1. INTRODUCTION

This paper provides an overview of Scottish Enterprise’s (SE) approach to appraising and evaluating the Regional Selective Assistance (RSA) grants programme.

The RSA scheme, which transferred into Scottish Enterprise’s portfolio from Scottish Government in 2008, has three complementary objectives:

- help create and safeguard jobs in selected areas;
- help attract and retain internationally mobile investment;
- contribute to regeneration and competitiveness of particular localities.

There are two limits on the amount of assistance that can be offered - those set by the European Commission (EC), and SE’s internal cost-per-job limit. The size of investment depends on the assisted area within which the project will take place, and the size of the enterprise. Small enterprises may receive up to 30% of total project costs, medium enterprises up to 20% and large enterprises up to 10%. In the Highlands and Islands, an additional 5% uplift may be applied in ‘low population density’ areas.

**Aid for initial investment** applies to projects requiring significant investment in capital expenditure. The award is based on location and size of business, amount of eligible capital expenditure, number of jobs created/safeguarded as a direct result of the project and payment of the real living wage.

**Aid for job creation** applies to those projects which involve relatively low levels of capital expenditure, but which create new (not safeguarded) jobs that pay the real living wage. The grant is calculated as a proportion of the first two year’s salary costs.

RSA grant applications must comply with all the following SE criteria, in addition to EC rules:

**Additionality** - a convincing demonstration that without RSA the project would not go ahead in this area or would go ahead on a smaller scale.

**No prior start** – that project activity has not started. The application must be submitted, and an offer made, before work has commenced to show the grant is genuinely needed.

**Jobs** - that projects create or safeguard sustainable jobs. Projects which are likely to create over-capacity and/or displace jobs from another UK assisted area will not qualify. Relocation projects will not normally qualify unless relocation involves a significant increase in net employment.

**Viability** – that the company undertaking the project is viable and the project has a
good chance of being self-sustaining by the completion of the investment.

**Funding** – that, as RSA represents funding of last resort, the applicant will have explored all alternative sources of funding before applying.

**National and regional benefit** – that projects will contribute positive benefits to both the regional and national economy.

**Capital investment** – that projects involve an element of capital investment.

**Human Rights** – prior to an application being accepted (into any SE grant scheme) a human rights due diligence check may be required, depending on the scale of the company and project.

### 2. APPLICATION AND APPRAISAL

#### 2.1 Application

Before the application stage, companies are offered a meeting with the Grant Appraisals team, both to assist in ensuring that the proposed project is a good fit with the RSA scheme and to talk them through the detail of the application process; further information is also available on Scottish-Enterprise.com.

The RSA grant scheme is not competitive, with all applications assessed on their individual merits. Projects need to demonstrate a need for assistance, be viable, and provide a net benefit to the wider economy. An RSA application requires the following information:

1. description of the project outlining its purpose, rationale, product, market objectives, relationship to the company’s existing operation and employment projections;
2. a breakdown of capital costs by year in which they are likely to arise;
3. audited accounts for the last 2 to 3 years, more recent management or unaudited accounts if available, and group accounts where appropriate;
4. cash flow and forward trading estimates;
5. details of how the project is to be financed
6. curricula vitae for all directors and other key personnel;
7. detail on the company’s markets, and identity and location of competing businesses;

#### 2.2 Appraisal

The procedures for appraising whether a project meets the criteria for support are proportionate to the level of assistance sought. The larger the investment from SE, the more detailed the diligence process. SE grant funding is awarded in a similar timeframe to that of applicant’s own Board level decisions and that of commercial banks.

Key appraisal criteria are outlined below:
Need for assistance – verification that there remains a financial need for RSA assistance, that the project is in an eligible sector/technology (as defined by State Aid guidelines), and activity has not already commenced.

Commercial prospects – investigation of the validity of the applicant’s claims regarding its markets/customers (by review of competitors, trends in customer base/markets and skillset(s) required to deliver the project).

Staffing - ensuring created/safeguarded jobs meet fair work policies and procedures, and claims made about safeguarded jobs are proven to be genuinely at risk.

Financial assessment - determining the financial viability of the project and company, adequacy of the funding package, and assessment of project benefits to both regional and national economies. A range of factors are taken into account when determining the total amount of support to be provided, including the strategic/sectoral benefits, the adequacy of the funding package to ensure the public sector is not taking an undue share of risk, the inclusive growth impacts and the ability of an applicant to exploit the investment opportunity via increased turnover, productivity, innovation, export growth, and new market opportunities.

Grant levels above £500,000 require an additional Economic Impact Assessment (EIA), undertaken by SE economists.

Project appraisal involves ongoing discussion and negotiation with applicants, during which clarifications on timing of milestones, and therefore payments, may be sought and funding expectations set.

Appraisal staff negotiate in all cases, regardless of size, to establish the minimum necessary assistance required. In so doing, staff consider all relevant factors, including overall profitability of the project, degree of risk involved, the extent to which the project is nationally or internationally mobile and the number of jobs to be created. Attention is also paid to the total public-sector contribution to the project. In deciding whether to make an offer, SE balances all factors, weighing up opportunity vs. risk.

3. ECONOMIC IMPACT ASSESSMENT (EIA)

Economic Impact Assessments (EIA) help inform appraisals by providing a range of economic indicators relating to the wider economic impact/benefits of a project relative to the level of grant proposed. This quantification is helpful, particularly in assessing the appropriate level of support that should be awarded, ensuring value for money in terms of the ratio of Gross Value Added to the grant award.

1 This £500k threshold is consistent with other SE grant products for reasons of proportionality of approach and best use of internal resources
EIA’s consider the wider benefits of a project including positive impacts on the supply chain and assist in validating market opportunity including impacts on the competition within Scotland, and potential enhancement of the labour market skills base.

They complement the wider qualitative approach by offering an assessment of the potential net additional economic benefits of the RSA supported project i.e. the economic benefits that would not occur without the project. Using information from the grant application, published accounts, and data on wider sector economic performance and local/national economies, an informed assessment of potential economic impact can be made.

The EIA considers the following (further detail is provided in Appendix 1):

- the company’s project location alternatives;
- profile of the applicant’s business, business model and local economy characteristics;
- historic and estimated future company performance;
- the potential implications for domestic competitors;
- the potential for supply chain and other spillover benefits.

This information allows an estimate of the potential net additional economic impact of the project in terms of:

- gross and net additional employment impact
- assessment of gross and net additional gross value add (GVA) impact.
- Impacts relative to value of RSA grant

If a project does not appear to represent good value for money, the appraisals team use the EIA outcomes as leverage to negotiate the scale of the RSA offer.

4. GRANT OFFERS/ PAYMENTS/ MONITORING

Grant payments are linked to achieving specific project milestones. Triggers for payments are negotiated with the applicant and set out in the offer letter. Payments are phased in line with capital expenditure and/or job creation, are paid in arrears, and will not exceed the applicant’s cash expenditure on project assets (or wages in the case of Aid for Job Creation offers). Both employment levels and assets are required to be retained for a designated period after the final grant instalment.

SE informs companies when their claims are due, to facilitate smooth financing of the project. Companies are reminded to submit regular claims which detail the progress of the project. Provided the contractual (capital expenditure and/or employment) triggers have been met, and the company remains financially viable, payment can be made.

Any deviations from the project plan will be re-appraised to establish if sufficient progress has been made to release a part-payment.
5. EVALUATION AND PROGRAMME EVIDENCE

SE regularly carries out evaluations of evidence of programme performance, which is essential to inform decisions on future programme delivery. We are currently carrying out an evaluation of SE’s large grants, being delivered by Fraser of Allander Institute and EKOS Ltd. This joint econometric analysis and qualitative case study exercise will offer up-to-date evidence on the following areas:

- the market failures that RSA grants address within current and future environments
- the role of RSA grants in stimulating leverage
- the economic outcomes and impacts of grant funding
- complementarity with other support given
- contribution to Scotland’s attractiveness.

Past evaluations of most relevance are:


Analysis of RSA awards made to 693 businesses matched to the Business Structure Database, resulting in coverage of £122 million of offers and £99 million of payments. The work was used to assess the impact of RSA assistance on growth, isolating the impact of assistance from other contributing factors, looking at the effect of assistance on employment, turnover and productivity growth. The evidence concluded that being in receipt of RSA had a positive impact on the economy. Importantly, the programme was responsible for generating additional jobs within a period of economic downturn.

- 2008 - Evaluation of the Regional Selective Assistance (RSA) Scheme in Scotland between 2000-2004 (Kingston University, Aston University, University of Warwick)³.

The econometric analysis was based on a bespoke survey of 314 (of 360) assisted and non-assisted businesses. Total support offered extended to £126.6m over the 2004-2011 period, with mean and median grants of £351,648 and £100,000 respectively. The evaluation concluded the operation of the scheme met its objectives by supporting investment projects in businesses and plants that might otherwise have not taken place at all in Scotland, or would not have proceeded at the scale or timescale anticipated by investors. Further, it achieved these results in a cost-effective way and with significant positive short-terms economic returns to the economy.

² http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=552
6. CONCLUSION

We trust that this submission helps to inform the Committee’s work and we look forward to discussing this topic with them at the session on 10 September.
Appendix 1

Economic Impact Assessment (EIA)

The long-established and robust process undertaken to make an informed economic assessment of a proposed project includes:

- An overall understanding of the project, level of grant funding sought; and the applicant’s location alternatives
- Overall company performance (annual turnover, employment), including recent trends
- Profile of the applicant’s business, business model and characteristics of the local economy (including profile and robustness of the local job market)
- Assessment of export capacity/capability and implications for domestic competitors
- Justification for funding, e.g. funding shortfall and/or a package required to be competitive
- Amount of support requested relative to the ability to self-fund or contribute to funding
- Calculation of total employment costs-per-head;
- Calculation of average salary of jobs to be created/safeguarded vs local/Scottish/UK averages (by job type)\(^4\);
- Calculation of annual gross additional employment impact (i.e. numbers of jobs created/safeguarded both with and without project funding over 5 years), specifically:
  - Total Jobs
  - Cost-per-job
  - Gross wages per-head
- Assessment of annual gross economic impact\(^5\) (GVA) over 5 years, specifically:
  - Total GVA
  - Gross GVA per head
  - Gross impact ratio, i.e. the ratio of gross GVA to grant award
- Assessment of levels of additionality to calculate net impact. Adjustments include:
  - Deadweight: the likelihood of the project going ahead (all or in part) without SE support. Assessment is subjective and based on the strength of the case presented by the applicant;
  - Labour Market Displacement: the likelihood of whether the company will be able to recruit staff without adversely impacting other employers;
  - Product Market Displacement: adjustment relating to the company’s competitors in Scotland and direction of product(s) market growth;
  - Leakage: employment and GVA generated outside Scotland.

\(^4\) By comparison to the latest Scottish Annual Business Statistics, by sector data
\(^5\) Where GVA=employment costs+ depreciation + earnings before interest and taxes
• Application of relevant multipliers to capture potential supply chain and induced (wage) impacts\(^6\);
• Net impact calculations, over 5-years, include:
  - Total net employment
  - Cost-per-net job
  - Total net GVA
  - Net GVA per head
  - Net impact ratio, i.e. the ratio of net GVA to grant award.