

HARD TIMES

Briefing 6

The abolition of Grants for Business Investment

In a little-noticed move, buried in the small print of the *Local Growth White Paper*, the government has effectively abolished Grants for Business Investment, the scheme that provides aid to companies to create or protect jobs in the less prosperous parts of England.

The Grants for Business Investment (GBI) scheme is not well known, largely because it only acquired its present name in 2008. However, its predecessors - Selective Finance for Investment in England (SFIE) and Regional Selective Assistance (RSA) - have a history stretching back to the early 1970s. For nearly four decades, these grants have been the cornerstone of regional economic policy.

The decision to abolish GBI is perverse and runs directly contrary to the government's aspirations to re-balance the economy:

- The vast majority of GBI grants go to **manufacturing** firms at a time when the government is trying to reduce dependence on financial services and on the public sector
- GBI can only be given to larger companies in the **Assisted Areas** - mostly the less prosperous parts of the North and Midlands - yet the government says it wants to reduce the economy's reliance on London and the South East

According to the government's own figures, over the last six years GBI and its predecessors have provided **£428m in grants to 1,787 projects** in order to support **£3.9bn of investment**, helping to create or protect a total of **77,000 jobs** in the English Assisted Areas.



Industrial Communities Alliance

The government announcement...

“GBI is a national scheme providing grants on a selective basis to support sustainable investment and job creation projects in the assisted areas of England. For all but the largest cases, the scheme has been delivered by the RDAs.

RDA provided GBI will cease with the closure of the Agencies. BIS will, however, consider large scale cases on an exceptional basis. This decision reflects both the need to address the budget deficit and the shift in focus from nationally-led to locally-driven policies to deliver economic growth”

Local Growth White Paper, p 47

What exactly is GBI?

GBI - Grants for Business Investment - is the scheme operated in England that gives grants to companies to create or protect jobs in the Assisted Areas. It provides support for capital projects that wouldn't otherwise go ahead on the same scale or in the same location. GBI is about investment and growth - it doesn't prop up 'lame ducks' and it doesn't subsidise operating costs.

The maximum grant, as a percentage of the project cost, depends on size of firm and location. For larger companies (with 250+ employees) the limits are:

Tier 1 (only Cornwall in England): 30%

Tier 2 (all other English Assisted Areas): 15%

These financial limits are set by EU State Aid rules. But the money for GBI comes from the Exchequer, not from Europe.

Which parts of the country are eligible?

Under the EU State Aid rules for 2007-13, the Assisted Areas cover 24 per cent of the UK population, or 14.4m people. The areas are defined in terms of economic disadvantage - GDP per head (in the case of Tier 1) and a wider basket of indicators including worklessness (for Tier 2). In England, the Assisted Areas are:

- Most of the North East
- West Cumbria and Barrow
- Most of Merseyside
- Parts of Greater Manchester
- East Lancashire
- Hull and NE Lincolnshire
- South Yorkshire and Wakefield

- North Derbys and North Notts
- North Staffordshire
- Most of the West Midlands conurbation
- Coventry
- Luton
- A small part of East London
- East Kent
- Plymouth
- Cornwall

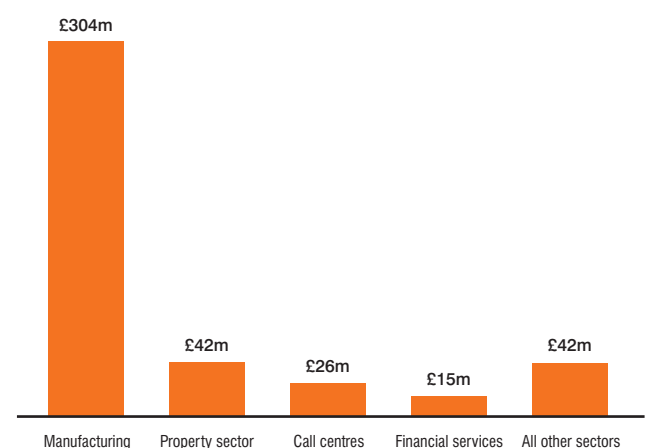
Parts of Scotland and Wales also have Assisted Area status and the devolved administrations operate their own versions of GBI.

What type of businesses?

GBI grants are given to businesses that add to the volume of economic activity in a local economy. The money doesn't go to local consumer services, where the expansion of one local business would simply displace another.

Most GBI grants go to manufacturing firms. Of the £428m of grants in England between 2004 and 2010, £304m went to manufacturing.

GBI* by sector 2004-10, England



*includes SFIE
Source: BIS

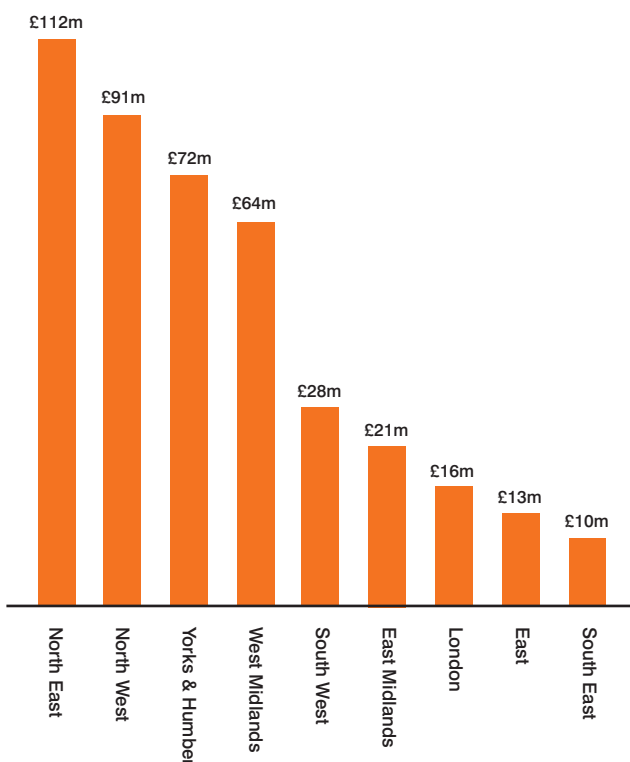
Where has the money been spent?

The funding predominantly goes to England's less prosperous regions: the three Northern regions plus the West Midlands together received £339m of the £428m funding between 2004 and 2010.

The impact of the government's decision to effectively abolish GBI will be felt most in these regions, or more particularly in the weaker local economies within them.

The impact on the more prosperous south of the country will be negligible.

GBI* by region 2004-10



*includes SFIE
Source: BIS

What has been the impact of GBI?

GBI and its predecessors SFIE and RSA have been amongst the most rigorously evaluated government initiatives.

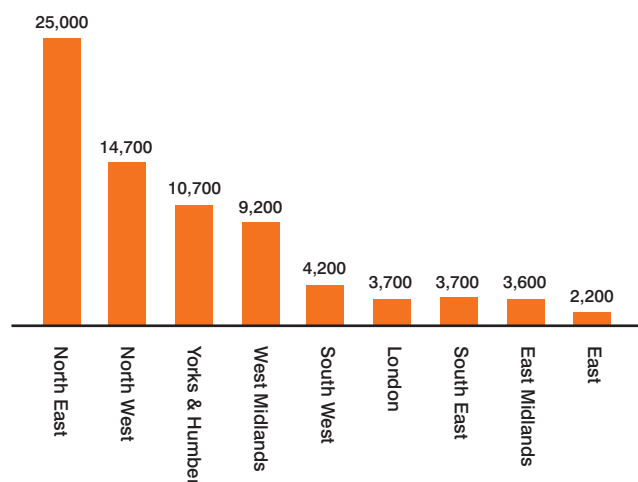
The last review for government, published in March 2008, concluded that:

“Both the RSA and SFIE schemes are delivering benefits to the UK economy through net additional employment, higher value-added and a set of wider benefits that demonstrate linkage into other regional priorities such as regeneration, skill enhancements, supplier networks and broader environmental agendas.”

Hart et al (2008) Evaluation of Regional Selective Assistance and its Successor, Selective Finance for Investment in England, BIS occasional paper 2.

The government's own figures point to 77,000 jobs in projects supported between 2004 and 2010. Around half are newly created jobs; the rest are jobs protected. Four regions - the North East, North West, Yorkshire and the West Midlands - account for 60,000.

Jobs created or protected by region 2004-10



*includes SFIE
Source: BIS

Scotland and Wales

The equivalent programme in Wales is known as the Single Investment Fund. Between 2000 and 2010 the Fund (and its predecessor RSA) accounted for £799m in grants. The Assembly Government is moving the Fund to a repayable model and targeting support on six key sectors.

In Scotland, aid to companies in the Assisted Areas continues to be provided under the Regional Selective Assistance (RSA) label. Between 2000 and 2010 this accounted for £629m in grants. The Scottish Government currently has no intention of discontinuing RSA.

The continuation of financial support to investment projects in Scotland places comparable Assisted Areas in England - and to a lesser extent in Wales - at a distinct competitive disadvantage. The disadvantage is likely to be particularly marked in attracting mobile investment projects.

What can be salvaged?

The decision to abolish GBI is likely to prove extremely damaging. It will:

- Undermine local regeneration efforts
- Hit the weakest local economies hardest
- Damage manufacturing most
- Weaken private sector job creation

In the long run, the decision to dispense with this key tool of regional policy needs to be reversed.

In the short run, the government's intention to retain a residual GBI to deal with "large scale cases on an exceptional basis" needs to be given tangible form.

The abolition of the RDAs should not be the pretext for the total demise of GBI. Prior to the creation of the RDAs, grants to businesses were administered by the government itself. There is no reason why the government could not return to this model.

There is also no need to define "exceptional cases" so tightly as to exclude the vast majority of desirable investment projects. A focus on larger projects might offer the sensible way forward: in the year to September 2010, just one-in-five grant offers was for £1m+.

Don't expect the Regional Growth Fund to fill the gap. The claims on this pot will be numerous, and the funding is likely to be spread well beyond just the Assisted Areas. What's more, local grants from the Fund will never be well suited to the 'lumpy' investment needs of larger companies.

Who we are

The **Industrial Communities Alliance** was formed in 2007 to represent local authorities in the industrial areas of England, Scotland and Wales.

The Alliance brings together two longer-established local authority associations - Coalfield Communities Campaign and SteelAction - together with local authorities from other industrial areas. It builds on ten years' successful collaboration under the banner of the Alliance for Regional Aid and a track record of successful lobbying by its predecessors extending back to the 1980s.

The aims of the Alliance are

- to articulate the needs of Britain's traditional industrial areas
- to attract resources for regeneration
- to press for balanced growth within and between regions
- and to provide a framework for information sharing between member authorities.



Industrial Communities Alliance

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