SECRET

CCB1

Prime Minister (2)

This is a preview of the main paper for the 25 May meeting.

AT 4/5

4 May 1984

2

MR TURN~~BULL~~

JOBS

On Thursday, Tom King held a four-hour seminar to discuss the next stages in the Government's policy towards unemployment.

There was general agreement that:

1. The political imperative was that there should be a perceived change of trend in the unemployment totals before the next Election, and that that downward trend should be credible and should have taken place over a reasonable period of months.

2. We have to remember that the last Election was won by convincing those in work that they now had a reasonable chance of keeping their jobs and prospering as a result: which they are now doing through the further increase in real wages.

3. The main reasons why unemployment remains obstinately high are the high and rising real wages relative to output and employer psychology which is still reluctant to take on any additional people for a variety of reasons.

4. The poverty and unemployment traps needed examination, as too many people still did not have sufficient incentive to work.

The likely outlines of a solution seem to be:

i. A bold initiative to persuade individuals and small businesses that taking on people need not be an impossible hassle. Passport for a Job would enable individuals to be taken on and paid up to £45 a week without the employer needing to fill in any tax or national insurance returns, and would remove the individuals from the unemployment register and create genuine jobs. This could help change employer psychology in those areas of the economy most likely to generate new jobs. It would represent a big move against regulation, and would need to be presented as part of the small business enterprise culture. Many Treasury/DHSS obstacles have to be surmounted for it to succeed.

ii. Moves to make the Enterprise Allowance a permanent feature of the landscape, available on demand. The EAS should not be seen as a special employment measure, but as an integral part of the Government's policies towards fostering enterprise.

JMEAAH

SECRET

SECRET

iii. Further radical work on the housing market. One of the main constraints to mobility is the absence of housing, and it makes much more sense for people to move to jobs rather than moving jobs to people.

iv. Urgent attention to the income tax/benefit nexus, with a view to abating the severity of the traps.

v. A programme to offer community work to the long-term unemployed under the Community Programme, so that they can be taken off the register and given some work experience and discipline again. This would have to be financed at the expense of some of the more expensive and less effective job-creating mechanisms like regional policy.

vi. Re-presentation of the whole range of measures taken by Government to stimulate new jobs. This effort needs to be made in a series of speeches by Cabinet members at the time that some of these new initiatives are announced. The Government must not only possess policies which will work, but must also be seen to be concerned. In addition, it is vital that any such package and statement is seen to be, not a U-turn but a natural extension of all that has gone before, part of the enterprise culture.

Tom King's paper is likely to give support to some of these ideas, and to incorporate a wider review of the various measures taken to date and ways in which they can be approved or amended. It will incorporate our work on the Special Employment Measures, and I hope draw colleagues' attention to the need to examine job measures on a cost-effectiveness basis, as there is far too wide a range in the cost and effectiveness of the measures so far adopted.

JOHN REDWOOD

JMEAAH

SECRET

1 May 1984

POLICY UNIT NOTE ON JOBS

The Policy Unit has now completed its work on the subject of jobs. We have visited Merseyside, Consett, Corby, the Scottish Development Agency area, London Docklands and the Highlands and Islands Development Area. We attach some comments based on our regional visits.

The long-term solution to unemployment is the creation of an economy where markets function properly. Companies have to respond to demand, have to find it profitable to invest, need to draw on skilled people for design, marketing, production and management; and people need a relatively free labour market so that they can move around with ease.

Much of the work under way within Government will help in this task. The Youth Training Scheme and technical and vocational initiative should help in training people into jobs. The MSC initiative to make training more relevant should be pursued vigorously. The Budget has begun the process of removing bias in the tax system against employment and in favour of capital investment. The changes already undertaken in trade union law, and the modifications to the Employment Protection Act, are helping to create a freer labour market. But much more remains to be done. The competition policy initiative can also assist in encouraging new business and creating new opportunities.

Policies towards small companies, international trade and the lowering of administrative burdens also need carrying further, and are a vital part of any programme to make markets work. For example, there are too many local authority licensing regulations; tax is still too bureaucratic and complex for small employers; Wages Councils are troublesome; employers still worry about the Employment Protection Act; and the small business measures need rationalising. Similarly,, the housing market needs improvement so that more rented accommodation is available in areas of better job prospects.

Our general conclusions were:

1. It is usually better to subsidise people rather than companies.

2. The attitude of the local authority to the regeneration of the region is all-important. Where a sympathetic local authority was prepared to work with any other bodies, and assistance that came from Government action - as in Corby - results could be most impressive. Where local authorities were less keen on the endeavour - as in London and on Merseyside - success could only be achieved by setting up an independent corporation able to cut through the red tape.

LARABK

3. Scattering subsidy and assistance over a very wide area without clear targets achieves little. Regional assistance for the whole of Merseyside has not been encouraging and, indeed, part of the problem was the inducement offered to firms like BL and Ford to set up plants in relatively hostile conditions which could not stand the test of time.

4. We found that monitoring of the effectiveness of measures in creating jobs which might be self-sustaining could be tightened up. It is important that jobs are not just subsidy-dependent, so we need to know how companies and individuals fare in the longer run. We need a better idea of relative costs and successes.

5. When presenting the Government's policies, it should be made clear that there is no inconsistency of purpose between the general drive to create jobs by making markets work, and the measures being taken to alleviate particular distress or to help individuals get back into the employed world. Ministers could help publicise successes in places like Silicon Glen and Corby, where temporary subsidies have helped create jobs that will be self-sustaining in the long run against the original odds of the region. They could help publicise schemes in places like Sheffield, Bristol and London, where the Community Programme and the VPP are giving individuals welcome temporary occupations and making a useful social contribution at the same time; and could draw attention to the excellent work of the Docklands UDC in London in completely transforming a whole area which had been left as a wasteland through the planning controls of hostile local authorities.

Finally, we looked at the careers and histories of some successful entrepreneurs and their companies. There were few common threads, with the exception that specialisation in certain kinds of electronics, and certainly in electronic component distribution, was a good way to develop a fast-growing company which was likely to be successful. The entrepreneurs we looked at all had the stamina and the courage to overcome press hostility and scepticism, to concentrate on making money as their prime aim, and to take calculated risks. Some of the immigrant communities produce more than their fair share, probably because other avenues for social advancement were less easy. Few of them had been to business school: it seems difficult to train entrepreneurs. However, it does seem possible to incrase

LARABK

the rewards for success and to make entrepreneurship an option that is discussed in schools, training colleges and in the community at large, so that more people decide to give it a go.

LARABK

APPENDIX

VISITS TO SIX AREAS

We chose six areas where particular employment difficulties exist and where Government has created special agencies and allocated special funds to alleviate the worst problems. Our visits were of one or two days' duration only and do not represent detailed economic or social studies. Our aim was principally to gain an impression of each and to contrast what was being done.

The six areas are - London Docklands;
Merseyside;
Corby;
Consett; and parts of the areas covered by the Scottish Development Agency and the Highlands and Islands Development Board.

The main conclusions we came to are these:

1. Not all areas are equally suitable for 'rescue'. Two - London Docklands and Corby - have decisive advantages of location which will enable them to share in the benefits of general economic recovery and to shed their 'special area' status in time. In our judgement, the other four areas will remain a special charge upon the Exchequer for as far ahead as we can see. We should not be deluded into thinking that an even heavier allocation of public funds will enable these areas to conquer much larger economic forces which cause greater activity elsewhere.

2. Liverpool is a unique case. It has some disadvantage of location - trade flows now being more intense in the south and east of Great Britain - compounded by the failure of artificial 'reindustrialisation' of the 1960s and 70s, and capped by the lunatic policies of Liverpool City Council. Industrial regeneration cannot be simply or quickly bought for Liverpool. Some degree of depopulation is inevitable and right. Assistance should help adjustment towards the smaller economic entity, not try to revive the grandeur of earlier decades.

3. The various development agencies created to attract industry into problem areas have all been 'successful' on a limited scale. The important qualification is that, without exception, they have merely helped to influence the location of economic activity, not added to it.

4. With the exception of the Highlands and Islands Development Board, which does not have major conurbations to contend with, all the other areas require attention to land assembly and disposal. Without a supply of land which has either been part developed or is freely available for development, nothing will happen to generate economic activity.

5. Since land assembly is vital, so too is the relationship between development agency, planning authority, (usually the local authority) and the landowner (often the local authority). In some cases - London Docklands and Liverpool Docklands - the development agency was freed from any obligation towards the local authority and was given unfettered power to develop and dispose. In others - Corby and the Scottish Development Agency - a satisfactory working relationship between development agency and local authority has been consciously erected. In Liverpool (outside the area of the docks) there is ruinous confrontation.

There is no one right model which makes others wrong. But we observe most 'success' where the development agency is granted sweeping powers and focusses its effects on small areas; or where the local authority adds its weight to the other agencies.

6. In general, the evaluation and monitoring procedures adopted for special assistance are poor. Hundreds of millions of pounds are being spent without clear objectives. There is an urgent need to establish, at very least, a robust mechanism for identifying what our expenditure has bought.

AREA REPORT 1 LONDON DOCKLANDS

Special Expenditure

The Docklands Development Corporation is responsible for the rehabilitation of 5,000 devastated acres where only 37,000 people lived in 1981.

In the first two years of its life, the DC spent £75 million. The bulk of this cash was spent on acquiring and preparing housing land (£22m) and industrial and commercial land (£23m). The Enterprise Zone road, Surrey Docks distributor road and Beckton roads cost £6m. Budgets for 1983-86 show planned spending of £202m including £27m on the Docklands light railway, £58m on land, £22m on environmental improvements and £26m on roads and transport.

The land assembly and preparation is essential. Once developed the land is sold on to new owners and the money returned, often with the benefit of some planning gain. The infrastructure expenditure enhances the receipts on the land transactions and is central to creating the desire to buy docklands properties. The UDC retains influence over the style and purpose of the buildings by refusing to sell freeholds to any developer: the developer holds land under a licence which gives the UDC powers to influence the development. In the main the use of this power has been benign.

The Value of the Expenditure

The results of the expenditure, the enthusiasm of the UDC staff and the powers given to the UDC to acquire land are impressive. At Hays Wharf, after 15 years' delay under the old planning authorities, 40% of the area is going ahead for comprehensive office redevelopment. At nearby Cherry Pier and Cherry Gardens, an 8-acre site is being prepared for housing development by the private sector. In the Surrey Docks, where the DC owns all the land, they are busy stabilising and putting in basic services prior to bringing in the private sector.

North of the river, around the Limehouse Basin and the West India Dock, a 1,25 million square feet of industrial development is under way. Thirty per cent is already pre-let or owner-occupied, with a concentration on higher technology industries. The UDC has specialised in putting in high-quality red brick roads which are themselves an attractive feature, and a comprehensive ducting system to take fibre optic cables to ensure high quality telecommunications. It has a great advantage as a development operation in that it is not governed by the traditional planning regulation distinctions between industrial and office accommodation, and therefore its high technology buildings have been easier to design and build. The super-stores are also attracting considerable clientele, and are a great boost to the area.

The results are photogenic and show just how dramatic the change in a derelict area can be when the pump is primed by enthusiasts armed with reasonable planning and acquisition powers. Houses have been sold in Beckton in the £28,700 to £34,000 price range and former council tenants have been keen buyers. 3,500 houses have been built or started since 1981 and 3,500 jobs created. The UDC is not a plan-making body and this can cause delays. The concept is difficult to apply to more thickly populated areas where the override of local councils would be difficult to defend. Success in rehabilitation can lead to rapid escalation of land prices which then limits the opportunities for providing low priced housing for council tenants from adjacent estates. In the case of the London UDC they need rapid decisions on the light railway and the VSTOL airport to sustain the momentum.

Most recent figures suggest that for every £1 of public capital invested some £5 of private capital is forthcoming. The ratio should improve over time, and as the full 5,000 acres near completion of development the UDC should receive back much of its cash from land sales. The initial budget costs should be quite large in order to assemble sufficient land and put in the correct infrastructure to have some impact on the problem.

It is difficult to see what Enterprise Zone status would add to the advantages of the UDC. If there was to be an EZ in London it is important it does not act as a counter-magnet to the UDC.

AREA REPORT 2 MERSEYSIDE

Special Expenditure

Merseyside is classed as a Special Development Area and as such it attracts the highest available rates of Regional Aid. The Regional Development Grants which the Merseyside SDA receives are (at roughly £100m p.a.) far higher than for any other SDA in Great Britain. The amount of Regional Selective Assistance spent in Merseyside is of the order of £10m p.a.

In addition, Merseyside is provided with its own Task Force, which has a current year budget of £40m; and with a Merseyside Development Corporation, which is Government funded at present to about £30m p.a.

There are no exceptional expenditures undertaken by the Manpower Services Commission for Merseyside or for Liverpool.

In total, the expenditure advantages which the Merseyside SDA enjoys over a non-assisted area is of the order of £200m p.a. - equivalent to roughly £350 p.a. for each household in the SDA.

Population and Industrial Employment

Merseyside's population is in long term decline. The Met County population fell by 8.5% (to 1.5 million) in the 10 years 1971 to 1981, while that of Liverpool fell even further - by 16%, from 600,000 to 500,000 over the same period. Nevertheless, economic decline has proceeded faster than shrinkage of the population, with the result that unemployment has risen in the SDA from 12% to 20% over the period February 1980 to February 1984. In recent years, nett job losses have run at between 10,000 and 15,000 per annum.

The traditional large employers in and around Liverpool - the port, shipbuilding and repair, shipping services, and the processing and distribution of edible oil products - no longer enjoy the geographical and competitive advantages of past decades. It is extremely unlikely that they will return to former levels of employment. Even the larger Merseyside based employers who are not consciously emigrating - Littlewoods, Unilever, Bibby, Ford, for example, are shedding labour to stay competitive.

MSC (locally) and the Task Force take the view that general economic revival in the UK will largely pass Merseyside by. Why should industry want to come to Merseyside? There are few sectoral roots there. Industrial relations, as a generality, are difficult - there is just too much weight of anecdotal evident for this to be denied. Wage rates do not reflect local unemployment levels (MSC maintain, for instance, that building trades rates are the highest in the UK outside London). There is no pattern of new job creation, and (again according to MSC) Merseyside is well below the national average in its proportion of self-employed.

The policies of Liverpool City Council present a serious obstacle to hopes of recovery. The ruling Labour Group, which has been in control of the Council since last May, makes no secret of the hostility to private enterprise, and its disdain for the principles of prudent financial management. Instead it has refused to increase rates or to make savings, while creating a privileged clientele among council tenants and employees.

At present the Council is pursuing a deliberate strategy of seeking confrontation with Central Government. Whether this happens depends on the acceptability or otherwise of its budget for 1984-85. Whatever the outcome the implications for job prospects are alarming, with massive rate increases and further damage to the economic infrastructure and the reputation of Liverpool.

Any future initiatives to help solve the problems of Liverpool will have to take into account the difficulties raised by its local politics, and where possible by-pass them.

The Value of Special Expenditure

What is our £200m p.a. of special expenditure intended to buy? The answer is that we do not know, since neither Regional Assistance nor the Urban Programme have quantified objectives, whether in job terms or otherwise.

The task is essentially that of humanely managing the contraction, and an important part of that task is to prevent the insidious growth of physical dereliction. It costs relatively little to replace shattered buildings and streets with basic greenery. It does absorb a little labour, and it does not engender false expectations of new jobs.

With this in mind, we strongly support measures such as the restoration of 'key sites' in and around the City Centre. The sites include those round the Anglican Cathedral, the old Exchange Station, and the disused Tate and Lyle sugar refinery. But above all we applaud the creation and the efforts of the Merseyside Development Corporation, whose task is to clear and restore, for private sector development, 865 acres of derelict dockland, nearly all of it on the Liverpool bank of the Mersey.

The key issue is undoubtedly land - its acquisition, management and development to a point where the private sector shows rooted interest.

The Development Corporation and the Task Force

What particularly appeals to us about the Merseyside Development Corporation is:

- its remit (and determination) to do a high quality job on a limited areas of land

- its business-like organisation and style of project management

- its right to act independent of the Local Authority

- its involvement with the private sector - currently via local consultancies and contractors and eventually via housing and commercial developers.

MDC seems to us to represent a good, though not the only, model for tackling urban dereliction. A Development Corporation, it must be said, is not a cheap option, at least initially. But it holds a very good prospect of the repayment of public sector investment.

We question the continuing role of the Task Force, though not the dedication of its members. It has inherited a finite number of projects from the Michael Heseltine initiatives but lacks the power which the MDC enjoys to get things done. The Task Force is constrained to act through Local Authorities, and finds itself obliged to pour lubricant into the points of friction between the City Council, the Met County Council, the DTI, the MSC and the DoE's own programme.

We urge Ministers to consider replacing the MTF, once existing commitments are fulfilled, with one or at most two new bodies similar to the MDC to tackle other limited areas of severe dereliction. Deregulated bodies working on a limited canvas will achieve far more, far more quickly, than bureaucracy working across a large tract.

AREA REPORT 3 CORBY

Special Expenditure

Corby was designated a Development Area (the middle of the three tiers of Assisted Area) in late 1979, and in 1981 was authorised to declare 280 acres of development land as an Enterprise Zone.

It has no separate Development Corporation, nor is it a significant recipient of Urban Programme expenditure or of special expenditure by MSC. But the town does have the Corby Industrial Development Centre (CIDC), run by an energetic Ulsterman, Fred McClenaghan, whose task is to market the benefits of Corby as a location for industry. CIDC runs no substantive programme of its own, but has an advertising and administrative budget of less than £500,000. CIDC is funded as to 70% from the New Towns Commission and the balance from Corby District Council, which is moderate Labour-controlled. CIDC reports jointly to its two sponsors, and operates effectively at arm's length from both.

DTI has spent, committed or offered £37 million to Corby since 1979 - £14 million via Regional Development Grant and just over £23m in Selective Assistance. Since that date, 4,000 jobs have been created, 2,000 more are known to be in process, and 3,000 more are expected if companies' plans materialise. If we count only the 6,000 or so jobs which have been or will be created, the cost per job is a little over £6,000 - a long way below the £35,000 national average quoted in Norman Tebbit's recent White Paper.

To look at it another way, each of Corby's 20,000 households has had a contribution of about £379 p.a. over the last five years - more or less the same as the Merseyside SDA.

Population and Industrial Employment

The Corby population is of the order of 50,000 and the available workforce around 27/28,000. Until 1978, British Steel (formerly

Stewarts and Lloyds) employed over 11,000 on steel making and tube forming. Steel making has closed, and the site has been cleared. Tube forming continues, but rationalisation with parts of TI will happen eventually. BSC employees are now down to 3,000 and further losses are inevitable.

The efforts of CIDC have come nowhere near mopping up the labour shed by BSC, but there can be little doubt that their efforts have contained what would otherwise have been a very painful result. CIDC estimate that, with the BSC closures and downstream effects, Corby's unemployment rate would have reached 35%. In fact, unemployment peaked at 23% in mid-1981, had fallen to 19% by July 1983, and is still in the 18/19% area.

Corby's attraction to industry is a combination of its location and the Development Area/Enterprise Zone advantages. It lies within 20 miles of the M1, M6, M45 and A1 and is thus an excellent point for businesses which are largely or wholly dependent on distribution. If and when the A1/M1 link is completed, its locational advantage will be substantially enhanced.

Prominent names have been attracted. In alphabetical order, they include Avon Cosmetics, Aquascutum, BAT, BXL, Commodore Business Machines, Electro-Components, Oxford University Press, Rank Hovis McDougall, Tesco and Weetabix. The two largest projects in job terms are CBM (1,100 jobs) and Electro-Components subsidiary, RS Components Ltd (600 jobs). Although there are large numbers of very small businesses springing up, Corby has succeeded (where Merseyside has failed) in bringing in sound medium-sized businesses in the 100 plus employee category.

The Enterprise Zone has been spectacularly successful in attracting new investment. The Corby EZ, at 280 acres, is about 5% of total EZ acreage in the UK, yet has pulled in 39% of total investment. The private producer investment, at just under £43m, is very nearly as much as all other private producer investment in EZs in the UK. The attached summary tells a fuller tale.

Total investment in site development by type of investor, 1 June 1981 - 31 May 1983 (1), £000

	Public developers	Other public authorities	Private producers	Private, developers, financ. instits.	Other private	Total
Salford	-	-	2,268	4,867	735	7,870
Trafford	-	-	37	3,071	-	3,108
Swansea	2,024	-	8,423	2,189	-	12,636
Wakefield	290	-	179	640	-	1,109
Clydebank	10,243	-	4,998	1,250	-	16,491
Dudley	-	120	3,813	3,956	125	8,014
Hartlepool	1,918	-	393	581	-	2,892
Corby	17,630	-	42,673	1,265	-	61,568
Newcastle	212	-	7,841	650	-	8,703
Team Valley	3,557	29	890	2,785	-	7,261
Gateshead	230	99	1,364	-	-	1,693
Speke	1,577	-	349	650	-	2,276
Isle of Dogs	100	1,780	9,598	4,425	-	15,903
Belfast (2)	32	-	1,675	420	312	2,439
Belfast (3)	-	-	3,072	1,821	459	5,352
Total	37,813	2,028	87,573	28,270	1,631	157,315
%	24	1	56	18	1	100

(1) For the Isle of Dogs and Belfast, the monitoring period started in September 1981 and October 1981 respectively.

(2) Inner City section (3) North Foreshore section

Note: These figures cover all developments under construction at 31 May 1981 or begun since.

Source: YEALDS

(This is page 21 from 'Monitoring Enterprise Zones' by Roger Tym and Partners, published in January 1984)

The original Corby EZ is now fully committed, and the town is pressing for EZ designation of a further 25 acres, contiguous with the existing area and sited on land cleared after the closure of the steelmaking plant. Prima facie, it is difficult to see why Corby's request should not be granted.

Potential Problems

The success of CIDC, which they themselves would describe as only a little more than moderate, depends crucially on good personal relationships between the District Council, the County Council and CIDC itself. Institutionally, the arrangement is not durable. A change in the attitudes of the District Council or at the top of CIDC could have difficult repercussions for industrial development or land regeneration. There is no one right recipe which makes all others wrong, but pragmatic cooperation between interested parties is of course indispensible to any solution.

AREA REPORT 4 CONSETT

Population and Employment

Consett lies in Derwentside District Council, a community of some 90,000 people, 14 miles south west of Newcastle upon Tyne. Consett's traditional industrial dependence was on coal and steel. Coal had been in serious long-term decline by the time steel closures began to bite. Peak employment in local pits reached 17,000 but the last pits closed in 1980. Serious run-down at BSC got under way in 1978. In the two years to September 1980, 1,000 jobs had been lost, then BSC closed the remaining facilities entirely, with a further loss of 3,500 jobs. In the ensuing two years, there was major contraction in other local manufacturing industries, most notably at RHP Limited (bearing manufacturers) where a further 1,250 jobs were shed in 1981.

At the time of the final steelworks closure, BSC accounted for over 12% of total local employment. The unemployment rate in north-west Durham was then already nearly double the average for Great Britain (15.5% against 8.3%) and the effect of the BSC closure was to send the local rate to just over 25%.

Special Expenditure

Consett was already a Special Development Area by the time of the final steel closure and therefore qualified for the highest level of regional aid. The area also attracts European Coal and Steel Community aid, especially low cost loans, and will be a special programme area, under the European Regional Development Fund non-quota section.

As a steel-closure area, Consett received initial support from BSC Industry. A grant of £10 million was made for clearing and landscaping the steelworks site, and provided funds for advance factory building, special manpower measures and support for loss of rate income. The English Industrial Estates Corporation put in £12.6 million over five years for a potential 650,000 square feet of advance factories capable of accommodating some 2,500 jobs. Over the three years to December 1983, £2.6 million was paid in selective financial assistance to 24 projects which accounted for 1,000 new jobs and safeguarded 160 more.

The Derwentside Industrial Development Agency was set up in 1982 on the initiative of BSC, with six staff. Its first objective was to maintain the momentum of industrial regeneration begun by the District Council and BSC Industry. Initial donations of £120,000 were provided by BSC Industry, the District Council and local firms. DIDA, in its first year, attracted 800 new jobs and plans to attract a further 1,000 this year. DIDA runs on a budget about one-fifth that of Corby for a population about 50% greater. Furthermore, Consett has no Enterprise Zone.

DIDA, in the commitment of its staff and in the results it achieves with few resources, is one of the more impressive agencies we visited. Its particular strength is in the evaluation and monitoring of projects whose sponsors have applied for aid.

The proponents of each potentially aid-worthy project are helped to produce a detailed business plan setting out forecasts of sales, jobs, product descriptions, markets and costs and including the curricula vitae of the directors. DIDA plans suggest that there will be about 3,500 new jobs over the next three years.

The Agency carries out an annual job audit, monitoring 180 companies and projects, each year, at about the end of March, every company is telephoned to check the number of people employed, performance against the plan and any necessary follow-up.

In summary, Consett is an example of what a well organised, low budget development agency can do to alleviate the worst effects of industrial contraction over a limited area. To classify it as successful requires us to overlook the fact that it has done no more than attract to Derwentside jobs which would have arisen elsewhere. As yet there is no pattern of firms taking root there which would give rise to hope that a new industrial structure, viable for the long term, is in process of creation.

AREA REPORT 5 SCOTTISH DEVELOPMENT AGENCY

Special Expenditure

The whole of the western half of Scotland, and small patches on the eastern side are Assisted Areas. Large parts of Strathclyde and Fife are Special Development Areas. Livingstone and Glenrothes are new towns where similar benefits are available, while Clydebank additionally is an Enterprise Zone. These areas all receive the highest rates of regional aid available. The Western Isles, virtually the whole of the Highlands Local Authority and a large part of Dumfries and Galloway are classified as Development Areas, ie the middle of the three tiers of assisted area.

In 1982 the Scottish Assisted Areas received just over 25% of all regional assistance for Great Britain, whereas the whole of Scotland accounts for just over 9% of the GB population.

In addition, Scotland enjoys the services of the Highlands and Islands Development Board (see area report 6) and of the Scottish Development Agency (SDA) - statutory bodies which receive funding directly from the Scottish Office, but also channel Regional Aid in Scotland to candidate companies.

The SDA and HIDB are large scale development undertakings compared with those we visited in London, Corby and Consett. The SDA was established in 1975 to concentrate effort on four priorities: small businesses, the encouragement of inward investment, support for new technology, and area projects such as the Glasgow Eastern Area Renewal. It employs 730 staff headquartered in Glasgow.

The SDA's geographical remit is Scotland-wide, although its efforts are less intense in the HIDB area. The SDA owned net assets of just under £290 million in March 1983 - £260 million in property and £30 million in investments - and had income and expenditure of

£108 million in the year.

The scale of its investment in Scottish industry suggests an operation which verges on dirigisme. The SDA has investments in 677 small businesses and 858 larger companies. It owns 218 industrial sites and 27 million square feet of industrial accommodation. It sanctioned nearly 450 land renewal schemes in the 12 months ending March 1983.

The emphasis of SDA activity is now shifting away from estate management and towards marketing. The principal benefit which the SDA has to offer is the capacity for creating a "single door package". In other words, firms interested in coming to Scotland do not have to troop around to banks, property companies and a host of different government agencies. SDA is particularly anxious to attract in the newer technologies, particularly microelectronics and biotechnology. The Chief Executive of the SDA, Dr Mathewson, is keen to invest in an artificial intelligence institute as well. He felt, however, that there is a shortage of academic infrastructure, and he also noted that it was necessary to get more good financial men among academics so that the latter could be exposed to commercial disciplines.

Not surprisingly, SDA is prickly about rival inward investment promotions in other parts of Great Britian. Dr Mathewson in particular was worried that the DTI Invest in Britain Bureau might want to start restraining the SDA's own overseas promotion activities.

It is not clear what nett benefit the SDA has brought about. The monitoring of jobs obtained has been unsatisfactory, with the result that no useful figures are yet available. The capital cost per job secured works out in the region of £10,000, but such figures are, the SDA feels, rather misleading. Simply creating jobs is not the answer. "What we need are added value jobs". Our view is that even the approximate figure of £10,000 per job may be a serious understatement. The nine urban renewal projects described in the SDA's Annual Report and Accounts suggest that the cost per job for these undertakings is in the region of £47,000.

Glasgow Eastern Area Renewal Project (GEAR)

GEAR is the most expensive of the nine SDA area projects. Its public sector budget of £200 million over ten years to 1986 is now expected to be nearer £300 million, and is more than the cost of all the other projects combined. The expenditure of £300 million public funds is expected to have produced private sector inputs of between £150 million and £200 million by the end of the project, at a cost to taxpayers and ratepayers of about £75,000 per acre or nearly £7,000 per resident.

Although GEAR is managed by the SDA, its public funding comes from no fewer than seven sources - Strathclyde Regional Council, Glasgow District Council, Scottish Special Housing Association, Greater Glasgow Health Board, Housing Corporation, Manpower Services Commission, and Scottish Development Agency itself.

The scale of the problem to be tackled is appalling. Population in the 4,000 acres of Glasgow's East End has fallen from 115,000 to 45,000 since the last war, and the area has become largely derelict. There was a concentration of industrial chemical pollution in the area. Educational standards there are minimal. The aims of the GEAR project are to retain and create jobs, to improve the quality of life and the environment, to create better housing, and to "involve the community". Some of these aims are intangible, which makes measuring success impossible. But even where specific targets could have been set, none has been - a familiar tale.

Richard Colwell, the SDA's Director of Area Projects, said that once the GEAR project has been completed it would be time to turn to the newly emerging black spots in the suburbs. Glasgow has four of these, each with a population of 40,000-50,000, each with dreadful housing. "We need to get there before the decline becomes as bad as it had been in the East End area." Yet, if expenditure to date on GEAR is any guide, we <u>must</u> set clear targets before embarking on any of these further projects.

The GEAR project fully recognises the importance of land assembly and development as the key to urban renewal, and we can only applaud that. What is less clear is the SDA's role, longer-term, in the developed area. It should want to hand over to the private sector, in the manner of the Development Corporations in London and Liverpool; but we suspect that the area will continue to form part of the Agency's ever expanding portfolio of property and industrial investments.

AREA REPORT 6 HIGHLANDS AND ISLANDS DEVELOPMENT BOARD, INVERNESS

The Highlands and Islands Development Board covers a large area of remoter mainland Scotland (roughly the area north and west of a line joining Arran and Elgin) and the surrounding islands. The Board was established in 1965 "for the purpose of assisting the people of the Highlands and Islands to improve their economic and social conditions and of enabling the Highlands and Islands to play a more effective part in the economic and social development of the nation". What this means in action terms is unclear. As the Board itself says, in its 1982 Report, "the Board's remit to develop the area economically and socially is a very wide one and does not in itself help to identify a plan of action ... in publishing our strategic plan we seek only to show the activities on which we are placing importance at the present time." (!)

Like the SDA, the HIDB has and uses powers of investment in companies and projects, and of ownership of land. On its own smaller scale, it is no less dirigiste than the SDA.

The retention of population and the maintenance of incomes evidently figures as a high priority, and the favourite mechanism is industrial investment. As to population, in the 40 years to 1961, the number of people living in the HIDB area fell by nearly 20%, but in the 20 years since then the population has grown again by 16% to 350,000. In 1982, the unemployment rate, at 14.1%, was a little lower than for Scotland as a whole but a little above that for Great Britain as a whole. But long term unemployment was lower, at 28% of unemployed, versus 35/36% for Great Britain and Scotland.

In the ten years to the end of 1982, HIDB assistance at constant 1982 prices totalled £159 million. The corresponding contribution from the private sector was £258 million and overall gearing of 1.6:1 although in 1982 the contribution from private sources had produced a ratio of almost 2.5:1 the best the Board had achieved in the past five years. HIDB estimates that this investment has created or retained more than 22,000 jobs at a capital cost, crudely measured, of £7,200 per job. By the end of 1982 the Board owned assets of £47 million, split roughly half and half between land or property and investments in companies. Its expenditure in the year was about £15 million.

Financial support gravitates naturally towards industry sectors already present in the HIDB area: fishing, timber, off-shore rig construction, woollen goods and tourism. There is no specific policy of attracting in novel sectors to the area, although reports have recently been commissioned on the prospects for biotechnology and health care industries in the HIDB area. The scale of new employment opportunities open to HIDB is clearly inadequate to cope with major industrial closures - the pulp mill at Fort William, the aluminium smelter at Invergordon and the threatening shortage of rig work at Highland Fabricators in Nigg Bay.

Even though job creation is a prime objective of the Board, the monitoring of jobs created is not as good as it should be. After five years, the Board takes firms it has assisted off its books because it would be "too time-consuming to keep in touch with every guest house, fish farm and boat". There is, however, an annual audit of jobs in Board factories.

It is not clear that the underlying objectives of maintaining a certain size of population or of maintaining a certain level of average income are in themselves worthwhile. Is it actually undesirable that sparsely populated areas become somewhat more sparsely populated? Does the maintenance of a population by subsidy not tend to generate demands for yet more subsidy, for instance on infrastructure projects? Members of the HIDB were certainly keen to have better telecommunications and more roads like the A9 highway to Inverness. As a political cosmetic, however, we have to rate the activities of HIDB highly. Expenditure of as little as £15 million per annum on such a large geographical area is valuable, if only because withdrawing it could send worrying signals to the more southerly, more heavily populated regions of Scotland.
