

ECONOMIC DEVELOPMENT COMMITTEE

Date: 31 January 2001

Time: 1.30- 5.00

Venue: Committee Room 2, National Assembly Building

Title : REGIONAL SELECTIVE ASSISTANCE (RSA)

Purpose

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

Summary

2. Regional Selective Assistance (RSA) helps support capital investment projects in the Assisted Areas that create new jobs or safeguard existing ones. 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. RSA is an approved scheme under EC national regional aid guidelines and is operated in Wales, England and Scotland under a common GB framework.
3. A recent independent GB evaluation of RSA for the years 1991-95 showed that around 80% of projects were completed by the end of 1998 and that RSA continued to provide value for money. In the 10 years to 31 March 2000 1,717 offers of RSA worth some £740m have been accepted in Wales. The associated projects were forecast to support nearly £6.5billion of private investment that should create over 83,000 new jobs and safeguard over 35,000 existing ones. The amount of RSA paid out over the last 10 years is about £550m but some of this will have been on offers accepted prior to 1 April 1990 and not all payments on current offers will be complete.
4. Just fewer than 20% of the projects in Wales were from non-UK owned companies. These represented about 56% of the total value of grant offered during this period and 48% of the total number of jobs created and safeguarded, showing the relatively larger size of projects by non-UK owned companies. The recent evaluation concluded that the need for grant was less, and displacement of other jobs higher, in small projects. Therefore, despite an initial higher cost per job, large projects represented better value for money.
5. RSA is the funding of last resort and before a grant is given, we must be satisfied that the project will not go ahead in its planned form in the absence of grant. The total level of state-aid that can be given is limited by the EC and under the common GB framework agreed with the EC, the aid given should be the minimum necessary to ensure the additional benefits associated with the project. Support at present can be given for the acquisition of land, buildings, plant/machinery and

intangible assets such as patents and intellectual property rights. It is hoped that in future aid can also be given to support the creation of additional jobs.

6. The paper analyses offers of RSA made in the last 10 years and shows the geographical distribution of offers within Wales for the last 3 years. It reports the conclusions from the recent independent GB evaluation of the scheme and considers the ways in future that the scheme might be more closely linked to Assembly policies and crosscutting themes.

Timing

7. 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

8. 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.
9. The powers under both Section 7 and Section 13 have been made exercisable by or transferred to the Assembly, and 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 Minister and to officials.
10. 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 Minister is 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.

Introduction

11. RSA is an EC approved scheme agreed under the EU National Regional Aid guidelines that came into force on 1 January 2000. Approval for the scheme expires on 31 December 2006, at the same time as the current Assisted Areas map, and to continue the scheme we will need to satisfy the EC that the scheme conforms to whatever EU National Aid guidelines are in place for 1 January 2007 onwards. A summary of EU state-aid that is available to support industry is available at Annex A.
12. The current RSA notification allows support in the Assisted Areas for an initial investment in fixed assets that must be maintained for a minimum of 5 years. Under the RSA scheme this must be linked to the creation of new jobs or the safeguarding of existing ones. Although not included in the notification, the new Exemption Regulations will allow us to offer the SME supplement and we are currently seeking EC agreement to the inclusion of aid for job creation linked to an initial investment.
13. This will give us greater flexibility to support projects where significant capital investment is not a major element of the project, such as knowledge-based or research and development projects. The SME supplement will boost the amount we can offer to SMEs, particularly in the Objective One area. We believe we will receive approval for aid for job creation within the next 2 months.
14. RSA currently operates in England, Scotland and Wales under a common framework that was the basis of the approval of the RSA scheme by the EC. Prior to the establishment of the National

Assembly in July 1998, the scheme operated in all 3 countries under detailed guidelines with financial control over the scheme exercised by the Treasury. Since 1998, Wales and Scotland have been freed from Treasury constraint.

15. A multilateral Concordat between the DTI, DETR, Treasury, FCO, Scottish Executive, Northern Ireland Executive and the National Assembly on Financial Assistance to Industry to Industry was signed in October 1998 to oversee the provision of assistance to industry, including consultation on significant proposals to amend the scheme.
16. We are working with England and Scotland to update the common GB framework to provide local flexibility to meet the differing needs of the 3 countries. This will allow us to recognise the specific regional needs of Wales and to adapt the scheme more strongly to support the policies and crosscutting themes of the Assembly.

Operation of the RSA scheme

17. Only projects in Assisted Areas can currently be supported by RSA. The types of project that can receive grant are limited by the EU National Regional Aid framework and must involve an initial investment as defined by the EC, see Annex A. The common GB framework extends the EU guidance in that a project must create or safeguard jobs in addition to the initial investment.
18. The RSA scheme is advertised and actively promoted across Wales through seminars and talks. We support the WDA in its lead role in the Team Wales approach and are a support player in the marketing activity. We have placed information about RSA on the Assembly web site and leaflets about the scheme are available through Business Connect and many other places across Wales – for example in Assembly and WDA regional offices.
19. RSA is often used in conjunction with other state-aid, such as from the WDA and TECs, to produce a tailored package of support for a particular project. Each project has a dedicated RSA case officer who may have meetings with the company spread over several months to help identify key issues and resolve potential problems before an application is received. Many of these meetings are held jointly with representatives of the WDA and other agencies, and we work closely with these in encouraging projects to be taken forward in Wales.
20. The application itself provides details of the project, including relevant capital expenditure and the numbers of jobs being created and safeguarded, and is supported by financial annexes, a business plan and audited accounts where available. We also require the curriculum vitae of senior staff who will be responsible for managing the project. This information is similar to that required by other agencies or private institutions that are asked to provide financial support. We currently require hard copy versions of all documents but are working towards the electronic transmission of documents in line with the Government's targets for e-business.
21. Once the application has been received we have a target of processing 75% of applications within 40 working days. Last year we met the 40-day target in 65% of cases. We operate a streamlined appraisal process for applications up to £25,000 with a target time of 20 working days. Last year we achieved this in 81% of cases.
22. The criteria used to assess the need for RSA are detailed in Annex 2, which is an extract of an earlier paper given to EDC (EDC-08-99 (p3)). We treat all projects equally, no matter whether they are large or small, UK owned or non-UK owned. We carry out detailed financial, technical and commercial, and - if appropriate - economic appraisals of the project, the main purposes of which are:
 - to assure ourselves that the project is viable
 - to assure ourselves that other sources of funding are not available and that the project will

not go ahead as planned without RSA

- to determine the minimum level of support that is necessary to make the project go ahead as planned (in the case of a mobile project, this is the level of support needed for the project to happen in Wales as opposed to elsewhere in Europe)
1. The maximum amount of aid that can be given is limited by the EC and is higher in the Tier 1 area. In determining the maximum level of RSA we are able to offer, we must take account of other aid being offered, such as from the WDA and TECs. If the maximum we can offer is less than the apparent funding gap identified by the appraisal, it is then for the company to decide whether it wishes to go ahead with the project but to give RSA we still need to be satisfied that the project is viable. As we can only offer the minimum necessary to meet the identified funding gap, we are not able to offer financial incentives to particular types of projects or industries to locate in Wales.
 2. DTI has adopted a quality-based approach to project appraisal where higher amounts are offered to better quality projects and lower amounts to projects it assesses as being lower quality. This in all cases is subject to being the minimum necessary to secure the project. In Wales we are considering this approach but are aware of the particular regional need for jobs in areas with high economic inactivity and low skills levels.
 3. Decisions on applications up to £250,000 have been delegated to officials. Applications for amounts greater than this are decided by the Economic Development Minister, acting on the advice of the Welsh Industrial Development Advisory Board (WIDAB). For each application going to WIDAB, officials complete the various detailed appraisals and a case paper is produced bringing together the results of the appraisals. This case paper along with the original appraisal reports and a recommendation on the level of RSA to be offered is sent to Board members about one week ahead of the monthly meeting.
 4. The Board gives advice on the commercial reality of what is proposed in the project based on its collective knowledge and experience. It also provides assurance that officials have looked at and properly considered the relevant facts of the application, and that the recommended level of grant is appropriate. The Board considers each case on its merits and its advice on whether to recommend RSA is based on the guidelines by which the scheme operates. Advice on this is received from Assembly officials but representatives of the WDA are present at all Board meetings.
 5. The final decision on applications for over £250,000 rests with the Economic Development Minister, who is not obliged to take the Board's advice but would have to make a statement giving his reasons for not doing so if requested by the Board.
 6. The Board consists of a Chair and 7 members and appointments are subject to open competition. Although new members may have had personal experience of the scheme, RSA is a relatively complex scheme to understand and wide experience of different types of applications is often needed before members are able to make a full contribution to the work of the Board. Continuity of membership is therefore essential to proper functioning of the Board. The Chair was previously a member for 6 years, 2 members have recently been reappointed for a second 3-year term, 3 have one year's experience and 2 new appointments have just been made. Details of the statutory provision covering WIDAB and a list of current members are at Annex C.

RSA Budget

7. One common misconception is that a lower provision in any one year means that we will making fewer offers of grant in that year, or conversely that if we have increased provision we will be increasing offers of grant. Whereas, in reality, offers made in any one year have no relation to the

- provision in that year, and relate only to the number of projects coming forward for grant. Also, Ministers have repeatedly reaffirmed that no worthwhile project will ever be refused RSA because of lack of resources and that when the grant becomes due, funding will be found.
8. RSA provision is determined by the number and size of claims we expect to receive in any one year and relates almost totally to offers accepted in previous years. As projects do not always proceed to plan, exact expenditure in any one year is difficult to predict accurately in advance and provision for future years is based on our best estimate. If expenditure is likely to exceed the provision in any financial year, we would take action under Standing Order 19 to increase the provision.
 9. Once an offer of RSA has been accepted and the project has begun, grant can be claimed when the conditions set in the offer letter for capital expenditure and jobs are met. Grant is normally paid in tranches, with the initial payment triggers relating primarily to the level of capital expenditure. Later triggers usually include progress towards the jobs target for the project and the final payment will only be made when the capital expenditure is complete and the job target has been met. The payment of grant once the relevant triggers have been met is a binding commitment.

Details of offers accepted and payments made

10. Offers accepted and payments made are summarised in Tables A-G in Annex D. Table A shows the cumulative total of offers accepted for the last 10 years for Wales, England and Scotland and shows the breakdown of UK and non-UK owned companies. Over this period 12.7% of projects have been in Wales. This represents 23.5% of the total RSA offered for 22.5% of the total associated investment and just over 20% of the new and safeguarded jobs, with more than 2 jobs being created for every one safeguarded. As Wales has only about 6% of the population, this shows that relative to its size it has been very successful in attracting projects, investment and jobs to Wales.
11. Of offers accepted in Wales in the last 10 years, just less than 20% were by non-UK owned companies. This represented 56% of the total RSA offered and 70% of the associated investment and 48% of the created and safeguarded jobs. This reflects the relatively larger size of non-UK owned projects. Comparable figures for Great Britain were 10% of projects, 52% of RSA, 61% of associated investment and 39% of jobs. This again shows Wales as securing a higher number of non-UK owned projects relative to its size.
12. Table B provides information on offers accepted in the last 4 years on a year by year basis showing the impact large projects, such as the LG project in Wales in 1997-98, on the figures for any one year. More detailed information on offers, and their distribution in Wales, is shown in Tables C and D, which are updated versions of the tables from the half year report presented to EDC in November.
13. The number of offers this year, when offers waiting to be accepted are included, is already at the 1998-99 level and by end of March should exceed the last financial year. The same applies to job numbers when offers waiting to be accepted are included. The amount of RSA offered so far this year already well exceeds the amounts offered in the last 2 years, as does the associated forecast capital investment. It is likely that this trend will continue for at least the next few months as the number of first meetings in the first half of this financial year was over 30% up on the same period last year.
14. The distribution of offers by amount of RSA is shown in Figure 1. Over 60% of offers made were for £100,000 or less with only about 10% of offers being for £1m or more and only 3 offers being greater than £10m. 83% of all projects in the same 10 year period were in the manufacturing sector, which is very close to the 84% found in the GB-wide evaluation of projects for offers

accepted between 1991-95.

Figure 1: Number of Offers of Regional Selective Assistance Accepted April 1990 to March 2000



15. On average over the last 10 years, each £1 of RSA offered was forecast to bring to Wales nearly £9 of associated private sector investment. The average cost per job offered during this period was just over £6,200. Broken down into projects that were forecast only to create new jobs, those with a mixture of new and safeguarded jobs, and those only with safeguarded jobs, the figures for associated investment and cost per job are:

Table H: Forecast Leverage and Cost per Job for Offers Accepted between 1 April 1990 and 31 March 2000

| | RSA Projects with: | | |
|--|--------------------|-------------------------------|-----------------------|
| | New jobs only | Both new and safeguarded jobs | Safeguarded jobs only |
| Associated investment per £1 RSA offered | £9.41 | £8.26 | £6.31 |
| Cost per Job | £6,793 | £5,615 | £4,941 |

16. In Betterwales, there is a 2003 target for the proportion of jobs in West Wales and the Valleys and a similar benchmark for 2010. In the 5 years before the setting up of the Assembly, 63.9% of the total jobs forecast to be created and safeguarded by RSA were in what is now the Objective One area. This figure rises to 72.4% for the period from 1 July 1999 to 31 December 2000. We will

need to increase this proportion to over 80% if we are to meet the Betterwales targets.

17. Progress against projects for offers accepted between 1991 and 1998 is shown in Table E. In the period concerned in Wales, 72% of the jobs had been created or safeguarded and 67% of grant had been paid out. This compares with 74% of jobs and 66% of grant for Great Britain as a whole. Progress of projects in Wales is therefore similar to those in Great Britain as a whole.

Reduced Expenditure on RSA

18. As explained earlier, payment of grant is dependent on when the companies concerned meet the triggers for capital expenditure and job numbers in the offer letter. Projects therefore usually run over several years. On average until recently expenditure has followed the typical path where 90% of grant is paid within 4 years:

| Year | 1 | 2 | 3 | 4 | 5 | 6 |
|---------|------|------|----|----|---|---|
| % Grant | 27.5 | 27.5 | 20 | 15 | 7 | 3 |

19. However, in 1999-2000 there was a significant reduction in the number of claims received which resulted in only about 60% of the predicted expenditure based on offers accepted in previous years. We were already anticipating a much lower outturn than the previous year because the total value of offers in Wales was low in the last 2 years (Table B) but actual outturn was much lower than expected. A similar picture was seen in Scotland and England where expenditure in 1999-2000 was significantly lower than previous years, see Table E.
20. In 1999-2000, we had expected to receive over 30 large claims in the last half of the year. Only about 50% of these were received prior to the year end, most of the remainder having been received this financial year. As far as we are able to tell, it seems to be that there are delays in reaching triggers for claiming grant, both for levels of capital expenditure not being met as planned and job numbers not as high as predicted.
21. We have met many companies in the last year to discuss progress with projects and it is evident in many cases that they are not achieving the level of sales that are necessary to make progress with projects as planned. There are various areas where we are seeing this: in the automotive sector, and in the electronics and clotheswear industries where labour costs are much less elsewhere. Many companies mention problems caused by the exchange rates but it is difficult to quantify the impact this is having in relation to other issues.
22. We are seeing the same picture of reduced numbers of claims for 2000-01 with expenditure running at, or below, 1999-00 levels. We have not been able to determine whether this same picture is being seen in Scotland and England as information is not available at present, and we will have to wait until year-end figures are available. Future provision for RSA in the recent Budget Planning Round took account of the current reduced expenditure but anticipated expenditure returning to usual levels by 2004. If the number of claims returns to normal before then, action will be taken under Standing Order 19 to secure extra funding.
23. This reduced activity in dealing with claims is in total contrast to that seen on the appraisal side where, as described earlier, activity is higher than in the previous 2 years.

Evaluation of the RSA scheme

24. The report of the third GB-wide independent evaluation of the RSA scheme has just issued and was laid in the Assembly on 24 January. This covers offers accepted in the period covering 1991-

95 and the Executive Summary of the report is at Annex E for information. Previous evaluations covered 1980-84 and 1985-88 and the recent evaluation confirms that RSA continues to give same value for money as previously.

25. The principal aim of the evaluation was to assess the impact of the scheme in delivering net additional jobs in the Assisted Areas of Great Britain, and to assess cost-effectiveness. The consultants examined data relating all offers accepted in the study period and surveyed in detail a sample of 165 projects, just over 20% of which were from Wales. They reached the following conclusions:

- 84% of projects were in the manufacturing sector
- 90% of projects were from UK-owned companies but this only accounted for 50% of grant reflecting the larger scale of projects by non-UK companies
- Without RSA it was likely that projects with grants of £25,000 or less would have proceeded more slowly or on a smaller scale, whereas larger projects were most likely to have gone ahead in an alternative location
- 49% of jobs created and 33% of jobs safeguarded were judged to be additional with larger projects having greater additionality
- RSA projects in the period 1991-1995 were associated with 210,000 gross jobs which after taking account of deadweight, displacement and linkage effects, equated to 84,000 net jobs created or safeguarded
- RSA job creation/safeguarding represented about 14% of the reduction in unemployment in the Assisted Areas in the period in which most projects delivered jobs – this again is similar to previous evaluations
- Overall RSA continued to operate in a similarly cost effective manner in the 1991-95 period, when compared with previous periods

1. The consultants looked at other benefits of RSA:

- **Attracting internationally-mobile investment** - In the sample survey, 24% of companies (42% of the total grant offered, reflecting the larger than average project size) said other international locations could have been chosen. Of these companies, three-quarters said that in the absence of grant they would have proceeded outside the UK. International companies considered RSA to be an integral part of a package available from the UK Government to attract mobile investment. It was concluded that RSA played an important role in attracting internationally mobile investment into the UK.
- **Improved competitiveness.** About three-quarters of firms gained a competitive advantage as a result of an RSA-assisted project. Just over a third of companies also reported a major technical advance typically in relation to processes, or processes and products in combination. In almost 40% of cases, technical advances were copied by competitors so RSA may have had a wider UK impact.

1. The evaluation sought information in a number of other areas.

- **Large versus small projects.** Although larger projects were initially offered more grant per job as a consequence of their greater capital intensity and gross employment effects, smaller projects (less than £100,000 grant offered) were on average associated with higher net cost per net job.

This was a consequence of lower levels of additionality and higher levels of displacement associated with the latter.

- **Job Safeguarding.** On the basis of additionality findings the study confirms that, as at present, safeguarding cases should be subject to careful scrutiny at the appraisal stage.
1. Based on the results of the survey, discussions with companies and with officials implementing the scheme the consultants suggest that there are a number of issues where greater targeting could be considered.
 - The consultants had doubts about the value of the RSA scheme as it operated in this period as an effective programme for small businesses. They believed grant assistance to this group should be tied in more closely to business support for this group.
 - The consultants have concerns about the perceived expectations of future grant assistance that exists within several long established, multi-nationals in traditional sectors, regardless of project circumstances.
 - The consultants have doubts about some of the additionality claims made in relation to expansions at existing UK sites based on the possibility of a transfer overseas.
 - In assessing projects, consideration should be given to the expected life of the function and its contribution to longer-term economic growth and competitiveness. Particular caution should be exercised in relation to developments in sectors characterised by increasingly routine activities and rapidly evolving technologies, such as call centres.
 - RSA assistance is most successful in areas where it can complement broader regeneration programmes concerned with promotion and improvements to physical infrastructure and labour supply. Such an approach is essential if RSA is also to address wider issues of inclusion and competitiveness.
 - For sub-regions to fully benefit from Assisted Area designation there is a need to develop a more integrated strategic direction and vision which goes beyond the simple marketing of grant availability. This strategy should seek to identify the future economic role of the sub region and target sectors, taking into account local competitiveness, need and opportunities.

Looking to the Future

1. We are considering how we can improve the scheme and make it even more flexible and responsive. We recognise need to improve the quality of jobs in Wales and to work with other agencies to improve skills levels across Wales if we are to move towards the more dynamic and diverse economy envisaged in Putting Wales First, Betterwales and the National Economic Development Strategy. Our aim is to produce a scheme adapted to needs of Wales but still working within a common GB framework. In developing our proposals we will need to take account of the main findings from the evaluation report.
2. At the same time, in line with the principles of Better Government, we need to consider how we can reduce the bureaucracy and complexity of the scheme, especially for small businesses, and how we can speed up the processes of appraisal and payment of claims. In particular we need to consider the scope for introducing indicative offers that can be given to companies at an early stage and which will give the companies an idea of the level of support there is likely to be available.
3. We already have developed and introduced a streamlined appraisal process for small grants, and

we working to make this even simpler and faster for companies applying for small grants. We are hoping by the end of March to be able to implement proposals to simplify and speed up the payment of small grants. We are also looking at how we might slim down the whole process of appraisal and payment of claims, as are the DTI and Scottish Executive. However, we need to recognise in this work that RSA is public money and we need to properly assess any increased financial risk to the Assembly of any proposals.

4. Once the Block Exemption regulations discussed in Annex A come into effect, we will also need to consider whether it is appropriate to introduce a simplified scheme based on RSA to the non-Assisted Areas in Wales under the EC SME guidelines. This would allow us to offer aid up to 15% of the gross capital costs of an investment for a small company and up to 7.5% for a medium sized company.
5. The scheme would not need EC approval under the guidelines but we would need to look closely at the statutory provision under which it was established as Section 7 of the Industrial Development Act 1982, under which we run RSA, only covers the Assisted Areas. Such a scheme would be analogous to the Enterprise Grant offered to SMEs in Tier 3 areas in England. We would also need to consider the relationship between the lower end of RSA and any general Tier 3 scheme proposed for Wales to ensure there was little or no duplication or overlap between the schemes.
6. However, in developing any proposals for the future operation of the scheme, we will need to take account of the outcomes of consultation on the Review of Business Support Services and the National Economic Development Strategy, and the findings of the review of WIDAB and the audit of RSA planned for 2001-02 both of which were announced at the end of last year. The suggestions considered in the rest of this paper are therefore only for information at this stage and we will bring firm proposals to the Committee in due course.

Improved links with Assembly policies and Crosscutting Themes

7. We have the flexibility to adapt the RSA scheme within the common GB framework agreed with the EC. This will allow us to enhance the links between the RSA scheme as it currently operates and the specific policies and crosscutting themes being developed by the National Assembly. In looking at what may be done, we need to bear in mind that we should not offer more than the minimum necessary for a project.
8. Large projects may have a choice of locations, including sites in England and Scotland. We should not therefore introduce any new conditions or restrictions that would disadvantage Wales relative to other locations. Also, we should ensure that in any incentives we develop we do not stimulate a bidding war for projects between England, Scotland and ourselves. This could have the effect of raising the levels of grant and reducing the value for money of the RSA scheme.

Putting Wales First

9. Areas where developments in the scheme may be considered are:
 - **The development of a "Business Birth-Rate Strategy" for Wales to support new businesses and help them to grow**
 - We are currently seeking EC approval for the use of Aid for Job Creation as part of the RSA scheme. Once this is agreed, we will be able to use it in combination with Aid for Initial Investment

and the SME supplement. This will provide enhanced levels of support for new SMEs in the Assisted Areas, particularly in the Objective One area where higher levels of support can be offered.

- Under the exemption regulations we may also wish to introduce the scheme in the non-Assisted Areas under the SME guidelines, creating the equivalent of the English Enterprise Grant scheme. Overall, these changes will allow projects to go ahead that we would not have previously been able to support.
- **We will ensure that no high-quality jobs in Wales are put at risk because of the Assembly's policy on RSA**
- It is important to attract projects with high quality jobs to Wales. Many knowledge-based and research and development projects are associated with relatively low capital expenditure and yet create the highly-skilled and highly-paid jobs that are essential to the growth of the economy in Wales. Under the current RSA scheme, where we have been limited to aid for an initial investment, we have been unable to provide sufficient support to secure all the projects we would have wished for Wales.
- With aid for job creation and the SME supplement, we will be able to give enhanced support to such projects in future. Also, in assessing any project to decide whether it provides added value, we need to consider whether we would wish to offer more for projects that raise local skills and wages levels, and for those that include research and development elements.
- However, if we are to adhere to the principles of not offering more than the minimum necessary, this in practice may mean restricting offers to projects that do not have these elements. In doing so, we may lose projects that would have brought at least basic employment to areas of high economic inactivity where there are low skills levels.
- **We will implement measures to monitor the way in which the distribution of such grants reflects the regional diversity and economic needs of all areas of Wales**
- Although the evaluation report concluded that large projects provide better value for money, it is important for Wales that we recognise our particular regional need and continue to support small home-grown businesses in areas with low skills levels and high economic inactivity
- Also, if we are successfully to meet the needs of Wales, we need to attract more projects to the most disadvantaged areas. The EC aid limits are higher in these areas so we can offer a higher proportion of grant relative to the total cost.
- We currently monitor the geographical location and size of projects supported by RSA and encourage projects that support the needs of Wales. However, this again is dependent on offering the minimum necessary for a project and we may need to consider whether we would restrict aid in some areas so as to create an incentive for the most disadvantaged ones. Such action, though, may result in us losing the projects concerned.
- RSA is currently promoted across all eligible sectors with all projects being treated equally and

appraised to the same criteria. However, under the National Economic Development Strategy we may wish to target specific sectors for development in Wales. This is in an area where the WDA is in the lead, but we could work closely with the agency and others to actively promote RSA for selected sectors. We also could consider an incentive of higher levels of RSA to try and encourage projects in selected sectors but as above this would have to be achieved by restricting aid to other sectors with the risk of losing projects in those sectors.

- **We will promote closer links between business, further and higher education, seeking to develop high calibre clusters of academic and entrepreneurial excellence.**
- The recent evaluation showed 75% of companies in the survey reported improved competitiveness from RSA support. Just over a third of companies also reported a major technical advance typically in relation to processes, or processes and products in combination. In almost 40% of cases, technical advances were copied by competitors so RSA may have had a wider UK impact. Even so, we could perhaps consider giving increased weight to competitiveness and innovation in the appraisal process.
- To help develop and grow entrepreneurs in Wales, we need to improve the way we are able to support high-risk projects that if successful will bring high rewards. We already work with others such as the WDA and the TECs in helping to create support for such projects. However, there is probably scope for improved joint working to identify a support package of grant, loan and equity funding that allows the people of Wales not only to share the risk of such projects with the company but also the rewards.
- **Increased funding for the WDA will be targeted in order to develop a 'second wave' of higher skill, high value Foreign Direct Investment built around existing SME supply chain provision**
- The evaluation concluded that RSA already plays an important role in attracting inward investment. However, we need to consider how we might improve support to WDA in this important role. Working more to promote RSA through the consultants who advise companies on business support schemes may also be of value.

Support for Crosscutting themes

- **Social Inclusion** – The EC regional aid framework allows aid to be given to assist economic development in the most disadvantaged areas, with the highest levels of aid being available in the Objective One area. The framework under which RSA operates therefore supports social inclusion by aiming to reduce the disparities that exist between the richest and poorest areas. We may be able to take this further by considering our ability to give incentives under the RSA scheme for companies to invest preferentially in areas of high economic inactivity and in projects that raise local skill and wage levels. In practice, though, this would have to be achieved by restricting aid to other projects.
- **Equal Opportunities** – RSA may be able to support this by improving support for knowledge-based projects that offer flexible working conditions and where the work is both accessible and appropriate for those with disabilities. We could actively encourage companies to work towards the

achievement of nationally recognised schemes such as Investors in People where the policy on equal opportunities is assessed as part of the award. We also need to consider whether we are able to support the development of child care facilities as part of a project in the same way as we would include canteen facilities, security and cleaning which nowadays are often contracted out, but for which jobs are created as part of a project.

- **Sustainable Development** – We need to consider whether, as part of the RSA scheme, we can work with other areas of the Assembly and with other agencies to develop an incentive for companies applying for RSA also to improve energy efficiency and environmental management, and to preferentially use brownfield sites.

Betterwales 2003 targets and 2010 benchmarks

1. Targets for jobs under Betterwales relate to the net additional increase in the numbers of jobs. RSA currently treats safeguarded and new jobs equally. Under aid for job creation we shall only be providing aid for net additional jobs. For offers of aid for initial investment relating to safeguarding and creating jobs, we need to consider whether we should be prepared to pay more for new jobs than for safeguarding existing ones.
2. If we were to be successful at creating more new jobs by offering more per job for new jobs, this would seem to produce a greater contribution towards meeting the Betterwales targets. However, in deciding to offer less support for safeguarded jobs, there is a real possibility we will not be able to retain jobs in Wales that we would previously have safeguarded. This would reduce the total job numbers in Wales and make net additional job targets more difficult to achieve. Although safeguarded jobs are thought to provide less value for money than newly created ones, they are nevertheless very important in maintaining the total number of jobs in Wales and we must still recognise the regional need for such jobs in areas of high economic inactivity.

Action for EDC

3. The Committee should note:
 - the framework under which RSA operates
 - the processes involved in appraisal and for payment of grant
 - the areas under consideration for enhancing RSA and adapting it to the specific needs of Wales
 - that the Minister will report back to the Committee when firm proposals for any changes are developed
 - that any proposals will need to reflect the outcome of the forthcoming consultations and take account of the findings of the GB-wide evaluation, the review of WIDAB and the planned audit study.

Contact Point

1. Industrial Development Division

EUROPEAN REGIONAL AID FRAMEWORK

1. Aid to certain industries is specifically regulated, these industries are:

- Synthetic fibres
- Motor vehicle industry
- Shipbuilding
- Steel
- Coal
- Transport
- Agriculture
- Fisheries

1. Other than to those industries, State-Aid can be provided under various EU frameworks.

1998 Guidelines on National Regional Aid

2. This allows aid to companies in the Assisted Areas to support initial investment or job creation. Aid is given gross and is taxable. In Wales, the amount of aid that can be given is limited to 35% net grant equivalent in Tier 1 areas and 15% in Tier 2 areas except for those in Powys where the limit is 20%. For SMEs these limits can be raised by 15% of gross costs in Tier 1 areas so long as 65% net grant equivalent is not exceeded. For Tier 2 areas, the figures are 10% gross up to a maximum of 30% net grant equivalent.
3. An **initial investment** is one in fixed capital relating to the setting up of a new establishment, the extension of an existing establishment, or the starting up of an activity involving a fundamental change in a product or production process of an existing establishment. Replacement equipment is not eligible.
4. The purchase of the assets of an establishment that has closed, or would have closed, may also be regarded as an initial investment unless the establishment belongs to a company in difficulty. In which case, the aid must be examined against the Guidelines for State Aid for rescuing and restructuring firms in difficulty.
5. Aid is calculated as a percentage of the investment value for a standard base of land, buildings and plant/machinery. Eligible expenditure for large companies may also include intangible assets up to a value of 25% of the standard base. There is no limit on the level of intangible assets for SMEs. Companies must provide at least 25% of the funding necessary for the investment from their own resources. An initial investment receiving state aid must be maintained for a minimum of 5 years.
6. Aid may also be given for **job creation** where an initial investment produces a net increase in the

number of jobs in a particular establishment compared with the average over a period of time. Aid is calculated as a percentage of the gross salary costs for 2 years of net additional jobs created by the project. Companies receiving aid for job creation must maintain the net additional jobs for a minimum of 5 years.

Guidelines for aid to SMEs

7. Aid can be given to any SME up to a maximum of 15% gross of the cost of an initial investment for a small company and up to a maximum of 7.5% for a medium size company. For SMEs, tangible and intangible assets are treated equally and there is no limit to the proportion of intangible assets.
8. An SME is defined as having fewer than 250 employees and either an annual turnover not exceeding ECU 40 million or an annual balance sheet total not exceeding ECU 27 million. A small company has fewer than 50 employees and either an annual turnover not exceeding ECU 7 million or an annual balance sheet total not exceeding ECU 5 million.
9. An SME must also be independent in that it must not be more than 25% owned by a company that is not an SME. The main exception to this is if the enterprise is held by public investment corporations, venture capital companies or institutional investors, provided no control is exercised either individually or collectively.

De minimis aid

10. Aid up to a maximum of ECU 100,000 may be given to any firm within a 3 year rolling period. This does not affect the ability of a firm to receive other aid under an EC approved scheme.

Training aid

11. Aid may be provided to support specific training up to 25% of the cost for large companies and 35% for SMEs. For general training these limits are 50 % and 70%. The limits may be raised by 5% for companies in Tier 2 areas and by 10% for those in Tier 1 areas. These limits may be raised by a further 10% when the beneficiaries of training are categories of disadvantaged workers.

Aid for Research and Development

12. Aid for research and development can be given at a level of 100% for fundamental research that is not linked to any industrial or commercial objectives of a particular enterprise and for which a wide dissemination of the results of the research is guaranteed. However, other than for these circumstances, for industrial research aid must not exceed 50% of the eligible project costs.
13. Technical feasibility studies may qualify for aid up to 75% of the study costs but such studies preparatory to pre-competitive development activities may only qualify for aid up to 50% of the study costs. Pre-competitive development activities may only receive up to 25% of the project costs. For SMEs, the cost of patent applications may be supported to the same level as the original research.
14. For technical feasibility studies and pre-competitive development activities, the limits may be raised by 10% for SMEs, by 10% in Tier 1 areas and by 5% in Tier 2 areas. However, overall limits must not exceed a maximum of 75% for industrial research and 50% for pre-competitive development activities.
15. **Aid for rescuing and restructuring firms in difficulty**

16. There is no EC definition of a firm in difficulty. However, for the purpose of the above guidelines, the Commission regards a firm as being in difficulty where it is unable, whether through its own resources or with funds it is able to obtain from its owners/shareholders or creditors, to stem losses which, without outside intervention by the public authorities, will almost certainly condemn it to go out of business in the short or medium term.
17. With the exception of newly created firms, including those resulting from the liquidation of a previous firm or merely taking over its assets, no aid may be given to a firm in difficulty except aid for rescuing and restructuring firms in difficulty, and only then with EC approval.

Block Exemptions

18. Aid can only be provided under the above guidelines once the scheme under which it is given has been approved by the EC. If aid given without EC approval, the Commission can require the recovery of that aid with interest payable from the date it was given until the date it is recovered.
19. The EC, however, has been consulting on draft exemption regulations that allow aid to be given without the need for approval under schemes that conform with the de minimis, SME and training guidelines (as long as the training aid does not exceed £1m). These have now been agreed by the Commission and were published in the Official Journal on 13 January. The block exemption regulations will come into force 20 days after this date.

Annex B

REGIONAL SELECTIVE ASSISTANCE (Extract from EDC-08-99 (p3))

1. 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.
2. Almost all businesses investing in manufacturing can apply for a grant, as can many in service industries that operate beyond a local market. Retailing rarely qualifies. The European Community restricts assistance in some industries where there is overcapacity, including man-made fibre, shipbuilding and repair, vehicles, iron and steel, coal and some fishery and agricultural products.
3. 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
1. 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.
 2. The Welsh Industrial Development Advisory Board only considers applications for greater than £250,000. Decisions on applications for less than this have been delegated to officials. The Economic Development Minister 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.
 3. 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.

Annex C

WELSH INDUSTRIAL DEVELOPMENT ADVISORY BOARD (WIDAB)

a) Statutory Basis

WIDAB was established under Welsh Development Agency Act 1975, Section 13 which reads as follows:

1. The Secretary of State shall appoint a board to be called the Welsh Industrial Development Advisory Board, to advise him with respect to the exercise of his functions under Section 7 of the Industry Act 1972.
2. The Board shall consist of a chairman and not less than four nor more than seven other members.
3. The members of the Board shall include persons who appear to the Secretary of State to have wide experience of , and to have shown capacity in, industry, banking, accounting, finance or the organisation or representation of workers.
4. If the Board make a recommendation with respect to any matter at the request of the

Secretary of State and the Secretary of State exercises his functions under Section 7 of the Industry Act 1972 contrary to their recommendation, he shall, if the Board so request, lay a statement as to the matter before Parliament.

b) Current Membership

Sheila Drury OBE (Chair)

Gerry Long

Jeff Maddock

Jim Driscoll

Jim Hancock

Annesley Wright

Richard Fowler

Nigel Wheeler

Annex D

DETAILS OF RSA OFFERS ACCEPTED AND GRANT PAID

TABLE A

PROJECT GRANTS BY UK AND FOREIGN OWNED COMPANIES - CUMULATIVE OFFERS ACCEPTED AND PAYMENTS MADE 1 APRIL 1990 TO 31 MARCH 2000

| <u>Cumulative Offers Accepted 1.4.90 to 31.3.00</u> | | | | |
|--|--------------|---------------------------------|--------------------------------|---------------------------------------|
| No. | Value | Associated Project Costs | Forecast Employment (1) | Payments 1.4.90 to 31.3.00 (2) |

| | | (£'000) | (£'000) | New | Safeguarded | (£'000) |
|----------------------|--------|-----------|------------|---------|-------------|-----------|
| Gt Britain: | | | | | | |
| <i>UK Owned</i> | 12,122 | 1,512,374 | 11,212,249 | 254,995 | 99,625 | 1,090,428 |
| <i>Foreign Owned</i> | 1,398 | 1,625,285 | 17,656,787 | 150,435 | 73,793 | 1,109,231 |
| <i>Total</i> | 13,520 | 3,137,659 | 28,869,036 | 405,430 | 173,418 | 2,199,659 |
| Scotland: | | | | | | |
| <i>UK Owned</i> | 1,697 | 466,095 | 2,774,907 | 57,742 | 23,697 | 296,768 |
| <i>Foreign Owned</i> | 452 | 689,944 | 6,726,645 | 59,703 | 15,420 | 384,772 |
| <i>Total</i> | 2,149 | 1,156,039 | 9,501,552 | 117,445 | 39,117 | 681,540 |
| Wales: | | | | | | |
| <i>UK Owned</i> | 1,387 | 324,497 | 1,943,081 | 45,697 | 16,343 | 243,094 |
| <i>Foreign Owned</i> | 330 | 412,009 | 4,546,008 | 37,512 | 19,076 | 307,714 |
| <i>Total</i> | 1,717 | 736,506 | 6,489,089 | 83,209 | 35,419 | 550,808 |
| England: | | | | | | |
| <i>UK Owned</i> | 9,038 | 721,782 | 6,494,261 | 151,556 | 59,585 | 550,566 |
| <i>Foreign Owned</i> | 616 | 523,332 | 6,384,134 | 53,220 | 39,297 | 416,745 |
| <i>Total</i> | 9,654 | 1,245,114 | 12,878,395 | 204,776 | 98,882 | 967,311 |

1. *Forecast employment figures are based on company forecasts for the project at the time of offer.*

(2) *Payments made in period shown; includes payments on prior projects for which offer was accepted in an earlier year*

TABLE B

OFFERS ACCEPTED 1996-97 TO 1999-00

| Country | Financial year of Acceptance (1) | No. | Value (£'000) | Associated | Forecast (2) | |
|--------------------|-------------------------------------|-------|------------------|---------------|--------------|-------------|
| | | | | Project Costs | Employment | |
| | | | | (£'000) | New | Safeguarded |
| Gt Britain: | 1996-97 | 1,538 | 419,598 | 3,791,523 | 47,706 | 24,736 |
| | 1997-98 | 1,342 | 451,683 | 6,373,556 | 53,886 | 21,931 |
| | 1998-99 | 1,213 | 248,871 | 2,252,496 | 34,972 | 13,179 |
| | 1999-00 | 1,226 | 305,466 | 2,215,420 | 48,133 | 18,898 |
| Scotland: | 1996-97 | 207 | 149,289 | 918,717 | 12,508 | 4,218 |
| | 1997-98 | 232 | 171,189 | 2,751,201 | 18,312 | 3,745 |
| | 1998-99 | 216 | 73,091 | 453,744 | 8,906 | 2,671 |
| | 1999-00 | 249 | 140,808 | 706,945 | 15,140 | 5,142 |
| Wales: | 1996-97 | 181 | 105,877 | 1,099,117 | 11,036 | 5,651 |
| | 1997-98 | 141 | 112,571 | 1,828,007 | 12,216 | 2,377 |
| | 1998-99 | 121 | 47,548 | 436,496 | 7,682 | 1,054 |
| | 1999-00 | 139 | 53,497 | 302,424 | 7,979 | 3,500 |
| England: | 1996-97 | 1,150 | 164,432 | 1,773,689 | 24,162 | 14,867 |
| | 1997-98 | 969 | 167,923 | 1,794,348 | 23,358 | 15,809 |
| | 1998-99 | 876 | 128,232 | 1,362,256 | 18,384 | 9,454 |
| | 1999-00 | 838 | 111,161 | 1,206,051 | 25,014 | 10,256 |

1. Accepted in period shown; includes projects for which the application was received in an earlier year. Revisions to offers in the year of initial acceptance
2. Forecast employment figures are based on company forecasts for the project at the time of offer

TABLE C**OFFERS ACCEPTED IN WALES SINCE 1 APRIL 1998 BY GEOGRAPHICAL AREA**

| | | Number of Offers Accepted | Value of Offers (£000) | Value of Investment (£000) | New Jobs Forecast | Safeguarded Jobs Forecast |
|---|--------------------------|--|---|---|----------------------------------|--|
| | North Wales | 28 | 8,355 | 87,369 | 1,345 | 240 |
| | Mid Wales ⁽¹⁾ | 0 | 0 | 0 | 0 | 0 |
| 1 April to 31 Dec 2000⁽²⁾ | South East Wales | 50 | 56,054 | 506,142 | 4,194 | 1,935 |
| | South West Wales | 18 | 7,095 | 49,645 | 727 | 224 |
| | TOTAL | 96 | 71,504 | 643,156 | 6,266 | 2,399 |
| | North Wales | 30 | 10,876 | 52,852 | 950 | 1,188 |
| | Mid Wales | - | - | - | - | - |
| 1 April 1999 to 31 March 2000 | South East Wales | 83 | 28,050 | 162,288 | 4,166 | 1,663 |
| | South West Wales | 27 | 15,021 | 90,324 | 3,031 | 649 |
| | <u>TOTAL</u> | 140 | 53,947 | 305,464 | 8,147 | 3,500 |
| | North Wales | 25 | 12,308 | 234,028 | 1,416 | 312 |

| | | | | | | |
|----------------------------------|------------------|------------|---------------|----------------|--------------|--------------|
| | Mid Wales | - | - | - | - | - |
| 1 April 1998 to | South East Wales | 68 | 27,469 | 142,023 | 4,861 | 431 |
| 31 March 1999 | South West Wales | 28 | 7,772 | 60,445 | 1,405 | 311 |
| | TOTAL | 121 | 47,548 | 436,496 | 7,682 | 1,054 |

(1) The half year report presented to EDC last November indicated that one project had been accepted in Mid Wales, however, that project subsequently went ahead in North Wales.

(2) 24 offers with a value of £28.1 million have not yet been accepted by companies. These offers are expected to trigger investment of some £105.4m, create 2,080 new jobs and safeguard 624 existing jobs.

TABLE D

OFFERS ACCEPTED IN WALES BY OVERSEAS OWNED COMPANIES SINCE 1 APRIL 1998 BY GEOGRAPHICAL AREA

| | | Number of Offers Accepted | Value of Offers (£000) | Value of Investment (£000) | New Jobs Forecast | Safeguarded Jobs Forecast |
|---|------------------|---------------------------|------------------------|----------------------------|-------------------|---------------------------|
| | North Wales | 4 | 4,520 | 54,877 | 850 | 2 |
| | Mid Wales | 0 | 0 | 0 | 0 | 0 |
| 1 April to 31 Dec 2000⁽¹⁾ | South East Wales | 7 | 37,661 | 437,347 | 2,316 | 1,564 |
| | South West Wales | 1 | 227 | 483 | 20 | 0 |
| | Total | 12 | 42,408 | 492,707 | 3,186 | 1,566 |
| | North Wales | 3 | 1,220 | 7,619 | 272 | 0 |
| | Mid Wales | - | - | - | - | - |
| 1 April 1999 to 31 March 2000 | South East Wales | 11 | 12,965 | 79,380 | 1,695 | 515 |
| | South West Wales | 6 | 10,670 | 65,015 | 1,492 | 637 |
| | Total | 20 | 24,855 | 152,014 | 3,459 | 1,152 |
| | North Wales | 4 | 4,340 | 206,006 | 662 | 0 |
| | Mid Wales | - | - | - | - | - |
| 1 April 1998 to 31 March 1999 | South East Wales | 15 | 13,814 | 64,118 | 1,420 | 243 |
| | South West Wales | 7 | 4,815 | 43,786 | 905 | 50 |
| | Total | 26 | 22,969 | 313,910 | 2,987 | 293 |

(1) One offer with a value of £0.9 million has not yet been accepted. The project is expected to trigger investment of some £4.7m and create 83 new jobs.

TABLE E

PAYMENTS AND EMPLOYMENT CREATED OR SAFEGUARDED ON OFFERS ACCEPTED 1 APRIL 1990 TO 31 MARCH 1998

| Country | No. | Value (£'000) | Forecast (1) Employment | Total Payments To 31.3.00 (£'000) | Employment created and Safeguarded to 31.3.00 |
|-------------------|--------|------------------|----------------------------|--|--|
| | | | | | |
| Gt Britain | 11,081 | 2,583,322 | 463,666 | 1,708,114 | 343,484 |
| Scotland | 1,684 | 942,140 | 124,703 | 550,776 | 83,615 |
| Wales | 1,457 | 635,461 | 98,413 | 424,468 | 70,761 |
| England | 7,940 | 1,005,721 | 240,550 | 732,870 | 189,108 |

TABLE F

PAYMENTS MADE 1996-97 TO 1999-00

| Country | Financial year of payment | Payments (£'000) |
|---------|---------------------------------|---------------------|
| | Great Britain: | 1996-97 |
| 1997-98 | | 267,349 |
| 1998-99 | | 265,470 |
| 1999-00 | | 185,684 |

| | | |
|------------------|---------|---------|
| Scotland: | 1996-97 | 72,344 |
| | 1997-98 | 76,501 |
| | 1998-99 | 74,204 |
| | 1999-00 | 51,998 |
| Wales: | 1996-97 | 47,534 |
| | 1997-98 | 75,674 |
| | 1998-99 | 79,886 |
| | 1999-00 | 44,963 |
| England: | 1996-97 | 97,262 |
| | 1997-98 | 115,174 |
| | 1998-99 | 111,380 |
| | 1999-00 | 88,723 |

TABLE G

CUMULATIVE EXPENDITURE AND NUMBERS OF RSA CLAIMS PAID IN WALES BY QUARTER

| | Quarter 1 | | Quarter 2 | | Quarter 3 | | Quarter 4 | |
|-----------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|-----------|
| | No. of Claims | Paid (£m) |
| 2000-01 | 50 | 8.3 | 97 | 13.7 | 157 | 24.8 | | |
| 1999-2000 | 40 | 9.4 | 103 | 16.9 | 159 | 28.0 | 283 | 45.0 |
| 1998-99 | 70 | 9.2 | 156 | 31.7 | 219 | 49.3 | 319 | 79.9 |
| 1997-98 | 76 | 9.5 | 155 | 23.9 | 254 | 46.3 | 351 | 75.7 |

Annex E

EXECUTIVE SUMMARY FROM INDEPENDENT GB EVALUATION OF THE RSA SCHEME

The report is an evaluation of the Regional Selective Assistance (RSA) scheme, covering the period 1991-1995. It has been undertaken by Arup Economics and Planning on behalf of the Department of Trade and Industry, the Scottish Executive and The National Assembly for Wales. The principal aim was

to assess the impact of the scheme in delivering net additional jobs in the Assisted Areas of Great Britain, and to assess cost-effectiveness.

Background

RSA is the main GB scheme of financial assistance to industry. It provides discretionary grants to companies creating or safeguarding employment in the Assisted Areas (AAs) of Great Britain. These have traditionally been characterised as areas with relatively high levels of unemployment and suffering from industrial decline. While the principal objective of RSA has been to secure additional employment in the AAs, it also aims to improve the competitiveness of regions and to secure internationally mobile investment. To be eligible for RSA, projects must have a net positive impact on AA employment levels; create or safeguard jobs; be viable; contribute positively to the national economy; and need grant support to take place. It is also necessary to show that the investment would not proceed without grant.

Two previous evaluations covered the periods from 1980-1984 and from 1985-1988. The methods used in these were followed fairly closely in order to ensure comparability.

The evaluation consisted of a study of monitoring data; a sample survey of 165 companies who had been RSA grant recipients; and discussions with case officers and representatives from regional development organisations.

RSA offers in the period 1991-1995

Over the evaluation period, £1.1 billion was offered in grant to 5,377 projects, which were expected to create/safeguard 210,000 jobs. Some £0.9 billion had been paid out at the time of the evaluation, with payments completed on the vast majority (79%) of projects.

Expenditure on RSA was split between start ups in a given location (30% of projects), expansions and modernisation (58%) and transfers to new premises (9%) and buy outs or acquisitions (3%). Companies in the manufacturing sector continued to be the main beneficiaries, accounting for 84% of projects and 91% of grant offered. While almost 90% of projects were from UK-owned companies, internationally-owned companies accounted for almost 50% of the amount of grant offered, reflecting the larger scale of projects implemented by such companies.

Assessment of effectiveness and efficiency

Effectiveness and efficiency were measured in terms of jobs created as a result of granting assistance and the exchequer costs of these jobs. The basic figures for this assessment were held on the Departments' SAMIS database and measures of gross jobs and gross costs per job could be obtained directly from it. However, these gross measures are not on their own adequate measures of effectiveness and efficiency and further investigations based on additional surveys were required. The results of these surveys, together with the Department's own data were therefore used to generate measures of effectiveness and efficiency as listed below.

The duration of RSA assisted jobs (job years). In line with the previous evaluations, gross employment outputs were adjusted to take account of expected life (based on capital asset life) to derive a permanent job equivalent (PJE) estimate. It is estimated that RSA supported projects provided

100,000 gross discounted permanent job equivalents over the period from 1991 to 1995. The expected average job life was about 10 years. The results were discounted to take account of the assumption that a job today is worth more than a job tomorrow.

Additionality. In the absence of RSA it was found that, as a proportion of grant paid, 20% of projects would have gone ahead unchanged; 18% would have been abandoned; 14% would have taken place elsewhere in the UK but outside the Assisted Areas; 30% would have taken place outside the UK; 9% would have occurred more slowly; and, 9% on a smaller scale or an otherwise different basis. There was considerable variation according to size of project. For projects of £25,000 or less the principal effects were that projects would have proceeded more slowly or proceeded on a smaller scale. For larger projects, the refusal of the RSA grant would most likely have resulted in an alternative location being chosen. Applying the above assumptions to the estimate of job years, 49% of jobs created and 33% of jobs safeguarded, were judged to be additional. In expenditure terms, these additional jobs accounted for 59% of the total grant paid, reflecting the greater additionality in respect of larger projects.

Displacement and inter-industry linkages. Employment in an RSA project can displace employment elsewhere. Given the Treasury's assumption of 100% crowding out for all public expenditure, only displacement in other parts of the Assisted Areas was considered relevant. About 20% of additional jobs were estimated to have displaced those from elsewhere in the Assisted Areas. This varied substantially by grant size: grants of £25,000 or less, for instance, suffered 49% displacement. Inter-industry linkage effects were also assessed, and these partly offset displacement effects.

Net permanent job equivalents. After adjusting for deadweight, displacement and linkage effects, it is estimated that almost 40,000 net discounted permanent job equivalents were supported as a result of RSA over the period 1991-1995 in Assisted Areas. However, the net employment impact on a more conventional basis was significantly higher (84,000) as noted below.

Net cost per net job. Net cost figures were estimated to take account of tax paid on the grants. The central estimate is £17,500 per net permanent discounted job in 1995 prices. This is of a similar order of magnitude to the estimates produced using a similar methodology in previous evaluations.

Net cost per net job year. Using the central estimate of £17,500 and using a discount rate of 6% for the expected job life, the net cost per net job year is £1,050.

Overall effect on unemployment in the Assisted Areas. Although the evaluation was conducted in terms of PJE's, these are not recognisable measures of unemployment or jobs in a more conventional sense. However, some broad measures of the overall effects on unemployment can be made. Overall, RSA projects in the period 1991-mid 1995 were associated with 210,000 gross jobs. It was estimated that net jobs (taking into account deadweight, displacement and linkage effects) were approximately 40% of gross jobs, suggesting that net job creation/safeguarding in a more conventional sense was 84,000 jobs. The average life of these jobs was 10 years. Unemployment in the Assisted Areas fell by approximately 0.6 million persons in the period 1993-1998, the period in which most projects delivered these jobs. In broad terms, it may therefore be concluded that RSA job creation/safeguarding represents about 14% of this reduction. This level of net job creation is very similar to that identified in both previous evaluations.

Overall it is concluded that RSA has continued to operate in a similarly cost effective manner in the 1991-95 period, when compared with previous periods. It has also contributed to some

convergence in the unemployment situation in Assisted and non-Assisted Areas.

Other benefits of RSA

The RSA scheme also embraces wider objectives than numbers of jobs and costs, including attracting internationally-mobile investment and improving regional competitiveness as considered below.

Attracting internationally-mobile investment. As successive White Papers and other policy statements have consistently made clear, regional financial incentives have been designed to ensure that the United Kingdom can compete effectively for internationally mobile investment. A relevant consideration is therefore the extent to which grant has been used to support this aim. In determining the amount of internationally mobile projects, several sources of evidence were used. This included the Department's database, which shows that 10% of projects were internationally mobile. These projects accounted for 38% of the total grant offered in the study period, reflecting their larger than average size. In the sample survey, 24% of all RSA recipients (42% of grants) stated that other international locations could have been chosen. In response to direct questioning on additionality, 18% (30% of net grants) of the total sample said that in the absence of grant they would have proceeded outside the UK. International companies considered RSA to be an integral part of a package available from the UK Government to attract mobile investment. In some cases it was used as a means of offsetting the higher costs of location or as a means of improving the project's ranking and priority for funding within companies' internal bidding processes. A minority of companies regarded RSA as a 'gesture' of Government support. The overall estimates of net cost per net permanent job equivalent for internationally mobile versus non-internationally mobile companies were similar (£17,776 against £17,224 respectively). It was concluded that RSA played an important role in attracting internationally mobile investment into the UK.

Improved competitiveness. About three-quarters of firms have gained a competitive advantage as a result of an RSA-assisted project. The main reason has been a lower cost base and various product-related factors. Just over a third of companies also reported a major technical advance typically in relation to processes, or processes and products in combination. In almost 40% of cases, technical advances have been copied by competitors so RSA may have had a wider UK impact.

OTHER AIMS OF THE EVALUATION

The evaluation sought information in a number of other areas.

Large versus small projects. Although larger projects were initially offered more grant per job as a consequence of their greater capital intensity, gross employment effects and higher additionality, smaller projects (less than £100,000 grant offered) were on average associated with higher net cost per net job. This was a consequence of lower levels of additionality and higher levels of displacement associated with the latter.

Job Safeguarding. On the basis of additionality findings the study confirms that, as at present, safeguarding cases should be subject to careful scrutiny at the appraisal stage.

The impact of extending the scheme in 1993 to new areas not previously eligible. This was not considered in depth as the sample of projects in these areas was too small. However, it was not possible

to detect any differences in nature or appraisal of these projects. The consultants overall judgement is therefore that projects in more recently designated areas are similar in terms of cost effectiveness to comparable projects in areas of longstanding designation.

The approach to assessing product market displacement in the appraisal process. The study suggests a distinction between small and medium sized firms, and larger multi-national organisations. For small and medium sized firms the approach that was adopted in the application form of requiring firms to supply lists of the location of their competitors is an effective one. With this information and through discussions with the applicant it was generally possible to reach an informed conclusion on this issue. For larger firms operating in international markets and involving larger grant awards, the issue was necessarily more complex. This is particularly the case in mature industrial sectors where costs are not the only competitive issue and factors such as branding are also important. In these cases, as at present, a thorough appraisal is required. However, broader consideration of the characteristics and competitiveness of the sector may also be required and particularly the scope for technological gains.

The future scope for greater targeting. Based on the results of the survey, discussions with companies and with officials implementing the scheme the consultants suggest that there are a number of issues where greater targeting could be considered.

- While there may be a case for directly assisting small businesses, the consultants have doubts about the value of the RSA scheme as it operated in this period as an effective programme for this group.
- Grant assistance to small businesses should be tied in more closely to business support for this group, including specific small business support measures advice.
- The consultants have concerns about the perceived expectations of future grant assistance that exists within several long established, multi-nationals in traditional sectors, regardless of project circumstances.
- The consultants have doubts about some of the additionality claims made in relation to expansions at existing UK sites based on the possibility of a transfer overseas. These cases should be assessed very carefully for example detailed costings on alternative options should be sought.
- In assessing projects, consideration should be given to the expected life of the function and its contribution to longer-term economic growth and competitiveness. In our judgement, particular caution should be exercised in relation to developments in sectors characterised by increasingly routine activities and rapidly evolving technologies, such as call centres.
- RSA assistance is most successful in areas where it can complement broader regeneration programmes concerned with promotion and improvements to physical infrastructure and labour supply. Such an approach is essential if RSA is also to address wider issues of inclusion and competitiveness.
- For sub-regions to fully benefit from Assisted Area designation, there is a need to develop a more integrated strategic direction and vision which goes beyond the simple marketing of grant availability. This strategy should seek to identify the future economic role of the sub region and target sectors, taking into account local competitiveness, need and opportunities. The Regional Development Agencies in England are a welcome development in this respect. Local or regional regeneration resources including the Structural Funds should then be targeted at creating the conditions under which this strategy or vision can be realised

