

Economic Development Committee

Date: 13 October 1999

Venue: Committee Room 2, National Assembly for Wales Building

Title: UK proposals for Assisted Areas map

This is the first opportunity for the Committee to properly debate the revised Assisted Areas map. A note on the Assisted Areas review which was requested by the Committee in its meeting of 16 June 1999 is provided as a background paper (EDC-01-99 (p4)). Assembly officials will be at the meeting to provide an oral update. Further information on the draft Assisted Areas map is available on the intranet – click on the hyperlink <http://intranet/aegis/Subject%20Index/Industry%20&%20Training/ITP/Assisted%20Areas/walesmap.htm>

ECONOMIC DEVELOPMENT COMMITTEE

EDC-01-99 (p.4)

ASSISTED AREAS REVIEW

PURPOSE

1 At its meeting on 16 June, the Committee has asked for a note on the background to the Assisted Areas Review and a situation report.

BACKGROUND

2 The main instrument of policy used to accelerate growth in Assisted Areas is Regional Selective Assistance (RSA). RSA may not be paid outside Assisted Areas. Other important subsidies used in the Assisted Areas include the Welsh Development Agency's Property Development Grant and some TEC support for training. These subsidies have all proved useful both in attracting inward investment and in helping to develop homegrown businesses.

3 Assisted Areas come under the State Aids regime of the European Union administered by the Commission's Competition Directorate (DGIV). Under that State Aids regime, European regulations allow regional State Aid to be paid by Member States in the Assisted Areas exclusively. New regional aid guidelines were published by the Commission on 10 March 1998. They are due to operate from 1 January 2000. The Commission has required all Member States to review their Assisted Areas in accordance with the new guidelines.

4 Article 87 of the Treaty contains two derogations or exceptions, which provide for two levels of Assisted Area status: derogation 87(3)(a), which allows the highest level of aid; and derogation 87(3)(c), which allows lower levels. The new guidelines reduce the grant maxima available for all Member States and the population coverage ceilings for most.

Derogation 87(3)(a)

5 This derogation allows the highest rate of assistance. Grants up to a ceiling of 40% of project costs can be paid. Small and medium sized firms can be assisted up to 15% above the ceiling.

6 The European Commission sets the qualification criterion for derogation 87(3)(a), as an area with a GDP per head of less than 75% of the EU average, measured at NUTSII level. (Wales is divided into two NUTSII areas: West Wales & the Valleys; and East Wales.) The same criteria have been used to designate Objective One areas for application of the EU Structural Funds. Therefore the same areas will, independently, qualify for both derogation 87(3)(a), within the Assisted Areas review, and Objective One.

7 Eurostat (the Commission's statistical arm) published GDP figures on 19 November 1998 which show the West Wales & the Valleys NUTS II area to have a GDP per head of 71% of the EU average. It will therefore be proposed as a derogation 87(3)(a) area when the UK sends its draft map to the Commission.

Derogation 87(3)(c)

8 This derogation allows up to 20% of project costs to be paid (except in areas where per capita GDP is higher and the unemployment rate is lower than the EU average). In these cases only 10% may be paid. Small and medium sized firms can be assisted up to 10% above the ceiling.

9 Each Member State decides which areas should be eligible for derogation 87(3)(c), subject to certain conditions and ceilings on the population to be covered which are imposed by the Commission, and to the Commission's final agreement.

10 Derogation 87(3)(c) areas must be designated using a common geographical unit and a single methodology across a Member State (decided by the Member State), using up to five indicators of need. Each area chosen must be significantly worse than the average for the Member State in one or more of the chosen indicators. The methodology, as well as the areas to be assisted, must be agreed by the Commission. An inter-Departmental group, with DTI in the lead, has been working on different arrangements based on various combinations of criteria and geographical units. The Welsh Office has been represented on that group.

11 The method for designating the new derogation 87(3)(c) Assisted Areas was the subject of public consultation from 30 July to 30 October 1998. Since then, the Welsh Office has been working closely with other organisations in Wales to identify priorities, to feed into the inter-Departmental group's work.

12 The majority of responses to the consultation preferred a map based on ward boundaries. The Government has announced that this will be the basis of the map to be proposed to the Commission.

FURTHER WORK

13 It is expected that the draft Assisted Areas map for the UK will be published and proposed to the European Commission, during the Summer. After approval by the Commission, the new map will be given effect by an Order under the Industrial Development Act 1982, laid by the Secretary of State for Trade & Industry.

14 The new map should come into force on 1 January 2000.

SUMMARY

15 The Assisted Areas determine where RSA may be paid. The European Commission has required all Member States to review these areas in accordance with new guidelines. Final decisions on the map will be taken by the Commission. For the UK's map review, an inter-departmental group, with DTI in the lead, is working up different solutions based on various combinations of criteria and geographies. Welsh Office is represented on that group and has been consulting about priority areas in East Wales. West Wales and Valleys fulfils the qualification criteria for the highest

status, with a GDP of 71% of the EU average. No decisions on the areas proposed for lower levels of assistance have been taken so far. A decision on the make up of the UK's proposed map is expected during the Summer. It will then be published and forwarded to the Commission for approval.