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E(A)(83) 5th Meeting

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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON ECONOMIC AFFAIRS

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 6 OCTOBER 1983 at 3.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for the
Environment

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and
Industry

The Rt Hon Lord Cockfield
Chancellor of the Duchy of Lancaster

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries
and Food

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

ALSO PRESENT

Mr David Mitchell MP
Parliamentary Under-Secretary of
State, Department of Transport

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr B H Potter

SUBJECT

REVIEW OF REGIONAL POLICY

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REVIEW OF REGIONAL POLICY

The Sub-Committee discussed memoranda by the Chief Secretary, Treasury (E(A)(83) 11) and the Secretary of State for Trade and Industry (E(A)(83) 12).

THE CHIEF SECRETARY, TREASURY said that earlier consideration of regional policy had suggested that the case for it was primarily social and political, rather than economic. He believed that public expenditure on regional policy could be reduced by up to £200 million per annum by introducing a more cost effective grant scheme, without damaging those social and political objectives. He supported the proposals in the report by officials attached to his paper (the "Anson" Report) on the broad structure of a new grant scheme to replace Regional Development Grants (RDGs): the option for each eligible investment project of either a capital grant (subject to a cost per job ceiling) or a job related grant, would be a significant step towards favouring job creating rather than highly capital intensive projects.

A range of options on the level of the grants and the cost per job ceiling should now be examined, in order to identify the most cost effective grant scheme. The alternative of a job related grant only, floated in his memorandum (E(A)(83) 11), should not be pursued. It was likely to prove impractical and would delay legislation, and hence savings in public expenditure. A review of the map of assisted areas should be undertaken to take account of developments on employment and population since the last review in 1979. A range of costed options on total coverage of the map, and the number of tiers of assisted areas, should be examined. If the full proposals in the report on innovation and new firm formation were adopted, they would reduce the net savings from a grant scheme by £60-70 million per annum; a decision on these should await the further work on the level of grants and the pattern of the new map. The recommendations on minor matters, set out in paragraph 16 of his memorandum, should be approved. In order to secure the public expenditure savings as soon as possible, he favoured the preparation of an early White Paper and the introduction of legislation in the present Parliamentary Session, as set out in the memorandum E(A)(83) 12 from the Secretary of State for Trade and Industry.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the present system of Regional Development Grants had to be replaced. He supported the new structure of grants recommended in the Anson Report. The new scheme would help remove

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the present bias in favour of capital intensive investment; it would be project based and not available on replacement investment; and it would apply to a greater range of service industries. He agreed with the Chief Secretary that officials should consider a range of options on the level of grants and the cost per job ceiling, and that a review of the map should be undertaken. But that review should be carried out quickly; intensive lobbying was inevitable and it was desirable not to prolong uncertainty. The aim should be to achieve public expenditure savings of £100-150 million per annum; a low grant level might not be cost effective, and area coverage might be insufficient. He favoured early publication of a White Paper with "green" edges. This would set out objectives and the new approach to regional policy; announce proposals for revising the framework of the Regional Development Grants and for introducing legislation; and invite views on the levels of grant, the coverage of the assisted areas map and the encouragement of innovation and new firm formation in areas where these were weak. Subject to the views of the Sub-Committee, he would prepare legislation enabling capital grants to be project based subject to a cost per job limit and for job related grants to be available. The levels of grant, the cost per job limit and the revised map would be implemented later by secondary legislation.

The following were the main points made in discussion -

- a. The economic arguments in favour of regional policy should not be dismissed too readily. The industrial scene in some areas of the country, for example in Wales, had been radically improved. An effective regional policy also made it easier to secure acquiescence to the rundown of declining industries. It was desirable to ensure that the incentives were as effective as possible in creating net new jobs rather than merely transferring jobs from the non-assisted to the assisted areas, although the precise means of ensuring this would need careful consideration.
- b. There were dangers in going too far in the direction of job related grants. It might encourage investment of the wrong type, based on outdated labour intensive methods of production; employers might be tempted to increase the number of jobs associated with a project in order to attract more grant; and it might not give the right signal

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about the need to increase the amount of capital per employee in many industries. On the other hand there was scope for the development of some labour intensive industries such as tourism in the assisted areas; and there was already a powerful incentive to invest in capital in the form of capital allowances.

c. The need to attract inward investment was an important reason for maintaining an effective regional policy. Strong competition for major mobile projects between European countries meant that the United Kingdom system had to be attractive and well understood. The arrangements in the public sector for promoting inward investment involved wasteful duplication of effort in England; Scotland and Wales had developed independent, more satisfactory, procedures. There should be better co-ordination of promotional activity throughout the United Kingdom, amongst central Government, local authority and other public sector bodies.

d. If the revision of the assisted areas map was to involve a comprehensive and up to date range of need indicators, it was unlikely to be completed before July 1984. It was desirable however to minimise the inevitable period of lobbying before the new map came into effect. The review by officials should be undertaken as quickly as possible, and should not be over-elaborate.

e. A short enabling Bill of 4 to 6 clauses could be attached to the Co-operative Development Agency Bill proposed for the current Session. This would however substantially change the character of the Bill. It would be difficult to handle the Bill in the House if major aspects of the Government's proposals, for example the review of the map, were still unclear.

f. Though now smaller than in the past, there remained a degree of overlap between regional and urban policy. There was better co-ordination between officials, designed to avoid any wasteful duplication. More urban policy expenditure was directed to job creating and commercial projects and less to general rehabilitation of the areas. The new Urban Development Grant was proving effective in attracting more private

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sector resources into the areas. A number of reviews were underway on the cost effectiveness of urban policy; in particular a review of the large number of areas which were eligible for assistance was being undertaken which might reveal scope for some reductions.

The PRIME MINISTER, summing up the discussion, said that the Sub-Committee endorsed the proposals in the report by officials (the Anson Report) attached to E(A)(83) 11 for a new scheme of grants to replace Regional Development Grants which would offer a choice on eligible investment between a capital grant (subject to a cost per job ceiling) and a job related grant. In considering the precise form of the grant, officials should review a wider range of options than those discussed in the Anson Report. They should however take account of the points made in the Sub-Committee's discussion about the disadvantages of going too far in the direction of job related grants and the need to maintain effective inducements to inward investment. The map of assisted areas should be reviewed as quickly as possible, using the best information which could be made readily available, so that the Government would be able to make its intentions clear with the minimum of delay. The Sub-Committee was not yet ready to reach conclusions on the level of grant, the percentage of the working population to be covered by the assisted areas, or the number of tiers. A range of options should be prepared for consideration by Ministers designed to yield net public expenditure savings in the range of £150-200 million a year. A White Paper should be published in due course setting out the Government's proposals and inviting views on appropriate aspects of them. The desirability of achieving the public expenditure savings as soon as possible and of reducing uncertainty argued in favour of early legislation, if possible within the current Session. The handling of the legislation would however be more difficult if the Government was not able to make its position clear on crucial aspects of the proposals, and particularly on the new map of the assisted areas. Final decisions on the timing of legislation would need to be deferred until clearer information was available about the timetable for the revision of the assisted areas map and other relevant work. The Sub-Committee endorsed the desirability of minimising any overlap between urban policy measures and regional industrial assistance and of ensuring that there was full co-ordination between the departments concerned. It was also desirable to explore ways of improving co-ordination of inward investment efforts throughout the United Kingdom with a view to reducing wasteful duplication.

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The Sub-Committee

1. Agreed -

i. that the Regional Development Grant Scheme should be replaced by a new scheme under which grant would be paid against approved capital expenditure, subject to a cost per job ceiling, with an alternative job grant for the most labour intensive projects, on the lines proposed in the report by officials attached to E(A)(83) 11;

ii. that the map of assisted areas should be revised as quickly as possible;

iii. that the aim should be to achieve net savings in public expenditure in the range from £150 to £200 million a year, as a result of changing the grant scheme, revising the assisted area map and related measures.

2. Invited the Secretary of State for Trade and Industry, in consultation with the Chief Secretary, Treasury and other Ministers concerned, to arrange for officials -

i. to prepare alternative packages involving different levels of capital grant, grant per job and cost per job ceilings, and different total coverage and numbers of tiers of assisted areas, within the agreed cost parameters;

ii. to prepare a draft White Paper setting out the Government's proposals.

3. Invited the Secretary of State for Trade and Industry, in consultation with the Lord Privy Seal and the Chief Secretary, Treasury, to consider further the timing of legislation in the light of the points made in the Prime Minister's summing up of the discussion.

4. Approved the remaining recommendations in the report by officials on the basis proposed in paragraph 16 of E(A)(83) 11.

5. Invited the Secretary of State for Trade and Industry, in consultation with the Secretaries of State for Scotland, Wales and Northern Ireland and the Chief Secretary, Treasury to bring forward proposals for improving the co-ordination throughout the United Kingdom among central Government, local authority and other public sector bodies engaged in promotional activity to attract inward investment.

Cabinet Office

7 October 1983