

# EAST AYRSHIRE COUNCIL

## DEVELOPMENT SERVICES COMMITTEE - 14 DECEMBER 2004

### EUROPEAN COMMISSION PROPOSALS ON REGIONAL STATE AID

#### Report by Executive Director of Development and Property Services

#### 1. PURPOSE OF REPORT

1.1 The purposes of this report are:-

(a) To inform the Committee of the UK Government's consultation exercise on European Commission Proposals on Regional State Aid.

(b) To inform the Committee of the development of responses submitted by Officers of the Council and the Leader of the Council in order to meet the consultation timescales.

(c) To request that the Committee homologates the detailed response submitted by the Leader on behalf of East Ayrshire Council.

#### 2. BACKGROUND

2.1 The European Commission has set out in a paper for Member States its proposals for amending the guidelines that govern what Regional State Aid may be granted in Member States in the period 1<sup>st</sup> January 2007 to 31<sup>st</sup> December 2013. The Commission requested views from Member States on the proposals by 1<sup>st</sup> July 2004.

2.2 On 14<sup>th</sup> June 2004 the UK Government issued a consultation document seeking the views of all interested parties on the Commission's proposals in order to inform the Government's response to the Commission. Initial comments were requested by Monday 28<sup>th</sup> June 2004 and full responses requested by Monday 6<sup>th</sup> September 2004.

2.3 Both the European Structural Funds and Regional State Aids are subject to reform post 2006 and on 4<sup>th</sup> May 2004 the Development Services Committee considered a report by the Executive Director of Development and Property Services on the future of European Union Regional and State Aids. That report included a summary of the proposals to reform State Aids post 2006, informed the Committee of the current position and highlighted related issues.

The Committee authorised Elected Members and Officers of the Council to participate fully in the continued lobbying of the Scottish Executive, UK Government and European Institutions through the Alliance for Regional Aid and other organisations including the West of Scotland European Consortium and the Coalfield Communities Campaign with a view to securing appropriate Regional and State Aid support to areas of need in the UK, such as East Ayrshire.

#### 3. DEVELOPMENT OF RESPONSES

3.1 Since 4<sup>th</sup> May 2004 Officers of the Council have fully participated in the development of responses to the UK Government's consultation document from a number of representative bodies including the Alliance for Regional Aid, the Coalfield Communities Campaign and the West of Scotland European Consortium.

- 3.2 This participation helped inform the development of the Council's own initial comments and detailed response to the consultation document.
- 3.3 On 29<sup>th</sup> June 2004 the Head of Economic Development, on an individual basis, sent initial comments on the proposals to the Department of Trade and Industry.
- 3.4 On 6<sup>th</sup> September 2004 the Leader of the Council sent a detailed response to the proposals to the Department of Trade and industry.
- 3.5 In addition, the Executive Director of Development and Property Services wrote to the Scottish Executive setting out the Councils views, and followed up by confirming that the Council also supported the view of the Alliance for Regional Aid, which brings together four local authorities Associations, the Coalfield Communities Association, Leading Action for Textile Clothing, Steel Action, and the Wing of the European Industrial Regions Association.
- 3.6 The timetable for submitting responses to the UK Government was such that the detailed response could not be presented to Committee prior to submission on 6<sup>th</sup> September 2004. However it was prepared in consultation with key members of the Council, including the Leader and the Chair of the Development and Property Services Committee. Copies of both the initial and detailed responses are appended to this report.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 There are no financial implications.

#### **5. LEGAL/POLICY IMPLICATIONS**

- 5.1 There are no legal or policy implications.

#### **6. RECOMMENDATIONS**

- 6.1 It is recommended that the Committee:-
- i) Note the undertaking of the UK Government's Consultation on European Commission proposals on Regional State Aid and
  - ii) Homologates the detailed response that was sent by the Leader of the Council on 6th September 2004.

**James Lavery**  
**Executive Director of Development and Property Services**  
**6 December 2004**  
**FV**

#### **BACKGROUND PAPERS**

1. "Consultation on European Commission Proposals on Regional State Aid, 14<sup>th</sup> June 2004 – Department of Trade and Industry".

For further information on the contents of this report please contact David Hewet, Senior Policy Adviser (Tel: 01563 554608)

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Ref: DH/MLS

Ms Julie Evans  
State Aid Branch  
Department of Trade & Industry  
Kingsgate House  
66-74 Victoria St  
LONDON SW1E 6SW

28 June 2004

Dear Ms Evans

**REGIONAL AID 2007-2013  
CONSULTATION ON EUROPEAN COMMISSION PROPOSALS ON REGIONAL STATE  
AID**

I refer to the above Consultation exercise and would wish to make the following preliminary comments. These comments are made on an individual basis. It is intended that a more detailed response will be considered in due course by the appropriate of Committee of East Ayrshire Council, and will be submitted by 6 September 2004.

A very substantial part of East Ayrshire (approximate 80% of the population) is currently an Assisted Area and the ability to promote State Aid assistance has been crucial in the past, either to secure new inward investment or the development of existing businesses.

Regional State Aids are therefore extremely important to the area in realising its efforts to regenerate the local economy.

The Commission's proposals would have a very detrimental effect on the ability of the area to secure new investment and are viewed with the deepest concern.

It is important that Regional State Aids can be deployed outside the narrow group of areas proposed by the Commission, and the proposal from the Alliance for Regional Aid regarding revised ceilings for Regional State Aids would appear a far better basis for the future and worthy of detailed consideration.

As requested in the Consultation document, a copy of this letter is being sent to the Scottish Executive.

Yours sincerely

Robert Paton  
Head of Economic Development & Property

Ms Julie Evans  
State Aid Branch  
Department of Trade and Industry  
2004  
Kingsgate House  
66-74 Victoria Street  
London SW1E 6SW

6 September

Dear Ms Evans

**Regional Aid 2007-2013**  
**Consultation on European Commission Proposals on Regional State Aid**

I refer to the invitation to express views on European Commission proposals to amend the guidelines governing Regional Aid after 2006.

East Ayrshire Council is grateful for the opportunity to comment and preliminary views were submitted on an individual basis by our Head of Economic Development and Property on 29<sup>th</sup> June 2004.

The detailed response of East Ayrshire Council is now presented below.

**Introductory Remarks**

East Ayrshire Council has participated fully in the development of the responses to the consultation prepared by the Alliance for Regional Aid and the West of Scotland European Consortium and support the general views expressed by those organisations.

East Ayrshire Council also supports many of the views and concerns expressed in the UK Governments response to the Commission's Director General Competition.

The comments below therefore focus on issues of particular relevance to East Ayrshire.

**State Aids-The Current Position**

EU State Aid rules are extremely important to local authorities in the UK's less prosperous areas as they set the framework for what the UK Government, development agencies and local authorities can provide in the way of business support.

*Regional State Aid* - A substantial part of East Ayrshire is an assisted area and this has proven crucial in the past in securing new investment or the development of existing businesses. For example, in financial year 2003/2004 a total of 5 companies in East Ayrshire accepted Regional Selective Assistance grant offers totalling £1,045,000 resulting in the creation or safeguarding of substantial numbers of jobs.

The ability to offer financial assistance to companies such as through Regional Selective Assistance and the Property Development Scheme is extremely important to the efforts to regenerate the area. As an example, property book values in many parts of East Ayrshire are often less than the cost of construction and without enhanced levels of aid developments in the less prosperous areas would often not happen.

It is however ironic that the current state aid map is such that some of the most remote and deprived settlements in the former Coalfield Area of East Ayrshire are not within the assisted area.

*Horizontal Aids* - The existing horizontal aids are also an important form of business support. Enhanced levels of support are available within the assisted area and although the levels of enhancement are relatively modest they can assist in targeting development to areas of most economic underperformance.

### **State Aids - The Commission's Proposals**

*General* – The economic performance of East Ayrshire has improved in recent years but there is still a very significant gap between its economic position and that of the more prosperous areas of Scotland. Similarly within East Ayrshire there continue to be significant geographic economic disparities despite concerted efforts to regenerate the former industrial and coal mining areas.

Given the importance of the current state aids in supporting the economic development and social and economic cohesion of the area, East Ayrshire Council is extremely concerned that the Commission's proposals might result in a diminution of the scope and role of regional state aids and as a consequence adversely affect the areas regeneration policies and proposals.

*Regional State Aid* – If the Commission's proposals prevail this would result in no part of East Ayrshire qualifying as an assisted area. There would be no eligibility for regional state aid to larger firms and the proposed investment aid levels from 2007 to support medium firms (10%) and small firms (20%) would be modest and substantially below what is currently available within the assisted area.

East Ayrshire Council therefore supports the Alliance for Regional Aids proposal that the Ceilings for Regional State Aids proposed by the Commission should be revised upwards for each group of areas. This would allow East Ayrshire the possibility of continuing regional state aid beyond 2006. It is important however that the intensity of aid available is sufficient to influence investment decisions and that there be no lower limit for the amount of support available. In many instances relatively small amounts of aid can influence positively the investment decisions of small companies.

However there is concern that even if this proposal was accepted there would be no guarantee as to the extent of assisted area coverage within East Ayrshire. This would have to be subject of a lobbying exercise by the Council at a later stage.

*Identification of Article 87(3) (c) areas* - East Ayrshire Council is of the view that the method proposed by the Commission to identify Article 87(3) (c) areas is inappropriate as it fails to achieve appropriate spatial targeting of regional aid.

East Ayrshire Council supports the Alliance for Regional Aid's view that a better approach would be to target areas of economic need in whichever NUTS 2 region they happen to be located using the geographical building blocks that best reflect local circumstances.

The most appropriate way of achieving this would appear to be that each member state government be allocated a population coverage for Article 87.(3) (c) areas and thereafter have devolved powers to distribute that coverage geographically in consultation with local and regional partners.

In addition the Council is of the view that the Commission should adopt a less rigid approach regarding the minimum size of each assisted area. These should be of a size that is appropriate to local circumstances.

The UK Government's suggestions whereby the Article 87(3) (c) areas might be defined at NUTS 111 level are also worthy of detailed discussion.

Use of employment/ unemployment rates and information from the Scottish Index of Multiple Deprivation might assist in achieving better targeting of support.

*Horizontal Aids* - At present those projects within the assisted area in East Ayrshire that are eligible for assistance through the horizontal state aids can benefit from levels of support above the normal aid ceilings.

If East Ayrshire were to lose its assisted area status as a result of the reform then this additional level of support would also be lost and this would have a further detrimental effect on the ability of the area to encourage economic development.

The Commission suggests that the forthcoming revision of the horizontal guidelines will be important in providing flexibility for Member States to address underperformance in regions which do not qualify for assisted area status and this objective is to be welcomed. However the proposals presented do not appear to be sufficient to achieve this goal since support for job creating capital investment by larger firms would not be permitted.

As a number of the existing guidelines are due for review in the period 2005-2007 it is desirable that appropriate consultations opportunities are provided.

East Ayrshire Council agrees with the UK Government's views regarding the horizontal aids relating to Risk Capital, Environmental Protection and Regeneration.

East Ayrshire Council also supports the UK Government's comments regarding aid intensities under the horizontal guidelines and in particular agrees that there should be scope under the horizontal guidelines to address effectively areas outside the assisted areas which are experiencing difficulties. The mechanism proposed to achieve this is supported.

However even if additional levels of horizontal aid were provided in areas of sub- regional underperformance it would not substitute for the loss of eligibility for regional state aid.

### **State Aids and the Future of the Structural Funds**

Proposals for the future of EU funding for regional development have also been published by the Commission. These would put in place a regional funding policy that would apply to the whole of the EU. As an alternative the UK Government has argued that EU funding should be limited to the poorest countries.

It is likely, regardless of whether the Commission's proposals or the UK Government's proposals prevail, that the reform of Regional Aid will result in less Structural Funding being available in the UK.

The Commission's proposals are such that, other than through the Convergence Priority, structural funds would be allocated at a wide (probably Scottish) level to address specific themes. East Ayrshire Council believes that this could also be potentially to the disadvantage of areas such as East Ayrshire as the funds would support Scotland wide themes with a priority on urban areas and with no focus on poorer areas some of which are peripheral and rural. There is a danger that traditional industrial areas, former coalfield areas, and deprived peripheral and rural areas such as East Ayrshire will have difficulty in competing against more affluent areas.

In the circumstances East Ayrshire Council may be adversely affected as a result of the reforms of both the structural funds and regional state aids should the Commission's proposals prevail.

Structural funds and domestic regional policy support have played a crucial part in the economic regeneration of East Ayrshire. In both instances the Commission's current proposals for reform would result in East Ayrshire losing its ability to offer competitive incentives for projects to locate in areas of need and this is of great concern to the authority.

East Ayrshire Council does not agree with the Commission's view that it is necessary to have spatial coherence between eligibility for structural funds and assisted area status and believes that state aid rules should allow all member states to tackle underperformance wherever it occurs.

East Ayrshire Council therefore strongly supports the view of the Alliance for Regional Aid that if EU structural funding is reduced to the regions in the UK then this should be mitigated to some extent by allowing member states to increase the scope and scale of domestic regional aid. There is no reason why less EU Funding should be accompanied by tighter restrictions on member states to provide assistance to firms in their own areas.

As requested in the Consultation document a copy of this letter is being sent to the Scottish Executive.

Yours sincerely



Councillor Andrew McIntyre  
Leader  
East Ayrshire Council.