

REPORT TO: CITY DEVELOPMENT COMMITTEE - 22 APRIL 2013

REPORT ON: CONSULTATION ON DRAFT REGIONAL AID GUIDELINES

REPORT BY: DIRECTOR OF CITY DEVELOPMENT

REPORT NO: 156-2013

1 PURPOSE OF REPORT

- 1.1 This report provides information regarding the draft regional aid guidelines and the potential impact on incentives available to companies investing in or locating in Dundee.

2 RECOMMENDATION

- 2.1 It is recommended that the Committee note the contents of this report and the Director of City Development's response to the consultation exercise.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising from this report.

4 BACKGROUND

- 4.1 Large parts of the Dundee City area benefit from assisted area status which enables regional aid grant awards to be made by the Scottish Government to companies considering locating or investing in Dundee. The current assisted areas map covers the period from 2007-2013.
- 4.2 Between 2007 and 2013 a total of £17.9 million in regional selective assistance was awarded to 40 companies to support the creation of 1,408 jobs and the safeguarding of 241 jobs in Dundee.
- 4.3 Draft guidelines have been issued by the European Commission which will underpin the drafting of a new assisted areas map to cover the period 2014-2021.
- 4.4 Dundee's inclusion on the new map will be determined through a 2 stage process. The first stage filter depends on the NUTs 3 area of Dundee City and Angus evidencing an unemployment rate which is 115% or higher than the UK average or a GDP level that is below the EU average. Dundee City and Angus do not meet the unemployment filter but, depending on GDP data still to be released, may meet the GDP filter. If Dundee City and Angus pass this first stage filter the area will be eligible to make a case to the UK Department of Business Innovation and Skills (BIS) for inclusion on the UK assisted areas map which will be drawn up through a 2 stage consultation process. This will commence in April 2013 and conclude in October 2013.
- 4.5 The draft guidelines make a number of proposals which, if Dundee were successful in securing assisted area status in the future, would impact on the allocation of aid.
- 4.6 The draft guidelines propose to no longer permit the allocation of aid to large companies (250 plus employees) in 107(3)c areas like Dundee. Regional aid has

been awarded over the past 7 years to large companies such as Michelin, NCR, Alliance Trust and Tesco, supporting investment, creating and safeguarding jobs.

- 4.7 The draft guidelines propose to reduce intervention levels for small and medium sized companies by 5%.
- 4.8 Further background information is detailed in the briefing report attached at Appendix 1.
- 4.9 The Director of City Development has responded to the consultation stressing the important role that regional aid has played in safeguarding and creating jobs in the city and asking the Commission to reconsider some of its proposals. In particular, the intention to no longer permit aid to large companies and the intention to lower intervention levels. This response is attached at Appendix 2.
- 4.10 A further report will be submitted to Committee once further progress has been made in finalising the regional aid guidelines and drafting the new map.

5 POLICY IMPLICATIONS

- 5.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6 CONSULTATIONS

- 6.1 The Chief Executive, the Director of Corporate Services and Head of Democratic and Legal Services have been consulted and are in agreement with the contents of this report.

7 BACKGROUND PAPERS

- 7.1 Draft Guidelines on Regional State Aid for 2014-2020.

Mike Galloway
Director of City Development

Stan Ure
Head of Economic Development

SU/RV/KM

7 March 2013

Dundee City Council
Dundee House
Dundee

APPENDIX 1

REVIEW OF REGIONAL AID ASSISTED AREAS MAP

- 1 The European Commission are currently undertaking a review of the assisted areas map. The current map covers the period 2007-2013 and the new map will come into force on 1 January 2014 and cover the period through until the end of 2021.
- 2 Current Regional Aid Guidelines (RAG) lay down the parameters for permissible state aid. In other words the subsidies which the public sector can give to private companies (indigenous or inward investment) to foster local development in zoned areas with abnormally low standards of living or very high unemployment.
- 3 Regional Aid in Scotland is distributed via Scottish Enterprise, Highlands and Island Enterprise and Scottish Development International; Local Authorities to Small and Medium Sized Enterprises (SMEs); and BPRA grants for business premises.
- 4 In terms of the current assisted areas map most of Dundee City qualifies as a 107.3c area ie a disadvantaged area that falls within a well off member state. (Blue areas designated on map at Annex 1).
- 5 Since 2007, assisted area status has enabled Regional Selective Assistance Grant (RSA) awards to be made to 40 Dundee companies to the value of £17,917,000. At the outset these awards were expected to support the creation of 1,408 jobs and the safeguarding of 241 jobs. In monetary terms the largest grant offer was to Michelin Tyres of £5,250,000 in Quarter 3 2011/2012 (to create 109 and safeguard 187 jobs) The grant with most jobs attached was to Tesco Customer Contact Centre for the creation of 300 posts in Quarter 2 2008/2009.
- 6 New draft regional aid guidelines were issued by the European Commission for consultation on 14 January 2013 with a response deadline of 11 March 2013.
- 7 The main issues that are likely to affect Dundee are as follows:
 - a The first stage filter criteria for 107(3)c areas will a contiguous area of at least 100,000 people in a NUTs 3 area with either GDP per capita below the EU-27 average or unemployment levels 115% above the national average. The relevant NUTs 3 area is "Angus and Dundee City" which does not qualify on the unemployment measure. At the point of preparing this briefing paper updated GDP figures were still to be released and the position was described as borderline by the Scottish Government in respect of whether Angus and Dundee City NUTs 3 would qualify on the basis of below average GDP. The criteria used are consistent with those applied when the current map was drawn up in 2006 and there are no really viable alternative measures that are likely to be considered by the Commission which would place Angus and Dundee City in a better position.
 - b The Commission proposes to no longer allow aid to be granted to large companies (>250 employees) in 107(3)c areas. They argue that large companies face less handicaps than SMEs, can more easily access capital and credit, can exercise undue influence over authorities to grant aid without due justification and have greater potential to cause distortions of competition. They argue that the direct negative effects of regional investment aid to large enterprises are likely to outweigh any positive effects. This represents a

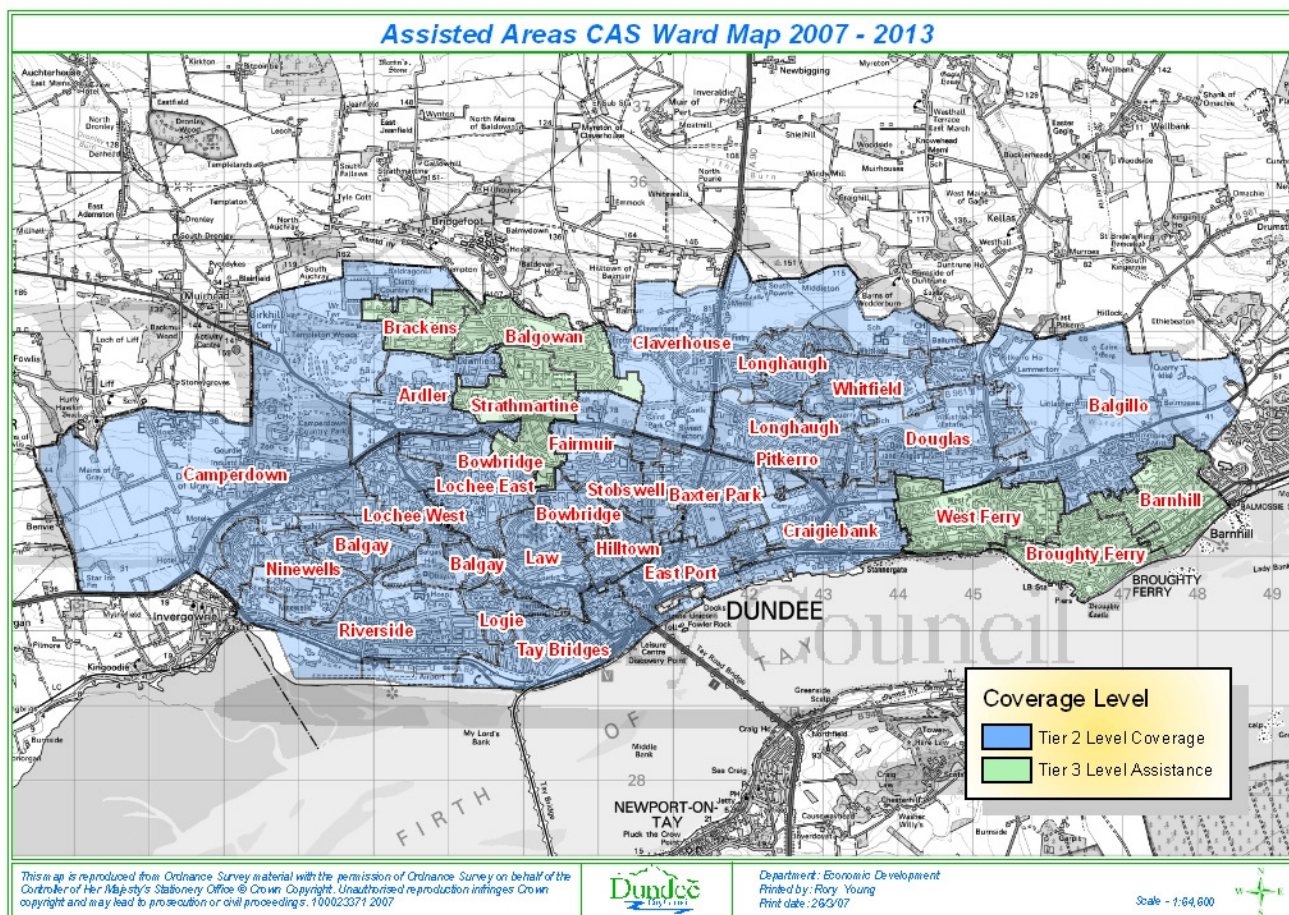
significant restriction given that at present awards to large companies in Scotland account for 70% of jobs created, 70% of spend and 60% of R&D activity by private investors. This approach would run counter to Scottish Government attempts to target larger companies with capital allowances in enterprise areas and current attempts to incentivise large renewables manufacturing and service operations to locate in Scotland and Dundee in particular. If these restrictions had been in place since 2007, it would not have been possible to provide awards to companies investing in Dundee such as Michelin, NCR and Tesco. Large companies have been responsible for the majority of jobs safeguarded or secured through regional selective assistance over the last 7 years. This restriction would remove a means of incentivising large companies to invest in Dundee during a period when the city will be seeking to maximise investment in its waterfront and port.

- c The Commission proposes to reduce aid intensities in 107(3)c areas by 5% compared to current levels for SMEs. The new levels will be a maximum of 30% for small enterprise and 20% for medium size enterprises.
 - d The Commission proposes to introduce the requirement for evaluations to be carried out before awards are made to companies in 107(3)c areas. This raises concerns that the additional bureaucracy involved in accessing awards may negate the incentive affect that regional aid exists to induce.
- 8 The Director of City Development has responded to the regional aid guideline consultation exercise expressing concerns regarding the proposal to remove aid for large companies and encouraging the Commission to reconsider this and allow aid to large companies where this supports wider Europe 2020 policy objectives eg low-carbon economy, promoting research/innovation, promoting the digital society, encouraging skills development and learning. The Scottish Government have indicated that this is the area where the Commission are most likely to offer concessions. In the case of Dundee this concession, if secured, might enable incentives to be offered to potential renewables investors at Dundee Port and to some other large companies investing at Dundee Waterfront where such investment can be proven to constitute "good aid".
- 9 Officers within the City Development Department will continue to monitor the position and input where required in line with the timetable outlined below.

Action	Timescale
Consultation by Department of Business Information and Skills on Indicators to be used at UK level to define map	April 2013
Finalised Regional Aid Guidelines published	May/June 2013
Drafting of new Assisted areas Map for UK	Summer 2013
Consultation on draft map	August 2013
Submission of UK map to Commission	October 2013
New map comes into force	Estimated June 2014

- 10 Scottish Government officials have indicated that the new map is unlikely to come into force until June 2014. As the current map expires at the end of 2013 and the Guidelines make no provision for transitional arrangements this means that there will effectively be a period at the start of 2014 when no regional aid awards can be made.

Assisted Areas CAS Ward Map 2007 - 2013



APPENDIX 2

European Commission
Directorate-General for Competition
Ref.: HT.3127 Public consultation regional aid
State aid Registry
1049 Bruxelles/Brussel
BELGIQUE/BELGIE

Mike Galloway OBE - Director
City Development

Floor 6, Dundee House
North Lindsay Street, Dundee DD1 1LS

Tel: 01382 434000
Fax: 01382 433013

If calling please ask for:

Our Ref	MPG/RV/MS
Your Ref	
Date	7 March 2013

Dear Sir/Madam

DUNDEE CITY COUNCIL CONSULTATION RESPONSE - DRAFT GUIDELINES ON REGIONAL AID

Dundee City Council welcomes the opportunity to provide comments on the draft regional aid guidelines issued by the Commission on 14th January 2013 and welcomes the Commission's continued commitment to regional aid as an instrument to promote the economic development of disadvantaged areas like Dundee City.

Parts of Dundee City currently benefit from 107(3)c status. Since 2007, this has enabled awards of almost €21 million to be offered to investors, to support the creation of 1,408 jobs and the safeguarding of a further 241 jobs. Availability of regional aid has helped to mitigate the impact of continued shrinkage in the city's manufacturing base and the impact of the economic downturn on a city with a historical legacy of high unemployment and above average deprivation levels.

The availability of regional aid continues to help Dundee counter the challenges it faces by supporting the attraction of new investment and safeguarding the future of existing employers.

Dundee City has successfully positioned itself as a centre of economic opportunity. Underpinned by its 2 universities the city has developed key industry clusters around biotechnology and digital media. We are in the process of investing £1 billion in Dundee Waterfront which over the next few years will provide an investment opportunity for smart sustainable businesses. The Port of Dundee has been identified as one of the UK's prime potential locations for offshore renewables manufacturing and service companies. Whilst welcoming the Commission's continued commitment to regional aid there are a number of proposals in the draft regulations which we would ask are reconsidered:

- **Removal of aid to large companies in 107(3)c areas** – regional aid has been instrumental in securing the future of a number of large companies in Dundee, helping to create and safeguard jobs.

Awards to large companies have had the most significant economic impact. Dundee Waterfront and Dundee Port provide real opportunities for companies of scale to make significant investments and help deliver much needed employment. The ability to influence potential large scale investors to choose Dundee as an investment location will be severely constrained if regional aid is limited to SMEs.

Dundee City Council asks that the Commission reconsiders this restriction thus making aid available to large companies in 107(3)c areas - at least where it can be demonstrated that, in addition to creating or safeguarding jobs, the investment supports broader Europe 2020 policy objectives.

- **The Link to 2020 Policy Objectives** - Dundee recipients of Regional Aid such as NCR, through their investment in R&D, and Michelin, through their investment in environmentally friendly tyres, demonstrate that large companies can help to deliver some of the Commission's wider policy objectives. The opportunity now exists in Dundee to contribute to the development of a European low carbon economy by establishing a successful offshore renewables industry. This opportunity will almost certainly be constrained if regional aid cannot be offered to large potential investors.
- **Reduction in aid intensities** – Dundee City Council considers that the proposed reduction in aid intensities that can be offered to small (30%) and medium (20%) sized enterprises will effectively lessen the incentive effect and reduce the influence that regional aid has on location decisions. We would ask that the Commission considers restoring incentive levels to the current levels.
- **Introduction of evaluations** – Dundee City Council requests that the Commission reconsider the requirement for evaluations to be carried out prior to awarding regional aid in 107(3)c areas. The introduction of, what may be perceived as, additional bureaucracy may erode the incentive effect that regional aid exists to induce and deter uptake.
- **Population coverage** – Dundee City Council requests that the Commission reconsiders the intention to limit overall population coverage to 42%. This does not take into account the accession of Romania and Bulgaria to the EU since the last regional aid guidelines were drawn up.
- **Transition Arrangements** – Dundee City Council requests that the Commission considers putting in place transitional arrangements if, as seem likely, the new map is not in place by January 2014.

We thank you for the opportunity to comment on the draft regulations and for your consideration of the above points.

Yours faithfully

Mike Galloway
Director of City Development