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From the Private Secretary

11 September 1979

Regional Policy

The Prime Minister held a meeting at 1100 hours this morning to discuss your Secretary of State's proposal to establish Urban Development Corporations for Merseyside and London dockland. The Chancellor of the Exchequer, the Secretary of State for Industry and your Secretary of State were present. They had before them your Secretary of State's minute of 10 September and Sir Keith Joseph's minute of 7 September reporting the conclusions of E(EA) Committee.

The Prime Minister said that she was attracted in principle to Mr. Heseltine's proposal - especially the idea of a UDC for London. She understood that two main objections had been raised. First, there was concern over the setting up of two new quangos. Second, the Chancellor was worried about the financial implications. As for the quango point, she did not think the setting up of two UDCs would be a problem when seen against the reduction of DOE quangos from 119 to 57. As regards the Chancellor's worry, she understood that no additional public expenditure would be involved, and that any public sector financing of the UDCs would be offset by savings on other DOE programmes.

Sir Keith Joseph said that these were not the only issues. There were other objections which needed to be considered. First, the UDC proposal would involve an overlap with the proposal for "enterprise zones", which Ministers were not yet in a position to go firm on. Assuming it was decided to go ahead with "enterprise zones", it would have been better to have announced them and the UDCs at the same time. Second, there was the question of powers. It had been argued in E(EA) Committee that the UDCs' powers should be limited to land acquisition and reclamation and planning. In particular, if they were to have industrial promotion powers, this would duplicate the powers which the Government had. Third, he personally had doubts whether the establishment of a new bureaucratic structure would successfully deal with the problems of inner city areas. If it were decided to proceed with the 2 UDCs, he hoped that they would be announced in modest terms - rather than giving the impression that they could be an immediate panacea to the problems of London and Merseyside. In any case, he would like to suggest a review of Government policies towards the inner cities which would look at their cumulative effect over the years. The Chancellor added that he was worried that, if UDCs were set up for London and Merseyside, other

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regions would press for them. In addition, he was worried that, notwithstanding Mr. Heseltine's assurances about offsetting savings, there would nonetheless be additional expenditure.

Mr. Heseltine said that there would be no conflict between the UDC's and the proposed "enterprise zones". In order to get ahead with introducing the necessary legislation, it was not possible to hold up the announcement on UDC's until decisions on "enterprise zones" had been taken. As for the question of powers, he wanted to keep them wide in the Bill; but he would not expect to use them all. In any case, before laying the necessary Orders for the setting up of the two UDCs, he would consult with colleagues first. As regards expenditure, he assured the Chancellor that there would be no net addition to DOE programmes. The UDCs would spend far more effectively money which the local authorities were currently spending. Moreover, he would make it clear in presenting the Bill that only two UDCs were intended. As for the idea of an enquiry, he was prepared to consider this further with Sir Keith. But rather than have a review of Government policies generally, he would prefer to have an enquiry which considered the effect of policies over the years in one or two cities only.

Summing up, the Prime Minister said that Mr. Heseltine should announce the setting up of the 2 UDCs in his statement on inner cities, and that work on the drafting of the necessary legislation should proceed. Further consideration should be given to the idea of a review of inner cities policy; any such review should be completed within six months.

I am sending copies of this letter to the Private Secretaries to members of E(EA) Committee, members of H Committee and to Martin Vile (Cabinet Office).

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