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WHITEHALL, LONDON SW1A 2AU

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBM

7 September 1987

Dear Chief Secretary

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In my letter of 2 July I indicated that I was considering what action should be taken in Scotland in accordance with recent statements about Government policy towards the inner cities and that, since the SDA is the principal instrument for the improvement of inner city and urban deprivation in Scotland, ~~an~~ an additional bid for the Agency might be necessary.

I have now concluded that the principal option open to me is to develop and expand the Agency's role drawing on the experience and expertise it has gained in these areas through many of its activities. This will, however, require additional resources of the order of:

	<u>£ million</u>		
	1988-89	1989-90	1990-91
	10	15	20

Given the importance I attach to alleviating the problems of these areas I am prepared to meet part of this expenditure from the bid already entered to the extent of £5 million in each year of the Survey period. The net additional bid I am now making is therefore:

	<u>£ million</u>		
	1988-89	1989-90	1990-91
	5	10	15

The additional expenditure would be allocated to the following broad areas of activity.

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	<u>£ million</u>		
	1988-89	1989-90	1990-91
Integrated Environmental Projects	3	5	3
Peripheral Estates	1	3	4
Relieving Infrastructure Constraints	4	4	6
Commercial Developments	<u>2</u>	<u>3</u>	<u>7</u>
	10	15	20

The objectives of each area of activity would be as follows:

Integrated Environmental Projects

These projects would be major programmes of improvement to the physical environment of certain areas aimed at enhancing the ability of those areas to attract and support commercial development.

Peripheral Estates

The peripheral estates reflect a variety of economic, environmental and social difficulties. Additional expenditure in these areas would finance clearance and engineering works with a view to creating the necessary conditions for subsequent private housing and commercial development thereby improving residents' access to jobs, opening up housing choice, dispersing some of the concentrations of problem areas, and creating potentially more balanced communities.

Relieving Infrastructure Constraints

Commercial exploitation of inner city/urban locations is often constrained by fragmented land holdings and inadequacies in transport and communications infrastructure. Additional expenditure in this area would relax these constraints thereby making the locations concerned attractive for commercial and quasi-commercial developments.

Commercial Developments

The exploitation of the opportunities created by the additional expenditure in the three previous areas of activity require subsequent commercial development. Additional expenditure in this area would facilitate an initial Agency management and pump-priming role without which a number of the required projects would not proceed.

Staffing implications

Initiatives of this kind are staff intensive and the proposals will therefore have implications for Agency staff levels. It is estimated that the proposed additional level of expenditure will involve an additional staffing requirement of 15-25. This, however, has to be seen in the context of the Agency's current staffing level of 685, ie 20 less than the figure of 705 used for the purposes of the 1987-88 estimate and 65 less than its actual staffing limit.

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Output and performance measures

The output and performance measures for the additional expenditure are provided in the annex to this letter. On this subject, you stated in your letter of 4 August that you were disappointed with our response on output, performance and value for money information for the extra spending on industry.

So far as the SDA is concerned my officials supplied information on these measures to your officials on 10 June. The general reaction to these was that they were acceptable and contained a reasonable spread of outputs, albeit still rather light on performance indicators. Your officials also accepted that the most important task was to press ahead with the further work on output and performance measures arising from the Review of the Agency. Work is progressing on this and indeed your officials now have the proposed revised budget format for the Agency which, if accepted, will produce the type of detailed information you seek for subsequent years.

Given your officials' reaction to the output and performance measures provided, it was not felt necessary to alter or add to them for the purposes of the incremental data supplied with our bidding letters.

Subsequent evaluation of the effectiveness of the proposed additional expenditure will, of course, be carried out. This expenditure would be allocated to specific projects chosen from a number identified by the Agency. The evaluation will depend on the parameters laid down for the individual projects but could include such measures as area of land developed; number of houses built; number of businesses created; private sector leverage; additional jobs created and additional labour earnings produced.

In arriving at my decision to expand the role of the Agency in alleviating inner city/urban deprivation in Scotland I have, at least for the time being, concluded against setting up UDCs for Scotland. The justification for this decision is that the SDA is already available and has the necessary experience and expertise.

I am copying this letter to the Prime Minister, Willie Whitelaw, Michael Havers, Douglas Hurd, Peter Walker, Tom King, David Young, Nicholas Ridley, Norman Fowler, John MacGregor and to Sir Robert Armstrong.

Heather Parker

PP

MALCOLM RIFKIND
Approved by the Secretary
of State and signed in his
absence

SDA: ADDITIONAL BID
OUTPUT AND PERFORMANCE MEASURES

(Figures in brackets are proposed expenditure in £ million in each survey year)

Integrated Environmental Projects (3, 5, 3)

Clearance and rationalisation of up to 450 acres of land for commercial and housing development at an average unit cost of £25,000 per acre. Sites include: in Dumbarton former Denny shipyard, Denny gasworks, surplus Babcock land; in Glasgow, the former Hallside Steel Works and a number of other derelict pieces of land; and, in Motherwell, surplus BSC, British Rail and local authority land.

Peripheral Estates (1, 3, 4)

Initially aimed at 3 estates: Castlemilk in Glasgow, Pilton in Edinburgh and Whitfield in Dundee. Initiatives undertaken in conjunction with relevant regional and district authorities, the MSC, Scottish Homes and the private sector. Agency's contribution would be in the form of environmental renewal; support and, if necessary, direct provision of commercial and industrial property; support for community businesses and enterprise trusts and project management. Private sector leverage likely to be in the region of £32 million.

Relieving infrastructure constraints (4, 4, 6)

Acquisition and redevelopment of approximately 230 acres of brownfield sites to be released back to the private sector for the provision of around 1,500 dwellings each year. Cost per acre, recoverable on disposal to private sector, £38,000. Additional LEGUP support in order of £2-3,000 per dwelling required to secure development on these sites. Experience suggests private sector leverage of 1:5. Acquisition, consolidation and rationalisation of 9.5 acres in the "footprint" of the Glasgow and Oriental Broomielaw development with a view to disposal to the private sector for subsequent commercial and housing development. Cost per acre £420,000 recoverable on sale of land to private sector.

Commercial Developments (2, 3, 7)

Joint ventures with private sector to establish a network of 20 Business Centre and Workshop complexes in the central belt. Cost to Agency £0.5 million per centre with total private sector leverage of £10 million. Additional LEGUP investment of £2 million in property and commercial development in city centres leveraging around £10 million from private sector. Cost per acre would vary according to schemes chosen.

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