

FLINTSHIRE COUNTY COUNCIL

REPORT TO: CABINET

DATE: 23RD APRIL 2013

REPORT BY: DIRECTOR OF ENVIRONMENT

SUBJECT: EU STATE AID RULES AND THE NEW UK
ASSISTED AREAS, AN UPDATE ON THE LATEST
SITUATION

1.00 PURPOSE OF REPORT

- 1.01 Most of Flintshire's main economic centres are within the designated Assisted Area, giving access to state aids for eligible development. The EU reviews such designations every seven years and such a review is now underway. Retaining Assisted Area status is considered to be an essential part in retaining the long-term economic health of the County.
- 1.02 The purpose of this report is to advise Members on the position regarding Flintshire's Assisted Areas designation and to identify a strategy to ensure that Flintshire retains designation for the period to 2020.

2.00 BACKGROUND

- 2.01 EU State Aid rules on regional aid set the framework for financial assistance to companies to create or protect jobs in Britain's less prosperous areas. These rules determine how much financial support the UK government and the devolved administrations are allowed to give to companies, and where. The UK Assisted Area map is an integral part of the rules.
- 2.02 The present EU State Aid rules on regional aid expire at the end of 2013 and discussions are currently underway regarding the new rules for 2014 -20. At present, Assisted Area status covers 24 per cent of the UK population, with part of Flintshire being covered (Appendix 1 Plan of the Assisted Area).
- 2.03 The European Commission released a paper in early 2012, setting out its initial thoughts on the rules for regional aid after 2013. Aspects of these initial proposals, including reducing the level of aid available and the proposal to restrict aid to companies employing less than 250 employees, were deeply alarming. The initial proposals were widely criticised, including by this Council.

- 2.04 On 14 January 2013 the Commission published a draft of the new rules for 2014 -20. The full text, which is complex and runs to more than 40 pages, can be accessed on the Commission's website at http://ec.europa.eu/competition/consultations/2013_regional_aid_guidelines/index_en.html
- 2.05 The new proposals, which differ in important details from those put forward a year ago, contain some good news:
- West Wales and the Valleys, plus Cornwall, look set to retain their top-priority category (a) status – at least on the basis of current statistics
 - The overall population coverage of the UK Assisted Areas may fall by less than first feared. The Department for Business, Innovation and Science (BIS) estimates that on the basis of the current proposals the UK coverage may be around 23.5 per cent – a reduction of just 0.5 per cent or 300,000 people – compared to just 18 per cent coverage in the earlier proposals. This is partly because of a revised formula, and partly because of a revised formula and partly because of the inclusion of more recent data.
- 2.06 But there are still areas of concern:
- crucially, the Commission still proposes to prohibit aid to large companies (those with 250 or more employees worldwide) in the Category (c) areas that make up all other UK Assisted Areas, including Flintshire. This is of major concern given this county's reliance on a number of large, mainly manufacturing companies;
 - the Commission also proposes to reduce the aid intensity ceiling for large firms in Category (a) areas from 30 to 25 per cent of the cost of a project, with commensurate reductions for Small and Medium size Enterprise (SMEs) as well. Again, the level of grant aid potentially available is of great importance to high technology manufacturing operations, where capital investment are not very large;
 - in Category (c) areas, the aid intensity ceiling for medium-sized companies (50-250 employees) would be reduced from 25 to 20 per cent, and for small companies (sub-50 employees) from 35 to 30 per cent.
- 2.07 The new draft rules also include rigorous new proposals to ensure that in all circumstances aid is only given where it is necessary to ensure that a project goes ahead – the so-called 'incentive effect' – something that will be a big step in several EU member states but not

in the UK, which already has appropriate procedures in place.

3.00 CONSIDERATIONS

3.01 The continuing proposal to prohibit aid to large companies in Category (c) areas is concerning since:

- large firms' investments make the biggest difference to regional economies:-
- large firms head supply chains that benefit local SMEs;
- it deprives the UK of a key tool in attracting mobile investment projects;
- it also deprives UK of a key tool to support industry generally;
- it ignores the sophisticated grant appraisal process that takes place in the UK;

3.02 The arguments put forward by the Commission are unconvincing. The assertion that there are "regional handicaps" which don't apply to large firms is inappropriate. The justification for Assisted Area status has never been that these places are inherently uneconomic, for either large or small firms, and therefore that higher costs have to be offset by investment subsidies. Rather, the key problem is that these areas simply do not have enough jobs/economic activity, often because of the decline of historically dominant employers, for example coal mining, iron and steel manufacturing.

3.03 In an accompanying explanatory note, the Commission defends its proposal to prohibit aid to large firms by reference to evidence from three studies. One of these, based on the UK experience, is viewed as being technically flawed and at odds with a wealth of other UK evidence. The other two studies cover ERDF-funded projects in Italy and a survey of just 28 projects across the EU, neither of which offers a useful guide to the situation in the UK where aid to companies has been policed rigorously for many years.

3.04 The proposal to reduce aid intensity ceilings is also worrying. The effect in Category (c) areas would create a double problem – no regional aid to large firms and less to SMEs.

3.05 UK Government reaction

3.05.1 We understand that the BIS officials who lead for the UK on this matter agree strongly with the Council's concerns regarding the new EU rules. Their view, which is shared by the devolved administrations, is that:

- The proposed restriction on aid to large companies in Category (c) areas is wholly unacceptable and damaging.
- The proposed reduction in aid intensity ceilings is unwelcome

and should be opposed.

3.05.2 The UK Government's position is apparently shared by a growing number of other Member States, including Germany and France. However, this is a matter on which the Commission alone has the final say – it does not need the approval of Member States or the European Parliament.

3.06 Flintshire has a further consideration to take into account, namely the future of Enhanced Capital Allowances (ECAs) available as part of the Deeside Enterprise Zone package. ECAs are also considered to be State Aids and under EU rules, can only be given within Assisted Areas. Failure to secure Assisted Area status in Flintshire will mean the loss of the ECAs as well.

3.07 Next Steps

Crucially, the current proposals from the Commission are not the final version, which will not be published until April. This leaves a opportunity for further lobbying.

The UK Government is intending to make further representations to the Commission on this matter, and similar representations are expected from several other Member States.

The Council should consider the following actions in order to present the strongest case for retaining Assisted Area designation:-

- Continue to lobby the British MEPs who are working to change this position.
- Raise the matter with the local AMs and MPs.
- Work through the WLGA to secure a meeting in Brussels with Commissioner Almunia (who has lead responsibility for the new rules).
- Meet with representatives of the CBI, EEF, Chamber and key local employers to develop a shared approach on this matter.
- Raise this issue with the North Wales Economic Ambition Board and the Board of the Mersey Dee Alliance asking for support for the Council's views.
- Work with the lead officials in BIS (and where appropriate the devolved administrations) to coordinate tactics and detailed arguments to be put to the Commission.

3.08 The consensus seems to be that the issue of aid to large companies is still in the balance. The Commission may be playing a bargaining game here: if it gets through its stringent new rules on the 'incentive effect' it may be willing to sacrifice the blanket ban on aid to large firms in Category (c) areas. Indeed, as BIS officials have pointed out, if the new rules on the incentive effect are implemented, only those projects from large companies that need and deserve support should

receive support anyway.

3.09 What about the map itself?

The UK government, with the assistance of the devolved administrations, will draw up the new UK Assisted Area map (for 2014-20) once the new EU rules have been finalised.

3.10 The Commission's current proposals cover the framework for drawing the map. The proposals here are not very different from the framework that underpinned the current 2007-13 map:

- Category (a) areas (European Unions "NUTS 2" regions) will qualify automatically and in full on the basis of EU statistics;
- The map of Category (c) areas will be drawn up in the UK for ratification by the Commission;
- Some more prosperous EU "NUTS 3" regions will be ineligible for Category (c) status on the basis of GDP or unemployment statistics;
- The building blocks will be Council wards, but these will have to be added together to form coherent units meeting minimum population thresholds;

3.11 The UK government is expected to carry out a formal consultation on the mapping process in due course.

4.00 RECOMMENDATIONS

4.01 That Members note the contents of the report and approve the approach set out in paragraph 3.07.

5.00 FINANCIAL IMPLICATIONS

5.01 Retention of Assisted Area status will have a significant sustainable impact to the local economy.

6.00 ANTI POVERTY IMPACT

6.01 Assisted Area status will have the potential to make a significant contribution to investment, encouraging local opportunities for supply chains, skills and employment; under which Assisted Areas will be expected to demonstrate impact.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly.

8.00 EQUALITIES IMPACT

8.01 Assisted Areas designation will have the potential to make a significant contribution to employment opportunities for all.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly.

10.00 CONSULTATION REQUIRED

10.01 European Commission to express opposition to the proposed ban on aid to large firms. AM's, MP's, MEP's and BIS to maintain lobbying pressure.

11.00 CONSULTATION UNDERTAKEN

11.01 European Commission to express opposition to the proposed ban on aid to large firms. AM's, MP's, MEP's and BIS to maintain lobbying pressure in addition to the Industrial Communities Alliance.

12.00 APPENDICES

Appendix I: UK Assisted Area plans.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

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