

**EXPLANATORY MEMORANDUM TO  
THE ASSISTED AREAS ORDER 2007**

**2007 No. 107**

**1.** This explanatory memorandum has been prepared by the Department of Trade and Industry and is laid before Parliament by Command of Her Majesty.

**2. Description**

2.1 This statutory instrument defines the Assisted Areas of Great Britain between 2007 and 2013. Assisted Areas are those where regional investment aid can be granted in accordance with EU legislation. Regional aid is used to promote the economic development of certain disadvantaged areas within the European Union (EU).

2.2 The main forms of such aid in Great Britain are Selective Finance for Investment in England (SFIE) and Regional Selective Assistance (RSA) in Scotland and Wales, through which grants are paid to firms in support of capital investment projects.

**3. Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 None.

**4. Legislative Background**

4.1 The instrument is made under section 1(1) of the Industrial Development Act 1982 and implements approval by the European Commission of derogations under Articles 87(3)(a) and 87(3)(c) of the European Communities (EC) Treaty for Assisted Areas of Great Britain.

4.2 All EU Member States are required to define a new set of Assisted Areas for the period 2007 to 2013, in accordance with the European Commission's Regional Aid Guidelines, published on 21 December 2005. The previous Assisted Areas expired on 31 December 2006. The European Commission granted approval of the United Kingdom's new Assisted Areas on 20 December 2006 (State Aid N673/2006).

**5. Territorial Extent and Application**

5.1 This instrument applies to Great Britain.

**6. European Convention on Human Rights**

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## 7. Policy Background

7.1 The European Commission regulates state aid across the EU to avoid distortion of competition within the common market. State aid granted to promote the economic development of certain disadvantaged areas within the EU, is considered by the Commission to be compatible with the common market. This kind of state aid is known as national regional aid, and generally consists of aid for investment granted to large companies targeted on specific regions in order to redress regional disparities, or increased investment to small and medium-sized companies in those regions over and above what is allowed in other areas.

7.2 Assisted Areas are those areas in which national regional aid may be granted.

7.3 The Assisted Areas for 2007 to 2013 must be designated in accordance with the Commission's Regional Aid Guidelines (RAG), published in December 2005. This applies a limit on the coverage allowed to each Member State; within the UK this limit is 23.9 per cent of the UK's population, reduced from approximately 31 per cent in the period 2000 to 2006.

7.4 Tier 1 areas are defined in the RAG by comparison of Gross Domestic Product (GDP) per capita with an EU-wide threshold. The RAG also limits how Tier 2 areas may be designated. There are two main limitations – the stipulation that coverage must be in the form of contiguous areas with a minimum population of 100,000; and a definition of more prosperous areas, by comparison of GDP per capita and unemployment rate with EU and Member State averages, within which Assisted Area status could only be designated through extremely restrictive provisions.

7.5 As the coverage of Assisted Areas was reducing, because of the limitations applied by the RAG, this was a politically sensitive issue. It attracted considerable interest in local media, as well as more limited interest in national media, particularly following the publication of the second consultation document.

### *Consultation*

7.6 A two-stage public consultation was undertaken. Stage 1, launched on 15 February 2006 with a closing date of 19 April 2006, sought views on the general approach that should be taken to designating Tier 2 areas. Specific questions asked were: whether Merseyside and South Yorkshire, as former Tier 1 areas, should automatically be designated with full Tier 2 coverage; what geographical unit should be used in designating coverage; and what indicators should be used in assessing eligibility for coverage.

7.7 Just under 200 responses were received to Stage 1 of the consultation. The majority of responses came from local authorities, with sub-regional partnerships and regional bodies also well represented. Respondents were overwhelmingly against automatic coverage of Merseyside and South Yorkshire, arguing that those areas should be subject to the same objective assessment as the rest of the country. There was strong support for building up coverage from ward level, allowing better targeting of coverage than the use of larger units would. On the question of indicators there was less consensus, with a wide variety suggested. There was strong support for using a range of indicators, rather than just one, and for using mainly indicators linked to the labour market.

7.8 Stage 2 of the publication was launched on 10 July 2006 with a closing date of 7 August 2006. The consultation document incorporated the Government's response to Stage 1, and included a draft map of Assisted Areas. The consultation sought views on the approach taken to designating Tier 2 areas and detailed views on the coverage proposed.

7.9 Over 200 responses were received to Stage 2 of the consultation. Almost half came from local authorities, with regional bodies again well represented. There were also several representations from businesses and Members of Parliament. Respondents were broadly supportive of the approach taken to designating Tier 2 areas, although many respondents questioned individual details of the approach, particularly when there was a direct impact on their area. Many respondents suggested amendments to Tier 2 areas, mostly minor, that would increase the effectiveness of coverage. Where these were justified by evidence and did not breach the general approach taken, or the regulations of the RAG, these amendments were implemented.

7.10 The Government's response to Stage 2 of the consultation was published on 10 October 2006. All documents related to the consultation are available on the DTI website.

#### *Guidance*

7.11 The policies that depend on Assisted Area status are already in operation and this is unaffected by this change; the only effect is a change in the areas in which they can operate. Key stakeholders have been kept informed of progress throughout the process of reviewing the Assisted Areas.

## **8. Impact**

8.1 A Regulatory Impact Assessment has not been prepared for this instrument, as it has no impact on business, charities or voluntary bodies.

## **9. Contact**

David Southworth at the Department of Trade & Industry (telephone: 020 7215 2612 or email [david.southworth@dti.gsi.gov.uk](mailto:david.southworth@dti.gsi.gov.uk)) can answer any queries regarding the instrument.