

STATE AID SUPPORT FOR LAND AND PROPERTY REDEVELOPMENT IN SUSTAINABLE COMMUNITIES UK PROPOSALS FOR REFORM

Introduction

1. Many parts of the UK, and of other Member States, currently suffer from physical, economic and social deprivation. These areas are usually characterised by communities with a weakened economic base, with large concentrations of under-skilled, unemployed and socially disadvantaged residents who are surrounded by a poor physical environment. They are typically areas of high crime and high levels of social exclusion. These deprived communities can be small and localised, often found within relatively prosperous as well as disadvantaged regions and often outside the Assisted Areas designated in the EU Regional Aid Guidelines.
2. Overcoming deprivation involves creating a built and natural environment in which people want to live and work by providing amenities, tackling degradation and safeguarding natural and built heritage. It should also assist in meeting economic objectives – in achieving self sustaining economic growth which leads to job creation and sustainable improvements in economic performance in all areas – and social objectives – in meeting peoples' social needs by promoting social inclusion, neighbourhood renewal, building social capital, promoting stronger communities, better health and access to services and recreation.
3. The UK's Sustainable Communities agenda, which is committed to delivering "thriving, vibrant, sustainable communities", together with other policy initiatives, is designed to tackle these issues. The key principles of this policy include encouraging the economic development of urban and rural areas suffering from severe (and often multiple) local difficulties, making affordable and decent housing the norm throughout the country, improving the local environment at all levels including at community level, empowering and strengthening the communities themselves and also the protection of the environment.
4. Improving the physical appearance and infrastructure of these areas – tackling **physical deprivation** – is a high priority. Good quality, well-designed and affordable housing and other buildings, as well as other improvements to the environment and the development of high quality public space, can make a huge difference in combating deprivation. Poor quality, ugly or derelict neighbourhoods, by contrast, reinforce despondency and breed crime and disaffection.
5. Communities in these areas often need assistance to mobilise themselves to create organisations for mutual support, including charitable activity and voluntary sports and recreational facilities – tackling **social deprivation**. Small-scale, community-based economic activity often has a valuable social function as well as developing entrepreneurial skill-sets and contributing to economic development within the area .
6. A major contribution can also be made by encouraging entrepreneurship and small-scale business activity and by combating the market failures which lead to **economic underperformance** in these areas. This does not mean large-scale investment aid for large or even for small and medium sized companies. Rather it

involves providing a business service “infrastructure” – financial advisory services, business incubation facilities, suitable business premises, which the market might not deliver by itself. Very low intensity tax incentives may also play a part in encouraging business to invest in a deprived area, rather than elsewhere, yet without distorting competition to any significant extent.

7. Many of the UK’s most deprived areas lie within otherwise relatively prosperous regions. General regional development may not be the problem so regional investment aid is not the solution. What is needed is precise targeting of joined-up investment in physical, social and economic infrastructure to combat market failures in these pockets of deprivation. Business investment will then take care of itself.

8. This paper focuses on the changes needed in the rules and frameworks affecting investment to tackle physical deprivation.

Background: Existing Approvals

9. The Commission has already approved what forms a suite of measures underpinning the physical redevelopment of sustainable communities in the UK. This has enabled the United Kingdom to support a range of measures, which have facilitated individual redevelopment schemes in compliance with the State aid rules.

10. In particular, the Commission’s positive decision on the UK’s Support for Land Remediation scheme was very helpful. Directorate General Competition themselves considered their approval of the scheme to be a landmark case with Europe-wide significance. The approval has provided the UK with the flexibility to support the remediation of derelict and contaminated land, within certain parameters but wherever the UK sees the need to do so, without the risk that such support might be challenged and considered an unallowable state aid.

11. Also, the Commission has approved schemes which allow the limited funding of property developments on the basis of the Regional Aid Guidelines, the remediation work on heritage buildings and sites, and provision of social housing. These approvals, although not as broad as that for land remediation, still went some way towards providing the UK with clear guidance and discretion as to what could be supported in regeneration projects inside and outside the designated Assisted Areas.

12. Other approvals have helped, for example the Community Development Venture Fund, the Coalfield Enterprise Fund, the GRO and Credit Unions projects in Scotland and the Stamp Duty Exemption Scheme. Background on some of these schemes is set out at **Annex A**.

13. The UK has used these approvals to support a number of programmes and the benefits of these are already being felt. However, it is timely to take stock given that both the current approvals and the regional aid guidelines will expire at end December 2006. The rest of the paper looks in more detail at the need to continue or change the existing rules, and what more might be needed.

Issues: Using State Aid to Tackle Market Failures

14. Deprived areas can be subject to a range of market failures. The Commission has acknowledged the existence of problem areas where incidences of market failure are high¹. As a result of these market failures, areas remain socially distressed, land is derelict or under-used, and economic activity is much less than would otherwise be the case.

15. Market failures can arise from a complex web of inter relating factors. Policy interventions need to take account of this complexity and address individual facets of it in a way that will contribute to an overall solution. The Commission has endorsed the view that the public sector should be able to support a package of measures combining the rehabilitation of obsolete infrastructure with economic and labour-market actions to combat social exclusion and to upgrade the quality of the environment². There is a major role for the private sector to play, as it offers significant additional resources that are otherwise unavailable, and can bring in project design and management expertise to specific schemes. Interventions must be in compliance with the principles of fair competition, but there is real potential to improve prosperity in all areas if horizontal measures are used to target specific communities in need and to complement measures for large geographical areas. Targeted interventions will include a range of measures that are not affected by state aid rules, but many desirable interventions are caught, because of the very wide definition of state aid which has been developed by the European Courts.

16. Socially deprived communities can be of any size and occur in any area, including otherwise prosperous ones. Within a region which performs well overall, there may be specific local pockets (e.g. at NUTs 4 or 5 levels) where there are serious problems of dereliction and deprivation. The UK has identified its 2000 most deprived “wards”³, a number of which are located in otherwise well performing regions.

17. Member States need the flexibility to target support in such areas so as to be able to develop specific schemes to remedy the problems. Otherwise, investment would be focused away from these areas and they would suffer further decline. The market failures are not in regional development, they are rather in very local physical, social and environmental conditions. Remedying these will not distort competition as long as end users pay market rates for use of facilities created, the intermediaries needed to deliver the improvements are chosen competitively where possible and they are paid the minimum necessary for their work

18. The UK accepts that large-scale investment aid in pockets of deprivation within otherwise affluent regions cannot be accommodated under the Regional Aid

¹ In “The programming of the Structural Funds 2000-2006: an initial assessment of the Urban Initiative”, Brussels, 14 June 2002, COM(2002) 308 final.

² Communication from the Commission to the Member States of 28 April 2000 laying down guidelines for a Community initiative concerning economic and social regeneration of cities and of neighbourhoods in crisis in order to promote sustainable urban development (URBAN II): OJ C 141, 19.5.2000, p8.

³ NUTS 5 level areas, roughly equivalent to the size of an urban “commune” or a small town

Guidelines. Instead, horizontal aid frameworks should be designed to permit the targeting of the market failures in specific pockets of deprivation.

19. The horizontal state aid rules covering aid for employment, training, venture capital, aid to SMEs, aid for SGEIs and aid for environmental protection, allow for important interventions in under-performing areas which can tackle failures in labour and capital markets and achieve social and environmental policy objectives. The UK's response to the Commission's road map sets out the UK's views on how these rules might be improved.

20. However, there is still a gap when it comes to tackling market failures affecting land and property. Bringing back long-term vacant or derelict property into use may yield environmental and health benefits, reduce crime and vandalism as well as reducing 'visual blight' – externalities which are not captured by the developer. It will also reduce pressure on greenfield sites. Data shows that market prices do not adjust downwards to take account of the additional costs of renovating long-term derelict properties, and that once properties have been vacant for a year or more, they are more likely to remain vacant

21. The Deprived Urban Areas Guidelines were withdrawn in 2002. A number of Member States have written to the commission in support of the initiative led by the Netherlands about better targeting state aid in urban pockets of deprivation. Whilst noting that needy pockets of deprivation are not restricted to urban areas, the UK agrees with the importance of this initiative as part of the modernised state aid regime needed to support the EU's Lisbon agenda.

Drawbacks and gaps in existing approvals

22. As described above, the UK has secured a number of approvals relevant to tackling these issues. But there are problems. This section sets out issues with the schemes as a whole. **Annex B** gives examples of cases where the present rules have prevented or hindered appropriate public sector intervention.

23. The Land Remediation Scheme has enabled the redevelopment of a large number of brownfield sites containing derelict buildings and contaminated land. But a site may also lie idle because the high cost of development in relation to the potential end value means that the land has a negative value. The barrier to developing the land may lie not in its dereliction or contamination, but rather in its location and possibly in restrictions placed upon its use under the land use planning system of (e.g. town centre site cannot be used for warehousing or parking because of transport issues). In such cases, the current landowners will frequently decide to leave the site vacant rather than paying for its development or accepting an inevitably very low price for someone to take it away from them. The present scheme does not enable the payment of grant to stimulate physically, socially or environmentally desirable development in such cases.

24. This means that public authorities frequently resort to buying plots of land in deprived areas and developing it themselves as so-called "direct development". This is often an inefficient use of public funds – more could be achieved by leveraging in private finance. It is also hard to understand why support payments for private-sector

led land regeneration is unacceptable, whilst the same activity by the public sector is permitted, especially in view of Article 295 of the EC Treaty and the wide definition of “undertaking” given by the European Courts.

25. The housing gap funding approval, restricts support to up to 60% of eligible costs. Not only was this a very arbitrary and uncertain limit – it is far from clear what in every case constitute eligible costs - the UK’s experience suggests that it is over-bureaucratic and unnecessary.

26. The important point in both the above cases is that the payment must be the minimum necessary to overcome the market failure. If it is, there will be no advantage outside the normal course of trade to the developer. The imposition of an arbitrary cap and/or restriction to Assisted Areas only makes sense if the payment offers some gratuitous subsidy and distorts competition. But these payments should not distort competition because they merely offset the specific market failure. The amount needed to enable a social housing project to go ahead may be 25% of development costs in one case and 75% in another. To pay 50% in both cases would in one case create a massive distortion of competition and in the other be inadequate for the project to go ahead.

27. The UK believes that the Commission should focus in cases like this on ensuring that Member States have transparent and robust procedures for ensuring that the market would not deliver the desirable outcome by itself (proving the market failure) and ensuring that the minimum necessary is paid. The principle which governs aid for SGEIs is also valid in these scenarios. In both cases Government is engaging undertakings as intermediaries to deliver a socially advantageous outcome which the market would not otherwise supply. In both cases there is only an advantage to the undertaking involved if it is paid beyond the normal course of trade.

28. The UK government’s proposed Business Premises Renovation Allowance, which is currently before the Commission for approval, represents another potential instrument for triggering economic regeneration through physical redevelopment. It would provide a 100% first year capital allowance for the renovation of any business premises in the 2,000 Enterprise Areas which have been vacant for more than one year.

29. The UK accepts that a state-wide tax incentive such as this inevitably fails to calibrate exactly the minimum necessary to overcome the relevant market failure in each case. However, this measure’s administrative efficiency and very low aid intensity allow it the potential to have a substantial impact at low cost to the Government and with very little risk of significant distortion of competition. Where there is a clear public interest in seeing land development take place and there is demonstrable market failure in achieving this purpose, very low intensity aids will result in minimal distortion of competition and trade. Small tax incentives for development of vacant, brownfield land should be allowed where the aid intensities fall below a fixed maximum intensity (such as 5%).

30. For regeneration to be really effective, more certainty, coherence and co-ordination is needed. Simply relying on those approvals already gained, important as they are, is not enough. In any case, the validity of those approvals expires at end

2006. This is too short a time horizon for most developers even to design a scheme, especially if land has to be purchased and/or reclaimed, let alone see it to completion. So certainty needs to be given that aids for such land and property development schemes, if allowable up to 2006, remain allowable at least until 2013 and the commission needs to allow new schemes as long as they do not threaten to distort competition seriously and they pursue a valid regeneration agenda.

Way Forward: General Approach

31. The UK believes that horizontal measures are the way to tackle the issues set out above. The Commission road map has set out a philosophy for horizontal measures based on tackling market failures. The Commission's recent decision on Services of General Economic Interest, which the UK welcomes, is based on a similar philosophy.

32. In the context of enabling land and property redevelopment to promote physical regeneration, the UK would suggest that this general philosophy can be applied on the basis of the following principles:

- Physical redevelopment can bring wider social, economic and environmental benefits, which should be recognised in considering whether public support is necessary and appropriate. Support should be provided only where there are wider benefits to be gained.
- Where the market will not develop the land, for public support and incentives to private development are appropriate where there are clear wider benefits resulting.
- Such support should, of course, be limited to the minimum necessary to overcome the market failure.
- After land has been developed, then use of that land should be subject to market mechanisms (users should pay the market price)..

33. This general approach sets out an economic rationale to underpin policy and inform the assessment of specific proposals.

34. In terms of specific future policy development, the UK would wish the Commission to address the following areas.

Clarification of existing approvals

35. The UK will be seeking the extension of current approvals which, as noted above, are critical to the UK's policy. As well as this, however, it would be helpful to have guidance on how aids based on different guidelines and approvals may be combined. Tackling deprivation cuts across existing guidelines and block exemptions as well as specific approvals, and would benefit from consolidated guidance. Whilst it is sometimes possible to develop schemes that maximise the use of different guidelines and approvals covering different eligible costs, it is a very cumbersome approach, and it is always uncertain whether the Commission will agree that the rules have been correctly applied. More clarity could be obtained through publication of a Vade Mecum explaining how all the existing rules may be joined together to facilitate regeneration.

Aids not significantly affecting competition

36. The UK believes there is scope for increasing Member States' discretionary use of support which does not significantly affect competition. This issue has wide application, but can be particularly significant for regeneration schemes. The UK welcomed the proposal put forward by DG Competition concerning Lesser Amounts of State Aid (LASA), which would have allowed Member States such increased discretion to a clearly defined extent. The UK is disappointed that the measure was not approved by the Commission, and considers that there is a growing need for Member States to be able to allocate State aid that, whilst of significance to the recipient, demonstrably does not have a significant impact on competition within the EU.

37. This could be achieved to a certain extent through expansion of the Block Exemptions, including raising the "De Minimis" threshold and by adopting some of the LASA principles within the horizontal guidelines. The UK's response to the Commission's State Aid Action Plan or "Road Map" offers some ideas on this. Revised guidelines should be much more economic data-based, as the Commission has itself now proposed; and their enforcement in relation to relatively minor payments to undertakings could be speeded up (especially where there has been effective market impact assessment). Some assessment could even be left to Member States and the market itself, so that the Commission need only consider larger aids which threaten to distort competition seriously.

Review/renewal of guidelines and approvals

38. We would like to build on, and extend, the existing approvals and guidelines to enable Member States to take a more holistic approach to regeneration. There are four strands to this:

- Renewing existing approvals and, where necessary, extending their scope to tackle specific gaps, such as those described in paragraphs 22-30 above.
- Ensuring that existing horizontal guidelines enable the holistic approach to be achieved, and to make any changes which maybe needed to enhance their effectiveness in tackling regeneration problems. The UK will comment in detail as the specific reviews are undertaken.
- Developing a clear policy rationale to inform future decisions, either on future guidelines, or specific approvals, relating to physical redevelopment. This should be based on a clear recognition that market failures occur in the context of physical redevelopment. The principles set out at paragraph 32 above could form the basis for an approach, or criteria, for applying this philosophy in practice which could be set out in new strategic guidance for tackling land and property market failures.
- Pursuing procedural reform so that small-scale aids are covered by Block Exemptions and decisions on proposed aids which offer little prospect of serious

distortion of competition can be taken faster. The UK's response to the State Aid Action Plan sets out our approach towards these issues.

CONCLUSIONS

39. The need to regenerate the most deprived areas of the European Union in order to provide the benefits of economic growth for all its citizens equally is undisputed. The guidance on State aids rightly aims to ensure that government intervention does not jeopardise that aim by unfairly distorting competition. However, there is also a clear need to give greater certainty and extension of scope, subject to suitable constraints, to Member States' governments to allow them to tackle market failures wherever these occur, in order to assist the redevelopment of deprived areas within the EU.

40. At present, investment aid is quite properly restricted by the Commission's regional aid guidance to the designated Assisted Areas.. Market failures in land and property development and in social, community and enterprise development exist, however, outside as well as inside Assisted areas.

41. The existing guidance and approvals on state aid have gone some way towards helping clarify at least what may be done within and outside the assisted areas. Yet the Commission has on occasion treated payments to offset market failures as if they were subsidies, even where clear evidence can be and has been provided of the scale of the market failure concerned. And even existing levels of certainty will be lost post 2006, unless the current guidance and approvals are formally extended.

42. The UK would therefore recommend that:

- (1) The Commission consider the approvals it has to date given to the UK and other Member States to facilitate regeneration activities (such as land and property development, land remediation social and environmental development etc) with a view to producing guidance for Member States in the form of, for example, a vade-mecum, guidance notes or guidelines. The UK will be looking, in addition, to extend their current suite of approvals to at least 2013;
- (2) The Commission consider the need for extending their policy and interpretation with relation to aids in support of regeneration activities beyond the scope of the existing UK and other Member State approvals. This should be carried out in the light of a clear policy rationale, which could be expressed in further strategic guidance on horizontal state aids for tackling land and property market failures.

43. It is important to consolidate the advances made in previous years with state aid rules that avoid distortions to trade and competition, but that will allow Member States' actions to combat market failures where they arise in land and property as well as in community and environmental development. If deprived areas can be given a decent physical environment, improved social cohesion and encouragement of indigenous entrepreneurial potential, they should have the basic infrastructure to attract market-based business investment, without the need for investment aid.

CURRENT UK APPROVALS

1. In 2001-02, the UK put forward a number of individual schemes for approval following the Commission's decision that the Partnership Investment Programme (PIP) did not comply with state aid rules.

(i) Support for Land Remediation

2. The land remediation scheme enables the payment of grant to developers to meet up to 100% of their costs incurred in bringing derelict land back into use. A further 15% of costs is permitted where the land has been polluted and the original polluter cannot be found. The land may be anywhere within the UK: the Regional Development Agencies are responsible for administering the scheme in their areas, and grant aiding developers direct.

(ii) Supporting Heritage Related Sites

3. The UK's Historic Regeneration scheme enables funding bodies to support all the heritage-related costs associated with the repair, restoration and rehabilitation of designated historic buildings, conservation areas, ancient monuments, and historic parks and gardens where this would not happen through market forces alone. This is clearly of benefit in areas where the development value of the land on which a heritage building is located may be considerably greater than the value of the land net of the maintenance cost of the buildings on it.

4. Being able to support the extra costs associated with a building's designation as a heritage asset is most helpful when combined with other forms of state support. The Commission's approval restricted the use of the grant towards meeting the maintenance cost of the heritage building; it did not allow the costs of redevelopment of the building into e.g. office space. Nonetheless, the scheme has enabled a number of heritage sites to be at least maintained, since the landowners receive the grant support towards such costs even if the building does not generate other income. Moreover, support for a heritage building's maintenance may be combined with support for other aspects of a redevelopment scheme, if for instance it includes social housing, or business units for SMEs.

(iii) Support for Housing Developments

5. The UK's "Partnership Support for Regeneration" scheme aims to increase the stock of housing available for owner occupation. Owner-occupation helps prevent the exodus of those whose situation and prospects have improved and tends to stimulate a demand for improvements in local public services and the local environment, thereby contributing to the overall regeneration of the area.

6. The costs of providing owner-occupier housing in deprived areas can be greater than the value of housing, particularly if the land is contaminated or derelict, however. This scheme provides the minimum grant necessary for private developers to be able to meet the difference between the cost of building and the open market

value. There has been significant take-up of the scheme; but the UK still has a significant shortfall in good quality housing stock.

7. The UK welcomes the Commission's recent Decision on State aid support of Services of General Economic Interest (SGEI), and the specific inclusion of social housing within its scope. This will enable much more specific and targeted support for social housing without the need for separate notification to the Commission.

(iv) Stimulating business establishment and property development

8. Two approvals for bespoke and speculative property development allowed the UK to support the redevelopment of land and property for commercial purposes, where the costs of the redevelopment or refurbishment would exceed the value of the redeveloped or refurbished land or property. These were key approvals to trigger the necessary physical conditions for economic regeneration (even though support for large development companies was not permitted outside the Assisted Areas).

9. In addition, the stamp duty exemption for disadvantaged areas removed the requirement for businesses to pay stamp duty (4% for most transactions) for commercial property transactions in the UK's 2,000 most disadvantaged areas (called Enterprise Areas). The aim of the scheme was to encourage business establishment and property development in disadvantaged areas by tackling market failures which lead to dereliction and abandonment, lack of local services and community dislocation as residents commute to find work. The rate of transactions for commercial property is around six times lower than the rate for wards in the rest of the UK. Hence there is inefficient price formation in the market which this measure aims to overcome. The stamp duty exemption scheme has since been wound up and is to be replaced by the "Business Premises Renovation Allowance" scheme, currently being considered by the Commission.

10. In addition, the Commission has approved two further regeneration-based schemes, the "Support for environmental regeneration" scheme and the "Community / voluntary (neighbourhood) regeneration" scheme. These schemes allow government support of environmental work linked with regeneration and small, locally based schemes put forward by voluntary groups and operated on a not-for-profit basis.

**EXAMPLES OF PHYSICAL LAND REGENERATION PROJECTS
CURRENTLY PUT AT RISK BY THE STATE AID RULES**

Northampton Brownfield Joint Initiative, Northampton, Central England

The area proposed for development is unassisted. It is made up of three sites, located in or adjacent to the flood plain of the River Nene, and they make up a total area of approximately 97ha to the west and south east of Northampton town centre.

The three areas are ideally located for the town's growth, being both close to the town centre and to several main roads. The redevelopment of the sites would provide much needed housing and green spaces to the local population. However, this has been prevented by the high costs associated with redevelopment. All of the areas are former landfill sites and partly because of this contain derelict, vacant and underused land and have an unattractive appearance. Land ownership is currently shared by various public and private landowners.

The proposed approach is to develop the three sites together, as this will generate benefits which the sites can not individually do. The high cost of remediating the land and then subsequently transforming its use means that it would be unprofitable for any one land owner to develop their own site, without further development on related sites and provision of the necessary transport infrastructure. In order to address this market failure, and for redevelopment to take place, state resources would need to be used to make redevelopment worthwhile to the private landowners.

The rationale for government intervention is therefore based on generating positive external benefits to society that would not otherwise be realised. The need is as great as any pocket within the designated UK Assisted Areas, but because it is outside those areas the permitted intervention rates are low and the necessary private sector investment may not be levered in.

Bickershaw Colliery, Wigan, NW England

This 18ha site is located on the western edge of Leigh, two miles from Leigh Town Centre and five miles from Wigan Town Centre, and is currently in a Tier 2 Assisted Area. The former colliery site comprises two distinct areas:

- Plot 1, to the north is 11.8ha of despoiled land and was previously used for operational colliery buildings and storage. The site is now cleared of previous structures. To the north of Plot 1 is a significant colliery spoil area and partly reclaimed land known as Bickershaw North, owned by Wigan Council and the NCP.
- Plot 2 is 5.5ha and was the former pithead area, with five capped shafts located in the central area. Two of these are fenced and vented to allow gas monitoring by the Coal Authority. Roughly triangular, the western boundary lies close to a group of disused buildings in private ownership, formerly used for commercial purposes associated with the colliery.

Private sector development of the site has been hindered because of the uneconomic costs of the necessary land remediation and the difficulty of securing all the land from its various owners.

The proposed project involves reclamation of the 18ha site; making available some 15ha of residential land, 1,000 sq m of retail space and a 4,000 sq m marina. The marina is crucial because the Leeds-Liverpool canal is an increasingly important link to the wider inland water network.

State aid was therefore needed to:

- deliver benefits to the local population and wider sub-region through reclamation of the site;
- provide local communities with access to enhanced open space provision and recreational opportunities;
- improve access to a wider choice and diversity of housing and local employment opportunities, particularly for residents in the adjoining estates, which are characterised by deep seated socio-economic problems⁴.

Current approvals allow public sector bodies to give developers grants of up to 100% of the costs associated with land remediation and the creation of a public open space; and up to 60% to gap fund the cost of housing provision and its value on completion. Although the needs of this area are great, the limited amounts of aid which may be given towards the costs of developing the marina and retail space are insufficient to attract the necessary private investment to get the project started. However, granting the level of aid needed to initiate the project is unlikely to distort competition to any significant extent in any relevant market.

Snowdown Colliery, Aylesham, Kent, SE England

This 50 hectares site is situated in a 87 3(c) area in South East England. It borders two villages which together have a population of 4,700 and neighbours several other, more prosperous towns and villages. Since the closure of the colliery in the mid 1980's the area has declined, and the land is now derelict through disuse and subsistence from the mine workings.

While many former colliery workers have been able to find new employment, long term unemployment is high among the middle aged workforce (largely as a result of the closure of the mines) and the local infrastructure is weak: road access to the site is poor and the train station is difficult to reach on foot. Bus services are infrequent and there is a significant lack of other village facilities.

⁴ Within England information relating to income, employment, education, health, skills and training, barriers to housing and services and crime are combined into an overall measure of deprivation known as "The Indices of Multiple Deprivation." A score is calculated for each area; a low score indicates greater deprivation – the most deprived Lower Layer Super Output Area of Local Authority [NUTS 4 level] is indicated by a rank of 1. Wigan has an overall rank of 53 out of 354 Local Authorities - Indices of Deprivation 2004. In April 2001, 41.50% of households in Wigan had more than one person with a limiting long-term illness compared to 34.05% in England in Wales. Source: www.neighbourhood.statistics.gov.uk.

The long term plan would be to provide a good quality business park at Snowdown that would provide employment opportunities for an up skilled local community, along with a heritage park. Connection to the main road, the A2 which runs from Dover to London, is also envisaged. Public intervention would allow this land to be brought into a liveable, green, and sustainable condition for people to live and work in.

The major barrier to the regeneration of Snowdown is that the site is currently owned by a private undertaking; the Coal Authority is committed to pay the site owner a lease until 2042. This makes the site particularly difficult to address; the cost of remediating the land and providing the necessary infrastructure are too high to attract investment from the private sector but the public intervention needed to improve the site and the local economy surpasses the limits permitted under even the current approvals.

Chatterley Whitfield Colliery

This derelict coal colliery is regarded as a heritage site of national importance and the most complete example of a Victorian colliery in the UK. It is an 80 ha site located on the north-eastern edge of Stoke-on-Trent, a Tier 2 assisted area in the West of England.

The area surrounding the colliery has been in steady decline since its closure in 1976. Housing stock within the area is of very poor quality and the citizens of Stoke-on-Trent are among the most disadvantaged in the UK in terms of: unemployment (⁵employment rates for 03-04 were 68% compared to an average of 75% for the English Local Authorities); health (⁶in April 2001 42.53% of households had one or more person with a limiting long-term illness compared to 34.05% in England and Wales) and education (⁷in 03-04, 43.6 per cent of pupils in Stoke-on-Trent achieved 5 or more GCSEs graded A* to C, compared to 53.7% nationally). ⁸According to the 2004 English Indices of Deprivation, Stoke-on-Trent has an overall rank of 18 out of 354 Local Authorities.

Stoke-on-Trent's need is therefore comparable to a site within the Art 87(3)(a) area of West Wales and the Valleys, but because it is in the relatively more prosperous region of Shropshire and Staffordshire, [the relevant NUTS 2 region] only limited State aid support can be given.

It is the aim of the local community and several regeneration bodies to preserve the colliery as a heritage site and to convert the 34 existing buildings into viable

⁵ Source: Office of the Deputy Prime Minister, Local Area Data Base.

⁶ Source: 2001 UK Census www.neighbourhood.statistics.gov.uk

⁷ Source: www.neighbourhood.statistics.gov.uk

⁸ Within England information relating to income, employment, education, health, skills and training, barriers to housing and services and crime are combined into an overall measure of deprivation known as "The Indices of Multiple Deprivation." A score is calculated for each area; a low score indicates greater deprivation – the most deprived Lower Layer Super Output Area or Local Authority [NUTS 4 Level] is indicated by a rank of 1. Source: www.neighbourhood.statistics.gov.uk

commercial office space and house training courses and events for local people. It must first overcome several obstacles, such as the need to reclaim much of the land (which is currently dangerous and at various stages of decline) and the necessity to find private sector investment.

Although current State aid approvals allow assistance of up to 100% to cover remediation and restoration costs, the amount of support which may be granted to a beneficiary to support the cost of building the office space is limited by the aid intensity ceilings. In the case of this site, the amount of assistance available to a potential developer, expressed as a percentage of eligible costs, is insufficient to lever in the necessary private sector investment.

Manningham Mills, Bradford , West Yorkshire, England

This 700,000 sq ft site is located in a part of the former industrial heartland of the North of England. Once a world centre for the production of silks and ‘plushed velvet’, the mill is an important heritage site of industrial archaeological interest. Abandoned in the 1990s, its condition gradually deteriorated into a state of dereliction. Like the former colliery sites, the costs of bringing the site back into use were greater than the potential redeveloped value and this hindered private sector development.

The local population is largely Pakistani with a mixture of other ethnic minorities and an indigenous white population⁹. The local area has many socio-economic¹⁰ problems, and was one of the scenes of the riots which occurred in Bradford in the summer of 2001.

The project involves extensive restoration and land remediation work followed by conversion of the former mill into a mixed development of apartments, commercial offices and studios, community space and leisure activities. Transformation of this site into a range of new uses will play a key role in tackling the wider socio-economic problems of the local community: creating much needed jobs¹¹, housing¹² and

⁹ In the 2001 Census, 60.1% of the population in the Manningham ward described themselves as being of Pakistani ethnic origin, 21% of the population described themselves as White, 7.5% as Bangladeshi and 4.6% as Indian. There are also significant numbers from other ethnic groups. Source: <http://www.bradfordinfo.com/census/WardProfiles.cfm>

¹⁰ Within England information relating to income, employment, education, health, skills and training, barriers to housing and services and crime are combined into an overall measure of deprivation known as “The Indices of Multiple Deprivation.” A score is calculated for each area; a low score indicates greater deprivation – the most deprived Lower Layer Super Output Area of Local Authority [NUTS 4 level] is indicated by a rank of 1. Bradford has an overall rank of 30 out of 354 Local Authorities - Indices of Deprivation 2004. Source: www.neighbourhood.statistics.gov.uk.

¹¹ In 2003-2004, the employment rate for the Bradford Metropolitan District Council was 71.1%. The average overall employment rate in English Local Authorities for 03-04 was 75%. Source: Annual Local Area Labour Force Survey, 2003-2004.

¹² The 2001 Census found that over a ¼ of all households in the Mannigham ward were overcrowded, 42.9% did not have central heating or the sole use of a bath and inside toilet, and 49.5% had one or more persons with a long-term illness. Source: <http://www.bradfordinfo.com/census/WardProfiles.cfm>

investment. However, being outside the designated Article (87)(3) (a) areas, it was extremely difficult to package the levels of investment required within the permitted State aid limits.

At present the Historic Regeneration and Land Remediation schemes enable both the maintenance and remediation costs to be met. However, conversion of the mill into a range of new uses – office space, for example - might be simplified if allowed as a part of a single scheme to regenerate the building and immediate area, rather than the building alone.

Manningham Mills is an example of a scheme which would benefit from the clarification of the State aid rules, and additional guidance on how they may be applied together.

Electric Wharf, Coventry, West Midlands

This project involved the conversion of a derelict former electricity generation facility in a Tier 2 Assisted Area into modern space for living and working (with an element of social housing). The development was designed to demonstrate advanced standards of social and environmental engineering and attract relatively enterprising and prosperous new residents (especially from the artistic and high-technology communities) and businesses to an area that was previously run-down, whilst also benefiting existing residents. This physical redevelopment project is thus designed to contribute to community and economic regeneration of the wider area over time.

The project was only ever viable with public financial support., particularly to secure the public benefits of the extra social, environmental and cultural features. The selected developer happened to be an SME, despite the size of the project (£18m). Even so the work involving the footbridge and the restoration of the towpath had to be separately identified and funded as a public works project (at great cost in terms of administration) in order for the aid intensity for the remaining project to come below the permitted maximum in State aid terms.

Various environmental features had to be dropped to fit within the maximum aid intensity levels under the SME Block Exemption, including the installation of photovoltaic cells, a combined heat and power facility, “grey” water recycling and storage and a system for reclaiming heat from ventilation and recycling it. Some of the environmental and heritage elements might have been or could now be financed under specific UK approved schemes or Commission Guidelines; but this would have been very complex to administer, with associated delay and cost.

Eliot Park Innovation Centre – Nuneaton, West Midlands

The land for this site was originally used for waste disposal but was remediated at public expense before this project began. Remediation costs were therefore not an issue this time.

Nuneaton is an area of the West Midlands suffering from the decline of the manufacturing sector and associated social problems. Areas of the town contain brownfield, post-industrial land which is under-utilised at present and inhibits positive

development of new activity in the town moving forward. The area is currently a UK Objective 2 area for ERDF support, but not an Assisted Area.

There had been no substantial private sector speculative development of office space for small businesses in Nuneaton for over 20 years. Local and regional authorities identified potential demand for such facilities but the market was unwilling to take the risk of such supply, preferring to offer land developed for retail and distribution (and manufacturing) use, as had been traditional in this part of the West Midlands.

Faced with this market failure a decision was taken to offer public support for the development of such space, in the form of a managed workspace innovation centre, primarily designed for technology focused SMEs, with flexible letting terms. The public authorities also wanted to demonstrate that such buildings could incorporate latest technology for energy efficiency, in terms of solar heating panels and advanced insulation and lighting.

Consideration was given to supporting a proposed private sector development elsewhere in Nuneaton, but because the area is non-assisted, there were serious doubts that any such support would be State aid compatible. The cost of remedying the market failure to supply office space in Nuneaton combined with the cost of incorporating advanced environmental design would have necessitated a substantial aid package. Whilst meeting the cost of some of the specific environmental enhancements might have been approvable aid (but would have required notification and delay) the aid for remedying the broader market failure would have been notifiable on a separate basis and quite possibly not approvable, even after long delay.

The decision was therefore taken to develop such a facility directly in the public sector and at a cost of £7.2 million to the public purse, the project went ahead. The availability of ERDF support (£2.9m) was a critical factor in the necessary funds being assembled. The Centre is managed on behalf of the relevant local and regional authorities by Coventry University Enterprises, which rapidly secured high rates of occupancy at market rates for the area.

Since then several private sector developers have seen that market-led office developments in Nuneaton can be achieved at a profit and have developed further office space in the town. The project therefore has had the desired catalytic and demonstration effect.

This case shows how State aid concerns can determine whether projects are public or private-led, though EU rules are supposed to be neutral on forms of ownership. The market impact of pursuing the private route would have been the same as that resulting from public direct development, as long as procedures had been robust enough to ensure that the subsidy only met the market failure and the extra cost of the environmental enhancements.

Moreover, far from distorting competition, the project shows how regeneration efforts targeted at remedying market failures can actually be pro-competitive. The result of the project has been to open up a market, which had previously been inhibited. It is impossible to identify an undertaking whose business has been damaged as a result of this public support for land development. Yet had there been no ERDF funds

available, the project might have been prevented from taking place in the name of “competition policy” by fears over the application of the State aid rules.