**RESEARCH PAPER 03/15**
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# The *Industrial Development (Financial Assistance) Bill*

## Bill 5 of 2002-2003

The *Industrial Development (Financial Assistance) Bill* receives its Second Reading on Monday 24 February. It seeks to increase the amount of financial assistance that can be given to industry, in Great Britain, under section 8 of the *Industrial Development Act 1982* (c.52).

This paper describes section 8 of the 1982 Act, the changes provided for by the Bill and looks at some of the schemes that have their statutory base under the Act.

Grahame Allen

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# Summary of main points

The *Industrial Development Act 1982* consolidates many earlier Acts that provided for financial assistance to industry.

Section 7 of the Act provides for financial assistance for industry in specific geographical locations -Assisted Areas – while section 8 provides for assistance on a national basis.

The types of schemes that are supported under section 8 of the 1982 Act include the Enterprise Grant Scheme (EGS), the Small Firms Loan Guarantee Scheme (SFGS) and parts of the Phoenix Fund. Total assistance given under section 8 in 2001/02 was around £113 million. This total excludes assistance which cannot be specifically attributed to the 2001/02 financial year.

The *Industrial Development (Financial Assistance) Bill* raises the limit of assistance that can be given under section 8 of the 1982 Act in Great Britain from £1,900 million to £3,700 million and allows for four possible extensions of up to £600 million each. The remainder of the 1982 Act will remain unaltered.

CONTENTS

# I Introduction

## A. *The Industrial Development Act 1982*

The *Industrial Development Act 1982*[1] consolidated, with certain exceptions, the *Local Employment Act 1972*, Parts I and II of the *Industry Act 1972*, section 18 of the *Industry Act 1980*, section 6 of the *Industry Act 1981* and related enactments. It received Royal Assent on 28 October 1982 and came into force on 28 January 1983.

Part III of the 1982 Act provides for financial assistance to industry. Section 7 provides for selective financial assistance in specific areas of the UK[2] while section 8 provides for general selective assistance nationally. Section 8(1) states:

> **8.**__(1) For the purposes set out in subsection (2) of section 7 above the Secretary of State may, with the consent of the Treasury, provide financial assistance where, in his opinion-
> *(a)* the financial assistance is likely to benefit the economy of the United Kingdom, or of any part or area of the United Kingdom; and
> *(b)* it is in the national interest that the financial assistance should be provided on the scale, and in the form and manner, proposed; and
> *(c)* the financial assistance cannot, or cannot appropriately, be so provided otherwise than by the Secretary of State.

The Act also specifies the financial limit of sums that can be paid to industry by the Secretary of State. Section 8(5) states:

> (5) the said limit shall be £1,900 million, but the Secretary of State may, on not more than four occasions, by order made with the consent of the Treasury increase or further increase that limit by a sum specified in the order, being a sum not exceeding £200 million.

The limit has been increased by £200 million on three occasions since the 1982 Act was introduced. The *Financial Assistance For Industry (Increase of Limit) Order 1996*[3] increased the limit to £2,100 million with effect from 29 February 1996. The *Financial Assistance For Industry (Increase of Limit) Order 2000*[4] increased the limit to £2,300 million with effect from 6 April 2000. The *Financial Assistance For Industry (Increase of Limit) Order 2002*[5] increased the limit to £2,500 million with effect from 29 January 2002.

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[1] Chapter 52
[2] Within Assisted Areas. More information on Assisted Areas is given in Appendix 1 to this Paper and in Library Standard Note, *Assisted Areas*, SNEP 1413, 17 August 2001
[3] SI 1996/569
[4] SI 2000/995
[5] SI 2002/151

In a statement before the Fourth Standing Committee debate on the Draft 2002 Order,[6] the then Minister for Employment and the Regions, Alan Johnson said:

> The order will increase the limit to £2.5 billion and is expected to provide legislative cover to enable assistance under section 8 to continue for a further year. After that, the limit may be increased for a fourth and final time. Beyond that, further legislation will be needed. That could be primary legislation or an order under the Regulatory Reform Act 2001. The Government will introduce such legislation as and when it is needed.

A fourth and final increase has been requested under the 1982 Act as there is reason to believe that the present limit could be reached before the Bill receives Royal Assent. This will be legislated for under the *Draft Financial Assistance for Industry (Increase of Limit) Order 2003*. The Order has been referred to the 1st Standing Committee on Delegated Legislation and is scheduled to be discussed on 25 February 2003.

## B. Devolved Administrations

By the *National Assembly for Wales (Transfer of Functions) Order 1999*[7], the functions of the Secretary of State under section 8(5) of the 1982 Act, with regard to Wales, are exercisable only after consultation and agreement with the National Assembly. In Scotland, the power was transferred to the Scottish Ministers by section 53 of the *Scotland Act 1998*[8] but remains exercisable by the Secretary of State by virtue of section 56(1) of that Act. Parts of sections 11, 12 and 20 of the 1982 Act, the whole of sections 15 and 19 as well as Schedules 2 and 3, do not apply in Northern Ireland. These sections and schedules are provided for in Northern Ireland by the *Industrial Development (Northern Ireland) Order 1982*.[9]

## C. *The Industrial Development (Financial Assistance) Bill*

The *Industrial Development (Financial Assistance) Bill*, Bill 5 of 2002/03, was first introduced to the House on 18 November 2002. Clause 1 of the Bill, the only substantive clause in the Bill, replaces section 8(5) of the 1982 Act, raising the initial limit of financial assistance from £1,900 million to £3,700 million and the subsequent four possible extensions from up to £200 million to up to £600 million. The remainder of section 8 will remain unaltered.

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6 Fourth Standing Committee on Delegated Legislation, Draft Financial Assistance for Industry (Increase of Limit) Order 2002, 21 January 2002

7 SI 1999/672

8 Chapter 46

9 SI 1982/1083 (N.I. 15)

# II Assistance under section 8 of the 1982 Act

This section looks at some of the schemes and programmes that have their statutory basis in section 8 of the 1982 Act. The information is taken from two main sources: the *Grantfinder* database and the *Industrial Development Act 1982 Annual Report* which is presented annually to Parliament under sections 11 and 15 of the 1982 Act.[10]

## A. Enterprise Grant Scheme (EGS)

The Enterprise Grant Scheme (EGS) was launched on 1 January 2000. Grants are available in 'Tier 1' and 'Tier 2' Assisted Areas and also in 'Tier 3' areas in England.[11] It should be noted that Tier 3 areas do not form part of the UK's overall quota towards the population ceiling that can receive assistance set by the European Commission (EC) and that they are not, technically, Assisted Areas.[12] Payment of aid in these areas is permitted under the European Union (EU) rules on State aid for small and medium-sized enterprises (SMEs) rather than the rules on regional aid. At present, Tier 3 areas include:

- Local authority districts showing labour market weaknesses;
- Rural Development Areas as defined by the former Rural Development Commission; and
- Ex-coalfield areas as defined by the Coalfields Taskforce.[13]

A map showing all three tiers of areas eligible for assistance under the Scheme is available on the DTI website.[14]

An Enterprise Grant is a one-off form of financial assistance to small and medium-sized enterprises (SMEs) investing in projects that would not otherwise go ahead. They are similar to payments of Regional Selective Assistance (RSA)[15] in the Assisted Areas but are for companies investing up to, rather than over, £500,000 capital expenditure. The maximum amount that can be granted is £75,000. Subject to this limit, small enterprises can receive grant up to 15% gross of fixed capital costs whereas medium-sized enterprises can receive up to 7.5% of gross fixed capital costs in certain areas outside Assisted Areas and 15% inside Assisted Areas. Where aid under the Scheme may be combined with other approved aid, EC rules on cumulation of aid will apply.

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10 DTI, *Industrial Development Act 1982 Annual Report*, various years
11 DTI, *The Government's Proposals for new Assisted Areas,* July 1999
12 See Appendix 1 to this Paper.
13 Letter to MPs from Rt Hon Richard Caborn MP, 26 July 2000.
14 DTI website as at 13 February 2003: www.dti.gov.uk/enterprisegrant/eg-areas.htm
15 More information on RSA is given in the HC Library Standard Note, *Assisted Areas,* SNEP 1413, 17 August 2001

Applications for Enterprise Grant are assessed by the Small Business Service (SBS)[16] against six main criteria, although projects in each region are also assessed against regional priorities:

- **Quality:** Preference will be given to high growth businesses seeking to maximise value-added projects with quality output;
- **Proof of need:** Applicants need to show that without Enterprise Grant funding, the project would not go ahead;
- **Viability:** the business and project should be viable and the project should have good prospects of becoming self-sustaining;
- **Job displacement:** projects which are likely to create over-capacity and displace jobs elsewhere may not qualify for a grant;
- **Public sector contribution:** The greater cost of projects should be funded from outside the public sector; and
- **European Commission sectoral restrictions:** There are special Community rules governing State aid to certain sectors, e.g. synthetic fibres, vehicles, food production, agriculture, fisheries, shipbuilding, coal, iron and steel.

According to the DTI, the value of EGS offers accepted in 2000/01 and 2001/02 was just over £34 million.

**Enterprise Grant Scheme**

1 April to 31 March each year

| | 2000/01 | 2001/02 |
|---|---|---|
| Applications received | 871 | 686 |
| Value (£000s) | 32,058 | 24,764 |
| Average size (£) | 36,806 | 36,099 |
| Offers accepted | 501 | 592 |
| Value (£000s) | 15,617 | 18,858 |
| Average size (£) | 31,172 | 31,855 |
| Payments (£000s) | 3,639 | 10,218 |
| Applications rejected and withdrawn | 126 | 158 |

Source: DTI, *Industrial Development Act 1982 Annual Report* , various years

Details of EGS applications, offers accepted, payments, and applications rejected and withdrawn in 2000/01 and 2001/02 are given in the table above.

16 See section III of this Paper

## B. Enterprise Fund

The Enterprise Fund as it stands today was first outlined in December 1998 in the White Paper *Our Competitive Future: Building the Knowledge Driven Economy*[17] and was originally allocated £180 million between 1999 and 2002. The Fund received an extra £10 million in March 1999 with the object of levering an extra £500 million worth of private and public sector financing to small and medium-sized enterprises (SMEs). The 2002 Spending Review[18] provided for the continuation of the Fund and the projects/schemes it supports beyond 2002.

The overall aim of the Enterprise Fund is to develop and provide flexible means of financial support for SMEs with growth potential. The Fund has three main elements:

- Small Firms Loan Guarantee Scheme (SFLGS);
- UK High Technology Fund; and
- Regional Venture Capital Funds (RVCFs).

### 1. Small Firms Loan Guarantee Scheme (SFLGS)

Support is available to help potentially viable UK small businesses - particularly those unable to provide security, or with no track record - to raise medium term loans from banks and other financial institutions where these are not available on normal commercial terms. This is done by the provision of official guarantees to participating lenders of finance against non-payment.

The scheme is operated through approved lenders and presently remains the DTI's main instrument for supporting business finance. The Small Business Service (SBS) provides a guarantee of 70% or 85% of the outstanding amount of a two to ten year loan due to the lender, on behalf of the Secretary of State for Trade and Industry. Guarantees may cover loans of between £5,000 and £250,000 to any one borrower and must be for business purposes only. Guarantees are available to sole traders, partnerships, franchises, co-operatives or limited companies which have no more than 200 employees and which are already trading or are about to trade. Small firms in the service and manufacturing sectors, with an annual turnover of up to £1.5 million and £5.0 million respectively, may also benefit from the scheme.

Finance may be used for developing a project, starting up trading, expanding an existing business or improving efficiency. Loans cannot be used to purchase the shares of a firm, to buy out members of a partnership, or to replace existing loan and overdraft facilities or finance interest payments. Most sectors of the economy involving tradable goods and services are eligible for support including all manufacturers, construction firms and many service industries.

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[17] DTI, *Our Competitive Future: Building the Knowledge Driven Economy*, Cm 4176, December 1998
[18] HM Treasury, *2002 Spending Review*, Cm 5570, July 2002

There are however, a number of sectors that are ineligible under the scheme. The main ones are:

- **Agriculture and horticulture** - loans for the production, processing and marketing of agricultural products are available, but there are restrictions;
- **Banking, finance and associated services** - any activity that involves granting of finance or a financial service to clients;
- **Coal** - mining and extraction of coal and lignite, including the cleaning, sizing and grading of coal, and the manufacture of solid fuel, including coke, is ineligible where such mining and extraction falls within the terms of the former European Coal and Steel Community (ECSC) Treaty;
- **Education** - all forms of education which offer a curriculum of lessons, piano tuition and musical tuition are not eligible;
- **Fisheries** - Loans for operating costs (day-to-day running costs), advertising brand products, vessel construction and purchase of a vessel, or equipment that would lead to an increase in fishing effort are not eligible;
- **Forestry** - all activities connected with the cultivation of trees and maintenance of forests for commercial use, including tree nurseries are ineligible;
- **Medical and health services and veterinary services** - all activities where registered and unregistered medical, other health care or veterinary personnel use their skills to treat patients are not eligible;
- **Motor vehicle repair and servicing** - painting, body repair, car valeting and activities associated with motor vehicle maintenance are ineligible;
- **Postal services** - postal services charging less than £1.00 for each item carried are ineligible;
- **Public administration, national defence and compulsory social security** - all publicly owned bodies and companies are ineligible;
- **Retail** - defined as the sale of goods to consumers (including other businesses);
- **Steel industry** - manufacture of basic iron and steel products and ferro-alloys, as defined by the former ECSC Treaty; and
- **Transport** - all forms of road (including taxi and cab hire), rail, water, and air transport (including those run as tourist attractions, and living museums).

In recent years, the SFLGS has performed as shown in the table below:

**Small Firms Loan Guarantee Scheme**

| | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | *June 1981 to March 2002* |
|---|---|---|---|---|---|---|
| Loans Guaranteed | 5,081 | 4,875 | 4,279 | 4,312 | 4,269 | *79,988* |
| Value of Loans (£ million) | 201 | 197 | 206 | 241 | 255 | *3,020* |
| Average size of loan (£) | 39,559 | 40,410 | 48,142 | 55,775 | 59,660 | *37,756* |

Source: *Grantfinder* database and *Industrial Development 1982 Annual Report*, various years

## 2. UK High Technology Fund

The UK High Technology Fund is a 'fund of funds' providing finance for existing venture capital funds that specialise in financing early stage small and medium sized high-technology firms. Whilst intended to help such firms find finance, the fund is operated indirectly and is managed by Westport Private Equity Ltd. The Fund also levers money from institutional investors such as pension funds and has a 'cornerstone investor' in the shape of the European Investment Bank's subsidiary, the European Investment Fund (EIF). Access to the funds is subject to the normal risk assessment of the specialist venture capital firms operating in the high technology sector.

The Funds have received investment from the UK High Technology Fund and also receive funding from many other private sources. As a result, businesses do not necessarily know that they have received funding from the Fund. They only know that they have received investment from a particular venture capitalist. The Fund's aim was to raise £105 million from private sector investors alongside £20m of Government investment. The Fund has actually raised £126 million and has begun making investments in eight venture capital funds that specialise in investing in early-stage, technology-focused companies. As at March 2002, the Fund has committed over £114 million to the eight venture capital funds.[19]

## 3. Regional Venture Capital Funds (RVCFs)

These were announced in December 1998 to be established in all the Regional Development Agency (RDA) areas in England including London.[20] There are already mechanisms for support of this type in Wales, Scotland and Northern Ireland. As at October 2002, seven RVCFs were operational and able to make investments.[21] Plans for the West Midlands and East of England regions have also been announced and are expected to become operational in 2003.

The Funds are being developed as Public Private Partnerships (PPPs), with public sector investment on terms that will attract private sector funding. The Funds are intended to provide equity capital for small growing firms whose financing needs are less than £500,000 - too large for efficient bank debt finance and too small to attract major venture capital and private equity providers. Funds in each region will be managed by professional fund managers who will work in partnership with their RDAs. Indicative funding targets for each region have been set up amounting to just over £235 million. This will be backed up with £80 million of Government funding and £53 million from the European Investment Fund.[22]

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19 DTI, *Industrial Development Act 1982 Annual Report*, HC 1007 2001/02, 27 June 2002
20 See HC Library Research Paper, *Regional Development Agencies (RDAs)*, RP 02/50, 22 August 2002
21 HC Deb 25 October 2002 c427W
22 HM Treasury, *Productivity in the UK: 3- The Regional Dimension*, November 2001

## C. Business Incubation Fund

The £75 million Business Incubation Fund was announced in the 2001 White Paper *Opportunity for All in a World of Change*.[23] No loans have so far been agreed but loan application through the Small Business Service will be available for business incubation projects in all the English regions until the end of the 2004/05 financial year.

Business incubation encourages the creation of an entrepreneurial culture through fostering business start-ups. It has been shown that 75% of businesses that start in such incubation projects are still in business after 5 years, compared with only 33% which do not have such support.[24] The main aim of the Fund is to help improve the chances of survival and growth of start-up and early stage small and medium-sized enterprises (SMEs) through increasing the availability and access to business incubation. It is also aimed at widening the access of business incubation to all those who wish to start-up businesses in their local communities.

## D. Phoenix Fund

The Phoenix Fund was first announced by the then Secretary of State for Trade and Industry Stephen Byers on 10 November 1999 and is aimed at encouraging enterprise in disadvantaged areas and within disadvantaged groups.[25] So far there have been two bidding rounds. A third round is expected in the early part of 2003 following extra funding awarded and extension of the Fund to 2005/06 announced in the 2002 Spending Review.

Disadvantaged areas and groups are defined as those experiencing "a shortage of jobs, local services and enterprise".[26] By encouraging new business entrepreneurship the Government aims to help overcome these disadvantages, promote social inclusion and to drive regeneration in the longer term. The Fund has four elements:

- A Development Fund to promote innovative ways of supporting enterprise in deprived areas;
- A pilot Network of Volunteer Mentors to pre and early start-up businesses, through the Business Volunteer Mentoring Association (BVMA);
- Community Development Finance Institutions (CDFIs), Challenge Fund and Loan Guarantees to CDFIs; and
- A Community Development Venture Fund (CDVF).

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[23] DTI, *Opportunity for All in a World of Change*, 13 February 2001
[24] SBS, *Business Incubation Fund*, SBS website as at 13 February 2003: www.sbs.gov.uk/services/BusinessIncubationFund.php
[25] DTI, Press Notice P/99/911, 10 November 1999
[26] ibid

Only assistance through the CDFIs and the CDVF elements have section 8 of the *Industrial Development Act 1982* as their statutory basis. Assistance through the Development Fund and the BVMA is given under section 11 of the 1982 Act.

## 1. Community Development Finance Institutions (CDFIs)

The term Community Development Finance Institutions (CDFIs) denotes an organisation that provides finance and access to business support for enterprises within disadvantaged communities or groups, or with a strong social purpose. The term CDFIs is generally accepted to include:

- Community loan funds: not-for-profit funds focusing on social enterprise;
- Micro-finance loan funds: funds making small loans to start-ups and micro-enterprises. These may be not-for-profit or constituted to allow profit distribution;
- Credit Unions: particularly those having a focus on tackling social exclusion through loans for enterprise development; and
- Social banks: for-profit finance providers with social objectives;

The main focus of CDFIs is on start-up businesses and they support both for-profit businesses and social enterprises. Social enterprises are businesses run for a social objective rather than for the sake of profits to be distributed to shareholders. The principal objective of the CDFI element of the Phoenix Fund is to stimulate the development of the CDFI market. While its aims are to increase the availability of finance and support to entrepreneurs in disadvantaged communities and groups, thereby overcoming a major hurdle preventing them from pursuing their business propositions. CDFIs have to be the provider of 'last resort' finance and it is expected that they receive a commercial rate of return from their customers. The Phoenix Fund helps CDFIs through two measures:

- CDFI Challenge Fund; and
- CDFI Loan Guarantees.

These two measures are differentiated because, whilst the Loan Guarantees are available throughout the UK, the Challenge Fund applies only to England. The devolved administrations in Scotland, Wales and Northern Ireland are responsible for this type of business support in their own territories and have received separate allocations. 'In principle' offers amounting to £20 million have been announced for 48 projects after bidding rounds one and two. Draw down of funding will begin in 2002/03.[27]

## 2. Community Development Venture Fund

The Community Development Venture Fund (CDVF) was announced by the Chancellor in the 2000 Pre-Budget Report and was launched on 14 May 2002. The Fund is expected

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[27] *Grantfinder* database

to be a £40 million equity and near equity venture capital fund in which the Government and private sector partners are investing on a pound for pound basis.[28]

The Fund aims to stimulate the provision (and benefits) of venture capital to viable Small and Medium sized Enterprises, located in the 25% most deprived wards in England.[29] In addition to demonstrating the need for, and returns on, venture capital investments, applicant's business plans must also demonstrate the benefits to local communities in terms of employment, sourcing or the supply of goods and services. Bridges Community Ventures Ltd have been appointed to manage the Fund on a commercial basis and are responsible for identifying and developing potential investment opportunities, raising finance, making investment deal decisions and liaising with regional and local partners. The first investments are expected in 2002/03.

### 3. Development Fund

The Phoenix Development Fund operates in England only[30] and promotes innovative ways of supporting enterprise in deprived areas, such as business incubator units. Assistance for this Fund is given under section 11 of the 1982 Act. Support amounting to £29 million has been announced for 96 projects up to March 2004 after bidding rounds one and two.

### 4. Business Volunteer Mentoring Association (BVMA)

More than £3 million was made available from the Phoenix Fund for a pilot Business Volunteer Mentoring Association (BVMA) Initiative, to continue until March 2001. The initiative was run by the National Federation of Enterprise Agencies (NFEA)[31] for delivery through local enterprise agencies and other local partnerships. It was based on a core of volunteers drawn from all sections of the business community, who provided mentoring advice aimed at pre and early start-up businesses and micro businesses, including those in disadvantaged areas and ethnic and minority groups. Assistance for this Fund is also given under section 11 of the *Industrial Development Act 1982*. During 2001/02 just over £800,000 of assistance was provided for the initiative.

## E. Assistance to selected industries

### 1. Shipbuilding Intervention Fund (SIF)

Operating aid for shipbuilding ended throughout the European Union on 31 December 2000 and was previously regulated under the EC Shipbuilding Regulation.[32] In the UK,

[28] Small Business Service website as at 13 February 2003: www.sbs.gov.uk/phoenix/
[29] As classified under the Index of Multiple Deprivation (IMD) ranking.
[30] The Devolved Administrations have received separate allocations for appropriate activities.
[31] National Federation of Enterprise Agencies website as at 13 February 2003: www.nfea.com
[32] Council Regulation (EC) No 1540/98

such support was administered through the Shipbuilding Intervention Fund (SIF). The scheme provided aid to yards in the form of grants. It was available for new shipbuilding only up to the limit provided for in the Regulation, i.e. 9% of contract value before aid for big vessels and 4.5% for small vessels with a contract value of less than €10 million.[33] Assistance was also available for conversions up to 2.25%. Total grants awarded under the SIF have totalled over £560 million. The DTI has continued to process applications where a contract between the ship owner and the ship yard was signed before or on 31 December 2000. During 2001/02, instalments totalling almost £6 million were paid.

## 2. UK Coal Operating Aid Scheme

The UK Coal Operating Aid Scheme was approved by the EC in 2000, under the terms of the European Coal and Steel Community (ECSC) Treaty. It provided for support from the UK government for the UK coal industry until July 2002[34] and was designed to allow mines with viable futures without aid to overcome short term market problems, caused in particular by low world gas prices and the lifting of the stricter gas consents policy on the building of gas-fuelled power stations in the UK.[35] Under section 8(8) of the 1982 Act, assistance over £10 million given under that section has to be authorised by a resolution of the House. Approval was given on 22 November 2000.[36] During 2001/02, £62 million was paid out to 13 companies. The largest payment was £22 million, made to UK Coal plc.

## 3. Payments to Redundant Steelworkers (New ISERBS)

The Iron and Steel Employees Re-adaptation Benefit Scheme (New ISERBS) was announced in May 2001 and is derived from the ECSC Treaty. The Scheme is aimed at reducing the effects of large scale redundancies in the steel industry due to restructuring. By March 2002, around 8,000 workers had been paid a total of just over £20 million under the Scheme.

Applicants must have been wholly or mainly employed on work connected with the production of steel products defined by the ECSC Treaty or seamless tubes & pipes, welded tubes and pipes, bright bar, drawn wire and cold rolled narrow strip (products not covered by the ECSC Treaty). In addition applicants must be under 65, have been in employment in the same company within the UK for a year prior to being made redundant or taken early retirement in place of redundancy, because of a permanent reduction in manpower resulting from restructuring at a steel works.

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[33] Letter from the UK Government to the European Commission notifying State aid No N 422/99 – UK, Shipbuilding aid schemes for 1999 dated 27 October 1999

[34] DTI, Press Notice P/2000/760, 15 November 2000.

[35] More information on the UK Coal Operating Aid Scheme can be found in Library Standard Notes, *Coal operating aid scheme*, SNSC 1711, 10 June 2002

[36] HC Deb 22 November 2000 cc385-446

## F. Assistance to particular businesses

### 1. Atlantic Telecom

Atlantic Telecom went into administration on 5 October 2001. Most of its operations were sold as going concerns by the administrators. However, they could not find a buyer for the fixed radio network, leading to the risk that some customers would be without a telephone service.[37] On 24 November 2001 joint action between the DTI and the Scottish Executive Minister for Enterprise and Lifelong Learning extended Atlantic Telecom's customers time to switch to alternative suppliers. Total assistance, which was equally funded by the DTI and the Scottish Executive, amounted to £550,000.

### 2. The British Film Commission

The British Film Commission (BFC)[38] was launched in 1991. Its aims are to encourage film and production units from abroad to use UK based facilities. It also helps co-ordinate the work of other national and local film bodies. Responsibility for the Commission passed to the DCMS in 1992 and the BFC became part of the Film Council in 2000. Up to the end of 1999/2000, grants to the BFC totaled just under £7 million. The DCMS agreed to provide £1 million of funds to the BCS through the Film Council in 2000/01 and 2001/02.

### 3. Rover Task Force

The Rover Task Force was set up in March 2000 following reports that BMW were set to sell off Rover Cars and the Longbridge manufacturing plant in the West Midlands to Alchemy, the venture capital firm. The Task Force's remit was to:

> Assess the impact of any reduction of activity at Rover on the people, businesses and communities in the region. Advise on the public and private resources that are available to help to deal with the consequences and draw up proposals for action by local partners and by central Government.[39]

The Task Force produced two reports; an interim report and a final report on the impact of the sale of Longbridge, and also reported the results of a study by Deloitte Touche on the impact of the Rover sale specifically on the motor components industry.

When BMW said they were selling Rover, the Government immediately announced that £129 million it had committed as Regional Selective Assistance (RSA)[40] would now be

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[37] On 9 November telephone services were completely withdrawn and customers faced complete disconnection on 25 November. Source: HC Deb 27 November 2001 cc225-233WH and DTI, Rescue package for customers of Atlantic Telecom, Press Notice P/2001/657, 24 November 2001

[38] British Film Commission website as at 6 February 2003: www.britfilmcom.co.uk

[39] Rover Task Force website as at 6 February 2003: www.rovertaskforce.co.uk/

[40] Assistance given under Section 7 of the 1982 Act. See Section III of this Paper

used to promote economic regeneration and job creation in the region. The Rover Task Force was given the job of recommending how the money should be best spent and in its interim report the Task Force made some initial recommendations. These included £12 million of help for supply companies to modernise, re-train workers, re-tool and diversify. Expenditure during 2001/02 for activities they recommended was £1.35 million.

### 4. Urban post office network reinvention

Urban post office network reinvention[41] was first suggested in the Performance and Innovation Unit (PIU) report, *Counter Revolution - Modernising the Post Office Network* in June 2000.[42] The 'reinvention' will involve post office closures, but also mergers or relocations to ensure that all post offices have a sufficient customer base. In a recent parliamentary briefing, the then Consignia estimated that the restructuring programme will result in 2,000-3,000 urban post office branch closures over the next three years.[43] Reinvention of the network will involve providing compensation for subpostmasters asked to move location or to retire. To be able to pay the planned £210 million compensation, the UK government has had to seek approval from the European Commission under State aid rules and also Parliament, as the amount of assistance exceeded the £10 million assistance allowable for any one project under the 1982 Act.

Notification was made to the European Commission on 27 March 2002 and approval without opening proceedings was given on 18 September 2002.[44] A debate on 15 October 2002 entitled 'urban post office reinvention programme'[45] was followed by a motion under the 1982 Act which secured Parliamentary approval for the compensation package.

## G. Discontinued assistance given under section 8 of the 1982 Act

Over the years different schemes, that have been offered and then concluded or been subsumed into other schemes, have had their statutory basis in section 8. This section looks at some of the better known ones.

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[41] More information on this programme can be found in Library Standard Note, *The post office urban reinvention programme and compensation for sub-postmasters*, SNEP 1916, 1 November 2002

[42] Available on the Cabinet Office website as at 13 February 2003: www.cabinet-office.gov.uk/innovation/2000/postoffice/PO/default.htm

[43] Consignia, *Background briefing paper for Members of Parliament Debate on urban post office reinvention programme*, Consignia Group Communications, October 2002

[44] State Aid No N252/2002 - United Kingdom 'Reinvention of the urban post office network'

[45] HC Deb 15 October 2002 c228-253

## 1. Regional Enterprise Grants

### *a. Regional Innovation Grant Scheme*

In England, the Regional Innovation Grant Scheme was merged with the former SMART, SPUR, and SPUR plus in 1997 to form a new SMART Scheme. In Scotland, Scottish Enterprise, Highland and Islands Enterprise and in the Lowlands a network of local enterprise companies now provide similar support.[46] In Wales, the Regional Innovation Grant Scheme was merged with the former SMART, SPUR, and SPUR plus schemes under SMART Wales. In 2001/02 payments and offers of assistance were made totalling just over £4 million.

### *b. Regional Investment Grants (RIG)*

In Scotland and Wales, Regional Investment Grants (RIG) closed in 1997 and merged with Regional Selective Assistance (RSA). In England RIG was suspended in 1996 and then merged with RSA to continue to offer assistance in coal closure areas outside Assisted Areas.

## 2. Exchange Risk Guarantee Scheme (ERGS)

The Exchange Risk Guarantee Scheme (ERGS) was introduced in 1978 to enable manufacturing industry and some service sectors that qualified for Regional Selective Assistance to take advantage of loans from the European Investment Bank (EIB) and the European Coal and Steel Community (ECSC) at lower than sterling market rates that would be denominated in foreign currencies. In return for taking on the liability of exchange risk, the government charged applicants a small premium. The ERGS closed to new applications in March 1997 and all loans were repaid by the end of 2001. In total the government accepted losses of over £278 million on loans totaling just over £1 billion.[47]

## 3. Regional Selective Assistance (RSA) in Areas which lost Assisted Area Status in 1993

Following the introduction of a revised Assisted Areas map in 1993, some areas, in which offers of RSA were already under consideration, lost their status. The grants were subsequently given under section 8 of the 1982 Act as the loss of Assisted Area status meant assistance for projects in these areas was no longer legally possible under section 7. The scheme formally ended in March 2002 following the completion of all the impacted projects. Total expenditure under the scheme amounted to just under £16 million.

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[46] More information on Regional Enterprise Grants in Scotland can be found on the Highland and Islands Enterprise website as at 6 February 2003: www.hie.co.uk

[47] DTI, *Industrial Development Act 1982 Annual Report*, HC 1007 2001/02, 27 June 2002

# III Assistance under other sections of the 1982 Act

## A. Assistance under section 7

### 1. Regional Selective Assistance (RSA)

Regional Selective Assistance (RSA) is the Government's main instrument of direct financial assistance to businesses in Assisted Areas.[48]

Regional Selective Assistance is paid under section 7 of the 1982 Act, although the Act consolidated powers that existed under earlier legislation, and similar payments were being made as early as 1973/74. Although payments are monitored on a financial year basis, it is not necessary for the whole of an amount to be paid in the financial year in which it was offered. It is, in fact, usual for payments resulting from one offer to straddle more than one year. In Great Britain during 2001/02, 741 applications were received for RSA with a value of just over £450 million. 568 offers were accepted during the same period with a value of just under £251 million. The average cost per job either safeguarded or created in 2001/2002 was just under £7,000.

## B. Assistance under section 11

Some assistance that has its statutory basis in section 11 of the 1982 Act, such as parts of the Phoenix Fund and the Rover Task Force, have been described in earlier sections of this Paper.[49]

### 1. Small Business Service (SBS) and Business Link operators

The Small Business Service (SBS) is an agency within the DTI that has its statutory basis in section 11(1) of the 1982 Act. The SBS aims to look after the interests of SMEs throughout the nation, not just England. SBS was established in April 2000 and has three main objectives:

- acting as a strong voice for small business at the heart of Government;
- simplifying and improving the quality and coherence of Government support for small businesses; and
- helping small firms deal with regulation and ensuring small firms' interests are properly considered in future regulation.

The SBS also manages a network of Business Link services throughout England which are run by local providers. Business Link provides independent and impartial business

48 Further information on RSA is given in the Library Standard Note, *Assisted Areas*, SNEP 1413, 17 August 2001

49 See section II of this Paper.

advice, information and a range of services to help small firms and those trying to start up new businesses. The range of services and programmes they provide are similar to those offered by the Small Business Gateways in Lowland Scotland, Business Information Source in Highland Scotland, Business Connect in Wales and The Local Enterprise Development Unit (LEDU) in Northern Ireland.

Working with Business Link, the SBS provides access to a wide range of business support services and provides a comprehensive knowledge network of business support organisations, initiatives and information in the public, private and voluntary sectors. SBS also sponsors national schemes such as the Small Firms Loan Guarantee Scheme (SFGS) and the Enterprise Grant Scheme (EGS). Both of these schemes provide assistance under section 8 of the 1982 Act.[50]

[50] See section II of this Paper.

# Appendix 1: State aid and Assisted Areas

UK policy on Selective Assistance to industry is governed by European Community (EC) legislation. In general terms, State aid is prohibited under EU law.[51] By providing assistance to certain industries or regions, Member States are potentially distorting competition, and, in so far as it affects trade between Member States, such assistance is incompatible with the principles of the common market. The presumption therefore is that State aid is prohibited. There is then a set of exceptions to this general rule which define the situations where State aid is permitted. Article 87(2) of the *Treaty of Amsterdam* defines certain situations where State aid **is** deemed to be compatible with the common market, and Article 87(3) defines situations where State aid **may** be compatible. More specifically, Article 87(3)(a) allows for:

> …aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment…

While Article 87(3)(c) allows for:

> … aid to facilitate the development of economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest …

Areas designated under Article 87(3)(a) are referred to as "Tier 1" areas and those designated under Article 87(3)(c) as "Tier 2" areas. EC State aid restrictions apply also to some sectors where there is European over-capacity, including motor vehicles, iron and steel, coal, fishery and agricultural products. Restrictions may also apply where projects are in sectors of the UK market which are already fully served and where support would simply displace or reduce existing jobs elsewhere. In such circumstances, State aid applications would be unlikely to succeed. As a result, information is required by the EC on the size of the market served, the company's existing and expected market share, and its main customers and competitors, and their locations. However, where projects are likely to deliver new technology and processes, concerns over existing full capacity in a sector may be put aside, on a case by case basis.

Article 87 requires the Commission to periodically approve and designate disadvantaged areas where regional aid is allowed. In addition to these, other Articles in the Treaty allow the Commission to regard certain types of State aid as justifiable. These include aid for making good the damage caused by natural disasters, for culture and heritage conservation and for projects of common European interest. The Commission, however, has the power to block or enforce repayment of State aid that breaks its rules, and particular attention is paid to State owned companies subsidised to compete with private sector rivals (such as airlines).

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[51] Article 87(1) of the *Treaty of Amsterdam*, Cm 3780

# Appendix 2: Assisted Areas

Assisted Areas are the areas in which the UK Government can provide regional assistance to businesses.[52] The areas which are eligible vary over time, however. The previous Assisted Areas map was in force from 1993 to 31 December 1999 and was defined in terms of Travel-to-Work Areas. The present map took effect from 1 January 2000 and will be in force until December 2006.

The European Commission originally proposed that the Assisted Areas map for 2000 to 2006 should coincide with the map of areas that are eligible for aid under the European Structural Funds. The UK Government lobbied hard – and ultimately successfully – at the Berlin European Council in March 1999, for a link not to be imposed between Assisted Areas and areas eligible for Structural Funds assistance. It believed that such a link could reduce the effectiveness of both forms of aid.

The following explanation was included in *The UK Government's proposals for new Objective 2 areas,* which was published in July 1999. The second paragraph is of most relevance:

> The criteria for Objective 1 of the Structural Funds under the Structural Funds Regulation and for Tier 1 of the Assisted Areas under the regional aid guidelines (known as 'Article 87(3)(a) areas') are identical. These must be NUTS [see footnote[53]]2 areas with GDP per capita below 75% of the EU average over the period 1994-96. Areas with Tier 1 Assisted Area status will therefore also be Structural Funds Objective 1 areas.
>
> In line with the Government's view and agreed at the Berlin Council in March 1999, Objective 2 Structural Funds areas and Tier 2 Assisted Areas (Article 87(3)(c) areas) do not have to be identical. The Structural Funds and Assisted Area maps are different policy instruments addressing different needs. There are areas where both instruments are appropriate but there is no presumption that two sets of areas should be identical or one contain the other.[54]

Some of the wording of the European Commission press release which announced the approval of the UK Assisted Areas map[55] suggests that the Commission remains unhappy at the fact that the Tier 2 and Objective 2 maps differ:

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[52] EU rules do, however, permit other types of State aid (eg aid for small and medium-sized enterprises) to be given to businesses outside Assisted Areas.

[53] NUTS are the Nomenclature of Territorial Units for Statistics established by Eurostat to provide a single uniform breakdown of territorial units for the production of regional statistics for the EU.

[54] DTI, *The UK Government's proposals for new Objective 2 areas*, July 1999

[55] ibid

> There is a decrease in coherence between the regional State aid map and the UK Objective 2 map. This risks diminishing the effectiveness of Community assistance under Objective 2 in the UK.

In Great Britain, 16.5 million persons live in either a ‘Tier 1’ or ‘Tier 2’ Assisted Area, as defined above:

- The Tier 1 areas are the four areas eligible for funding under Objective 1 of the EU Structural Funds: Cornwall & the Isles of Scilly, Merseyside, South Yorkshire and West Wales & the Valleys; while
- The Tier 2 areas are more scattered, being made up of groups of wards which each have a population of at least 100,000. They are listed, by local authority within regions, on the DTI website.[56]

Under the EU guidelines, the maximum aid limits in Great Britain are 35% in Tier 1 areas and between 10% and 30% in Tier 2 areas, depending on socio-economic conditions.[57] In some areas, a higher rate may, however, be paid to small and medium-sized enterprises (SMEs).

[56] DTI website as at 13 February 2003: www.dti.gov.uk/assistedareas/annex4.htm
[57] European Commission Press Notice IP/00/849, *Commission approves UK regional aid map,* 26 July 2000.