

ECONOMIC DEVELOPMENT Committee

Links to item 5

Date: 13 October 1999

Time: 9.00 - 12.30

Venue: Committee Room 2, National Assembly Building

Title : REGIONAL SELECTIVE ASSISTANCE (RSA)

Purpose

1. To brief the Committee on Regional Selective Assistance. This is for information only but should provide an understanding of how the scheme works and what are the key issues.

Summary

2. The paper provides the statutory background to Regional Selective Assistance and information on the types of projects eligible for a grant. It lists the criteria against which applications are appraised and describes the decision making process. It then considers the main issues concerning Regional Selective Assistance and provides basic statistics on grants given over the last 5 years.

Timing

3. The paper has been requested to provide the Committee with an understanding of Regional Selective Assistance which is the main form of financial assistance to industry.

Compliance

4. Regional Selective Assistance grants to industry are given under Section 7 of the Industrial Development Act 1982. The Welsh Industrial Development Advisory Board was established under Section 13 of the Welsh Development Agency Act 1975 to offer advice to the Secretary of State on financial assistance to industry.

5. The powers under both Section 7 and Section 13 have been transferred to the Assembly and under the Transfer Order grants under Section 7 have been freed from Treasury constraint. Authority to operate the Regional Selective Assistance scheme and organise the Welsh Industrial Development Advisory Board meetings has been delegated to the Economic Development Secretary and to officials.

6. The Board only considers applications for grants greater than £250,000. Decisions on applications for less than this have been delegated to officials. The Economic Development Secretary and the First Secretary are not obliged to accept the Board's advice, but under Section 13 would have to make a statement to the Assembly explaining the reasons for not doing so, if requested by the Board.

Background to Regional Selective Assistance

7. Regional Selective Assistance is a discretionary scheme which gives grant to industry to help meet the capital costs of an investment project. The statutory basis of this is Section 7 of the Industrial Development Act 1982. It is the main form of financial incentive to industry to encourage investment and growth in Wales. The

aim is to reduce disparities in employment opportunities between Assisted and non-Assisted areas.

8. Almost all businesses investing in manufacturing can apply for a grant, as can many in service industries which operate beyond a local market. Retailing rarely qualifies. The European Community restricts assistance in some industries in which there is overcapacity, including man-made fibre, shipbuilding and repair, vehicles, iron and steel, coal and some fishery and agricultural products.

9. All applications for Regional Selective Assistance are assessed against the following criteria:

- **Location** - all projects must be in an Assisted Area

- **Need** - the applicant must demonstrate that without grant the project would not go ahead as envisaged in terms of nature, scale, timing, or location. This may be to meet a funding gap, to reduce the associated risks, to influence the choice of location, or to meet established investment criteria of the parent company.

- **Jobs** - the project must create or safeguard jobs, however assistance will not be given if it simply helps create overcapacity and hence unemployment elsewhere in the UK, or simply to move jobs from one part of the country to another.

- **Viability** - the project must have a good prospect of being self-sustaining within a reasonable timescale.

- **Investment** - the project must involve capital expenditure on property, plant or machinery, whether new or second hand. Routine replacement of capital equipment is not eligible, neither is working capital although it may be taken into account when determining the need for assistance.

- **Prior commitment** - as Regional Selective Assistance is only offered when it makes a difference whether a project goes ahead, there must be no prior commitment to, or expenditure on, a project until an offer of Regional Selective Assistance has been made.

- **Other funding** - most of the finance for a project should come from the applicant's own or other private sector sources. Applicants will need to show that they have fully explored these sources before applying for Regional Selective Assistance. Other public sector assistance will be taken into account when assessing the level of grant that can be paid without breaching EU limits

10. The level of grant offered is the minimum thought necessary to enable the project to go ahead and is usually paid in instalments which roughly match capital expenditure and the impact on job numbers. The grant offer, however, must not exceed limits set by the EU on the maximum percentage of eligible capital expenditure. There are also cost per job limits agreed by the operating Departments in England, Scotland and Wales (these limits are higher in a Development Area than an Intermediate Area and were set for the introduction of the current Assisted Areas map in 1993. Arrangements for Regional Selective Assistance when the new map is introduced on 1 January 2000 have not yet been finalised). The cost per job limits are not published so as not to prejudice negotiations with companies.

11. The Board only considers applications for greater than £250,000. Decisions on applications for less than this have been delegated to officials. The Economic Development Secretary is not obliged to accept WIDAB's advice, but under Section 13 would have to make a statement to the Assembly explaining the reasons for not doing so, if requested by the Board. The powers under both Section 7 and Section 13 have been transferred to the Assembly and under the Transfer Order grants under Section 7 have been freed from Treasury constraint. Authority to operate the RSA scheme, appoint WIDAB members and organise WIDAB meetings has been delegated to the Economic Development Secretary and to officials.

12. In the 5 year period from 1 April 1994 to 31 March 1999, there have been 793 offers of grant in Wales totalling around £366 million. This is expected to support the creation of more than 41,500 new jobs, safeguard over 15,300 existing jobs, and lever in private sector investment of nearly £4,200 million (see Annex A). During this period, no project has ever been refused grant for lack of funds.

13. When the grant becomes payable depends on when projects actually start, and the ability to make appropriate progress towards the investment and job targets

set in the offer letter. Many projects do not proceed according to the original timetable. Payment of grant is thus demand led and in any one financial year will include grant from offers in several preceding years. When presenting statistics it is customary therefore to use data on offers rather than payments to avoid confusion.

14. Grant expenditure in 1998-99 was £79.9 million and provision for the current year is £63 million. Based on our best estimate of instalments that will fall due in 1999-00, the demand for payments may exceed this by some £3-4million. When estimated expenditure during this financial year does appear likely to exceed provision, action within the terms of Standing Order 19 will be taken.

Issues

a) Inward v. indigenous investment

15. The scheme does not differentiate between types of applicants and is available equally to new or existing businesses, overseas or indigenous. Inward investment from overseas has, however, assumed a higher profile and the large overseas investments tend to catch the headlines. But from 1994-95 to 1998-99 nearly 80% of offers have been to indigenous investors (including UK owned enterprises operating in Wales). This represents just over one third of the total grant offered and should support the creation of over 19,300 new jobs and safeguard nearly 4,700 jobs with an investment of over £750 million. This equates to roughly 46% of new jobs, 31% of safeguarded jobs, and 18% of the expected capital investment.

b) Support of small businesses

16. Small and medium-sized enterprises (SMEs) play a very important part in the Welsh economy. There are over 62,000 of these firms in Wales and between them they employ over 625,000 people. This represents almost two thirds of Welsh employees. Small and medium sized firms, as well as large companies, may require and be as entitled to assistance to encourage them to invest in the Assisted Areas. Over the last 2 years, 25 per cent of offers were for amounts less than £25,000, and a further 52 per cent were for less than £250,000.

17. There was a firm commitment in Pathway to Prosperity to simplify the Regional Selective Assistance process for small businesses. Simplified procedures have already been introduced for appraising Regional Selective Assistance applications below £100,000 but we are still considering what changes may be made to the payments procedures. We are concentrating on measures that will reduce the burden on smaller companies and ensure payments are made more quickly. We are also considering whether appraisal procedures can be further simplified. We do, however, need to ensure that proper care is taken with public money. Any lessening of our existing monitoring procedures may lead to increased risk.

c) West Wales and the Valleys

18. The Valley areas and West Wales will secure Objective 1 status in recognition of their low level of GDP per head of population. It is important, therefore, to attract investment into these areas and create new jobs. In the last few years we have seen the number of Regional Selective Assistance offers in these priority areas increase and almost two thirds of offers in the period 1994-95 to 1998-99 were in these areas. These offers amounted to just over half of the total grant offered.

19. Officials are undertaking an awareness raising programme in West Wales and the Valleys to inform companies of the existence of Government assistance programmes for these areas. The aim is to increase further the proportion of projects in the priority areas and help spread investment further West. As part of this initiative a South West Wales Office of the Industrial Development Division has been established, similar to that in Colwyn Bay for North Wales. The office provides advice/assistance on government industrial assistance programmes, notably Regional Selective Assistance. It also provides overseas trade services.

d) Evaluation of Regional Selective Assistance

20. It has been a requirement of the Treasury that all programmes involving more than £0.5 million public expenditure must be evaluated periodically to ensure that they give value for money. An evaluation of Regional Selective Assistance is currently taking place which covers the period from 1991 to 1995. The evaluation covers England, Scotland and Wales and is being led by the Department of Trade and Industry. The completed report was expected earlier this year but it has not yet been finalised. It will be used to inform future policy on Regional Selective Assistance.

e) Concordats

21. Regional Selective Assistance has been operated in England, Scotland and Wales under a set of common guidelines agreed with the Treasury. The powers

under Section 7 of the Industrial Development Act are now exercisable by the Assembly and have been freed from Treasury constraint. Officials, therefore, have been working with other Government Departments to determine future arrangements.

22. A multilateral Concordat on Financial Assistance to Industry has been developed between the Department of Trade and Industry, the Treasury, the Department of Employment Trade and the Regions, the Foreign and Commonwealth Office and the devolved administrations. This Concordat also covers arrangements for the handling of large mobile investments and should secure co-ordinated arrangements to avoid "bidding up" between competing regions.

23. The Concordat sets out a broad framework of arrangements to be underpinned by detailed operating guidelines and was published on 1 October 1999. Discussions are still continuing on the detailed guidelines which will underpin the Concordat. The aim is to ensure consistency in operating financial assistance to industry across GB.

f) Refocusing of Regional Selective Assistance and the new Assisted Areas map

24. The Competitiveness White Paper issued by the Department of Trade and Industry in December 1998 put forward a UK wide approach to improving competitiveness in industry. This included proposals to refocus Regional Selective Assistance on higher quality projects. Work on finalising the criteria against which quality would be assessed is continuing.

25. The devolved administrations could in theory adopt their own arrangements for Regional Selective Assistance as this is a devolved matter. Going our own way, though, would not be a formality. Any such proposal would have to be discussed with the other operating Departments, under the consultation arrangements introduced by the Concordat on Financial Assistance to Industry, and agreed with the European Commission. The financial implications of any changes would also have to be considered by the Assembly to ensure they gave value for money.

26. Therefore, although differing arrangements are a possibility, officials are working to try and develop common agreed guidelines for the grant scheme and thereby maintain a common approach in Wales, Scotland and England. This would have many advantages including coordinated working on large mobile investment projects.

27. This work on agreeing common guidelines for Regional Selective Assistance links with that of agreeing the guidelines for the Concordat. The 2 sets of guidelines will cover how the quality criteria are to be applied, the internal limits that will apply to the level of grant that can be offered, the overall level of support that can be offered including funds from other public bodies, and the arrangements to ensure future smooth working between the operating Departments. As these guidelines contain advice on the negotiation of grants to industry, which is commercially confidential to the Departments concerned, they will not be published.

28. The new Assisted Areas map should come into effect on 1 January 2000. Agreement on the way forward for the 2 sets of guidelines needs to be reached in time to allow the new arrangements to be implemented at the same time as the introduction of the new map. As this will include a period of consultation with the European Commission on the new proposals for the way the Regional Selective Assistance scheme will work, the timetable for achieving implementation on 1 January is very tight but it is expected that the deadline will be met.

29. Officials are also considering what changes may be made to this and other grant schemes to assist small businesses in the priority areas and to make the maximum use of the Objective One status granted to West Wales and the Valleys.

Details of Past Offers

30. A summary of offers made covering the period from 1994-95 to 1998-99 is at Annex A. This shows the grand totals for the 5 year period, the splits between indigenous and inward investors and large and small companies, and the percentage of offers that were in the priority areas.

31. Detailed information on Regional Selective Assistance is published each year in an Annual Report that is required by the Industrial Development Act 1982. The production of these reports, which cover England, Wales and Scotland, has been coordinated by the Department of Trade and Industry. The report covering the year up to 31 March 1999 was laid before Parliament in July and copies of the published report will be circulated to Committee Members once they are available.

32. A summary table, using rounded data from the draft 1999 Annual Report is at Annex B. Members may wish to note Wales' continued success at attracting investment into Wales and creating new jobs in excess of the proportion that would be expected from the size of its population.

Action for the Committee

33. No specific action is required, the paper is for information only.

Contact Point

34. Industrial Development Division

Annex A

REGIONAL SELECTIVE ASSISTANCE IN WALES: SUMMARY OF YEARS 1994-95 TO 1998-99

	Total	UK Owned Companies	Non-UK Owned Companies	Companies with over 200 employees	Companies with up to 200 employees	Priority Areas
Number of Projects	793	78.6%	21.4%	29.8%	70.2%	64.7%
Amount of Grant Offered	£366m	33.9%	66.1%	84.6%	15.4%	53.3%
Additional Proposed Investment	£4,196m	18.0%	82.0%	91.3%	8.7%	26.7%
New Jobs to be created	41,648	46.5%	53.5%	72.7%	27.3%	48.9%
No. of jobs to be safeguarded	15,325	30.6%	69.4%	87.8%	12.2%	57.5%
Cost per job	£6,418	£5,151	£7,344	£7,076	£4,247	£6,677
Grant Expenditure (*)	£257m	38.6%	61.4%			

(*) Data from Annual Reports for 1995-96 to 1998-99, earlier data is not available.

Annex B

REGIONAL SELECTIVE ASSISTANCE : OFFERS ACCEPTED 1995-96 TO 1998-99

Country	Financial year	No.	Value (£million)	Associated Project Costs (£million)	Forecast of jobs to be created	Forecast of jobs to be safeguarded
Great Britain	1995-96	1,770	307	3,661	40,600	18,700
	1996-97	1,538	420	3,808	47,800	24,800
	1997-98	1,342	468	6,505	56,100	21,100
	1998-99	1,210	252	2,313	34,800	13,700
Scotland	1995-96	207	93	790	9,000	3,500
	1996-97	207	150	932	12,600	4,300
	1997-98	232	187	2,847	19,400	3,300
	1998-99	216	73	455	9,000	2,500
Wales	1995-96	177	59	562	6,500	3,600
	1996-97	181	106	1,102	11,000	5,700
	1997-98	141	113	1,828	12,200	2,400
	1998-99	121	50	442	7,600	1,500
England	1995-96	1,386	155	2,308	25,100	11,600
	1996-97	1,150	164	1,774	24,200	14,900
	1997-98	969	169	1,830	24,500	15,500
	1998-99	873	129	1,417	18,300	9,600