issues.

Costs and Savings

12. The costings in the report suggest that, with the present map and before allowing for the proposals in Chapter 3, the revised grant arrangements could offer savings in the range of £50-£200 million a year, once the transitional period is over. The further options mentioned in paragraph 7 above could increase these savings to over £200 million. Provided that the map is revised so as to concentrate assistance on the most disadvantaged areas, we should be able to secure savings of at least £200 million, and I propose that we should adopt that as our broad aim in further work, including the work on the map.

13. The report also mentions manpower costs. These arise partly from moving to a more discretionary scheme. The ultimate manpower needs will depend also on the decisions on the map and on the proposals in Chapter 3; and we shall need to bear this constraint in mind when we come to take those decisions. Any additional manpower needs should be found within the manpower allocations of the departments concerned.

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Consultation and Legislation

14. The existence of the review has been acknowledged in answer to Parliamentary questions. We shall need to give industry and other interested parties sufficient time to make their views known, particularly on the levels of grant and on the considerations underlying the revision of the map. But we also need to keep up the momentum if we are to gain the advantages of a more cost-effective scheme as soon as possible bearing in mind the need for a transitional period.

15. The Secretary of State for Trade and Industry has suggested that we could make more rapid progress by the introduction of a short enabling Bill during the present session, in combination with the Co-operative Development Agency Bill; and Cabinet agreed on 7th July to keep this possibility open. This is one of the courses described by officials in Chapter 9 of the report; and a possible timetable, including the publication of a White Paper as a basis for consultation in the Autumn, and an NEDC discussion in November, is set out in paragraph 9.2. While this timetable will now have to be slightly modified to reflect the timing of our present discussion, I think it offers the right broad approach.

Other Recommendations

16. The report contains a considerable number of other recommendations which should not need much substantial discussion on this occasion. Most of them (recommendations o, r, s, t, u, v, w, x, z, aa, bb, cc, and dd) I propose that we should endorse. Two more (recommendations p and q) will need to be considered further in the light of our conclusions about the future role of the British Technology Group; and recommendation y should be taken into account in work on the assisted area map.

Conclusion

17. I invite my colleagues to

- i. endorse the proposed broad framework of automatic RDGs and the related modifications to selected grants (recommendations a-e and j-l in the attached report);

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- ii. instruct officials to start work on revising the regional assistance map on the basis indicated in paragraph 10 above;
- iii. take note of the possible further measures identified in paragraphs 3.1-3.10 of the report;
- iv. adopt as our broad aim the achievement of savings of at least £200 million a year on present expenditure plans for regional economic policy;
- v. arrange for the preparation of a White Paper for publication later in the year, and (subject to the availability of Parliamentary Counsel) of short enabling legislation for introduction in the present session;
- vi. endorse the remaining recommendations on the basis set out in paragraph 16 above.

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REGIONAL ECONOMIC POLICY

Second Report
by an Interdepartmental Group of Officials

H M Treasury

June 1983

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GLOSSARY

AAs	-	Assisted Areas, designated for assistance under the Industry Act 1972
Affirmative Resolution	-	Statutory Instrument which takes effect only on the basis of the specific approval of one or both Houses
BSG	-	Basic Service Grant
BTG	-	British Technology Group (formerly the National Enterprise Board and the National Research & Development Corporation)
CBI	-	Confederation of British Industry
Commission	-	The Commission of the European Communities
CoSIRA	-	Council for Small Industries in Rural Areas (operates in England only)
DA	-	Development Area (one class of AA)
DC	-	Development Commission
DBRW	-	Development Board for Rural Wales
DE	-	Department of Employment
DOE	-	Department of the Environment
DTI	-	Department of Trade and Industry
EB	-	Enterprise Board
EC	-	European Community
EIEC	-	English Industrial Estates Corporation
ERDF	-	European Regional Development Fund
ESF	-	European Social Fund
eua	-	European units of account
EZ	-	Enterprise Zone
HIDB	-	Highlands & Islands Development Board
IA	-	Intermediate Area (one class of AA)
IT	-	Information Technology

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Layard employment subsidy	-	Subsidy which limits deadweight, devised by Professor Layard at the Centre for Labour Economics. The subsidy is paid only to firms with a net increase in employment, and only for the increase in jobs
LIS	-	Locate in Scotland
MMC	-	Monopolies and Mergers Commission
MPO	-	Management and Personnel Office
MSC	-	Manpower Services Commission
NEDC	-	National Economic Development Council
Negative Procedure	-	Procedure under which a statutory instrument takes effect forthwith from a named date, unless specifically <u>annulled</u> within a given time by a resolution of either House. (See also Affirmative Resolution)
NIO	-	Northern Ireland Office
OFT	-	Office of Fair Trading
OSIS	-	Office and Service Industries Scheme
RDA	-	Rural Development Area
R&D	-	Research and Development
RDG	-	Regional Development Grant
REP	-	Regional Economic Policy
RSA	-	Regional Selective Assistance under Section 7 of the Industry Act 1972
SDA	-	Scottish Development Agency or (according to context) Special Development Area (one class of AA)
SFI	-	Support For Innovation
SFS	-	Small Firms Service
SIC	-	Standard Industrial Classification
SO	-	Scottish Office
TTWA	-	Travel-To-work Area
UDG	-	Urban Development Grant
UP	-	Urban Programme, (except in Appendix A24 where it means Urban Policy)

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WDA	-	Welsh Development Agency
WINVEST	-	Wales Investment Location
WO	-	Welsh Office

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1. INTRODUCTION AND SUMMARY OF RECOMMENDATIONSThe Group's remit

1.1 In February and March, 1983, Ministers considered a previous report by the Group. The recommendations made in that report are listed in Appendix A. The main recommendation was that the system of regional investment incentives should be focussed more closely on job-creating rather than capital-intensive projects.

1.2 Ministers accepted this broad approach and agreed that the aim should be to devise a scheme which would place a greater emphasis on job creation rather than capital investment, and which would involve a substantial degree of automaticity. They asked officials*:

- (i) to develop options for a successor scheme to the present regional development grants;
- (ii) to consider how regional policy might be better co-ordinated, and to consider particular new arrangements for encouraging industrial investment in the English regions, including the role of the British Technology Group;
- (iii) to review the economic component of the Urban Programme; and
- (iv) to examine a number of other more detailed issues requiring further study.

1.3 Ministers accepted a number of other recommendations from the previous report# and the necessary action on these has now been set in train. They rejected recommendations 34 and 35. They also decided that no work should be put in hand at this stage on redrawing the regional assistance map: they would consider this issue when decisions had been reached on the main recommendations. They asked, however, that the further work should identify the trade-offs that might be made between total expenditure on regional assistance and the coverage of the regional assistance map.

*The relevant recommendations from the previous report were (i) recommendations 7-13; (ii) recommendations 15, 19, 28, 29, 33, 36, 37; (iii) recommendation 21; (iv) recommendations 3, 4, 14, 16, 18, 22, 30, 32.

#Recommendations 1, 2, 4, 5, 6, 17, 20, 23 31.

1.4 The present report responds to the remit in paragraph 1.2 above. The main issue, the shape of the successor scheme to regional development grants (RDGs), is examined in Chapter 2 and Chapters 7-9 below, and recommendations on it and the way forward are summarised in paragraphs 1.6 and 1.7. It is suggested that Ministers may wish to consider this central issue before considering the other matters examined in the report, on which our recommendations are summarised in paragraphs 1.8 - 1.11.

Recommendations on RDGs and related matters

1.6 The structure of the new RDG scheme which we recommend is described in paragraphs 2.6 - 2.9. We have set out in Chapter 2 a number of possible options for the levels of grant, but we recognise that Ministers will not want to take final decisions about these until they can see how the new map will look and what the expenditure implications will be. The future shape of the map is of critical importance to taking this forward. We recommend, therefore, that Ministers should approve the framework of the proposed new scheme, and authorise work to proceed on the future regional assistance map in the light of any guidance which they can give at this stage. We recommend in Chapter 9 that Ministers should move towards decisions on all these matters as soon as practicable and introduce legislation in the 1983-84 session of Parliament if possible.

1.7 We recommend that the new scheme for RDGs should be on the following lines:

- (a) an automatic grant system, with eligible capital investments receiving the higher of either a fixed percentage of capital expenditure (subject to a cost-per-job ceiling), or a fixed amount per job created (paragraphs 2.6-2.7);
- (b) the scheme to be project-based, with eligibility restricted to projects which either create new capacity or expand existing capacity, or effect a change in the product or process (paragraphs 2.8-2.9);
- (c) a range of service activities wider than envisaged in our previous report to qualify for automatic grant (paragraph 2.15);
- (d) simplified administration in the case of small firms and small industrial developments (paragraphs 2.17 - 2.21);

- (e) changes to the administrative arrangements (paragraph 2.22).

1.8 In order to introduce the new scheme as soon as practicable, we recommend that:

- (f) officials be authorised to put work in hand on revision of the regional assistance map in the light of Ministers' guidance (paragraphs 2.29 - 2.31 and 8.7 - 8.13);
- (g) decisions on the levels of automatic grant and on the number of tiers should be taken when the regional assistance map is revised (paragraphs 2.29-2.31);
- (h) a White, or possibly Green, Paper should be published, setting out the Government's general approach to regional policy, as a basis for public consultation (paragraphs 8.17 - 8.18 and 9.2);
- (i) if possible a short Bill should be introduced in the 1983-84 Session of Parliament; otherwise the choice is between legislation in the 1984-85 Session and action without primary legislation, depending on whether priority is given to a coherent scheme or some early improvement in cost-effectiveness (Chapter 9).

1.9 In order to complement the new arrangements for automatic grant, we also recommend some changes to the arrangements for regional selective assistance (RSA). We recommend that:

- (j) any internal cost-per-job limit in the operating guidelines for RSA be set so that the same maximum applies for desirable modernisation projects as for projects that qualify for both automatic and selective assistance. The availability of RSA for modernisation projects should be well publicised (paragraphs 2.10 - 2.13);
- (k) the mainstream and service sector schemes of RSA be brought together into a single scheme (paragraph 2.16);
- (l) the present administrative guidelines for RSA should be relaxed to enable assistance to be given to training projects unrelated to capital projects

(paragraph 6.2).

1.10 We offer for consideration in chapter 3 a number of possible measures to strengthen the economies of the assisted areas by increasing their capacity to innovate and to generate new firms. Some of these involve extra expenditure and therefore need to be considered along with the new grant scheme and the coverage of the map. We recommend that consideration should be given to:

- (m) a regional differential for grants towards capital projects under "Support For Innovation"; and possibly a regional differential for grants to indigenous firms for R&D (Paragraphs 3.3-3.4);
- (n) specific measures to encourage innovation and the formation and growth of new firms in disadvantaged areas in ways that do not damage the national economy (paragraphs 3.5-3.7);

Other recommendations

1.11 We also make in Chapters 3-6 a number of detailed recommendations for further improving the co-ordination of regional policy and for the analysis of the effectiveness of regional and related policies:

- (o) In the light of their experience of their new joint working arrangements, DTI and DOE should develop arrangements in Whitehall for the improved co-ordination of regional policies and for consideration of the policy implications of regional problems (paragraphs 3.12 - 3.15);
- (p) The British Technology Group (BTG) should retain its regional investment powers and possibly develop more joint activities with the English Industrial Estates Corporation (EIEC) (paragraphs 3.17 - 3.18);
- (q) consideration should be given to the setting up of small regional units drawing on DTI, BTG and EIEC and developing contacts with local authorities and private sector organisations (paragraph 3.22);
- (r) the activities of local authority Enterprise Boards should continue to be monitored closely by DOE (paragraph 3.25);

- (s) the interaction of the Urban Programme, particularly Urban Development Grants, and regional industrial policy measures should be monitored by the departments concerned (paragraph 4.6);
- (t) in DOE's inner cities research programme, greater emphasis should be put on establishing the effectiveness of the economic component of the Urban Programme in achieving its objectives and on methods of improving its effectiveness (paragraph 4.7 - 4.10);
- (u) the arrangements for this research should be strengthened by the establishment of an inter-departmental steering group chaired by DOE (paragraph 4.11);
- (v) interdepartmental research should be commissioned on the effectiveness of existing instruments for economic assistance in rural areas (paragraph 5.7);
- (w) the relevant departments should confer to ensure that policies and measures for special rural areas develop in a broadly congruous manner in England, Scotland and Wales (paragraph 5.8);
- (x) the emphasis of rural economic policy should be on developing the potential which already exists in the rural communities (paragraph 5.9);
- (y) the question whether special rural areas should be treated as a separate tier within the regional economic policy map should be taken into account in further work on the new regional assistance map (paragraph 5.10)
- (z) the use of travel-to-work areas in relation to rural areas should be reassessed when 1981 census data becomes available (paragraph 5.11);
- (aa) the strict training-for-jobs criterion should be relaxed where circumstances warrant this (paragraph 6.4);
- (bb) the eligibility of nationalised industries for regional selective assistance should be decided on a case by case basis (paragraphs 6.14 - 6.15);
- (cc) aspects of nationalised industries' activities relevant to regional policy should be identified (paragraph 6.16);

(dd) administrative arrangements should be made to enable regional departments to influence relocation of Government work (paragraph 6.17 - 6.20).

1.12. We recommend no changes to the arrangements for capital allowances, the contract preference schemes, and basic service grant (paragraphs 6.5 - 6.6 and 6.11 - 6.13).

2. A NEW SCHEME FOR REGIONAL DEVELOPMENT GRANTS

Introduction

2.1 Paragraphs 102-123 (together with Annex I) of the previous report set out in general terms proposals for new arrangements for regional development grants (RDG) and regional selective assistance (RSA). The relevant recommendations of the previous report are 7-13 (see Appendix A).

2.2 Ministers set us as our main task the detailed development of options for a successor scheme to RDG, which should:

- (a) place greater emphasis on job creation rather than capital investment;
- (b) involve a substantial degree of automaticity;
- (c) assume no significantly greater resources;
- (d) maximise receipts from the European Regional Development Fund (ERDF), also taking account of likely EC developments; and
- (e) encourage sensible modernisation programmes rather than concentrating exclusively on high-technology investment.

We were asked also to identify trade-offs between total expenditure on regional assistance and the coverage of the regional assistance map.

2.3 In their election manifesto the Government said that they would:

".... continue to maintain an effective regional policy which is essential to ease the process of change and encourage new businesses in areas which have been dependent on declining industries. We do not propose sudden changes in regional policy. But we will:

- make sure that these policies are economical and effective in creating genuine jobs;

- secure more effective co-ordination between central and local government and the European Community's Regional Development Fund to ensure that their actions offer the greatest help to communities in need."

General considerations

2.4 There are a number of practical and theoretical considerations which underlie the development of the scheme.

- (a) Need to maximise cost-effectiveness: in order to make grant-aid as effective as possible, it is important to minimise the proportion of government funding going to investment which would have gone ahead anyway. The extent of this "deadweight" has perhaps been greatest when aiding replacement investment, routine modernisation or some highly capital intensive projects. Also the level of grant assistance has to be set at a sufficiently high level to be effective in the sense that it is taken into account in firms' investment decisions.
- (b) Need for predictability: for the same reason, grant assistance must be structured so that firms can readily predict, and so take into account, its effect in terms of their individual investment decisions. Too complex and/or discretionary a system would be less easy for firms to take into account, and thus would lose its effectiveness. Predictability is the key advantage of an automatic grant scheme.
- (c) Need for greater neutrality between capital and labour: in principle, a future scheme ought to be neutral between capital and labour. In practice, other considerations make this impossible to achieve fully; but a new scheme should move as far as practicable towards redressing the balance away from favouring capital intensity, without going so far as to encourage over-manning.
- (d) EC limits: an external constraint is the need to work within EC limits. These are expressed primarily in capital terms and limit the grants (other than for service sector projects) to a maximum of 30 per cent of capital costs or, for more labour intensive projects, to 5,500 eua a job (currently equivalent to £3,290) up to a maximum of 40 per cent of capital costs.

2.5 These considerations work in different directions, and the balance amongst them can be set at different points. Various options are discussed at 2.26 -2.27 below.

The proposed scheme

2.6 Ministers have already agreed that regional financial assistance should continue to include an automatic element. We propose that eligible capital investments would in future automatically receive grant calculated as whichever is the higher of:

- (a) a fixed percentage of capital expenditure (subject to a cost-per-job ceiling); or
- (b) a fixed sum per job created.

Thus the firm would receive a capital grant or job grant, whichever was the more advantageous to it. The figures for the cost-per-job ceiling and the job grant would need to be reviewed from time to time to take account of movements in wage costs. Regional selective assistance would continue to be available in addition to any automatic grant payable under (a) or (b) above.

2.7 The details of the proposed method of calculating the automatic grant are set out in Part I of Appendix B. We have moved away from the particular combination set out in our previous report, because further experimentation suggests that the scheme can be simplified in ways which would make it easier both to administer and for industry to understand. Therefore the threshold for qualification for the job grant has been discarded. The revised scheme should enable companies to have a fair degree of certainty about the level of grant to which they would be entitled.

Eligible projects

2.8 The new scheme should be project-based. This is in part designed to enable it to obtain continuing approval for automatic aids under the competition rules of the EC Treaty. For these purposes, grant must be restricted to "initial investment", ie:

- (a) the creation of a new establishment; or
- (b) the extension of an existing establishment; or

- (c) a fundamental change in the product or production process of an existing establishment.

2.9 We therefore propose a project test in which the applicant would be required to state that either:

- (a) the project will establish new capacity or expand existing capacity; or
- (b) the project will effect a change in the product or process.

A sufficiently substantive answer on either aspect would enable a project to be eligible for grant.

2.10 This means that replacement expenditure on plant, which is at present eligible for RDG, will no longer be eligible for the new automatic grant. Ministers have already told the Commission that it will be excluded. Furthermore, because of the cost-per-job ceiling, those modernisation projects which do not create jobs would not receive automatic grant. In these circumstances, the Group considered further the feasibility of modernisation expenditure being eligible for the automatic grant.

2.11 In our view it is not practicable to distinguish between "fundamental" and other modernisation projects, nor in most cases to distinguish between modernisation and replacement expenditure (since most replacement will include an element of modernisation), except where the projects create identifiable new jobs. To the extent that modernisation projects lead to new jobs, automatic aid would be available. But modernisation projects which safeguard existing jobs rather than create new jobs would require a degree of appraisal and judgement (to establish the connection between the jobs safeguarded and the project) which could not be done in an automatic scheme without unduly reducing its predictability. It would also increase administrative complexity and cost to an unacceptable degree.

2.12 Projects in the assisted areas that safeguard existing employment, such as modernisation projects, qualify for consideration for regional selective assistance (RSA) on the same basis as projects that create new employment. The conditions in each case are that:

- (a) the project would not take place as proposed without the assistance;

- (b) the project would lead to a significant improvement in performance and would strengthen the regional and the national economy; and
- (c) the project has good prospects of viability with the greater part of the cost being met from outside the public sector.

The amount of selective assistance is negotiated as the minimum necessary for the project to go ahead on the basis planned, subject to the EC limits which apply to the total regional assistance received. However, at present, the administrative guidelines set internal cost-per-job limits on the amount of RSA that may normally be offered. This would preclude the operating departments from assisting those desirable modernisation projects which safeguard employment up to the level at which they could give overall assistance to those projects eligible for automatic assistance. Ministers have stressed the importance they attach to encouraging the modernisation, the substantial upgrading, and the technological advance of existing industries, where the effect is to safeguard, rather than to create, employment. We recommend that, for such projects, any internal cost-per-job limit in the operating guidelines for selective assistance should permit assistance to the same maximum as for projects qualifying for both automatic and selective assistance.

2.13 We also recommend that promotion should be undertaken to make it widely known that regional selective assistance is available for modernisation projects which have the effect of safeguarding employment. One means of making such publicity more effective might be to announce, along with other changes in regional policy, a specific scheme within RSA to assist modernisation projects which improve efficiency and safeguard employment.

2.14 An additional means of assisting desirable projects which improve efficiency in the assisted areas would be to include, in the national investment-linked "Support For Innovation" schemes, a regional differential which would largely compensate for the differential which is at present provided by RDGs. We make further reference to this in paragraph 3.3.

Service industries

2.15 We propose that the range of qualifying activities for automatic assistance be extended to more service sectors than identified in our previous report and that, at the same time, the basis for classification should be updated from the 1968 to 1980

Standard Industrial Classification (SIC). The selection of these extra service sectors is based on two judgements: first, that they are unlikely to displace local competitors because they trade nationally or internationally; and second, that their location is not determined by local factors such as access to raw materials or customers. A complete listing of recommended changes to the range of qualifying activities is given in Part II of Appendix B.

2.16 At present both manufacturing and service industries are, in principle, eligible for RSA on the same basis. However, there is also a separate scheme of selective assistance for the service sector - the Office and Service Industries Scheme (OSIS) - with a primary emphasis on relocations, the existence of which tends to obscure the availability of selective assistance to service sector projects more generally. For the future we recommend that OSIS should be dropped and the mainstream and service sector schemes of RSA be brought together in a single selective scheme providing - and being seen to provide - equal treatment for both sectors. Further details of this proposal are also contained in Part III of Appendix B.

Small firms

2.17 Special arrangements in the scheme are needed for small firms. For this purpose, we recommend that "small firms" be defined as 200 or fewer employees in an enterprise. Administrative arrangements will be needed, for example, to ensure that branch plants are not treated as separate enterprises.

2.18 It is proposed that small firms should have the administration of the scheme eased in two principal respects:

- (a) small firm projects would not be scrutinised in depth for compliance with the requirements of the project test (paragraph 2.9);
- (b) the cost-per-job ceiling would not be applied to small firms projects (paragraph 2.6).

In practice, this would mean that modernisation projects by small firms would receive grant to a much greater extent than larger firms.

2.19 To avoid an excessive apparent discrepancy at the margin between the

treatment of small and large firms, it is proposed to set a ceiling to the grant payable to small firms (set at the annual equivalent of the cost-per-job ceiling for 200 jobs over 10 years). Small firms could exceed this, but their projects would then be subject to the cost-per-job ceiling. Similarly, large firms could opt for the small firm treatment if they were prepared to accept the consequent ceiling on grant.

2.20 We wish to see a derogation from the EC limit for firms with less than 30 employees. It is proposed that this be pursued with the EC Commission.

2.21 The development of small industrial units should be eligible for automatic aid for reasons explained in Part IV of Appendix B.

Administrative considerations

2.22 We recommend that certain changes are made to the administration to the RDG scheme. Revised arrangements are necessary to accommodate:

- (a) moving to a contractual basis, so that, provided the original qualifying conditions continue to be met, the Government are committed to pay grant on the basis set when the decision to proceed was made, regardless of, for example, subsequent changes in grant rate or area status;
- (b) revised conditions of grant, particularly to ensure that jobs created are maintained for a minimum period of, say, one year;
- (c) greater flexibility than at present in the clawback and recovery of grant in the event of substantial default on conditions;
- (d) changes in the position of leased assets, so as to offer the parties involved maximum flexibility and tax advantages, without being open to abuse; and
- (e) a relaxation in those categories of bodies presently excluded from eligibility for automatic aid.

Further details are set out in Part V of Appendix B.

2.23 The administrative costs of the proposed scheme are discussed in Chapter 7

and Parts V and VI of Appendix B. The new arrangements will be more costly to administer than the existing system, requiring perhaps an extra 110-160 staff, at an additional annual cost of £2-3 million.

Tiers of assisted area status

Tiers of assisted area status

2.24 A decision will also be needed on how many levels of automatic grant there should be. At present there is a three-tier map with two levels of automatic assistance. There are arguments for a two-tier map, with availability of automatic assistance confined to the inner tier. It cannot be considered in isolation from the redrawing of the assisted areas (AA) map, which is discussed in paragraphs 8.7-8.13. Subject to consideration of the total geographical coverage of the assisted areas, in principle we are inclined to favour a two-tier map with a single level of automatic grant available only in the inner tier.

Levels of grant

Levels of grant

2.25 The general considerations which underlie the choices for particular combinations of grant level have been introduced at/2.4 above. ^{paragraph} These effectively limit the range of options which can be presented. Subject to those constraints it is desirable to:

- (a) Set grant levels sufficiently high to have a significant effect on investment decisions: the rate of grant payable under the present RDG scheme is 22 per cent in the Special Development Areas (SDAs) and 15 per cent in the Development Areas (DAs). Any reduction in these percentages is bound to lead to a loss of investment projects. The minimum effective level of assistance, and therefore of the credibility of the grant scheme, will vary from firm to firm and project to project, and is best regarded as a range. It seems to us that grant below 10 per cent would be unlikely to have much impact on the investment decisions of indigenous firms. The rate of grant needed to influence decisions involving a change of location will be higher than that for indigenous firms. Where inward investment is involved, comparisons with other countries competing for projects are crucial, and it should be noted that the rates of grant present applicable here are not at the upper end of the range of those found in the EC. There would be a substantial risk of losing projects, particularly those that are internationally mobile, if the rate of automatic grant were set as low as 10 per cent.

(b) Move as far as possible towards neutrality as between labour and capital: a fully neutral scheme which would satisfy both the EC limits and the need for the level of capital grant to be pitched at an effective level is not possible. Informal contacts with EC Commission officials indicate no reasonable expectation of a general increase in the level of EC limits. Full neutrality with a capital grant of 10 per cent or more would require a job grant significantly higher than the £3,290 implied by the EC constraint. In principle, that constraint would permit a job grant higher than £3,290 for more capital-intensive projects but not for more labour-intensive projects. This would make the scheme considerably more complex and create practical difficulties. Across the broad range of projects, a job grant of around £3,000 would be the maximum currently available.

(c) Be as simple and predictable as possible so as to attract investors: for this purpose it can be argued that the proportion of projects not receiving grant other than at a fixed rate of capital expenditure should be kept small. This would imply that relatively few projects should either have the level of grant constrained by the cost-per-job ceiling or receive grant on the basis of jobs created. To set the cost-per-job ceiling so that it does not begin to bite until twice the average capital intensity would mean it should be set at £10,000 for a capital grant rate of 15 per cent; and proportionately for other rates of grant.

Options

2.26 We set out in the table below 5 possible options, 3 on the basis of a single-level of automatic assistance and 2 on the basis of two levels of assistance.

		<u>Capital grant</u> <u>rate</u>	<u>Cost-per-job</u> <u>ceiling</u>	<u>Job grant</u>
A				
B		15%	£10,000	£2,500
C		20%	£12,500	£3,000
		25%	£12,500	£3,000
D	upper	15%	£10,000	£3,000
	lower	10%	£ 7,000	£2,000
E	upper	20%	£12,500	£3,000
	lower	15%	£10,000	£2,500

Clearly many other combinations are also possible, for example utilising capital grant rates below 15 per cent or above 25 per cent, or slightly higher job grants. The options chosen seek to set capital grant at levels that would be effective in influencing investment decisions, while leaving room for most projects to be able to rely for a large part of their support on the predictability of the capital grant, and that move towards a greater degree of neutrality.

2.27 The point at which job grant becomes more advantageous varies from about twice the average labour-intensity for options A and B, to about three times for option C. Of the single level options, A would be closest to the aim of neutrality (paragraph 2.25(b) above), while C would best satisfy the aims described in paragraphs 2.25(a) and (c).

Costs

2.28 It is not possible to say definitely what the costs of each option would be, because of uncertainties over how industry would react to a new scheme or to any change in the rate of capital grant; and a lack of available data about the mix of projects coming forward for assistance. On the basis of the existing AA map, and of existing expenditure patterns, an attempt has been made to draw up estimates of the expected future cost of the proposed new scheme for each of the five options. In making these estimates we have assumed (on the basis of work on the effects of regional assistance on investment in the main assisted regions undertaken for the Group's first report, and after taking account of various other factors) that an increase (or decrease) of 5 percentage points in the capital grant rate from 20 per cent would raise (or lower) eligible investment by slightly less than 6 per cent, ie would increase investment by slightly more than the increase in grant expenditure. This assumption takes account of the offsetting effects of regional selective assistance. The details of the estimates and how they were calculated are given at Part VI of Appendix B. The table below summarises the results:

Estimated expenditure£m a year

<u>Option</u>	<u>automatic grant</u>	<u>Additional expenditure</u> <u>on selective aid</u>	<u>Total of</u> <u>(1) & (2)</u>
	(1)	(2)	
A	200	70-95	270-295
B	260	60-85	320-345
C	320	50-75	370-395
D	170	75-100	245-270
E	230	65-90	295-320
Present RDG scheme	450	-	450

By way of example, of the estimated £260 million expenditure on automatic grant under Option B, £35 million would be in the form of job grant, and proportionately less for Option C and more for Option A.

2.29 It has not been possible for us to consider in quantitative terms the trade-offs between total expenditure on regional assistance and the coverage of the regional assistance map. This would have required putting work in hand on possible ways of re-drawing the AA map, which Ministers decided should not be undertaken at this stage. Changes to the AA map obviously have an impact on the total cost of the new scheme. This impact is, however, not simply related to the proportion of the working population covered by the map. Even if that proportion remained the same the expenditure would be significantly affected by the choice of areas to be included, since manufacturing investment per capita varies in different areas.

2.30 If the extent of the AA map were to be reduced this would also bring into question whether the UK could take up its full share of European Regional Development Fund (ERDF) receipts, both for industrial and infrastructure projects. It seems certain that the UK will continue to need to spend a significant amount on regional industrial aids in order to take up the full quota even though the the proportion of the quota which will relate to industrial projects in future is

uncertain.

2.31 All the options described in paragraph 2.26 are likely to produce significant savings, some of which could be used to finance some of the proposals for more expenditure on innovation, etc described later in this report. The choice of lower levels of grant would either yield relatively greater savings, or allow for a wider assisted area coverage for a given cost. On the other hand, it could be argued that the new scheme, with its more restricted eligibility and grant provisions, and less "deadweight" expenditure, should have higher rates of grant to provide an even more effective incentive for desirable job-creating projects. At this stage we recommend that Ministers should approve the framework of the grant scheme set out in this Chapter, but we make no recommendation as to the levels of grant in advance of Ministerial consideration of these other matters.

Conclusions

2.32 We recommend a new scheme on the following lines:

- (a) an automatic grant system with eligible capital investments receiving the higher of either a fixed percentage on capital expenditure (subject to a cost-per-job ceiling), or a fixed amount per job created (paragraphs 2.6-2.7);
- (b) the scheme to be project-based, with eligibility restricted to projects which either create new capacity or expand existing capacity or effect a change in the product or process (paragraphs 2.8-2.9);
- (c) any internal cost-per-job limit in the operating guidelines for regional selective assistance should permit assistance for modernisation projects which safeguard but do not create jobs, to the same maximum as for projects qualifying for both automatic and selective assistance. This should be widely promoted (paragraphs 2.10-2.13);
- (d) a range of service activities wider than envisaged in our previous report to qualify for automatic grant (paragraph 2.15);
- (e) the mainstream and service sector schemes of regional selective assistance be brought together in a single scheme (paragraph 2.16);

- (f) simplified administration in the case of small firms and small industrial developments (paragraphs 2.17-2.21);
- (g) changes to the administrative arrangements (paragraph 2.22).

2.33 A decision is needed on how many levels of automatic grant there should be. We are inclined to propose a single level. However, this cannot be considered in isolation from the redrawing of the AA map. The major factors that need to be taken into account in determining the level(s) of grant, together with estimates of the expenditure implications of various options, are described in paragraphs 2.24-2.31. We recommend that Ministers should approve the framework of the grant scheme, but we do not at this stage recommend any specific level(s) of grant.

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3. INNOVATION AND COORDINATION

Introduction

3.1 Our previous report (paragraphs 135-140) examined the case for giving a regional dimension to the encouragement of innovation and new firm formation. Ministers asked us to consider the subject in conjunction with the scope for improvements in the co-ordination of regional economic policies including new arrangements for encouraging investment in the English regions. Ministers also asked us to consider further the role of local authorities in industrial assistance.

Regional support for innovation and new firm formation

3.2 At present policies to support innovation and new firm formation are not regionally differentiated. They are regarded as parts of national industrial policy. There is evidence, however, that it is in these respects that the economies of the assisted areas are particularly weak. There is therefore a prima facie case for trying to strengthen them through a special effort to encourage both innovation and new firm formation.

3.3 In their election manifesto the Government said that they would:

"...diversify regional economies by encouraging the fullest use of our schemes for innovation."

The DTI's "Support For Innovation" (SFI) programme is aimed at national economic objectives. However there is some evidence that certain national innovation policies tend to reinforce the existing patterns of innovative activity and this may have a counter-regional effect. Any such bias may be strengthened by the exclusion from automatic assistance of those modernisation projects which do not create new jobs. The proposal (paragraphs 2.12 - 2.13) to make more regional selective assistance (RSA) available for such projects, and for increased promotion of this assistance, is intended to help to compensate for this. RSA and SFI are mutually exclusive for any single project. We have also considered whether a regional differential rate of SFI grant for innovative capital investment projects

could be introduced without detriment to national economic objectives to compensate for the withdrawal of automatic assistance from such projects. It would be possible to increase the rate of grant for capital-based SFI schemes (see Appendix C) from the present $33\frac{1}{3}$ per cent to 50 per cent (or in some cases from 20 per cent to 30 per cent) in the assisted areas. For those schemes where the grant is negotiable up to a published percentage limit this would remain the case, with the regional differential applying to the limit. The proposed differential would enable these projects to receive broadly the same level of assistance as they currently receive from the RDG and SFI together. We recommend this possibility for consideration.

3.4 We considered whether a regional differential for SFI grants to R&D might also be introduced. We recognised that there was more danger in this area that an important aspect of national industrial policy would be distorted with a consequent loss of economic efficiency. One possibility would be to confine any such differential to indigenous firms in the assisted areas, and this should be examined further when the present rate of grant under SFI is reviewed. DTI will also consider at that time the treatment of capital equipment used in R&D projects in relation to the proposed differential higher rate of grant on capital investment projects.

3.5 More generally there is a need to improve the climate for innovation in the assisted areas where, typically, there are fewer centres of R&D activity and opportunities for fruitful synergy. The assisted areas need more firms to be more active in innovation. On the other hand, care is needed not to damage national performance by diverting limited resources to areas where they will not yield the greatest economic benefit. This points to the use of measures which will help to develop innovation among indigenous firms rather than encouraging high technology firms (more than any other sort of firm) to move to the assisted areas (AAs). Against this background we offer the following possibilities for consideration.

- (a) Increased promotion in the AAs of DTI's programme of "Support For Innovation".
- (b) Advisory Services (Manufacturing Advisory Service, Design Advisory Service, Small Firms Technical Enquiry Service). Applicants in AAs could also be granted favoured terms, eg the lower limit of eligibility might be reduced to 40 employees as in the West Midlands. Assistance might also be

offered towards other consultancies and actual technology transfer costs, for example existing schemes do not include support for market research although there is the possibility of some European Regional Development Fund (ERDF) support.

- (c) Increased use in AAs of the Teaching Company Scheme run jointly by DTI and the Science and Engineering Research Council to develop active partnerships between universities and polytechnics and manufacturing companies.
- (d) Science fairs and exhibitions to increase awareness of available technology and products in the AAs; the AAs could also be favoured in choosing the location of demonstration projects relating to new technologies.
- (e) Centres of Excellence should be identified in the AAs, for example certain university faculties, and the research and development establishments of key companies and nationalised industries. Companies undertaking innovation projects in association with such centres of excellence might be eligible for selective assistance on specially favourable terms.

3.6 If, as our previous report proposed, it is a policy aim to promote more balanced regional development with special emphasis on indigenous, self-generating growth, it would seem that special effort or initiative in small firms policies is also needed for the assisted areas. The scope for introducing new advisory services in the assisted areas, either to foster local innovation or to improve small business management, should be explored. For example, DTI is considering introducing a scheme to help established small firms to plan their marketing more effectively. Consideration should also be given to the introduction of additional measures in the form of supplements to national schemes for businesses setting up in the assisted areas (AAs). Specific options to be considered include:

- (a) Extension of DTI's Small Firms Service (SFS) in AAs. After March 1984, when the extension to the Enterprise Allowance Scheme runs out, additional resources could make it possible for the SFS to undertake a programme of calling on firms in areas with exceptionally high unemployment or redundancy problems, rather than to wait for such firms to contact it.

- (b) Support for Local Initiatives. An alternative to expanding the SFS would be to provide funding for local enterprise agencies, chambers of commerce and business associations providing suitable business counselling in the private sector.
- (c) In-depth Business Advice on a scale the SFS cannot currently provide might be offered to small firms in the AAs identified as having exceptional growth potential. The scheme might finance for, say, six months the employment of highly qualified businessmen or consultants.
- (d) University based "incubator units" in the AAs could be supported. These differ from science parks in that buildings and facilities are more basic in character, contact with academic staff is closer, and commercial and management advice is provided to tenants. The English Industrial Estates Corporation are already funding two such schemes and could undertake others on carefully selected sites.
- (e) Increased promotion in the AAs of those MSC schemes which are of assistance for small firms, in particular the Management Extension Programme under which MSC sponsor and train redundant executives to work in suitable small firms.
- (f) Management Buy-Outs are sometimes an alternative to closure of branch plants but may be hampered by lack of finance. The existing powers under Section 7 provide for guarantees in these circumstances but operating departments do not have the delegated authority to use them at present.

3.7 One further possibility is worth mentioning, though it would need further evaluation before it could be added to the list of candidate measures. Under the Loan Guarantee Scheme DTI guarantees up to 80 per cent of loans of up to £75,000. The pilot scheme is due to end in May 1984. If it is decided that there should be a successor scheme, consideration might be given to guaranteeing a higher proportion of loans in the assisted areas than in the remainder of the country, or continuing the scheme only in the assisted areas. A decision on this must await a proper assessment of the cost-effectiveness of the pilot-scheme.

3.8 It is difficult to assess the costs of the measures suggested. Much depends on the intensity of the effort and on the rate at which assistance is taken up. There are several capital-based schemes under the SFI umbrella and estimates have had

to be made for the regional split of the expenditure. Overall, it is estimated that the cost of a regional differential for innovative capital investment projects under the "Support For Innovation" programme (paragraph 3.3) might be about £20 million. Increased promotion in the regions for all SFI schemes would lead to more cases coming forward. This would have implications for staff levels as well as cost. An estimate might be about £40 million a year on increased promotion and other activities (paragraph 3.6). By way of illustration, an extra 50 SFI projects a month of average size (about £100,000) would increase expenditure by about £20 million a year and might require as many as 30 extra appraisal officers.

3.9 The measures to encourage new firm formation are, for the most part, extensions of existing schemes. Doubling the number of Small Firms Service Counsellors outside London and the South East would involve extra expenditure of about £3 million. A further £3 million might be spent on support for non-Government organisations providing advisory services; on in-depth business advice; and on Incubator Units.

3.10 There is the possibility of EC support for nearly all the above measures as regional support for innovation will be a key element in the Commission's new proposals for encouraging indigenous development. Almost any regional scheme with this objective is likely to qualify for European Regional Development Fund (ERDF) grant, although any consideration of adding regional aid to national schemes needs to take account the risk of exceeding future Community aid ceilings through the accumulation of aids.

Central Government co-ordination

3.11 Ministers have asked officials to consider the better co-ordination of the Government's regional policies. This followed the conclusion in our previous report that improved co-ordination was needed for the working of the central government departments involved in regional economic policy in England. The arrangements for Scotland, Wales and Northern Ireland seemed generally to work well, with good cross-functional co-ordination and the ability to look at area problems in the round.

3.12 The Departments of the Environment and of Trade and Industry have been working towards this objective. They have reached an agreement on co-ordination and joint working arrangements (a copy is at Appendix D). The intention is to improve co-ordination in the development and implementation of regional policy, and to co-operate over the introduction and running of schemes of financial assistance. The two departments will therefore be consulting regularly on all policy issues of

mutual interest, involving MSC and other departments as appropriate. In the light of their experience, the involvement by other departments may need to be increased.

3.13 Building on the experience gained in the preparation of regional profiles during the first stage of the interdepartmental review, DOE and DTI have also agreed to cooperate in the preparation and maintenance of joint regional briefs. These will include a review of each region's problems and potential. Particular attention will be given to gaps, overlaps and constraints in the application of current policies, together with suggestions on how these difficulties might be overcome.

3.14 The DOE/DTI agreement provides for interdepartmental working on a flexible basis and does not stipulate the use of the formal Regional Board machinery but leaves this to the discretion of the Regional Directors concerned. Nor does it provide a "lead" department as proposed in our previous report, although DOE retains the chairmanship of the Regional Board. There is a case for rotating chairmanship at regional level but this can also be left for mutual agreement by those concerned. In our view DOE should retain the lead in England in overall regional development questions including urban, rural and local government policies; while DTI should retain the lead in questions of regional economic and industrial development.

3.15 Our previous report also recommended that supporting arrangements for co-ordination in Whitehall to complement the strengthened regional arrangements should be improved (recommendation 36), that the regional effect of major new national policies should be fully considered (recommendation 29), and that arrangements should be developed to make explicit the regional aspects - the benefits, costs and alternatives - of decisions coming before Ministers collectively on policies and activities not directly forming part of regional economic policy (recommendation 28). The most useful form of mechanism at the centre for considering any policy implications of the analysis of regional and sub-regional problems, including possible changes in emphasis between Government programmes, is likely to emerge as the new joint working arrangements between DOE and DTI are developed and other interested departments become involved. We do not propose that formal machinery should be set up for this purpose at this stage, but suggest that DOE and DTI should develop the best means of implementing recommendations 36, 29 and 28 of our previous report in the light of their experience of joint working and bringing in other departments as appropriate.

Encouragement of industrial investment in the English assisted areas

3.16 In Scotland the Scottish Development Agency (SDA) and in Wales the Welsh Development Agency (WDA) bring together in a single organisation, responsible to the Secretary of State, many of the main functions relating to regional economic development. No single body carries out all these functions in England. This makes it harder to provide a coherent framework of measures to assist the establishment, growth and modernisation of industry in the English assisted areas and to promote those regions effectively. The English assisted areas believe that this puts them at a considerable disadvantage relative to the Scottish and Welsh assisted areas when it comes to attracting inward investment projects and to developing an effective industrial infrastructure. Hence, although they rejected Regional Development Agencies for England, Ministers asked officials to give particular attention to arrangements that might be devised for encouraging investment in the English regions.

3.17 The British Technology Group (BTG) at present has power to make equity investments, as do the SDA and WDA. The experience of these agencies has shown that in some cases public sector equity financing has a part to play in regional industrial development. Our previous report suggested that the BTG should maintain its investment powers in the English assisted areas for the sake of parity. Guidelines could stipulate that the BTG should only invest in joint ventures as a minority partner, or only with the consent of the Secretary of State. It may be that the need for such investments would decrease as private sector agencies became better able to fulfil the BTG's present role, and the guidelines could also be framed with this in mind.

3.18 The future of the BTG is currently under review. If the BTG retains its regional investment role it would be possible for it to develop more job activities with the English Industrial Estates Corporation (EIEC), with the aim of providing a more comprehensive service to the industrial investor. Both bodies have a ready-made regional organisation, and the BTG also has regional boards covering the main English assisted areas.

3.19 A continuing regional role for the BTG might also enable it to administer some of the schemes which will be required to take up our share of the very substantial sums earmarked by the Commission for the ERDF non-quota section schemes for steel, shipbuilding and textile closure areas. The Commission's proposals are particularly aimed at promoting innovation and small businesses, and

the UK's share may amount to £80 million over 5 years. DTI might have difficulty in administering such schemes without additional civil servants.

3.20 If Ministers decide that the BTG should not retain any powers of investment, and should concentrate solely on its technology transfer role, an alternative course would be to vest its equity financing powers in the EIEC. This would bring together, in a single English organisation, two of the functions exercised by the SDA and WDA, namely the provision by central government agencies of both sites and premises and also finance for industrial undertakings. This option, which would require legislation, would involve a radical change in the present role of the EIEC, which would need to recruit new people with appropriate skills.

3.21 If Ministers do not wish any Government-funded agency to exercise an equity financing role in the English assisted areas, these will be placed at a further disadvantage relative to Scotland and Wales. In these circumstances, Ministers might wish studies to be put in hand to examine the scope for giving encouragement to private sector organisations in this field, for example by extending the Loan Guarantee Scheme, or by other means. Even if this were done the continuing disparity with Scotland and Wales would be likely to encourage more local authorities to seek to fill the gap themselves. Local authorities in England have already become more active in this field (see paragraphs 3.23 - 3.26 below).

Co-ordination at regional level in the English assisted areas

3.22 Scotland and Wales are able to offer a "single door" service to prospective investors. Special administrative arrangements have been devised - Locate in Scotland (LIS) and Wales Investment Location (WINVEST) - to facilitate joint operation between the Agency and its parent department, which is responsible for administering selective financial assistance. It is not possible to set up equally effective units in England where there are no regional agencies or Secretaries of State, but it would be possible to set up small regional or sub-regional units staffed by personnel from the regional offices of DTI (including the Small Firms Service, BTG and EIEC. These units, by bringing together the main government agencies, could go some way to providing "one-door shopping" for firms. They should also seek to develop contacts with local private sector organisations, including Chambers of Commerce and the banks, and with local authorities.

Local authority assistance to industry

3.23. The Government acknowledged in the 1982 Consultative Paper on Local Authority Assistance to Industry and Commerce that:

"Local Authorities have a positive role to play in sustaining and fostering local economies and employment".

The latest figure on local authorities' expenditure on industrial development show the extent of this role, although there has been a marked levelling off from the rapid growth in expenditure in previous years. In 1981-82 capital expenditure in England and Wales by local authorities on industrial estates and developments was £95 million, whereas the EIEC figure was £36 million for England and that of the WDA in Wales was £66 million. While the provision of industrial estates has been the traditional form of activity, there is evidence that, as the recession has deepened, a greater variety of assistance has been given. A large number of local authorities are now engaged in some form of assistance, including many rural district councils, as shown by recent Association of District Councils' returns.

3.24 We see no need for new structures merely to provide a forum for discussion between central government and local authorities. However, there is a need for realistic means of keeping in touch with local authority initiatives and endeavouring to ensure that they reinforce rather than work against central government policies, whilst recognising that authorities with clear cut political priorities will be less open to influence. In our view this is best left to be arranged at regional level as the opportunities arise, eg during discussion of cases under the Urban Programme.

3.25 The more controversial activities associated with the creation of Enterprise Boards (EBs) are largely confined to a few metropolitan authorities. DOE has been monitoring the activities of these bodies, which are essentially companies set up under the Companies Act by local authorities and funded by them to promote local economic development. The new regulations concerning pension funds will in fact reduce the scope for pension fund money to be devoted to them. The EBs' activities appear to vary widely. Most appear to be continuing to concentrate on the more traditional role of industrial property development. In some cases the purchase of minority equity holdings is envisaged, for example as part of a "rescue operation" for a local company and in return for a "planning agreement" (West Midlands). Only a few EBs have explicit regard for social as well as economic

criteria, notably the Greater London Enterprise Board. This is potentially much the largest EB with up to £30 million available for 1983/84, although only a small proportion of this is likely to be used.

3.26 Any attempt to control EBs at this stage, while their track record is virtually non-existent, would be strongly resisted, particularly by authorities outside the assisted areas - like the West Midlands - who could claim that Government was not only failing to help them adequately but also seeking to prevent them helping themselves. Experience last year showed how difficult it is for the Government to curtail local authorities' powers in this area. In our view any fresh attempt to define the local authorities' role by statutory means would encounter the same difficulty. It would be seen by authorities of all complexions as an attack on the political imperative, as they see it, to be seen to be doing something about unemployment in their areas. However, in view of the continuing political and public concern in their activities, we recommend that close monitoring by DOE should continue. The future of those EBs set up by metropolitan counties will need particular consideration when the commitment to abolish these authorities is implemented.

Conclusions

3.27 We recommend that:-

- (a) consideration be given, in conjunction with the proposed withdrawal of RDG from modernisation projects (cf paragraphs 2.12 - 2.13), to a regional differential for capital projects under "Support For Innovation" schemes and possibly to a regional differential for indigenous firms for R&D (paragraphs 3.3 - 3.4);
- (b) consideration be given to the introduction of specific measures, such as those described in paragraph 3.5 above, to encourage innovation in disadvantaged areas in ways that do not jeopardise national economic performance;
- (c) consideration be given to the introduction of specific measures, such as those described in paragraphs 3.6 and 3.7 above, to encourage new firm formation and growth in disadvantaged areas;

- (d) in the light of the experience of their new joint working arrangements, DTI and DOE should develop arrangements in Whitehall for the improved co-ordination of regional policies and for consideration of the policy implications of regional problems (paragraphs 3.12 - 3.15);
- (e) BTG should retain its regional investment powers and possibly develop more joint activities with the EIEC (paragraphs 3.17 - 3.18);
- (f) consideration should be given to the setting up of small regional units drawing on DTI, BTG and EIEC, and developing contact with local authorities and private sector organisations (paragraph 3.22);
- (g) the activities of local authority Enterprise Boards should continue to be monitored closely by DOE (paragraph 3.26).

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4. THE ECONOMIC COMPONENT OF THE URBAN PROGRAMME

Introduction

4.1 We were asked by Ministers to review the objectives of the present Urban Programme, likely developments, and arrangements for monitoring its effectiveness more closely in the future (recommendation 21). (While the Urban Programme operates on a Great Britain basis, in Scotland it has developed along different lines to the rest of the country. Therefore the description in this Chapter applies mainly to England and Wales.)

4.2 In their election manifesto the Government said that they would:

"....encourage greater opportunity for all those who live in our inner cities and continue to give priority to the areas in most need...." and that "....our approach to reviving the rundown areas of our great cities is to use limited public money to stimulate much larger investment by private enterprise."

Objectives

4.3 The Urban Programme (UP) is one of the instruments available to deal with the problems of the inner cities. The aim of the Programme as a whole is to encourage the local authorities to look afresh at the co-ordination and direction of their main policies and programmes. It is intended to encourage innovative projects which will lead to adaptation of main programmes; to unlock community initiative in areas where main programmes hardly exist; and to alleviate deprivation. Within the Programme, the urban development grant (UDG) was introduced last year to strengthen that element in the Programme directed at encouraging private development and investment in inner city areas which would not otherwise go ahead - for example because of the high cost of land and buildings or because of poor physical or social environment but which would be desirable as a means of regenerating local economic activity and of stimulating further private sector investment.

4.4 Appendix E shows how UP resources have increased in recent years, and how the expenditure splits among projects which can be described broadly as of an economic, environmental or social nature. The objective of even the "economic" projects is nevertheless still predominantly social in character, the aim being to improve job opportunities (directly or indirectly) for residents of inner-city areas eg by stimulating economic activity in inner city areas and by encouraging private

development.

4.5 Of the 30 Partnership and Programme authorities included in the Urban Programme, only 13 are in assisted areas. In those cases, the economic component of the Urban Programme supplements DTI's main regional economic programmes. The Urban Programme is only used to support the provision of industrial units by local authorities where the demand is not satisfied by the private sector or the English Industrial Estates Corporation (EIEC), eg because the urban area is not in an assisted area. Only a very small proportion of UP resources (some £6 million in 1982-83) is devoted to direct support to firms. This is used to help firms to cope with the special problems that they encounter in inner city areas, namely those relating to inadequate sites, inadequate, old or expensive buildings, and a poor environment. It therefore should complement the incentives available from DTI within the assisted areas, although the majority of areas benefiting from the Urban Programme are outside the assisted areas.

Likely developments

4.6 How inner city policy, and the Urban Programme within it, develop depends in the first place on the conditions in the inner areas which the policy as a whole is designed to tackle. The 1981 census provides the most recent comprehensive picture of those conditions but this was only four years after the 1977 White Paper and is hardly likely to show a marked change. Both the policy and its machinery are still young and the last 3 years have seen still newer developments - urban development corporations, enterprise zones (though these are not central to the policy) and UDG. Evidence of the impact of these policies will accumulate over the coming period and it is impossible yet to forecast their cumulative effect. It is likely that the effect of UDG will be significant, and there is a potential overlap between their impact and that of regional industrial policy measures. The departments concerned already consult on UDG schemes and similar projects, and the aim is to minimise the potential overlap and to deal with industrial projects under regional selective assistance rather than UDG in those areas where both are available. DOE is also drawing on the expertise that exists in DTI on appraisal methods. We recommend that these arrangements be further developed and monitored by the departments concerned.

Monitoring

4.7 The evaluation of the Urban Programme - its value for money and its effectiveness in reaching its objectives - has generally to proceed by evaluating

the impact of individual projects or categories of project. Some surveys of projects have already been undertaken. Other proposals for research to assess the impact of economic projects funded under the Programme are currently being prepared for inter-departmental discussion. One aim is to assess who benefits from the UP expenditure and the cost-effectiveness of various types of support in assisting the deprived in the inner city. Another project seeks to measure the extent of changes in selected areas following their declaration as Industrial Improvement Areas. The research in hand is also directed at improving the content and execution of projects in the Programme - so that its results should help those actively engaged in the Programme.

4.8 A number of conceptual and practical reasons make it difficult to assess the overall impact of the Programme. These include the diversity of the areas to which the programme applies; the wide range of measures that it includes; the relative newness of the policy; the comparatively small addition to resources on economic projects, particularly given the scale of the problem; the need to make proper allowance for the impact of the recession, which coincided with the development of the policy; and the impossibility of identifying suitable control areas.

4.9 However, we think it important that the objectives of the Programme as a whole should be borne in mind in the design of partial studies, and attempts made to seek answers to questions such as:-

- (a) the extent to which the employment generated by the "economic" projects benefits inner city residents and the type of activity most likely to provide employment for them;
- (b) the impact of the policy in stimulating development and the extent to which it might be displacing activities in the adjacent non-aided area; and
- (c) the types of activity best suited to inner city areas, eg size of firms; technology; industries and sectors.

4.10 The programme of work at present in hand in DOE and elsewhere should in aggregate increasingly provide evidence of the effectiveness of the Programme. Inner city policy is still relatively new and we shall only be able to judge this when the results of current work are available.

4.11 We therefore propose that the existing arrangements should be strengthened by the establishment of an inter-departmental steering group chaired by DOE so that the other departments with an interest in the economic component of the Urban Programme (DTI, Treasury, DE, WO, SO, and NIO) can help to ensure that the research provides the kind of information needed to assess the Programme's achievements in terms of its stated objectives. We recommend that a full report on this work, including the achievement of the Programme's objectives, should be made to Ministers in two years' time.

Conclusions

4.12 We recommend that:-

- (a) the interaction of the Urban Programme, particularly urban development grants, and regional industrial policy measures should be monitored by the departments concerned (paragraph 4.6);
- (b) in DOE's inner cities research programme, greater emphasis should be put on establishing the effectiveness of the economic component of the Urban Programme in achieving its objectives and on methods of improving its effectiveness (paragraphs 4.7 -4.10);
- (c) the arrangements for this research should be strengthened by the establishment of an interdepartmental steering group chaired by DOE (paragraph 4.11);
- (d) a further look to be taken in two years' time in the light of this research at the extent to which the Urban Programme is achieving its objectives (paragraph 4.11).

5. ECONOMIC ASSISTANCE TO RURAL AREAS

Introduction

5.1 We were asked to study further the method and coverage of economic assistance to rural areas (recommendation 22).

5.2 In their election manifesto the Government referred to:

"the need for a proper balance between the strengthening of the rural economy and the preservation of the beauty and habitat of our countryside. Economic development will be encouraged in areas where this balance can be best maintained."

Nature of rural problems

5.3 It is not possible to generalise about rural problems. Rural areas are extremely diverse, ranging from those in close proximity to the big conurbations, to remote rural areas, for example in the South West, Wales or Scotland. In this report we have concentrated our attention on the areas well away from conurbations. An important premise of past assistance to rural areas has been that communities in such areas were at risk from depopulation, particularly of younger people. In recent years, as Appendix F indicates, rural districts in aggregate have not generally suffered from depopulation. However, this analysis can mask significant falls as well as increases in population within districts, as figure 2 in Appendix F illustrates.

5.4 The problems of individual rural areas need therefore to be examined case by case:

- (a) In some areas, continuing depopulation may still cause problems. Sparsity of population may also be a problem in some cases.
- (b) Some areas suffer from severe unemployment. Reduced employment in agriculture has not been the only reason for job losses in rural areas. In some areas there has been heavy dependence on other basic industries, such as slate quarrying in Wales and tin mining in Cornwall. The loss of jobs in these industries has resulted in chronic unemployment and acute social and environmental problems in village communities, further aggravated by rural isolation and declining services.

- (c) In some cases there may also be an unsatisfactory range of employment opportunities. Development may be constricted by conservation and agricultural policies; there is greater dependence on a limited number of economic units, often small ones; and traditional economic activity tends to reflect the natural resource base and thus be more vulnerable to fluctuations in demand for that resource.
- (d) In some areas, the age structure of the population may be heavily biased towards the elderly, causing pressure on housing, social and medical services.

5.5 Economic viability in a rural area depends on the existence of an adequate consumer base to finance the provision of goods and services. The Common Agricultural Policy clearly has enormous influence here, but we have regarded a study of its effects as outside the scope of the present report. The threat to the consumer base which may be posed by, for example, depopulation, unemployment or an ageing population, are self-evident. The provision of jobs not only tackles the problem of unemployment directly but, by encouraging younger people to stay in rural areas, reduces the age imbalance and the pressure on services. It also raises aggregate income and thus the purchasing power of local people. We therefore conclude that the aim of rural economic policy is to maintain a viable level and structure of population in rural communities and thus help to preserve the fabric of rural life. The main strategic objective is to ensure that employment opportunities of adequate quality and variety exist in rural communities, with continued emphasis on the encouragement of traditional indigenous industries such as agriculture, food processing, small businesses and tourism.

Assistance to rural areas

5.6 The main agencies concerned with the economic development of rural areas are: in England, the Development Commission (DC) and its subsidiary, the Council for Small Industries in Rural Areas (CoSIRA); in Scotland, the Scottish Development Agency (SDA) and the Highlands and Islands Development Board (HIDB); and in Wales, the Welsh Development Agency (WDA) and the Development Board for Rural Wales (DBRW). These agencies sponsor factory/workshop building; run advisory and training services; provide loans: etc. In addition HIDB may give grants and may set up and carry on businesses itself. Agricultural rural areas also benefit from EC and national financial support to agriculture.

Effectiveness of assistance

5.7 There is little in the way of evaluation at present available of the effectiveness of existing instruments for rural economic assistance (ie advance factory building; advice; training; loans). As deeper knowledge of whether measures are achieving their objectives, and are cost-effective in doing so, is unavailable without research work, it is recommended that inter-departmental research be commissioned to investigate this, to allow an adequate assessment of rural economic assistance within 2 years.

Definition of areas

5.8 In England, special rural areas in need of assistance are defined in accordance with criteria (given in Appendix F) identified by the Government for use by the DC. These cover much the same ground as the factors used by the Welsh Office and the Scottish Office; but whereas in England the DC will assist only in areas selected according to these criteria, in Wales and Scotland the agencies have the statutory right to assist within their territories, and the agencies value the flexibility this gives them to respond to problems which may occur in any area. The Scottish and Welsh offices should consult regularly with the Departments of the Environment and Trade and Industry to ensure that policies and measures for England, Scotland and Wales develop in a broadly congruous way.

5.9 We considered how the definition of special rural areas should relate to the designations of assisted areas. The heterogeneous nature of rural problems points to the need for a range of special measures which can be deployed flexibly and selectively in appropriate circumstances. The emphasis should be as far as possible on developing the potential which already exists in the rural areas building especially on their natural resource base.

5.10 Provided that:

- (a) selective assistance (along the lines of regional selective assistance) were to be available up to the same maximum level as is currently permissible within EC rules for regional aids, and
- (b) at least those rural areas qualifying for selective assistance were still to qualify for European Regional Development Fund (ERDF) support,

then there would probably need to be no overlap between the rural areas in need of special assistance and those areas eligible for regional industrial assistance, ie the

assisted areas. But it has also been argued that automatic regional industrial assistance should be available in those rural areas that meet whatever criteria are agreed for redrawing the regional assistance map. This issue should be taken into account in further work on the map.

5.11 In any event, there are problems in using travel-to-work-areas as a basis for identifying rural areas with significant unemployment problems, and alternative approaches should be explored when 1981 census data becomes available.

Conclusions

5.12 We recommend that:-

- (a) inter-departmental research should be commissioned on the effectiveness of existing instruments for economic assistance in rural areas (paragraph 5.7);
- (b) the relevant departments should consult to ensure that policies and measures for special rural areas develop in a broadly congruous manner in England, Scotland and Wales (paragraph 5.8);
- (c) the emphasis of rural economic policy should be on developing the potential which already exists in the rural communities (paragraph 5.9);
- (d) the question of overlap between the special rural areas and the assisted areas should be taken into account in further work on the new regional assistance map (paragraph 5.10);
- (e) the use of travel-to-work-areas in relation to rural areas should be reassessed when 1981 census data becomes available (paragraph 5.11).

6. OTHER ISSUES

Introduction

6.1 A number of other issues were identified in our previous report as requiring further study (recommendations 3, 4, 14, 16, 18, 30 and 32).

Training

6.2 We have considered further the scope for more assistance towards training for specific job opportunities within the assisted areas (recommendation 3). Assistance towards firms' training costs where the training forms an essential part of a capital investment project in an assisted area is already available under Section 7 of the Industrial Development Act 1982: employers can be reimbursed up to 40% of eligible training costs, plus a matching contribution from the European Social Fund (ie up to 80% in total). Present administrative guidelines require that any grant for the capital investment is normally reduced pro rata but these guidelines are applied flexibly and we recommend that this should continue. Also, the guidelines preclude Section 7 assistance to training projects where there is little or no capital expenditure although under the present legislation it would be possible to assist those training projects which create or maintain employment. Although such training projects are not expected to be numerous, we recommend that the guidelines be relaxed to enable assistance to be given to them.

6.3 It has not been possible to make a reliable quantitative assessment of the scope for such extra assistance, but there can be little doubt that some scope exists. Relaxation of present operating guidelines would therefore allow a marginal but useful extension to existing powers to assist industry on a selective basis.

6.4 Selective assistance to help modernise the workforce in assisted areas would make it more attractive to potential employers on the same principle as the provision of advance factories. This suggests that training for specific skills in the assisted areas should not be limited to where there are identified immediate job opportunities. However, given the high rate of skill depreciation, the desirability of relaxation of the strict training-for-jobs criterion would in each case have to be a matter of judgement, turning on whether the chances of attracting new employment to use the skills and/or of encouraging trained people to move and use the skills elsewhere were high enough to justify the use of resources on training. We recommend accordingly.

Tax aspects

6.5 We have considered further (recommendation 14) whether capital allowances (say, 20 per cent initial allowance with writing-down allowances of 4 per cent a year) for new commercial buildings in inner city areas should be provided as an incentive to the service sector. The evidence to date from enterprise zones, where 100 per cent initial allowances are available for commercial and industrial buildings, tends to suggest that such allowances are a greater incentive than freedom from planning restrictions, but a lesser one than rates holidays. The introduction of capital allowances for new commercial buildings in inner city areas might therefore have a modest effect in helping to revive service activity, with welcome direct and indirect employment effects, and an improvement in the quality of the inner cities' environment.

6.6 In our view, however, the case for such allowances is not proven. Not only would the proposal add to the complexity of the tax system, but there must be serious doubts about its effectiveness, given the extent of tax exhaustion in the corporate sector, the greater attraction of developments in enterprise zones where 100 per cent rather than 20 per cent initial allowances are available (and the need to maintain this kind of differential), and the uncertainty of effectiveness even in enterprise zones. Costs might build up in the long run to around £150 million a year, and would involve considerable deadweight. We conclude that capital allowances for new commercial buildings in inner city areas would not be a useful policy instrument. Alternatives (eg urban development grants) can be better targetted and therefore more cost-effective.

6.7 The scope for tax relief for research and development is being considered separately by the Inland Revenue and the Department of Trade and Industry.

Advance factory building

6.8 Recommendation 16 of our previous report recommended that current work on reviewing the level and cost-effectiveness of advance factory building should be pursued quickly and a report made to Ministers. This is an interim report on work to date and in hand.

6.9 The present programme is based on the assumption that private sector developers do not provide industrial and commercial accommodation of the type and quality which businesses require before they are prepared to respond to other regional incentives. The public sector agencies therefore provide accommodation

so that the objectives of other regional industrial incentives are not frustrated. Local authorities also provide such accommodation. The public sector factory building programme has long been widely regarded as one of the most cost-effective instruments, but such judgements have been based mainly on subjective assessment, and need to be more rigorously tested.

6.10 The following work is in hand. A number of key measures, on which analysis of advance factory building in England, Wales and Scotland can be based, have been provisionally identified: these are set out in Appendix G. Analyses of the costs of the estate of the various agencies concerned - English Industrial Estates Corporation, Welsh Development Agency, Scottish Development Agency, Development Commission, and the Highlands and Islands Development Board - are in hand, and these should form a key input into subsequent work. The DTI have commissioned two studies:

- (a) The first area of research - 'The regional benefits derived from the advance factory programme' - will seek through a series of interviews with at least 250 firms to discover how the inhabitants of advance factories had come to their choice; their previous background; the effect on their output and performance etc. One result of the survey should be that we will have a better idea of the kind of firms which are accommodated in advance factories, and hence about the net impact of the programme on the regional economies.
- (b) The second area of research - 'The impact of public sector on private sector provision of industrial property' - will seek through surveys and possibly through statistical analysis, to investigate further the potential role of the private sector. It is hoped that as a result we will have a better idea of whether the public sector is simply 'crowding out' private sector activity, or whether there are failings in the private market which make public intervention desirable.

It is hoped that work on establishing a common data base, and further analysis of the costs of the programme can be completed by the end of the year. The surveys will take rather longer. It is also intended to undertake further work on the relationship between the advance factory programme and other regional policy instruments. An inter-departmental group has been established to co-ordinate this work.

Contract preference schemes

6.11 We examined the contract preference schemes for government procurement to see whether they continued to fulfill a worthwhile role (recommendation 18). The general scheme, (in which government departments and nationalised industries participate) gives approved manufacturers in assisted areas preference over other suppliers provided that all other factors, including prices, are equal. The special scheme (in which only government departments take part) provides that if an assisted area firm is not successful in gaining the order or a substantial part of it, the lowest assisted area tenderer is to be offered 25 per cent of the order at a price fixed such that the cost of the whole contract to the department would be no higher than it would have been if the lowest competitive tender had been accepted for the whole contract.

6.12 We conclude that though there is room for doubt as to whether the schemes are particularly effective instruments, the costs involved are not unacceptable, particularly for the general scheme. Bearing in mind the political difficulties of abolition, we concluded there is not a sufficiently good case for ending the schemes.

Basic service grant

6.13 We also reviewed the effectiveness of the basic service grant (BSG) scheme by which grants or loans can be made to local authorities and private contractors who undertake projects to provide a basic service (eg roads, sewerage) which would contribute to the development of industry in an assisted area where existing facilities are inadequate (also recommendation 18). It is questionable to what extent the availability of this grant actually brings forward additional expenditure, although for some projects there is no alternative incentive. We consider that the grant is useful as a specific tool for central government as a fine-targeted supplement to normal grant-aid arrangements for local authorities, and as a low-cost incentive to the private sector, to make essential provision for industry. A number of instances were cited in which the BSG had clearly had very significant job-creation effects. In particular there were individual examples of trading estates bringing up to 500 new jobs with the aid of BSG for water supplies amounting only to a few tens of thousands of pounds. We recommend that the scheme is continued as at present.

Nationalised industries

6.14 We studied further the case for making nationalised industries (including

wholly or partly public owned companies within the public sector) eligible for the complete range of regional incentives available to private sector firms (recommendation 30). There is a general presumption in favour of parity of treatment, but this is difficult given the nationalised industries' special relationship with government whereby their investment decisions may already be biased in line with Government policies. This could lead to cases of double weighting.

6.15 Under existing policy, regional development grants (RDGs) are available to nationalised industries insofar as their activities qualify. We recommend that this should also apply for the successor scheme to RDGs described in Chapter 2. At present nationalised industries are not eligible for regional selective assistance except for their non-mainstream activities. The general lack of mobility of nationalised industries' investment means that eligibility might not result in significantly increased expenditure. However the range of their structures and activities makes it inappropriate to standardise the arrangements. In our view decisions on eligibility should be taken on a case by case basis.

6.16 We also looked at how to ensure that regional aspects of nationalised industries' policies were clearly identified (recommendation 30), so as to allow Ministers to make informed spending decisions. We suggest that aspects of nationalised industries' activities relevant to regional policy should, where appropriate, be identified by sponsor departments as part of the annual reviews of industries' corporate plans. General ground-rules which might underlie arrangements in future are in preparation.

Incentives for Relocation of Government Work

6.17 We have further considered the implications of recommendation 32 of the earlier report, that when moves of government work are being contemplated, the claims of the assisted areas should be recognised, and reflected by allowing the regional departments to offer, from their budgets, incentives comparable with those available to private firms.

6.18 Government departments contemplating moves are already obliged to consult the central departments, and in principle they should also consult the regional departments on any major cases in view of their interest in the possible relocation. This itself should ensure that regional considerations are taken into account in any significant move. Moreover, the Management and Personnel Office (MPO) pointed out that the main dispersal exercise has now been completed, so that the scope for helping the assisted areas in this way has now largely been exhausted. However,

the group generally favoured some action to ensure that regional considerations were taken into account in a more explicit and consistent way.

6.19 This could be done either by legislation or by administrative action. Legislation to amend Section 7 of the Industrial Development Act 1982, removing the present limitation on eligibility to commercial undertakings would enable a government department contemplating a move to take account of the real economic value involved in choosing an assisted area location, without itself incurring a net cost. Such an arrangement could however appear rather cumbersome and artificial, given that this is a field in which the government has the power to make its regional preferences effective to the extent that it thinks it right to do so; and if such payments were made, particularly if they took the form of a capital grant to offset later costs, the payments would inevitably be taken into account in determining the subsequent public expenditure allocations of the moving department, which would cancel the effectiveness of any financial incentive.

6.20 We therefore prefer the alternative course of administrative action. Government departments contemplating moves would be explicitly required to consult the Treasury, MPO and the regional departments in all cases. This would enable the regional departments to indicate the kind of assistance which might have been given to a private firm in a similar situation, so that such amounts could be taken into account in the cost-benefit assessment of the different possible locations. For any significant relocations, this assessment should form the basis for a Ministerial decision. To ensure consistency in this process, the Treasury would need to take a co-ordinating role.

Conclusions

6.21 We recommend:-

- (a) the relaxation of present administrative guidelines to enable assistance to be given to training projects unrelated to capital projects; and the relaxation of the strict training-for-jobs criterion where circumstances warrant this (paragraphs 6.2 - 6.4);
- (b) no change in arrangements for capital allowances (paragraphs 6.5 - 6.6);

- (c) no change in arrangements for contract preference schemes and basic service grant (paragraphs 6.11 - 6.13);
- (d) decisions on nationalised industries' eligibility for regional selective assistance to be taken on a case by case basis (paragraph 6.14 - 6.15);
- (e) administrative arrangements to enable regional departments to influence relocation of Government work (paragraphs 6.17 - 6.20).

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7. COSTS

Successor scheme for RDG

7.1 The policy changes proposed for the automatic tier of regional assistance offer substantial savings, the scale of which will depend upon the particular option chosen in respect of the numbers of tiers of assisted area and of levels of grant (as shown in paragraph 2.26). Taking account of sizeable additional expenditure on regional selective assistance (RSA), the net effect is expected to be savings ranging from £55 million a year to more than £200 million a year (depending on the option chosen). Even if the other proposed policy changes are not made, the exclusion of replacement investment would in itself bring annual savings of up to £70 million without any offsetting increase in RSA. Whichever option is chosen, there would thus be substantial savings which Ministers could use to

- (a) reduce taxation or the public sector borrowing requirement; and/or
- (b) enlarge the map coverage (see paragraphs 8.9 to 8.13); and/or
- (c) finance additional expenditure on other measures (see next paragraph).

Innovation and formation of new firms

7.2 It is difficult to assess the cost of the measures in Chapter 3. If Ministers wish to introduce a regional differential for grants for capital projects under "Support For Innovation" (paragraph 3.3), we estimate that this might cost £20 million a year. Expenditure on the other measures under "Support For Innovation" is very much dependent on the intensity of the promotional effort made and on the rate at which assistance is taken up, but we estimate that additional expenditure of £40 million annually would be likely to be effective. Those measures concerned with new firm formation and growth are, for the most part, extensions of existing schemes, and the cost depends on how far Ministers wish these schemes to be expanded. Extra expenditure of £6 million a year should make a significant impact without risking a shortage of suitable counsellors.

Other items

7.3 None of our other proposals will either have significant costs or yield

significant savings, compared with present expenditure plans.

- (a) The proposal to bring together the mainstream and service schemes into a single scheme of regional selective assistance (paragraphs 2.2 - 2.4) will not significantly affect overall expenditure levels.
- (b) On the Urban Programme (Chapter 4), we do not propose any alteration to existing expenditure programme levels at this stage. We recommend that a further look be taken in two years' time in the light of research commissioned on the extent to which the Programme is achieving its objectives: it may be that some changes in expenditure levels might be justified at that stage.
- (c) On rural assistance (Chapter 5), our proposals do not imply any increase or decrease in expenditure on rural assistance at this stage. Again, we suggest that interdepartmental research into the effectiveness and cost-effectiveness be undertaken so as to allow an adequate assessment of rural economic assistance within two years: it may be that some changes in expenditure levels might be then justified.
- (d) We propose that present support for training should be extended by relaxing the condition that assisted training must be an integral part of new capital investment (paragraph 6.2): this is unlikely to mean more than a marginal increase in existing expenditure levels.
- (e) When current work on reviewing the level and cost-effectiveness of advance factory building has been taken further (paragraph 6.10), it may be that some changes in existing expenditure levels may be justified, but no changes at this stage can be suggested.
- (f) Our proposals for continuing the contract preference schemes (paragraph 6.12) and the basic services grant (paragraph 6.13) mean no change in expenditure levels.
- (g) Our proposals in respect of making the aspects of nationalised industries activities relevant to regional policy more transparent (paragraphs 6.15 and 6.16) will not affect overall expenditure levels.

- (h) The proposal to allow regional departments to influence relocation of Government work (paragraphs 6.17 - 6.20) is unlikely significantly to affect overall expenditure levels.

Manpower

7.4 The new scheme proposed will, because of its greater selectivity and the need for closer scrutiny of cases, require increased manpower on regional assistance.

- (a) The revised RDG scheme will require up to about an extra 60 staff on the basis of the existing assisted area (AA) map. These staff would also be needed even if the scheme is adjusted without primary legislative changes.
- (b) The greater number of RSA cases will require up to 100 more staff, again on the basis of the existing AA map.
- (c) The promotional and other activities envisaged by the proposals for regional support for innovation will require increases in manpower. An estimate might be 40 extra officers, principally for the appraisal of extra "Support For Innovation"(SFI) projects. The proposals for regional support for new firm formation are flexible in their staffing requirements. They could require up to 150 small firms service counsellors - who are businessmen not civil servants -and possibly another 50 civil servants to provide support services. Much of this requirement might be met by retaining those extra counsellors who have been taken on for the expanded enterprise allowance scheme. In addition, another 15 consultants might be needed for an expansion of the In-Depth Business Advice Scheme.
- (d) None of the other items will have a significant overall effect on manpower levels.

7.5 The total extra cost of the staff mentioned in the preceding paragraph will be of the order of £3.5 million - £4 million a year.

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8. GENERAL CONSIDERATIONSEC considerations

8.1 The proposals for a new scheme of regional development grants (RDGs) in Chapter 2 should be acceptable to the EC Commission, with whom they will have to be cleared. We have a specific commitment to the Commission to make arrangements by the end of 1984 to exclude replacement investment (paragraph 2.10). It is also proposed to seek from the Commission derogation from EC limits for firms with fewer than 30 employees (paragraph 2.20). There is no reasonable expectation of a general increase in the level of EC limits (paragraph 2.4 (d)) on regional aid within the foreseeable future, but we shall be alert to any possibility of change that may emerge.

8.2 The EC rules for regional schemes of assistance do not require individual cases within EC limits under either the automatic or selective schemes to be notified to the Competition Directorate of the Commission. However, large individual cases under national schemes of selective financial assistance have to be cleared with the Directorate. Recently the Commission has used the powers under the Treaty of Rome to impose, in effect, a veto on such non-regional aids. This should be taken into account during consideration of the assisted area map.

8.3 Any policy changes must take into account the need to maximise EC receipts. Assistance from the European Regional Development Fund (ERDF) and the European Social Fund (ESF) is used to supplement the domestic resources which can be made available. Full account is taken of the expected level of receipts during the overall public expenditure surveys. This year the ERDF may be worth up to £300 million to us. Some £100 million might come from the section of the ESF which is exclusively concerned with the assisted areas; and a considerable proportion of a further estimated £200 million is governed by considerations in employment and industrial decline, which have implications for regional policy.

8.4 Take up of our fixed ERDF share ("the quota") depends on

- (a) the number of eligible infrastructure applications generated by local and other public authorities from within assisted areas*; and
- (b) the amount of qualifying regional industrial expenditure.

*These currently account for 80% of the amount we obtain under our quota. Theoretically the ERDF regulation imposes a ceiling of 70 per cent but a retrospective Council derogation is to be sought by the Commission.

At present, the RDG scheme as a whole does not qualify under the latter (for separate reasons to those in paragraph 8.1). We expect the new scheme to do so, and so to significantly enhance our ability to claim our entitlement. There is no limit on the proportion we can claim in respect of regional industrial aid and it is preferable to claim as much as possible in this way since it gives better control of public expenditure.

8.5 As regards infrastructure, our ability to claim is influenced mainly by the extent of the assisted areas (AA) coverage - the greater it is, the easier it is to find enough qualifying projects.

8.6 We are having difficulty in reaching the 1983 target for the ERDF quota this year, and will have greater difficulty next year. These difficulties will be resolved only when either AA coverage is increased, or the RDG scheme amended. We are committed to seeking to have inner city designated districts outside the assisted areas declared eligible for ERDF assistance; and could, in theory, seek further extensions. The Community's reaction to the inner cities proposal is not yet known: this will in due course give a better indication of the prospects for changes to the existing "aided areas" map (for example, regarding the proposal to treat rural areas in need of special assistance as a distinct category of areas receiving regional economic assistance). However there is a risk that instead of relying on member states' domestic criteria, the Commission will itself determine which areas should be eligible for ERDF aid and the possibilities for minimising this risk are being explored. Such a change would undoubtedly cause difficulties for us in terms of both domestic and Community policies and we should continue to resist this.

The Assisted Area Map

8.7 Ministers decided that no work should be put in hand at this stage on redrawing the regional assistance map: they would consider this issue when decisions had been reached on the main recommendations. Any review of the assisted area (AA) map will involve hard decisions. However, the objective case for revision is hard to contest: in particular, many parts of the West Midlands, where unemployment rates are higher than for example some existing Special Development Areas, are strong candidates for inclusion. There will be continuing, and increasing, pressure for map revision to reflect more up-to-date information about relative disadvantage. However it will not be possible to introduce a new map based on

revised travel-to-work areas (TTWAs) until mid-1984 at the earliest. TTWAs approximate to local labour markets and enable unemployment to be a major criterion in the designation of assisted areas. Significant changes both in TTWA boundaries and in their relative rates of unemployment are expected to result from the 1981 censuses of employment and population which will be available around the end of this year. While in principle the map can be revised at any time, it would seem much more satisfactory to await this information.

8.8 A decision will be needed on the number of tiers of assisted areas. At present there are three: Special Development Areas (SDAs), Development Areas (DAs), and Intermediate Areas (IAs). Investment in the outermost tier, IAs, is not eligible for RDG but only for regional selective assistance. The alternative would be a two-tier map. The choice turns in part on how drastic a change from the existing pattern would be regarded as politically acceptable. Targetting the most assistance on areas of greatest need would favour continuing with a three-tier map. This would also have the merit of allowing more flexible definition. Simplicity and administrative efficiency point towards a two-tier map, with automatic assistance available only in the inner tier. In this case the inner tier would need to be widely drawn because if the new automatic grant is to make a real contribution to reducing disparities between regions and encouraging self-regeneration it will need to be available to incoming investors in those areas where they are likely to wish to locate, eg on undeveloped sites adjacent to areas of need. It also needs to be available to indigenous small and innovative enterprises. If a two-tier map could meet these requirements, we would favour it in principle. As noted in paragraph 5.10 further consideration will need to be given to the interaction of the AA map with that for special rural areas.

8.9 As indicated in paragraphs 2.24 and 2.29, decisions on the coverage and number of tiers of a revised map would have a significant effect on the costs of the revised scheme. The impact on costs is not simply related to the proportion of the working population, but also to levels of manufacturing investment per capita in the areas to be covered by the map. As the coverage of the map remains to be decided, we are not able to recommend at this stage any particular option for the rates for the RDG successor scheme.

8.10 The revisions made to the map since 1979 reduced the proportion of the working population covered by the map from 44 per cent to 27 per cent. Even if Ministers wanted to retain the latter proportion, it seems very likely that revision

would result in a rather different set of assisted areas, with a significant proportion of new areas being designated for the first time (including parts of the West Midlands) and a consequent loss of assisted area status for other places which are now relatively less disadvantaged.

8.11 The areas losing assisted area status could be minimised if Ministers were prepared to use savings generated by the policy changes to the RDG scheme to fund increased map coverage (say, rising back to 35 per cent of the working population). This could be achieved at relatively little cost if the increased coverage was in an outer tier with eligibility for selective assistance only. This would enable the inclusion of deserving new areas without the large-scale displacement of existing assisted areas. Increase in coverage might also make it easier to increase take-up of ERDF receipts.

8.12 Alternatively, it would also be possible to draw the map more restrictively. This would have the effect of concentrating aid even more closely on areas seen to be in need of particular support: but it would result in even greater displacement of existing assisted areas, and would run the risk of decreasing receipts from the ERDF (see paragraph 8.2). Any further reduction in AA coverage is likely to lead to increase these difficulties: conversely, any increase in AA coverage may ease the problem.

8.13 We recommend that officials should now be authorised to put work in hand on the revision of the map, in the light of any general guidance which Ministers give at this stage on the above points.

Legislation

8.14 Primary legislation will be needed for the introduction of a coherent scheme in accordance with the remit Ministers gave officials. A Bill incorporating all the proposals would probably have 12 clauses and require 2 supporting Schedules. An alternative is a short Bill with 3 - 6 clauses, enabling the Secretary of State to introduce the new arrangements and to set by Order (subject to affirmative Resolution) the levels of grant, and (by negative procedure) the coverage of the map and the number of tiers. At the time of writing this report, there is no place for it in the present legislative programme, but we recommend that it should be introduced in the 1983-84 Session if the opportunity arises.

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8.15 Some aspects of the proposals could be introduced under existing legislation. It would be possible to exclude replacement investment in accordance with our EC obligation, and also not to pay grant to large capital-intensive projects such as Sullom Voe. It would be possible by Order under the Industrial Development Act (negative procedure) to go over to the 1980 Standard Industrial Classification, and to make the changes proposed in Part II of Appendix B to extend the definition of qualifying activities eg to include some services; and, by affirmative Resolution, to alter the prescribed rates of capital grant. However it would not be possible within the existing legislation to make RDGs fully job-related. In particular, it would not be possible to introduce:

- (a) a cost-per-job ceiling of the kind described in paragraphs 2.6 - 2.7;
- (b) a fixed sum per job created as an alternative to a percentage of capital expenditure (paragraph 2.6 - 2.7);
- (c) abolition of the premises test (paragraphs 2.8 - 2.9).

However within these constraints under the existing legislation it would be possible to introduce some changes to go some way to meeting the objectives of the proposals.

8.16 A crude "all-or-nothing" cost-per-job rule would be possible, under which projects creating a minimum number of jobs per million pounds of expenditure would be eligible for RDG at the full rate; and other projects would not receive any automatic aid. Jobs safeguarded would not count for this purpose (for the reasons described in paragraph 2.11). The job-creation test would not be applied to small firms.

8.17 However an "all-or-nothing" rule would lead to hard cases, and possibly encourage overmanning in some cases. Even though selective assistance would be available for any desirable capital-intensive projects, the scheme would be - and be seen to be - inequitable. Given the inequity, the confusion and the loss of predictability that would be caused for industry in the meantime plus the administrative complexity involved, this cannot be regarded even as an acceptable interim solution pending legislation in 1984-85.

8.18 Another method, ^{which} might be preferable, would be to set a limit to the size of project eligible for grant on an automatic basis, say £10 million in grant terms. The Secretary of State would announce that beyond this limit he would exercise his discretion actively and would either pay grant at the prescribed percentage or not at all, with the explicit intention of refusing grant to those very capital-intensive projects which would take place in any case. This change is so different from what is envisaged in Chapter 2 that it cannot simply be a stepping stone towards introducing the more fundamental changes by legislation in 1984-85 on top of the map changes which would still be made in July 1984. Such a rapid and confusing series of changes to the scheme's framework would undermine its credibility in industry's eyes.

8.19 Introduction of a job grant would be possible only by using a different Act, the Employment Subsidies Act 1978. Under this Act, which needs renewal by affirmative Resolution every 18 months, it is necessary to get approval (also by affirmative Resolution) for any scheme involving annual expenditure of more than £10 million. The job grant could not be integrated with the capital expenditure grant as envisaged in paragraphs 2.6 - 2.7. Any job grant scheme would therefore have to be separate from the RDG scheme and at best supplementary to it.

8.20 Without abolition of the premises test, it would be necessary for the project test to be additional to, rather than instead of, the premises qualification. This would somewhat complicate the scheme.

8.21 If these changes were made, it should be able to secure more ERDF refunds but the application for these would be much more expensive to administer as, while individual projects might qualify, we probably could not simply submit one application for the total expenditure under RDG.

Consultations

8.22 At the start of a new Parliament, there will be strong arguments for an early statement about the Government's intentions on regional economic policy. It is public knowledge that an interdepartmental group of officials is undertaking a review of regional economic policy. It is inevitable that speculation about the likely conclusions, and pressure for the findings to be published, will increase. As Ministers have already recognised, a prolonged period of uncertainty is likely to deter those who are considering inward investment in the UK. An early

announcement by the Government of how they intended to proceed in this area would defuse some of this uncertainty, but it would increase speculation and uncertainty about the future coverage of the map, and Ministers would have to decide on timing in the light of this.

8.23 Consultation with the CBI might give a better idea of the general attractiveness of the scheme to potential recipients. It might also help to clarify how firms would react to the new arrangements, and reduce some of the uncertainty about the costs and savings. A discussion of regional policy in NEDC has already been mooted for November, although this might be retimed if Ministers were able to say more about their intentions within a further month or two. This might also be a suitable moment to launch a White Paper, particularly if Ministers decide to proceed by way of enabling legislation rather than a fully specified Bill.

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9. THE WAY FORWARD

Introduction

9.1 There are various ways in which progress might be made towards the introduction of the successor scheme to regional development grants (RDG). Three courses are described below, involving

- (a) legislation in 1983-84;
- (b) legislation in 1984-85; or
- (c) action without primary legislation.

The choice among them will depend critically on the availability of legislative time and on the degree of importance that Ministers attach to having some or all of the new scheme operative at an early date. The timetables for the various courses, together with the principal advantages and disadvantages, are set out below.

Early legislation

9.2 The first course would be for a short enabling Bill (as described in paragraph 8.14 above) to be introduced in November 1983 or, at the latest, by January 1984 before final decisions on grant levels and map coverage have been taken. This would allow a complete and coherent new scheme to be put into effect in a sensible way at the earliest practicable date. At the time of writing this report, however, it is unlikely that time will be available in the 1983-84 session for a specific Bill for this purpose. Ministers might consider that the timetable problem would be eased by combining the RDG enabling provisions with the Co-operative Development Agency Bill, which has been allocated space in the programme. The timetable would be as follows:

July 1983

Approve the proposed framework of the grant scheme elaborating the outline endorsed by Ministers in March; authorise work on assisted areas (AA) map coverage; provisionally select measures from the list of options to encourage innovation and new firm formation.

October 1983

Issue White Paper setting out the Government's general approach to regional policy and, in particular, the

proposed changes to the framework of the RDG scheme and the considerations underlying the design of a new AA map; signal the start of a six month consultation period on matters still to be decided (eg grant level, map coverage) with the CBI, EC, and other interested parties, including NEDC in November.

- | | |
|---------------------------------|--|
| November 1983 –
January 1984 | Introduce the Bill, including the shortest possible provisions allowing for the introduction of a cost-per-job ceiling, supplementary job grants and dispensing with the premises basis of the present RDG scheme, and leaving Ministers to determine by Order (subject to affirmative Resolution) the levels of grant and (by negative procedure) the coverage of the map, including the number of tiers. |
| July 1984 | Take and announce decisions on grant levels, and the map, including numbers of tiers, to take effect immediately with the new scheme subject to one year's transitional arrangements; decide on measures to assist innovation and new firm formation in the assisted areas. |
| October 1984 | Complete action on Orders. |
| July 1985 | Transitional arrangements expire. |

Advantages This course would allow early implementation of a complete and coherent scheme. It would permit public consultation on issues of considerable political interest, and early improvement in cost effectiveness of the scheme.

Disadvantages Ministers would need to defend structural changes to the scheme when key questions of interest to individual MPs (map coverage, grant levels) were still the subject of consultation and could not be answered. But the structural changes themselves should receive considerable support as their object is to achieve the manifesto commitment of making the policy more effective in creating jobs.

Legislation in 1984-85

9.3 If legislation to implement the changes to the RDG scheme cannot be introduced in 1983-84, the choice is between either legislation in the 1984-85 session, thus delaying the potential public expenditure saving and improvement to the cost effectiveness of the scheme, or making as many of the changes as can sensibly be implemented without legislation, bringing them into effect as early as possible in 1984. For the reasons explained in paragraph 8.18, it is not feasible to combine these two courses.

9.4 The timetable for a Bill in the 1984-85 Session would be as follows:

July 1983	Approve the proposed framework of the grant system elaborating the outline endorsed by Ministers in March; authorise work on AA map coverage; provisionally select measures from the list of options to encourage innovation and new firm formation.
October 1983	Begin consultations with CBI, EC, and other interested parties, including NEDC in November (this could be on the basis of a statement about proposals for future legislation, but in Green rather than White Paper form); announce any aspects of new grant system which could not await the new Bill.
July 1984	Decisions taken on grant levels, map coverage including number of tiers, and further options to encourage innovation and new firm formation; announce and implement map changes to take effect immediately subject to one year's transitional arrangements; announce legislation to be introduced in 1984-85 Session but without details of grant levels.
October 1984	Introduce Bill specifying new arrangements, together with transitional arrangements and powers for subsequent modification of grant levels by affirmative Resolution, and of map coverage by negative procedure.

- | | |
|--------------|---|
| July 1985 | Announce grant levels to take effect immediately with the new scheme subject to one year's transitional arrangements. |
| October 1983 | Complete action on Orders. |
| July 1986 | Transitional arrangements expire. |

Advantages Policy would be fully clarified before legislation introduced to implement complete and coherent scheme.

Disadvantages This course would delay the improvements in the cost-effectiveness of the scheme, and the longer period of uncertainty could be detrimental to effectiveness of incentives. Transition to the new scheme would not be completed for 3 years (2½ years from its announcement).

Action without primary legislation

9.5 If Ministers conclude that it is not acceptable to delay the benefits that might accrue from adopting the new scheme until mid-way through the life of this Parliament, some changes could be made without legislation (described in paragraphs 8.15-8.21). The timetable would then be as follows:

- | | |
|--------------|--|
| July 1983 | Approve changes to RDGs which do not require legislation (ie the exclusion from automatic assistance of projects above a particular size and of replacement investment and the extension of RDG to certain service sectors); authorise work on AA map coverage; provisionally select measures from the list of options to encourage innovation and new firm formation. |
| October 1983 | Issue Green Paper setting out the Government's general approach to regional policy and, in particular, the proposed changes to the RDG scheme and the considerations underlying the design of a new AA map; signal the start of a six month consultation period on matters still to be decided (eg grant level, map coverage) with the CBI, EC and other interested |

parties, including NEDC in November.

July 1984

Take decisions on grant levels, map coverage and further options to encourage innovation and new firm formation; announce map changes to take effect immediately with the changes to the scheme, subject to one year's transitional arrangements.

October 1984

Complete action on Orders.

July 1985

Transitional arrangements expire.

Advantages The changes to the present RDG scheme would retain a high level of predictability and administrative simplicity, although the superimposition of a project test on top of the premises test would be a complication. Some early improvement in cost-effectiveness of the scheme.

Disadvantages The changes would go less far towards neutrality than the full proposals.

Conclusions

9.6 Ministers will wish to consider the legislative handling and the political aspects of these three courses. If legislative time becomes available, we would recommend the first course, in order to enable a complete and coherent scheme to be introduced as soon as possible. If that course is not practicable, the choice between the other two depends on whether a priority is given to a coherent scheme through legislation in 1984-85, or to getting some early improvements in cost-effectiveness and hence possible expenditure savings. Ministers will wish to weigh the disadvantages of proceeding without legislation against the long period of uncertainty which would accompany the alternative of legislation in 1984-85 before a coherent scheme could be put into effect.

Appendices

- A. Recommendations of the first report
- B. A successor scheme for regional assistance
- C. Support for innovation
- D. Agreement on co-ordination and joint working arrangements between the Department of the Environment and the Department of Industry
- E. The economic component of the Urban Programme
- F. Economic assistance to rural areas
- G. Key measures for advance factory building

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APPENDIX A

RECOMMENDATIONS OF THE FIRST REPORT

1 Making regional wages rates more responsive to local labour market conditions should be recognised as a major long-term aim of policy wherever opportunity arises. This should be weighed in consideration of pay bargaining structures, particularly for the public sector (paragraph 91).

2 Efforts should continue to remove obstacles to labour market adjustments through voluntary migration (paragraph 92).

3 The scope for more assistance towards training for specific job opportunities within the aided areas should be studied further and recommendations made to Ministers (paragraph 96).

4 The case for skewing Special Employment Measures or other DE/MSD programmes towards the aided areas should be kept under review in the regular appraisal of these schemes and in consideration of any new schemes (paragraph 97).

5 General and continuing regional wage subsidies (e.g. a new Regional Employment Premium) should not be introduced (paragraph 100).

6 A special programme for channelling ERDF infrastructure assistance to the aided areas should not be set up now. But the case for it should be re-examined when the future shape of the ERDF is clearer (paragraph 104).

7 The present balance of investment assistance between automatic aids and selective aids leans too far towards automatic aids. Automatic aids should continue, but should represent a smaller proportion of total assistance (paragraph 107).

8 Automatic assistance should in future be confined to new or expansion projects. Replacement investment should be eligible for selective assistance only (paragraph 108).

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9 Regional assistance to the service sector should be expanded, and some service industries included in a scheme of automatic assistance. The minimum proportion of manufacturing activity on premises qualifying for automatic assistance should be reduced (paragraph 110).

10 A new scheme of assistance to replace the present RDG scheme should be introduced. Its main component should be a grant expressed as a percentage of fixed capital costs, but subject to a cost-per-job limit for capital-intensive projects. A supplementary grant expressed as an amount per new job (above a threshold) should be available for very labour-intensive projects (paragraph 114).

11 The special needs of small firms should be reflected in simpler arrangements for automatic grant (paragraph 117)

12 In principle, two tiers of assisted areas would be preferable to the three at present. But final decisions will have to depend on the rates of grant and the coverage of the AA map (paragraph 120).

13 Automatic grant should in future be payable on a contractual basis (paragraph 121).

14 There is little general scope for using tax options in support of REP. One possible option would be to provide capital allowances for new commercial buildings in inner city areas as an incentive to the service sector. The possibility of providing tax relief to R & D in the regions should be further studied (paragraph 127 and 128).

15 Some (modest) capability for equity finance for firms in AAs will remain useful; in England this function could either remain with the BTG or (if Ministers wished to follow that route) be transferred to some form of English Development Agency (paragraph 130).

16 Current work on reviewing the level and cost-effectiveness of advance factory building should be pursued quickly and a report made to Ministers (paragraph 132).

17 Industrial Development Certificates should be abolished at the first legislative opportunity (paragraph 133).

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18 The Contract Preference Scheme for government procurement and the Basic Service Grant scheme for local infrastructure should be examined to see whether they continue to fulfill a worthwhile role (paragraph 134).

19 Detailed options for encouraging innovation and new-firm formation in AAs should be developed for Ministerial consideration (paragraphs 135 to 140).

20 No change should be made solely on REP account in general policy in respect of mergers and take-overs, but the attention of the OFT and MMC should be drawn to available evidence about effects in the AAs (paragraph 142).

21 Special inter-departmental effort should be given to developing arrangements for assessing and monitoring the cost-effectiveness of economic aspects of the UP (paragraph 146).

22 Economic assistance to rural areas is probably best handled through selective assistance administered by the various rural agencies. The method and coverage should be studied further (paragraph 149).

23 If (which we do not propose at this stage) further EZs are designated beyond the number now planned, their number and choice should be considered within a co-ordinated REP framework (paragraph 151).

24 DOI and DOE should not be required to arrive at a common "map" for REP purposes, but should develop detailed working arrangements for close co-ordination of mainstream REP and economic aspects of UP (paragraph 156).

25 DOI, in consultation with other Departments concerned and in the light of Ministerial guidance on recommendations 7 to 13, should develop detailed proposals for Ministers on the national coverage of a new AA map (paragraph 162).

26 DOE, in consultation with other Departments concerned, should review the UP map in parallel with any changes proposed to the AA map (paragraph 163).

27 DE and DOI, in consultation with other Departments concerned, should consider and make proposals to Ministers on the scope for improvement to the current system of using travel-to-work areas as the building blocks for the AA map in time to be reflected in the work on recommendation 25 above (paragraph 167).

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28 Arrangements should be developed to make explicit the regional aspects - benefits, costs and alternatives - of decisions coming before Ministers collectively on policies and activities not directly forming part of REP (paragraph 170).

29 Though there is no general case on a region-wide scale for major additional aid to local economic infrastructure, the regional effect of major new national policies (for example in the IT field) should be fully considered (paragraph 172).

30 Regional aspects of nationalised industries policies including subsidies should be clearly identified; and if possible their investment ^{should be made} /eligible for regional incentives (paragraph 173).

31 Aid to tourism should continue to be available country-wide, but Government assistance to the industry in England should be more closely co-ordinated with other aspects of regional policy (paragraph 174).

32 "Forced" dispersal to the AAs of Government activity not otherwise due to move should not be resumed; but the claims of the AAs when moves are in contemplation should be recognised, and reflected by allowing "regional" Departments to offer from their budgets incentives comparable with those available to private firms in the service sector (paragraph 176).

33 Within the current pattern of Ministerial responsibilities, the co-ordination of REP-related activities at regional level should be strengthened. The role of the Regional Boards should be clarified and where appropriate reinforced (paragraph 183).

34 Ministers should consider commissioning work on the possible introduction, as a further stage, of more radical arrangements (albeit still within current Ministerial responsibilities) involving for example the preparation of cross-functional regional budgets covering the main REP-related activities (paragraph 185).

35 Ministers should indicate whether they wish the possibility of Development Agencies in England to be explored further (paragraph 189 and Annex K).

36 Improved supporting arrangements for co-ordination in Whitehall, probably with a designated "lead" Department, should be set up to complement the strengthened regional arrangements envisaged in recommendation 33 (paragraph 193).

37 The activities of local authorities in assisting industry - and the role of Enterprise Boards in particular - should be kept under close review. (paragraph 196).

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A SUCCESSOR SCHEME FOR REGIONAL ASSISTANCE

I CALCULATION OF REGIONAL DEVELOPMENT GRANT

The proposed automatic grant scheme would provide grant for all eligible projects on whichever was the higher of:

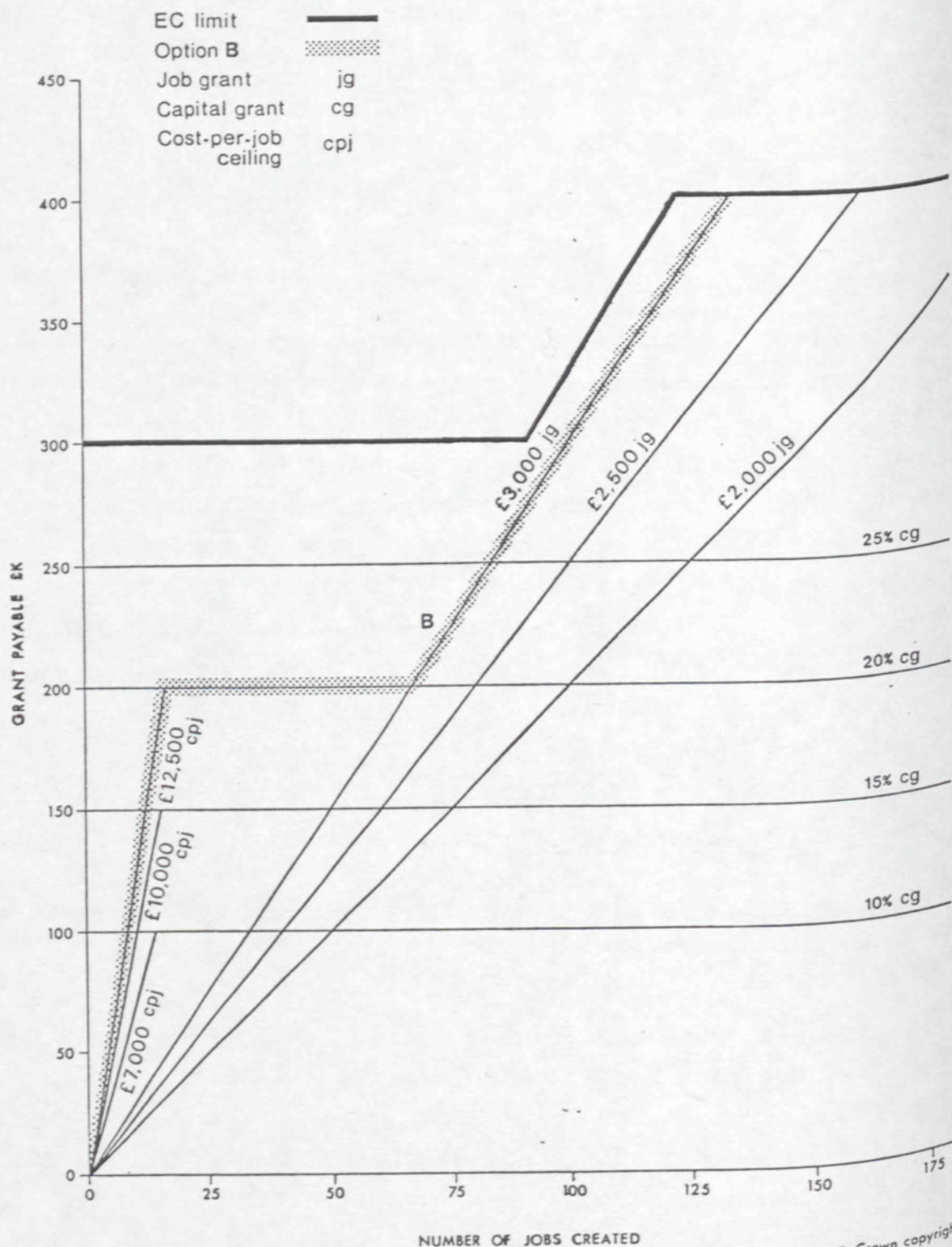
- (a) a fixed percentage of capital expenditure (subject to a cost-per-job ceiling);
- (b) a fixed sum per job created.

The level of job grant would be subject to periodic review in the light of movements in wage costs, insofar as the EC limit permits. For the various grant options described in the report (paragraph 2.25), the attached graph plots the level of grant payable for a £1million project according to the number of jobs created. From this it can be seen, for example, that under Option B (capital grant: 20 per cent; cost-per-job ceiling: £12,500; job grant: £3,000) a £1 million project would receive grant calculated as follows:

- (a) if more than 67 jobs were created, £3,000 per job, up to the 40 per cent EC limit, ie £400,000 if more than 133 jobs were created;
- (b) if between 16 and 67 jobs were created, 20 per cent of capital expenditure;
- (c) if less than 16 jobs were created, the grant would be subject to a cost-per-job ceiling of £12,500 per job.

2 This proposal compares with the option for an automatic grant scheme outlined in the previous report of a fixed percentage of capital expenditure (subject to a cost-per-job ceiling) for all qualifying projects supplemented by a fixed sum per job created beyond a certain threshold. The aim of this combination was for the majority of projects to qualify

GRANT PAYABLE ON A £1m PROJECT ACCORDING TO NUMBER OF JOBS CREATED



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only for the capital grant and be unaffected by the cost per job ceiling. However further study identified a number of presentational and administrative problems resulting from a job grant threshold that were intractable. It would not be possible to explain succinctly to companies what grant they would actually receive if the actual project differed in any way from that proposed. Therefore predictability would be eroded. Furthermore the threshold would make the scheme expensively complex to administer.

3 The proposed scheme of a simple alternative between a capital grant (subject to a cost-per-job ceiling) and a job grant has been devised to overcome these problems. The capital grant would be more advantageous for less labour-intensive projects and the job grant alternative for the more labour-intensive projects. But companies would not have to choose in advance which basis was appropriate for their project: as the project proceeded, they would automatically be given grant on whichever basis was the more advantageous to them. They would, of course, be told at the start what appeared to be the appropriate calculation based on their project description, but this would remain flexible.

4 In the administration of the cost-per-job ceiling and job grant there are two further problems to be resolved:

accountability - how to ensure that grant is paid only in respect of jobs that can genuinely be attributed to the project;

effectiveness - how to make the amount of grant payable on a project sufficiently predictable that industry will take account of it in investment appraisals

The best solution would be to pay job grant only after the jobs have been established. Capital expenditure runs ahead of job creation in most projects. Therefore a substantial part of the total grant due can be paid pro rata as capital expenditure is defrayed. Job-grant will generally become more

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advantageous only when the capital spend is nearing completion and the job build up is well advanced. In this way payment of grant would actually match the company's outlay on the project first in terms of capital and then in terms of increased employment. In practice, at each stage when claiming grant, the company would submit a statement showing to date both the capital costs defrayed and the number of jobs created. The cumulative grant calculations would be made on both bases and tranches of grant paid on whichever was the higher at each stage. Progress payments on the capital grant basis would where appropriate be subject to the cost-per-job ceiling according to the company's job forecast. The actual job build-up would be monitored closely and grant payment would be stopped if the build up was slower than forecast. Furthermore, grant could be clawed back if the number of jobs ultimately failed to reach the level needed to justify the amount of grant that had already been paid.

5 Analysis of regional selective assistance (RSA) cases shows that, although companies' job forecasts are investigated as part of the project appraisal, job achievement has on average been less than two-thirds of that forecast. Therefore, paying grant on job forecasts without any clawback for shortfall in achievement would bring severe difficulties of accountability. This could be countered to some extent by applying an automatic discount to the job forecast, perhaps by setting the job grant at an appropriately discounted level. But, whilst this would keep the overall spend on a job grant at the intended level, it would operate unfairly on those companies that achieved their forecasts compared with those that did not. Paying grant on job forecasts with clawback for shortfall in achievement would lead to prolonged argument and requests for concessionary treatment in many cases.

6 A further problem is how to establish the number of jobs resulting from a project. Only in the simplest cases, eg the setting up of an entirely new business by a new company at a undeveloped site, will there be no difficulties. It is proposed that jobs be measured on a project basis so that all of the project's job effects can be taken into account, both

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positive and negative, (including where appropriate negative effects at other premises affected by the project) but disregarding the changes not resulting from the project.

7 For projects on new premises it would be necessary to establish whether the company had other premises in Development Areas engaged on the same or similar activities, and whether the level of employment at the other premises would be adversely affected by the project. In order to give maximum predictability for industry the assessment of likely negative effects would have to be made at the start of the project. The company would then know at each stage of the project what effect, if any, changes in employment levels whether at the project site or elsewhere would have on the level of grant.

8 For expansion projects at existing premises it would be necessary to separate the existing workforce into those that might be affected by the project and those engaged in other activities. This would enable a baseline to be established for calculating the jobs created by the project. Changes in employment (whether increases or reductions) on the activities not affected by the project would be disregarded. Once again to give industry maximum certainty, this categorisation would need to be done at the start of the project.

9 An alternative might have been to pay job grant solely on the net increase in employment at the premises during the relevant period. However, there is a real risk that factors extraneous to the project could have a distorting effect and make the job grant highly unpredictable. During a recession a company carrying out a job-creating project could find its grant entitlement eliminated by a loss of jobs on part of the premises not affected by the project itself. Conversely in times of economic recovery, companies taking on additional staff to increase utilisation of existing capacity would get grant on jobs in excess of those actually created by the expansion project. These difficulties would be greatest for a project stretching over several years.

II QUALIFYING ACTIVITIES

10 The qualifying activities for the present RDG scheme are the manufacturing activities described in Orders III - XIX of the 1968 Standard Industrial Classification (SIC), together with certain repair activities, the processing of scrap and waste materials, scientific research relating to other qualifying activities and the training of staff for work in such activities. It is proposed that the following sectors should also be eligible for automatic grants:-

- Computer Services; data processing and software development
- Technical Services; technical design, testing, analysis, etc
- Business Services; management consultants, market research and public relations
- Industrial Research and Development Services
- Administrative Headquarters
- Repair, except for repair of consumer goods and vehicles or dry cleaning and allied services
- Telecommunications; Value-Added Network Services
- Cinematographic film or radio and television studios where the production is not dedicated mainly to local distribution
- Mail order houses
- Credit card companies, etc
- Freight forwarders

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- Export houses
- Football Pools, etc
- Packaging and assembly into kits
- Refurbishment or reconditioning of manufactured goods for resale or exchange
- Processing activities of mining and quarrying (but not extraction).

11 The service activities were selected on the basis that they are nationally or internationally tradeable services with location not determined by factors such as proximity to markets, access to raw materials or infrastructure provision. On this basis, it was concluded that all tourism projects were suitable for selective rather than automatic assistance. It is also proposed that the ancillary and associated activities (eg office work but excluding distribution, storage and haulage) should be treated as qualifying where they form part of a qualifying project. The exception is because it would be inequitable to treat these activities as qualifying where they occur in-house, but exclude them where conducted independently. Consideration is still being given to the inclusion of other activities, including slaughterhouses. The list will be kept under review. It can be amended by the Secretary of State by Order subject to negative procedures.

12 The service sectors are classified by reference to the 1980 SIC, with a special formulation to cover administrative headquarters. In the present RDG scheme eligibility is completely determined by reference to the 1968 SIC. This has had both advantages and disadvantages. The SIC is an independent source of definition in cases of dispute, but is a constraint when good cases fall outside the SIC definition. We propose a more flexible approach using the SIC, but with a Ministerial discretion (by order if necessary with negative

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resolution by the House) to designate further activities as qualifying. At the same time it would be desirable to substitute the 1980 SIC for the 1968. Care would need to be taken that no activities are unintentionally rendered non-qualifying solely because of the change-over from the 1968 to 1980 SIC. In respect of service industries the 1980 SIC gives a better description and classification.

13 The present RDG scheme requires that 50 per cent of employment at a premises be engaged in a qualifying activity, ie manufacturing. The proposed extensions to the range of qualifying activities answers the criticisms that the 50 per cent rule focuses too closely on manufacturing. Therefore it is recommended that the 50 per cent rule be retained, but in respect of projects rather than premises.

III CHANGES TO REGIONAL SELECTIVE ASSISTANCE SCHEME

14 Our proposals for a new scheme for RDGs include a recommendation to extend the availability of automatic assistance to more service sector industries. We have also considered whether improvements could be made to the administration of Regional Selective Assistance (RSA) for the service sector.

15 At present both manufacturing and services industries are, in principle, eligible for RSA on the same basis. However the existence of a separate scheme of assistance for the services sector - the Office and Service Industries Scheme (OSIS) - the emphasis of which is predominantly on relocations, tends to obscure the availability of selective assistance to service sector projects more generally.

16 For the future we recommend that OSIS should be dropped and the mainstream and service schemes of assistance brought together into a single selective scheme providing - and being seen to provide - equal treatment for both sectors. Service projects should qualify equally with manufacturing projects

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for project grant for projects which either maintain or increase employment. To cater for the normally lower capital intensity of service projects, and to improve assistance to labour intensive manufacturing projects, the job creation grant now available under OSIS should be retained and its availability extended to all projects. The benefit of this to manufacturing projects will be limited since EC limits will continue to apply. The form of assistance offered in individual cases should be that most advantageous to the company. To qualify for assistance all projects should be required to satisfy the same criteria. Thus the efficiency criterion (whether a project benefits both the national and regional economy), which does not at present apply to OSIS should for the future apply to service projects.

IV SMALL INDUSTRIAL UNITS

17 The RDG scheme has proved to be an inflexible instrument for aiding the development of small industrial units, ie workshops which do not exceed 2,500 sq ft gross internal floor space. This has partly resulted from the premises concept underlying the current scheme and partly from the minimum value on eligible assets rule and partly from the definition of qualifying activities. The change to a project-based scheme will go some way to solving this problem as will extending the list of qualifying activities to include selected services. However the high turnover of tenants, typical of small industrial units, remains a problem. It is therefore proposed that all small unit developments whether in nursery estates or conversions, should be eligible for automatic aid regardless of whether the activities of subsequent tenants would qualify.

18 If this proposal were adopted, the automatic grant for small unit developments would be in practice be a straight fixed-rate building grant, without cost-per-job ceiling or employment grant. The grant would be payable direct to the developer when expenditure was incurred on the project. There would be little risk of paying grant on capital intensive

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projects. It is estimated that the average employment in 2,500 sq ft of factory space is in the range 10 -15. Even with a cpj limit of £12,500, there would be little chance of breaching the limit with expenditure involved in these developments. The proposal is expected to be acceptable to the EC, as in the Commission's view most new building work involves very little replacement investment.

V ADMINISTRATIVE ASPECTS OF THE SCHEME

19 As recommended in our previous report, the successor scheme to RDG would be on a contractual basis. In practice, this will mean that, once an offer of assistance has been made, the grant payable would not be affected by subsequent changes either to the AA map or to other features of the scheme, and this would be the case for up to 12 months after the forecast completion date of the project. Where a company undertook a project without seeking a formal offer, it would remain eligible for grant, but would be vulnerable to changes in grant rates etc before the project was completed.

20 As well as describing the project, including its anticipated expenditure and employment effects, the letter of offer would set out the basis of assistance showing the consequences of changes in the capital expenditure and/or job effects. Arrangements for payment of grant would mirror this. Companies would be able to claim at intervals during the project as capital expenditure was defrayed or jobs were created, subject to a minimum requirement of submitting one return a year on the project's progress. At the end of the project a final reconciliation would be made and any balance of grant paid.

21 As with RDGs at present, some conditions will need to be attached to grant payments to ensure that the purpose of the grant is fulfilled. To reduce uncertainty about job grants, the period for which jobs must be maintained should be the minimum necessary to counteract abuse. Reductions of up to 10 per cent of the jobs created would be ignored. Ministers

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could have discretion to this in time of economic recession. But this sympathetic approach to job maintenance should be accompanied by more rigorous conditions attached to the capital investment to ensure that the capacity is maintained. Nevertheless these can be much more flexible than the present item-based RDG conditions. It is proposed that any significant reduction - say more than 10% - in the capital investment in a project during the 4 year period after completion should be an occasion for grant recovery. This will require monitoring returns, backed up by random inspection visits, during this period.

22 Under the current RDG scheme, grant is payable to the person who incurs capital expenditure in providing the asset. In cases involving leased assets, it is usually the finance company which is eligible for grant. This can have significant tax advantages and leasing now accounts for between 25 and 30 per cent of manufacturing investment. With the proposed new scheme, grant under the automatic tier will depend on the capital cost and job effects of the project as a whole. Purchased assets and leased assets will therefore need to be considered together in assessing the grant. In cases where the flat rate capital grant is payable (ie where the supplementary job grant alternative is not relevant and where the cost-per-job ceiling has not been reached), the arrangements should provide for grant to be paid at the prescribed rate to whichever party has incurred the expenditure. This is likely to offer the parties involved maximum flexibility and the tax advantages, but without being open to abuse.

23 The RDG scheme currently treats as ineligible for grant overseas companies or persons unless they have established a place of business in the UK. Also ineligible are bodies, eg English Industrial Estates Corporation, originally financed by government departments where the payment of RDG may affect the amount of assistance to be provided by the sponsoring department. It is somewhat anomalous that some public-sector bodies should not receive grant when they undertake qualifying

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activities. It would provide a more logical basis to the scheme if all persons were treated as eligible, except in the case of overseas persons as above, and that, in the case of public-sector bodies, administrative arrangements would be made to ensure that no overlap took place between RDG and other forms of government aid (ie double funding) and that RDGs are taken into account in the total assistance provided, including aid paid direct from the EC Commission.

VI COSTS

24 The estimated costs for the proposed scheme are based on the following sources of information;

- (a) an analysis of 635 RDG applications, representing a 5 per cent random sample of applications approved in the first and second quarters of 1982/83;
- (b) an analysis of total grant paid during the first three quarters of 1982/83 to 308 larger premises receiving RDG. This represented total grant payments of £247million, or about 55 per cent of total RDG paid in that period;
- (c) estimates of the size-distribution of investment in the assisted areas by enterprise and establishment drawn from the Annual Census of Production 1979;
- (d) an analysis of investment and employment associated with a sample of 270 RSA cases, representing those projects for which offers were made in 1981/82 where the project was located in a DA or SDA, was in manufacturing with RDG payable, and where new jobs were created.

25 It should be emphasised that, while this research was undertaken to try to make the estimates of the effect on expenditure as realistic as possible, considerable difficulties remain with interpretation of the results and their applicability to a new scheme. There are substantial

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uncertainties attached to these estimates and they should not be treated as representing a firm forecast of expenditure. They are made solely to enable broad judgements to be made about the overall shape and dimensions of the scheme.

26 The expenditure on the proposed successor scheme to RDG is estimated on the basis of a 20 per cent capital grant rate with a cost-per-job limit of £12,500 and a job grant of £3000, ie Option B. In order to make the most direct comparison between the present RDG scheme and the proposed future scheme, the estimates here and in Chapter 2 (paragraph 2.28) are made against a base level of RDG spend on current policies adjusted to an average 20 per cent grant rate (actual average: 19 per cent). This gives an adjusted annual figure of £475million for the period 1983/84 to 1986/87, compared to the expected annual average spend on RDG over the same period of £450million. Thus it is possible to see the effects of policy changes isolated from the expenditure effects of changes in the grant rate or map. Also estimated are the savings that would result from the other proposed changes to the scheme. A reduction in automatic grant on the scale envisaged will tend to increase expenditure on RSA. This will arise both from cases which would, in any case, receive RSA but for which the "minimum necessary" is increased because of a reduction in the automatic grant resulting from the cost-per-job ceiling, and also other cases which will come forward for RSA only because of the reductions in automatic grant. This increase is estimated also. The estimates are as follows:

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	£M	£M
Base level of adjusted expenditure on current RDG scheme		475
<u>estimated savings (additional costs) from policy changes</u>		
Exclusion of replacement investment	70	
Exclusion of modernisation investment not creating jobs	115	
Application of cost per job ceiling	55	
Addition of job grant (net effect only, ignoring displacement of capital grant by equal amount of job grant)	(15)	
Extension of Qualifying Activities	(10)	
Sub-total		215
Net expenditure on successor scheme to RDG (Option B)		260
Additional expenditure on RSA		60 - 85

VII ADMINISTRATIVE COSTS

27 There are substantial administrative implications in these proposals. Assessing the job effects of a project is not merely a matter of observing the net employment change at a premises and paying grant pro rata - as it would be for example for a marginal Layard-type of employment subsidy. Some understanding of the project itself and how it is expected to affect employment, both at the project premises and in some cases elsewhere, will be required. Initial enquiries can be incorporated in the project application form itself, and in more simple cases no follow up correspondence or discussion would be needed. But given that in many cases the answer will be a matter of judgement rather than objective fact, companies will naturally be inclined to overstate their case; so there will be an element of negotiation which will mean higher grades of staff as well as higher staff numbers. On the other hand, the volume of cases will be less, perhaps by some 30 to 40 per cent. On present plans, staff engaged on

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RDG work should be reduced to 343 by 1 April 1984 from the 1 April 1981 complement of 553½. Assuming the same organisational structure as at present, the proposed new scheme might require up to about an extra 60 staff on existing geographical coverage.

28 RSA is considerably more costly than RDG to administer, nearly 4 per cent of grant payments in 1981/2, compared with less than 1 per cent for RDG. Some 50 to 100 more staff may be needed for the greater number of RSA cases. Changes in AA status would also have staffing implications. Whereas upgradings create a fairly immediate demand for extra staff, manpower savings on downgradings arise more slowly and transitional arrangements may well increase the manpower requirements temporarily.

29 In total, it seems that the administrative cost of operating the automatic and selective grant schemes will increase by between £2m and £3m.

June 1983

APPENDIX C

SUPPORT FOR INNOVATION

Innovative capital investment projects may be eligible for grant, up to a maximum of 33 1/3%, under the following:

- Microelectronics Industry Support Programme (MISP)
- Fibre Optics and Opto-Electronics Scheme (FOS)
- Flexible Manufacturing System (FMS)
- Industrial Robotics
- Computer-Aided Design and Test Equipment (CADTES)
- Telecoms Products Scheme
- Small Engineering Firms Investment Scheme (SEFIS 2) (firms with less than 500 employees)

Also, under Assistance for Production Starts, grants of up to 20% are available for the post-development costs, such as capital equipment and tooling.

CO-ORDINATION AND INNOVATION: AGREEMENT ON CO-ORDINATION AND JOINT WORKING
ARRANGEMENTS BETWEEN THE DEPARTMENT OF THE ENVIRONMENT
AND THE DEPARTMENT OF INDUSTRY



The two Departments recognise the need for effective interdepartmental working in the development and implementation of regional policy and the introduction of new measures as well as in their analysis of and response to regional and sub-regional problems in England. To this end, in addition to working closely with the MSC and other Departments involved,* the two Departments agree:

to consult regularly on all policy issues of mutual interest. Twice yearly meetings of the Departments' Regional Directors and Headquarters staff will be supplemented by discussions between the Departments' senior officials and policy divisions; and in each Region by regular task-oriented meetings of the two Regional Directors, involving other members of the Regional Boards as appropriate;

to cooperate over the introduction of schemes of financial assistance to ensure that the two Departments benefit from each other's experience and that the coverage, criteria, procedures, and methods of appraisal and monitoring of such schemes are compatible;

to consult each other about individual applications under Departmental schemes of assistance in those cases where there is a significant overlap of the Departments' interests;

to cooperate in the preparation and maintenance of Regional Briefs which can be drawn on for Ministerial visits, parliamentary debates, etc, as well as in the consideration of policy issues and the preparation of Regional Development Programmes for ERDF purposes;

to encourage cross-postings of staff within each Region.

*including the Department of Transport which has a joint Regional Directorate with the Department of the Environment



The two Departments, noting that co-location of Regional Offices is a long-term objective, will give further consideration to:

- (a) the setting up of small joint teams, reporting to the two Regional Directors (and where appropriate other members of the Regional Boards) to tackle specific tasks and problem areas, for example in respect of activities to promote new and small businesses;
- (b) the scope for improving the effectiveness of the research, intelligence and briefing sections in the Regional Offices;
- (c) the scope for sharing support and other services;
- (d) the development of systems to meet the management information needs of the two Departments.

May 1983

APPENDIX E

THE ECONOMIC COMPONENT OF THE URBAN PROGRAMME

A. URBAN PROGRAMME ALLOCATIONS

YEAR (£m)	ENGLAND (£m)	SCOTLAND (£m)	WALES (£m)
1977-78	29.3	6.7	3.85
1978-79	93.4	9.8	5.5
1979-80	165.0	11.5	9.12
1980-81	202.0	22.6	9.46
1981-82	215.0	22.7	10.40
1982-83	270.0*	32.8*	15.29*
1983-84	348.0*	34.8*	21.0*

* Allocations

B. URBAN PROGRAMME: SPLIT OF EXPENDITURE - ENGLAND

	ECONOMIC	ENVIRONMENTAL	SOCIAL
1979-80	28%	13%	59%
1980-81	30%	12%	58%
1981-82	29%	19%	52%
1982-83	30%	23%	47%

These categories relate to the nature of the projects being undertaken, which can be broadly described as follows:

Economic

all employment and industrial/commercial projects, including roads and environmental improvements associated with industrial/commercial developments, business advice centres and training workshops.

Environmental

all environmental schemes not directly associated with economic development, most housing schemes, some transport schemes, parks and open spaces.

Social

educational, health, social services and recreational schemes.

C. KINDS OF PROJECT SUPPORTED BY UP RESOURCES IN 1982/83

	<u>% of economic component</u>	<u>Amount £m</u>
Provision of units, mainly industrial, by new building or by renovation and conversion of obsolete buildings to meet demands unsatisfied by EIEC or the private sector	34%	27
Highway, access and associated works to assist industrial development	20%	16
General environmental works to improve physical conditions and renew private sector confidence in the area	16%	13
General training schemes and schemes for the unemployed, including support towards MSC schemes and specialised schemes for particular groups in need	12%	9
Direct support to firms under the Inner Urban Areas Act to help with the high land and building costs and environmental problems found in inner city areas	8%	6
Site works, ie site assembly, reclamation and preparation for industrial development	4%	3
General advisory services, eg support for business advice centres, local co-operative development agencies, local enterprise agencies, enterprise workshops, etc	3%	2
Miscellaneous, including salaries of staff such as Industrial Improvement Area Liaison Officers, Ethnic Minority Business Workers, business promotion, eg trade fairs, tourism etc	3%	2
Total economic component		78

ECONOMIC ASSISTANCE TO RURAL AREAS

POPULATION CHANGE IN RURAL AREAS

1. Figure 1 shows the consistent population growth between 1971 and 1981 in rural districts in England and Wales: Table 1 confirms that the more remote rural areas were growing, and at a slightly higher rate than in the 1960s. Table 2 shows a similar pattern for Scotland, with significant growth in most of the districts in the Highlands and Islands, but only marginal changes in Dumfries and the Borders.
2. However such district level analyses can mask decline over significant parts of a district: most districts cover large areas and a development in one location may have little impact elsewhere in the district. For a selected number of the more remote counties in England and Wales, those least affected by the shift of urban population into the surrounding rural areas, population change between 1971 and 1981 has been analysed for the individual parishes. Roughly this has the effect of excluding urban areas.
3. Table 3 shows the percentage of parishes with population change in four broad bands, a fall of more than 10%, -10% to 0, 0 to less than 10% and growth of at least 10%. Of the counties analysed, only in Northumberland was the distribution skewed towards loss rather than growth in population, but in most cases the balance was fairly fine, with decline of more than 10% in 10-20% of parishes. There was, therefore, some indication of continued population decline. However, when working with areas as small as parishes some quite wide variations could be expected, and to investigate whether the declining parishes were clustered together, the population change was mapped for several of the counties.
4. Figure 2 relates to Cumbria. It illustrates quite different growth patterns in separate parts of the county. In the South, now a popular retirement area, there was fairly consistent growth, but in West Cumbria and the Eden Valley the majority of parishes were declining. Maps of other counties indicate no national pattern in the growth that has occurred in rural districts, and that, whilst rural decline persisted into the 1970s, it was confined to fairly small areas.
5. For Scotland a rather different analysis was made. Data are available for small settlements containing fewer than 500 people in 1971, and Table 2 shows that only in the oil-affected areas such as Gordon, Shetland and Inverness did these settlements grow.

Figure 1

POPULATION CHANGE
ENGLAND AND WALES
DISTRICTS
ON 1971 AND 1981 CENSUS DATA

PERCENTAGE
CHANGE
1971 - 1981

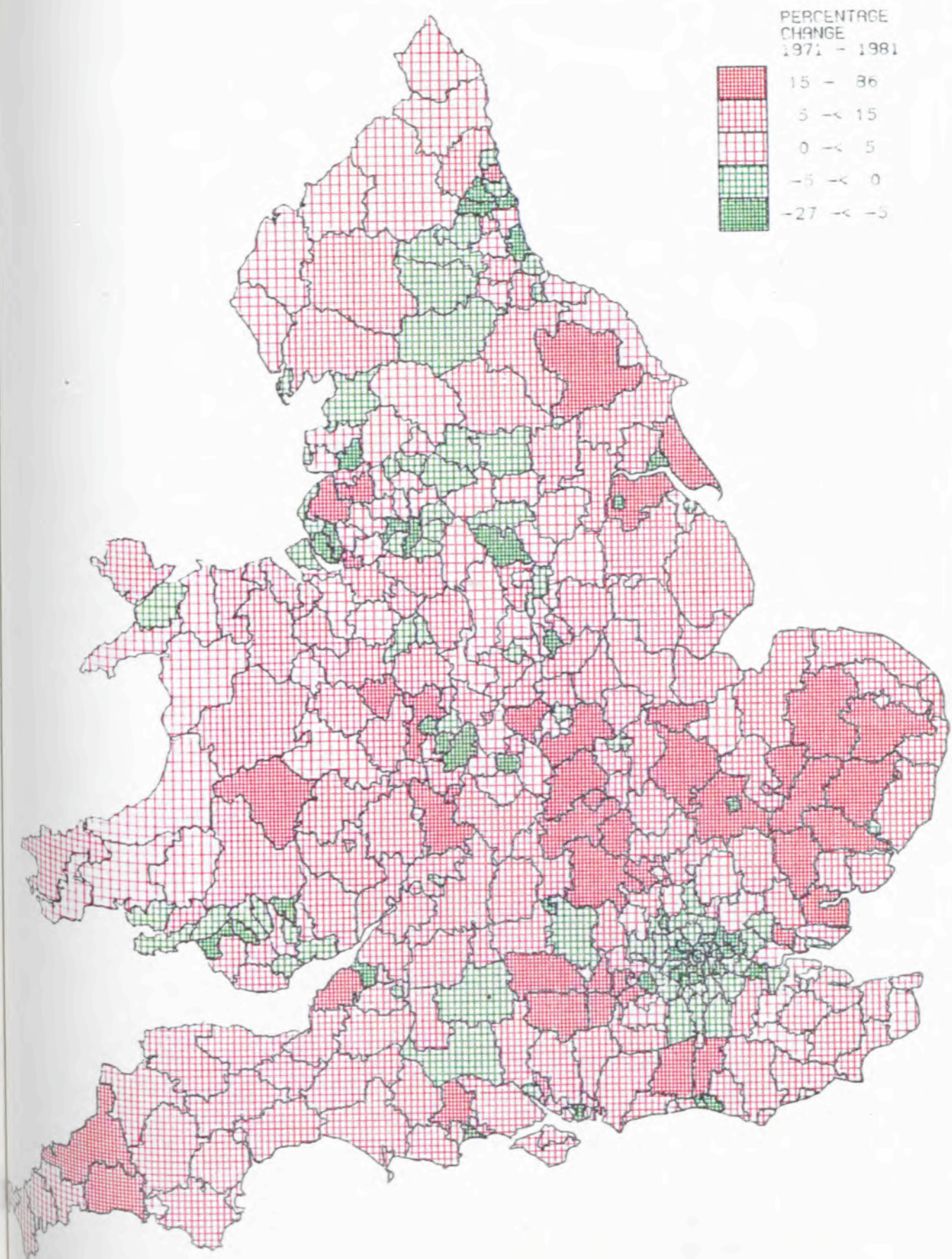
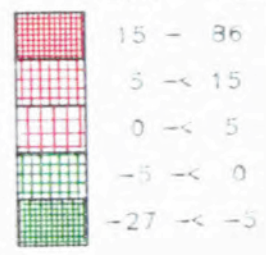


TABLE 1

POPULATION CHANGE IN THE URBAN HIERARCHY

ENGLAND AND WALES : 1961-71-81

	1961-71		1971-81	
	Absolute 000s	%	Absolute 000s	%
INNER LONDON	- 461	-13.2	-535	-17.7
OUTER LONDON	- 79	- 1.8	-221	- 5.0
PRINCIPAL CITIES ¹	- 353	- 8.4	-386	-10.0
OTHER MET DISTRICTS	+ 412	+ 5.5	-160	- 2.0
LARGE CITIES ²	- 41	- 1.4	-149	- 5.1
SMALL CITIES ³	+ 37	+ 2.2	- 55	- 3.2
INDUSTRIAL DISTRICTS ⁴	+ 459	+ 7.6	+200	+ 3.1
INACCESSIBLE RURAL DISTRICTS ⁵	+1584	+22.0	+661	+ 7.6
PROMOTER, LARGELY RURAL DISTRICTS ⁶	+ 403	+ 9.7	+468	+10.3
RESIDUAL ⁷	+ 682	+15.6	+439	+8.7
ENGLAND AND WALES	+2645	+ 5.7	+262	+0.5

Birmingham, Leeds, Liverpool, Manchester, Newcastle-upon-Tyne, Sheffield
 Over 175,000 population

Non-met. districts with between 70,000 and 175,000 population

Traditional industry/mining areas e.g. Wakefield

Suburban and other "rural" areas, not too far from main cities e.g. Reigate & Newbury

Rural areas far from main cities e.g. Caithness

New Towns and Resorts

Source: OPCS 1981 Census: Preliminary Estimates

TABLE 2

POPULATION CHANGE 1971-81 BY DISTRICT IN RURAL SCOTLAND

	Usually Resident Population				Population Resident in Settlement 500 in 1971			
	1971	1981	1971-81 Nos	Change %	1971	1981	1971-81 Nos	Change %
Shire	17050	17896	+846	+5.0	9615	8847	- 768	-8.0
Ar & Lauderdale	32000	30957	-1043	-3.3	6601	6234	- 367	-5.6
Ar & Galloway	35500	34586	-914	-2.6	8011	6982	-1029	-12.8
Ar & Galloway	13350	13779	+429	+3.2	3593	3376	- 217	-6.0
Ar & Eskdale	34100	34998	+898	+2.6	12318	10860	-1458	-11.8
Ar & Eskdale	55700	54916	-784	-1.4	14396	13219	-1177	-8.2
Ar & Eskdale	22050	22371	+321	+1.5	11413	10731	- 682	-6.0
Ar & Eskdale	29750	29605	-145	-0.5	12081	11126	- 955	-7.9
Ar & Strathspey	8650	9363	+713	+8.2	4042	4032	- 10	-0.3
Ar & Strathspey	27700	26944	-756	-2.7	9809	7964	-1845	-18.8
Ar & Strathspey	48450	54287	+5837	+12.1	9437	12909	+3472	+36.8
Ar & Strathspey	18350	19024	+674	+3.7	5515	5768	+ 253	+4.6
Ar & Strathspey	9350	9640	+290	+3.1	2435	2278	- 157	-6.5
Ar & Strathspey	34300	44874	+10574	+30.8	14247	15089	+ 842	+5.9
Ar & Strathspey	9450	9945	+495	+5.2	6214	7091	+ 877	+14.1
Ar & Strathspey	13400	12927	-473	-3.5	5963	7104	+1141	+19.1
Ar & Strathspey	73500	80112	+6612	+9.0	21672	21676	+ 4	+0.0
Ar & Strathspey	44950	61792	+16842	+37.5	26773	33626	+6853	+25.6
Ar & Strathspey	32900	41009	+8109	+24.7	16807	19153	+2346	+14.0
Ar & Strathspey	75600	80151	+4551	+6.0	18082	15568	-2514	-13.9
Ar & Strathspey	17050	18425	+1375	+8.1	10725	10772	+ 47	+0.4
Ar & Strathspey	17600	22768	+5168	+29.4	10096	14664	+4568	+45.3
Ar & Strathspey	31000	30713	-287	-0.9	15314	14425	- 889	-5.8
Ar & Strathspey	61600	63684	+2084	+3.4	20941	21398	+ 457	+2.2
Ar & Strathspey	52600	56608	+4008	+7.6	10627	11901	+1274	+12.0

Fife

N.E. Fife	59400	60263	+863	+1.5	12155	11323	- 832
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Tayside

Angus	83750	91454	+7704	+9.2	17269	16177	-1092
Perth & Kinross	112100	113708	+1608	+1.4	27071	26870	- 201

Total of above Districts	1071200	1146799	+75599	+7.1	343226	351163	+7937
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Scotland	5223725	5035315	-188410	-3.6	N/A	N/A	N/A
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Source: Census of Population

Note: The Districts shown above are those included as rural in the SDD "Rural Indicators"

Figure 2

PERCENTAGE POPULATION CHANGE 1971-1981

WARD BOUNDARIES
BASED ON 1971 AND 1981 CENSUS DATA

- PERCENTAGE CHANGE
- Above 10
 - 0 -<10
 - 10 -<0
 - Below -10
 - 1981 Ward Boundaries

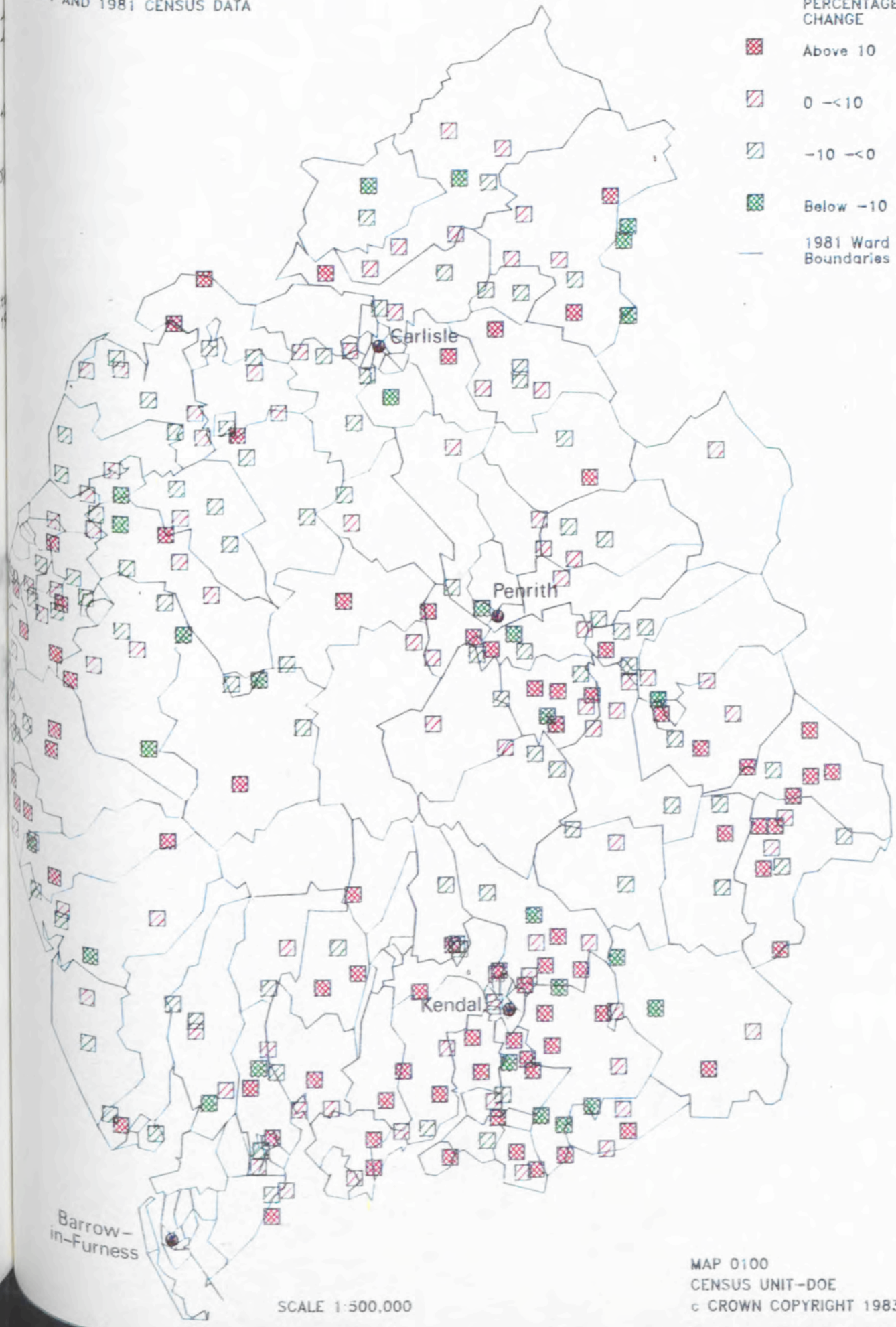


Table 3

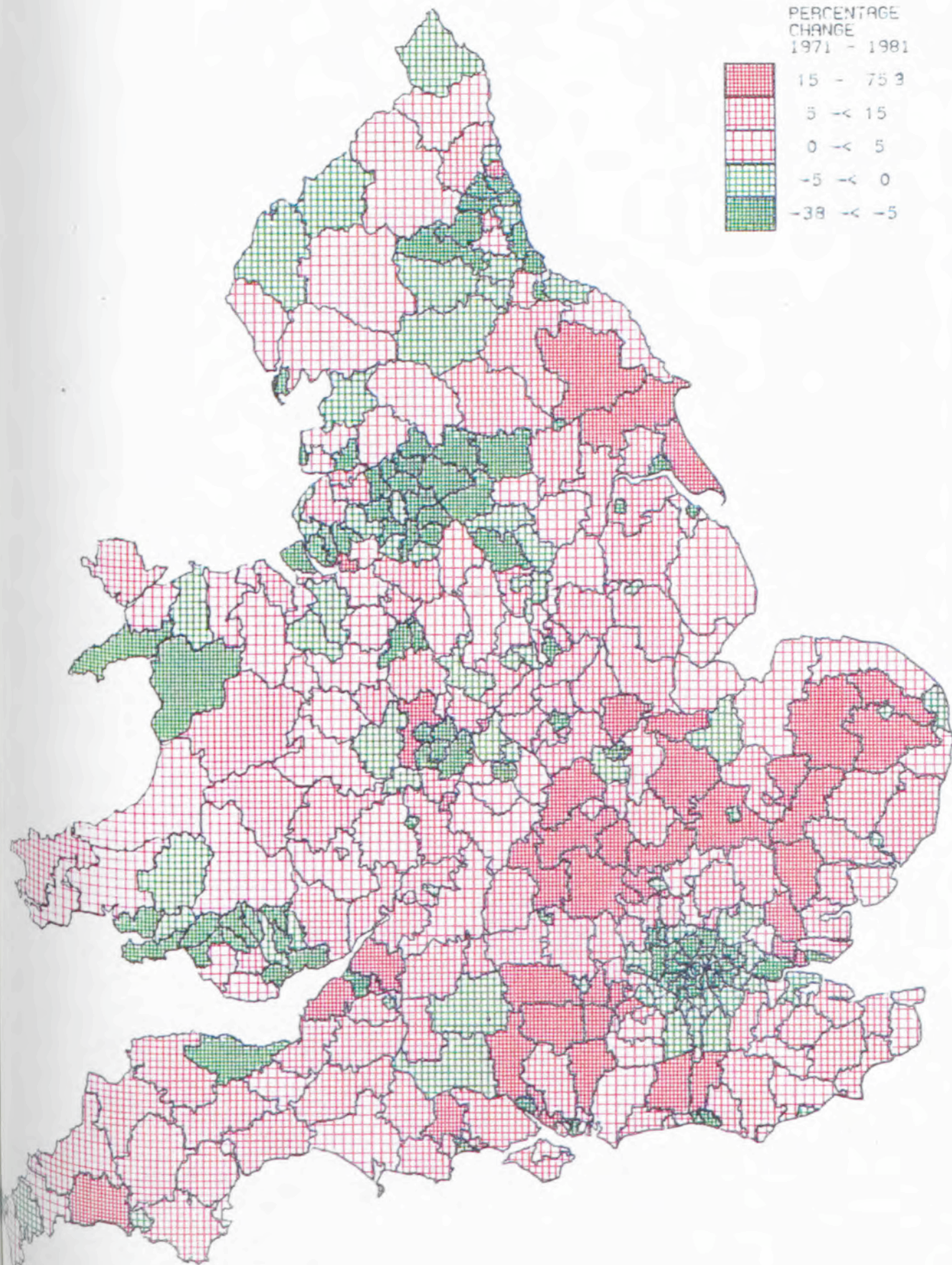
POPULATION CHANGE 1971-81 : ANALYSIS OF PARISHES IN SELECTED COUNTIES

Percentage of parishes with population change in range:-

	Fall of more than 10%	-10 to 0	0 to 10%	Growth of 10% or more
<u>ENGLAND</u>				
Northumberland	22	33	28	17
Cumbria	10	31	30	29
Lincolnshire	23	19	24	34
Shropshire	15	26	31	28
Norfolk	14	21	27	39
Wiltshire	13	32	26	29
Dorset	19	22	20	39
Devon	9	19	33	39
Cornwall				
<u>WALES</u>				
Dyfed	9	17	27	47
Powys	15	19	33	32
Gwynedd	12	24	26	38

EMPLOYMENT CHANGE IN IRELAND AND WALES DISTRICTS ON 1971 AND 1981 CENSUS DATA

Figure 3

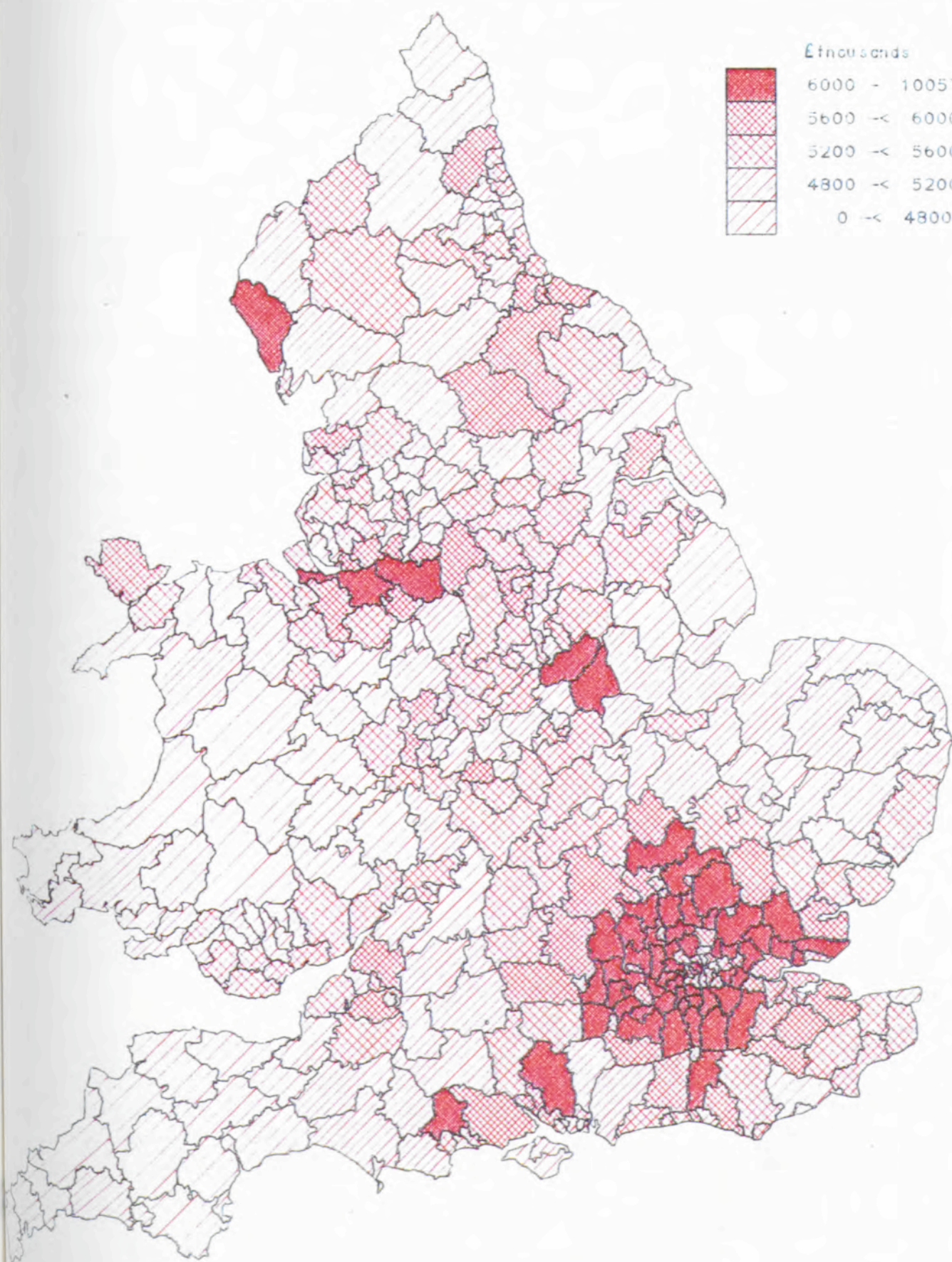


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MAP 0096
CENSUS UNIT - DOE
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AVERAGE PAY: MALES
ENGLAND AND WALES
DISTRICTS
ON 1979-80 NATIONAL INCOME STATISTICS

Figure 4



SCALE 1:2750000

MAP 0105
CENSUS UNIT - DOE
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DESIGNATION OF RURAL DEVELOPMENT AREAS BY THE DEVELOPMENT COMMISSION

In assessing which rural areas should be designated as RDAs, the Commissioners are required by the Government to have regard to the following criteria:

1. unemployment is above the average for Great Britain, account being taken of changes in recent years;
2. there is an inadequate or unsatisfactory range of employment opportunities;
3. population decline or sparsity of population is having an adverse effect;
4. there is a net outward migration of people of working age;
5. the age structure of the population is heavily biased towards elderly people;
6. access to services and facilities is poor.

The Government have said that, whilst it is not necessary for all these criteria to be satisfied, they envisage that most RDAs will meet the first criterion and one or more of the others. However, it is also clear that RDAs can be designated where a combination of any of the criteria indicates a sufficient concentration of problems.

KEY MEASURES FOR ADVANCE FACTORY BUILDING

1. Key measures associated with the establishing of the cost effectiveness of advance factories as an instrument of regional policy include:-

- (i) numbers of jobs from Assisted Areas (without accompanying job-holders);
- (ii) numbers of jobs from local business creation (expansion or start-up)

Each can be measured in terms of the current stock of advanced factory accommodation or in terms of the additions made by new lettings, so long as similar figures are taken account of for lease endings.

- (iii) The cost of providing the advanced factory premises, again both historically and as new factory provision is made. (Administration costs etc to be added in on a common basis for the agencies).

2. To compare the performances of the agencies among themselves and also possibly between the agencies and the private sector, criteria will need to be developed which can be used with the following measures (in addition to those from numbers of jobs, if available).

A. Measures of Stock (nos of units and area)

- (i) Properties leased
- (ii) Properties vacant and immediately available for lease
- (iii) Properties in process of refurbishment
- (iv) Properties in construction
- (v) Other properties.

B. Measures of flow (nos of units and area)

- (i) Completions of new factories
- (ii) Completions of refurbishments
- (iii) Sales
- (iv) Purchases
- (v) Demolitions
- (vi) New lettings
- (vii) Vacations
- (viii) Other flows

C. Money values associated with the stocks are flows of A and B above.

D. Measures of variability associated with intra-agency measures aimed at identifying how agency performance varies across its geographical area. These are described in the following paragraph.

3. The success with which an agency allocates its resources within its own boundaries can be measured by its achievements against measures of need at the sub-area level and by the relationship of stocks and flows at the sub-area level. Key measures will be:-

- (i) Number of unemployed;
- (ii) Number of employees defined as at 1i and 1ii above;
- (iii) Private sector industrial space available;
- (iv) Private sector industrial builders activity;
- (v) Sub-area measures of 2Ai to v and 2Bi to viii;
- (vi) Ratios between some of the measures 3i to 3v at sub-area level. Eg vacant space available for lease to space let.

The ratios will form the more important set as they provide the basis for making summary comments about agency areas as a whole, both from the point of view of comparing one year with the next and, as referred to earlier, one agency with another.