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12 JUN 2002

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# Welsh Economic Review

Volume 14.1 Spring 2002

Produced in association with



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**ISSN 0965-2450**

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# A Review of Regional Selective Assistance in Wales

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Historically, Wales has received a large share of the UK's regional policy budget. For example, between 1990 and 1997 Wales received around a third of the UK's regional preferential assistance (RPA) to industry (ONS, 1998), and 20-25% of its Regional Selective Assistance (RSA) budget (Industrial Development Act 1982 Annual Report, various). In addition, Wales has captured significant resources from EU regional programmes.

Despite this, Wales has continued to fall behind in the regional prosperity league. GDP per head in Wales is around 80% of the average for the UK, and two-thirds of Wales' population is living in areas now qualifying for EU Objective One status, having GDP per head levels below 75% of the EU average. The Objective One programme itself was designed at a time (following a change in UK government) when an increasing challenge has been made to the economic development orthodoxy in Wales. This had traditionally relied upon attracting inward investors into Wales,

often using grants (particularly, though not exclusively, RSA) and focusing policymakers and processes into this area.

However, following the Objective One Programme specifically, as well as policymaking more generally in Wales, the focus has more recently switched towards indigenous SME development. This study outlines the historic role of RSA in Wales, the recent changes to the scheme for small RSA grants in Wales, and potential changes for the future.

In this paper the claims process for small RSA grants in Wales is examined. Although the RSA scheme has played a significant role over the past two decades in attracting foreign investors to Wales (Hill and Munday, 1994), it is open to any business seeking to carry out an eligible investment project in the officially designated "Assisted Areas" of Wales. The research illustrates the importance of the claims process in determining the success or otherwise of the scheme. The paper suggests

potential changes to these processes to bring the scheme into line with the new policy focus, and outlines the changes that have actually begun to take place in Wales, as well as potential developments for the future.

## RSA in Wales : Past

RSA is a discretionary grant scheme, which aims to encourage viable businesses to undertake investment projects that create or safeguard employment in the Assisted Areas. Higher levels of assistance are available in Tier 1 (previously "Development Areas") than in Tier 2 (previously "Intermediate Areas") to reflect their more severe economic and employment problems. RSA payments are typically staged over a period of three to five years, depending on progress towards job and capital expenditure targets agreed when the grant offer is made. RSA is given if the grant is considered necessary for the project to go ahead within the area, the grant being the minimum necessary for the project to

**Table 1 : Regional Selective Assistance in Wales : Annual figures 1983-1998**

Year	Value of Accepted Offers (£m)	Forecast New Employment	Forecast Safeguarded Employment	Total Forecast Employment	Gross Cost Per Gross job	
					in Nominal £000s	In 1990 £000s
97-98	114.4	12001	2596	14597	7.8	6.2
96-97	106.9	11063	5811	16874	6.3	5.1
95-96	58.7	6694	3469	10163	5.8	4.8
94-95	38.2	4372	2228	6600	5.8	5.0
93-94	95.2	8354	4894	13248	7.2	6.3
92-93	72.8	7786	4722	12508	5.8	5.2
91-92	77.0	8316	4931	13247	5.8	5.5
90-91	79.4	9560	2572	12132	6.5	6.5
89-90	61.7	8168	3493	11661	5.3	5.6
88-89	81.0	11832	3013	14845	5.5	6.2
87-88	36.9	7552	3300	10852	3.4	4.1
86-87	36.5	5546	4139	9685	3.8	5.0
85-86	47.9	6697	5986	12683	3.8	4.9
84-85	38.3	10538	3632	14170	2.7	3.7
83-84	51.9	11846	8587	20433	2.5	3.7
88-98	<b>785.4</b>	<b>88146</b>	<b>37729</b>	<b>125875</b>	<b>6.2</b>	<b>5.7</b>

Source : Development Act 1982 Annual Reports: Various Years



proceed (restricted to EU imposed State Aid ceilings). Historically, the amount awarded was also restricted by cost-per job limits, where the jobs may be newly created or safeguard existing employment.

RSA instalments can be front or back loaded over the agreed time period for the grant. The grant is normally paid in three instalments, although the number of payments can range between one and twelve. Payments are usually triggered retrospectively when the business has reached pre-agreed capital spending targets, with the final payment also being dependent on reaching a final job target. Before an offer is made a thorough appraisal is undertaken, taking into account (although not formally) average salaries of employment created or safeguarded. Projects are monitored throughout the time that payments are made – generally between three and five years – and for up to a further five years following release of the final grant instalment. Grant payments can be clawed back if the expected jobs are not maintained or if grant aided capital assets are disposed of or taken out of use during the life of a project.

The Economic Development Department of the Welsh Assembly Government is

now responsible for the application and administration of RSA funds. Most recently, the National Assembly for Wales (2000) set 2001-02 provision at £44.551 million. The following tables provide summary information for the recent history of RSA spending in Wales.

Almost £800m (nominal prices) of RSA has been offered and accepted (although not necessarily always taken up or taken up in full) over the 10 year period to 31<sup>st</sup> March 1998, with forecast employment created or safeguarded of almost 126,000. The gross cost per gross job figure (value of offers divided by total forecast employment) adjusted for price effects, varies from year to year, ranging from £4,100 to £6,300 over that period. These accepted offers have not been evenly spread across Wales, partly because of the designation of the Assisted Areas and partly because there has been an uneven distribution of applications within these areas. To the extent that the scheme is demand-led, the Welsh Assembly Government is restricted in its ability to influence take-up.

As table 2 indicates, in terms of industrial sectors, there has been a concentration of RSA in electronic engineering, automotive components

and transport equipment, and metals, mechanical engineering and other machinery, these sectors accounting for nearly 60% of the total RSA offered over the period (compared with, for example, just over 40% of 1994 manufacturing employment (Moyes and Thomas, 1996)). Examination of the data sources for the tables also indicates that the electronic engineering sector (and to a lesser extent automotive and other transport industries) has seen high levels of inward investment in what have often been comparatively large new developments, and equally sizeable expansions of existing projects. Table 3 shows significant proportion of RSA offers have been directed to the Asian-owned manufacturing sector. Table 3 shows that under 43% of the value of offers (where a first payment was made) between 1988-98 were to UK owned companies, although over 65% of the number of offers were to indigenous businesses, indicating the higher average offers to non-UK companies. North American firms accounted for a large proportion of inward investment inflows into Wales during the period. Wales also saw a boom in Japanese inward investment during the late 1980s, by firms producing electronic and automotive components for the original equipment

**Table 2 : Regional Selective Assistance by Sector 1988-1998, Total Offers accepted (and first payment made)\***

	Sector	Offers		Amount of RSA Offered		Average amount of RSA per Offer
		N	(%)	nominal £m	(%)	Nominal £000
1	Agriculture, Forestry and Fishing	3	0.4	0.2	0.0	65
2	Extraction	5	0.6	0.6	0.1	127
3	Food, Drink and Tobacco	73	8.5	31.6	5.0	433
4	Textiles and Clothing	31	3.6	11.0	1.8	355
5	Wood, Paper, Pulp, Publishing and Printing	96	11.2	47.6	7.6	495
6	Oil and Chemicals	66	7.7	35.4	5.6	537
7	Rubber and Plastic	106	12.4	53.8	8.6	508
8	Other Non Metals	17	2.0	14.2	2.3	834
9	Manufacture of Basic Metals	15	1.8	9.0	1.4	600
10	Metals, Mechanical Engineering					
	& other Machinery	124	14.5	65.7	10.5	530
11	Electronic Engineering	130	15.2	192.2	30.6	1478
12	Automotive Components and					
	Transport Equipment	60	7.0	109.5	17.4	1825
13	Other Manufacturing	23	2.7	17.0	2.7	738
14	Construction	5	0.6	0.8	0.1	162
15	Retail and Wholesale	30	3.5	12.7	2.0	422
16	Other Services	72	8.4	26.8	4.3	372
	Total	856	100.0	628.1	100.0	734

**Source : Derived from Employment Gazette and Labour Market Trends Various Editions**

\* Tables 1-3 vary in total number of firms reported and total value of accepted offers because of a small number of unknown area, nationality or industry cases.



manufacturing sector and the Japanese car assemblers located in England. Of the eight offers made to other Asian companies, LG accounted for around two-thirds of the value, although as noted earlier, not all grant that is offered and accepted will be taken up.

Table 3 also indicates that foreign-owned companies have tended to pursue larger projects than their domestic counterparts. They often have a greater number of possible locations for those projects, and as a result of the nature and criteria of the scheme itself, this has tended to attract greater levels of assistance for inward investors in recognition of the higher levels of employment and investment that are usually involved. Thus, of the 65 RSA offers which exceeded £2m in the period 1988-1998, only 25 were to UK firms and of the eight largest grants, (exceeding £6m), only two were to 'domestic' firms. These eight grant offers represented approximately one quarter of the total (around £160m) where a first payment was made. Over two thirds of this went to foreign firms, including Ford, LG and Sony. In summary, therefore, the data sources show that large proportions of the (demand-led) RSA resources offered during the 10 year period to 31<sup>st</sup> March 1998 were made to foreign owned companies in the electronics and automotive components sectors.

#### RSA in Wales : Present

However, devolution and the new policy focus on indigenous growth are forcing changes in the RSA scheme, in all parts of Great Britain. The scheme has been available in one guise or another in Wales, England and Scotland since 1972. The three operating departments,

DTI, Scottish Executive and Welsh Assembly Government (previously the Welsh Office and the National Assembly for Wales) have always operated RSA as a national scheme, in line with common guidelines. A concordat was signed to ensure that post-devolution the scheme would continue on this basis. However, fundamental policy changes have already been suggested and adopted to varying degrees in England, Scotland and Wales.

Specifically, changes have occurred in the treatment of small RSA-type grants. In England, the DTI launched the Enterprise Grant Scheme (EGS) for grants up to £75,000, and in Scotland Invest For Growth (IFG) was launched. Announced in January 2000, these schemes follow similar principles to RSA, but offer faster streamlined access to grant assistance for smaller businesses. In the case of the English EGS, DTI (2002) indicated that it is available in both the assisted areas and other areas. The grants are available on capital investment of up to £0.5m (or against job creation targets), with preference given to high quality and value adding business, but (unlike RSA) there is no specific job creation criterion. Instead, quality, need, viability and job displacement issues guide the regulations. In addition, whilst small (under 50 employees) can obtain 15% gross of fixed capital costs, for medium sized enterprises (50-249 employees), the figures are 7.5% outside and the full 15% within the assisted areas. Grants in excess of the £75000 then have to be applied for under the normal RSA scheme.

Since 1995 in Wales, applications for RSA of up to £25,000 have been less

heavily scrutinised with regard to additionality and less financial data has been required to assess viability. In 1996, this threshold was raised to £100,000. However, the monitoring procedures were not formally revised to reflect this change in approach. Thus, while businesses might initially benefit from "fast-track" appraisal, this did not extend to claiming the grant tranches or monitoring.

The Arup Economics and Planning report (2000) doubted the RSA scheme's value in assisting small businesses because of the complexity of the application process and high relative cost of external advisors used by firms in relation to the size of grant received and retrospective payment procedures. Our recent study of the situation in Wales confirmed these problems. The study analysed data on RSA grant claims made in Wales between 1<sup>st</sup> April 1998 and 31<sup>st</sup> March 2000. An in-depth examination of grant offers of £25,000 or less (small) was undertaken, supported by a structured closed-format postal questionnaire survey of these firms. This was supplemented by analysis of those firms claiming £25,001-£100,000 (medium) and over £100,000 (large) to provide comparisons in terms of process-time, ease of claiming etc. A total of 150 questionnaires (50 in each cluster) were sent to a sample of the total 249 applying businesses. Responses were received from 25 firms in the 'small' category, 14 from the 'medium' and 26 from the 'large' claims cluster. From these replies it was found that 76% of small grant claimants employed less than 50 people, compared with 43% of medium grant claims and only 15% of those claiming over £100,000. Thus any

**Table 3 RSA Grants accepted by UK and overseas companies : offers accepted and payments made 1 January 1988- December 1998**

Nationality	Number of Offers	%	Amount of RSA Offered, nominal £m	%	Average RSA per Offer, Nominal £000s
UK	561	65.2	269.3	42.8	480.0
France	21	2.4	24.0	3.8	1143.9
Germany	29	3.4	15.5	2.5	535.5
Other Europe	52	6.0	32.1	5.1	617.6
North America	111	12.9	110.6	17.6	996.8
Japan	49	5.7	52.4	8.3	1069.0
Other Asia	8	0.9	94.5	15.0	11813.1
Others	30	3.5	30.7	4.9	1023.6
Total	861	100.0	629.2	100.0	730.8

Source : Employment Gazette and Labour Market Trends Various Editions



**Table 4: Applicants' Experiences of the RSA Process**

Statement :	% of Applicants agreeing or strongly agreeing with the statement			
	All	'Small' Grant	'Medium' Grant	'Large' Grant
The offer letter was clear	86.2	80	71	100
The introductory letter was helpful	79.7	76	64.3	92
The claim form was easy to understand	70.8	60	57.1	88.5
The applicant had a meeting with monitoring officer before submitting a claim	46.2 (Yes)	48 (Yes)	50 (Yes)	42.3 (Yes)
This meeting was useful	93.3	92.3	83.3	100
If no meeting took place then a meeting would have been useful	64	62.5	66.6	53.7
The claim was processed as quickly as expected	55.4	60	57.1	50
The claim was processed as quickly as wanted	41.5	48	35.7	38.4
Additional information was requested	80 (Yes)	72 (Yes)	64.3 (Yes)	96.2 (Yes)
If yes, request was clear	89.5	100	77.7	84
If yes, was request difficult to meet	40.4	52.9	55.6	23.8

**Source : Employment Gazette and Labour Market Trends Various Editions**

issues for small grant claims are also disproportionately important issues for small firms, who are usually also indigenous companies.

Examination of the Welsh Assembly Government's database found that the average time between receipt of a claim for RSA and a decision was 83 days, but that the processing of smaller grant claims took appreciably longer. The most common delaying factor was the failure of firms to provide accounting information in the required way. This research suggested that grant processing mechanisms should be altered to take account of the specific problems that (predominantly) small firms were having with small grant claims. The survey tended to support these conclusions, as indicated in Table 4.

As might be expected, the larger claims, made predominantly by the larger companies, seemed to have the least problems with the process. Even though they were most often asked for extra information, they had far less difficulty in complying with requests than other groups. Those making smaller claims seemed happier with the speed of processing, possibly because they had lower expectations in the first place. The results and anecdotal responses from the firms suggested that changes should certainly be made for grants up to £25,000 and possibly all those up to £100,000.

In the light of these findings, and the existence of small-case support mechanisms in England and Scotland,

there was obviously a justification for streamlining RSA grant offers up to £100,000 and perhaps for launching a new investment grant scheme in Wales for small businesses (possibly anything up to £100,000). Movement on both these issues has already begun in Wales. In December 2001 the First Minister announced that a new streamlined SME grant scheme offering assistance of between £5,000 and £50,000 would be made available from April 2002 throughout Wales as part of an integrated suite of support types. Previously, revised procedures for RSA offers of up to £25,000 were introduced on 1<sup>st</sup> July 2001, which implemented a number of changes highlighted by the survey as applicable to RSA.

These changes include a new offer letter and claim form, that are intended to be much easier to understand and complete (and that meet the crystal mark standards of the Plain English campaign). In addition, the previously requested independent accountant's report (and the costs associated with it) certifying project-related expenditure and jobs created or safeguarded by it is no longer required. Instead the monitoring team now audit all claims using the information and documentation provided with the claims and via site visits. Also, whereas grant recipients had previously needed to spend money on assets in order to trigger grants, small-case RSA can now be paid once expenditure has been committed – potentially a huge help with cash-flow. Furthermore, project jobs are now monitored for 18 months following the final payment, compared

with the previous 5 years, though assets still have to be kept for 5 years in line with EU regulations. In order to facilitate the new procedures Welsh Assembly Government officials aim to meet all claimants before a claim is submitted, to provide specific advice and guidance on the claims process. Internal processes have also been altered. Perhaps the most significant change is the establishment of a dedicated monitoring team for small grants. It is also proposed that subject to a positive evaluation of the new arrangements for small offers, some of these changes will be applied to grant offers up to £100,000, including for example removing the requirement for an independent accountant's report for interim claims, but with the requirement remaining for final claims.

Of course, such a simplification has potential risks attached. However, less than 1% of nearly £125m paid out between 1998 and 2000 was against grant offers of £25,000 or less, and less than 4% was for grant offers between £25,001 and £100,000. The RSA awards for small firms in particular may seem very modest compared to overall expenditure on the scheme. However, such funds are particularly important for small expanding companies struggling to find sources of funding (Jones-Evans and Brooksbank, 2000).

This suggests that the financial risks for the Assembly are minimal, particularly when, of the 56 small grant claims analysed, only 3 were rejected and 2 were subsequently paid. Of those that did receive payments, at September



2000, 46 were still trading. Looking further back into the internal Welsh Assembly Government records, of the 333 small grant offers made since 1992, 260 were accepted and received grants, and only 27 had failed with a cost of just over £350,000 out of over £3.6m grant paid out in total against these projects.

## Conclusions: RSA in the Future

The research suggests that the new streamlined processes announced to deal with small RSA grant applications in Wales would be very much welcomed by small grant applicants. However, these processes also need to be managed in the context of the wider changes taking place in Welsh economic development policy, including implementation of the Review of Business Support and Development Services (National Assembly for Wales 2001) and in line with the national economic development strategy, *A Winning Wales* (National Assembly for Wales 2001).

The new schemes and changes in RSA for small grants also reflect the changing focus of economic development policy in Wales, as typified by the Welsh Objective One programme, which is concentrating its resources on indigenous development. The Welsh Assembly Government has a vital role in such policy integration, to avoid the confusion and duplication seen in past Welsh enterprise support (Jones-Evans et al, 1997) and to offer more focused and tailored support services, as recommended by Storey (1994). The progress of comparable policies in England (EGS) and Scotland (IFG) also offers the opportunity for both benchmarking and providing examples from which Wales can learn in terms of extensions to the changes already implemented.

The RSA scheme will continue to be one

of the most important incentives in the attraction of large, often foreign multinational, new and expansion projects to Wales. However, it will now sit within a suite of schemes collectively providing a more balanced approach to regional economic development in Wales.

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