REGIONAL AID FRAMEWORK 2014-20

**Submission to the DG Competition consultation from the UK’s Industrial Communities Alliance**

**Industrial Communities Alliance**

The Industrial Communities Alliance (ICA) is the association of local authorities in the older industrial areas of England, Scotland and Wales. The ICA membership covers most of the urban and industrial areas in the UK with Assisted Area status under the present EU Regional Aid Framework. These are economically disadvantaged areas, hard hit over several decades by job loss from formerly dominant industries.

The ICA and its predecessor bodies have a long history of engagement with EU rules on regional aid. This has involved input to the development of the rules and successive UK Assisted Area maps, including dialogue with the UK government, the devolved administrations in Scotland and Wales, and the European Commission.

The present submission has been agreed by the ICA National Executive, comprising senior elected members from local authorities across Britain.

**Brexit**

The UK is of course intending to leave the European Union. Assuming Brexit goes ahead, the terms on which the UK will leave nevertheless remain unclear. There is a widely-held view, however, that if the UK is to retain easy access to the Single Market it will need to accept some or all of the EU State Aid rules beyond Brexit.

The working assumption of the Industrial Communities Alliance is therefore that aspects of the EU rules in place beyond Brexit will continue to apply to the UK. It is on this basis that the ICA is making a submission to the present consultation.

**The need for effective rules**

The Industrial Communities Alliance accepts the need for effective rules governing regional investment aid across the UK and the EU in order to avoid subsidy wars and unjustifiable distortions to competition. However, the ICA strongly supports the principle, consistently supported too by the European Commission, that investment aid to support economic development in less prosperous regions and local areas is desirable and should be allowed under EU rules.

The challenge is therefore to design rules that allow the objective of regional economic development to be delivered effectively and affordably. In this regard the ICA would argue that the key principles underpinning a successful framework for regional aid should be that:

* The population coverage of the Assisted Areas in each member state (including the UK) should reflect the extent of the regional inequalities in that member state as well as disparities across the EU as a whole
* The allocation of Assisted Area status should be based on statistical measures of disadvantage and should largely be the responsibility of the member state
* Aid intensity ceilings should be sufficient to make a difference to business decisions
* There should be scope to support reinvestment in existing business operations as well as inward investments and start-ups
* Aid should only be given when it can be demonstrated that a project would not otherwise have gone ahead in the same location or on the same scale or timescale

**Assessment of the 2014-20 framework**

Important aspects of the Regional Aid Framework for 2014-20 (recently extended to 2022) fall short of the principles outlined above. These criticisms were voiced to the UK government at the time the present Framework was under consideration and, on a number of points, were relayed directly to the Commission.

*Population coverage*

The UK is one of Europe’s largest countries, with a population of 66 million and substantial regional and sub-regional differences in economic well-being. In terms of GDP per head, the latest statistics at NUTS 2 level (for 2017) show the range to be from 66 per cent of the EU average in West Wales and the Valleys through to 626 per cent of the EU average for Inner London West, or 187 per cent for London as a whole.

Under the Regional Aid Framework for 2014-20 only 25 per cent of the UK population is covered by Assisted Area status. This compares with much higher proportions – up to 100 per cent in some cases – in a number of member states in central and eastern Europe where the internal disparities in prosperity are far less marked. The ICA accepts that there is a case for high coverage to assist development in less prosperous member states but regards the population coverage in the UK as too low to allow the UK’s wide regional inequalities to be properly addressed.

*Subsidiarity in defining Assisted Areas*

The UK Assisted Area map combines Category ‘a’ areas and low population density Category ‘c’ areas, both defined by the Commission, with other Category ‘c’ areas defined by the UK government within Commission guidelines. Most of the UK population covered by the current map has Category ‘c’ status defined by the UK government.

Whilst the ICA welcomes the role of the UK government and the devolved administrations in defining Category ‘c’ areas, the Commission’s use of NUTS 2 statistics to define Category ‘a’ areas can be over-simplistic. For example, on the latest statistics the Outer London (East & North East) NUTS 2 area has fallen below the ‘75 per cent of EU average GDP per head’ threshold that would normally deliver Category ‘a’ status. This makes no sense given that this particular NUTS 2 area largely functions as a residential suburb of the far more prosperous London region. Conversely, there can be acutely disadvantaged areas within more prosperous but geographically large NUTS 2 regions above the 75 per cent threshold.

*Aid intensity ceilings*

Since even before EU membership, the UK has provided regional investment aid to companies and there is compelling evidence that this has help deliver jobs and growth in less prosperous parts of the country. However, to be effective it is important that aid intensities are sufficient to make a difference to business decisions.

The current aid intensity ceiling for large firms (250+ employees worldwide) in UK Category ‘c’ areas other than Highlands & Islands is just 10 per cent. This is down on the 15 per cent allowed under the 2007-13 rules and arguably far too low to make a difference to most investment decisions. The effect of the low ceiling in Category ‘c’ areas is to weaken regional investment incentives to the point where they become marginal at best to local development strategies or commercial decision-making.

*Support for re-investment on existing sites*

The Regional Aid Framework for 2014-20 prohibits aid to larger firms for investment on existing business sites in Category ‘c’ areas except where this involves a different product or production process. This prohibition is new – it was not part of the 2007-13 rules. Investment aid to help introduce a new model in an existing car plant in a Category ‘c’ area would be an example of the prohibition.

This is a damaging and retrograde step, especially bearing in mind that the majority of UK Assisted Areas are Category ‘c’ areas. The effect is to massively limit the scope for investment aid in less prosperous places. In Scotland for example, the value of grants offered under the Regional Selective Assistance scheme has fallen by around two-thirds since the introduction of the new rules in 2014. The largest part of the reduction is almost certainly attributable to the prohibition affecting re-investment.

Additionally, investment aid to the steel industry is presently entirely prohibited. The theory here is that the EU has over-capacity which needs to be reduced but in the context of the struggle of the UK and EU steel industries to survive in the face of competition from China in particular this prohibition should be lifted.

*Additionality*

The Industrial Communities Alliance has previously argued that the best way to avoid wasteful spending on regional investment aid across the EU is not to reduce aid intensity ceilings or Assisted Area coverage but to implement strong requirements to demonstrate ‘additionality’ – the requirement to show that a project would not have gone ahead in the same form or location in the absence of investment aid.

The UK has long experience in working to deliver additionality and for many years all UK investment aid has therefore been discretionary. Making final judgements is not an easy task but the UK has had procedures and experienced staff in place. The 2014-20 rules require ‘additionality’, which is welcome, but the Commission needs to ensure that this provision is properly enforced across all member states.

**Concluding remarks**

The UK’s spending on regional investment aid has been declining sharply in recent years. This is not simply the result of the 2014-20 rules because in 2015 the UK government discontinued the Regional Growth Fund, which had up to that point been the principal source of regional investment aid in England. The failure to renew this budget line – a decision rooted in a free-market philosophy and a drive to reduce the budget deficit – remains a major ICA concern. Scotland, Wales and Northern Ireland meanwhile continue to operate their own schemes.

Putting aside this internal UK dispute, it is nevertheless clear to that the present 2014-20 rules on regional investment aid are far from satisfactory and that if they are to continue to apply to the UK, as an EU member state or beyond Brexit, they require important modifications.

***Industrial Communities Alliance***

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