Regional Selective Assistance (RSA)

Aim of RSA scheme
The main rationale for intervention at the programme level is equity: providing support that is targeted upon geographical areas that, as measured by such things as unemployment rates and per capita GDP\(^1\), are less prosperous than the regions or nations of which they form a part.

The scheme primarily aims to improve job opportunities provided in the Assisted Areas of Scotland by supporting investment projects which create/safeguard jobs.

However, assistance, albeit at a lower intensity, is available across all of Scotland to small and medium sized enterprises (SMEs), so that they can invest in new capital equipment and jobs, regardless of their location within Scotland.

In summary, the RSA scheme has broadly three complementary objectives:

1. to help create and safeguard jobs in selected areas;
2. to help attract and retain internationally mobile investment; and
3. to contribute to the regeneration and competitiveness of particular areas.

What kind of projects can RSA support?
RSA is aimed at helping projects that will create or protect jobs in Scotland. Projects should also involve some capital investment and should service markets wider than Scotland only or compete with companies outside Scotland.

Typical projects include scenarios like:

- Companies investing in new machinery/ equipment, so they can:
  - Manufacture a new product;
  - Become more productive/efficient; and
  - Increase capacity so they can target new customers/markets
- Set up a new base/office/ manufacturing plant;
- Diversify the business activity; and
- Service-sector companies creating new jobs.

Key criteria
RSA has three key criteria:

1. **Economic impact**
Applicants must be able to demonstrate that new jobs created from the project will not simply be offset by job losses elsewhere in Scotland. This is because the RSA grant aims for real gains in net employment in Scotland, not just to shuffle jobs between businesses ("displacement").

We are therefore more likely to assist projects which service markets wider than Scotland only, and/or where competitors are largely based outside Scotland.

\(^1\) [http://cep.lse.ac.uk/pubs/download/dp1113.pdf](http://cep.lse.ac.uk/pubs/download/dp1113.pdf), p. 5.
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Businesses wholly or mainly competing in a local market will not qualify – e.g. retail and catering sectors – and nor will projects aimed at an already well served market.

2. **Viability**
We are prepared to take our share of the risks on a project, but we must be satisfied that the venture has a reasonable chance of success.

The project and the underlying business must be viable, make commercial sense and contribute to the national economy.

RSA **cannot** be used to support companies in distress.

3. **Need for grant** (“Additionality”)
We want to assist projects which would not otherwise proceed without our help.

Levels of grant are negotiated individually – with a view to obtaining value for money. Grant levels offered depend on the scale of the project and our assessment of the need for assistance.

The majority of project funding must come from the private sector.

RSA will not be offered in cases where the company is already committed to undertaking the project (“prior commitment”) or where we believe a project would proceed regardless of our involvement.

**How much grant can we offer?**
The maximum intervention rate is defined in State Aid and is based on the size of the business and the location in Scotland:

<table>
<thead>
<tr>
<th>Assisted area</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 30%</td>
<td>Up to 20%</td>
<td>Up to 10%</td>
<td></td>
</tr>
<tr>
<td>Rest of Scotland</td>
<td>Up to 20%</td>
<td>Up to 10%</td>
<td>nil</td>
</tr>
</tbody>
</table>

The appropriate % is applied to **either**
- Project capital expenditure (primarily manufacturing/ engineering type companies); or
- Wage costs for new employees (primarily businesses in the service sector).

An award of RSA grant is discretionary and subject to a due diligence process. In determining the level of grant offered, we also consider:
- value for money e.g. number and quality of jobs created; and
- the need for assistance i.e. our determination of the amount required for the project to take place. This can cover aspects such as filling a funding gap, reducing risk/gearing, offsetting higher costs of doing a project in Scotland vs. alternative location.

**How is grant paid out?**
Projects are typically implemented over a 3 to 5 year period.
Grant is paid out in instalments in arrears, after capital investment and job targets are met.

As the challenges facing Assisted Areas are longstanding, an important element of RSA is that any investment and improved economic outcomes must be maintained for at least five years for larger enterprises or three years for SMEs after completion.

Data relating to accepted offers represents planned investment and expected jobs. Not all projects proceed as planned. Those which are only partially completed typically have their grant reduced accordingly to maintain State Aid limits and Value for Money considerations.

**Changes to State Aid in 2014**
Regional Aid rules are set by the European Commission and change every 7 years.

**SMEs**
The changes to the rules had a limited impact on our support for SMEs.
- Intervention rates fell by 5% points e.g. maximum support for small companies fell from 35% to 30%. Historically very few offers were right at limits and so in practical terms, it makes little difference.
- The Assisted Areas map was also amended, which expanded the areas classed as “Tier 2” (areas eligible for a higher level of RSA support). At that time, it was anticipated that approx. 20% more Scottish companies would be eligible for RSA because they would now be based in an Assisted Area.

**Large companies**
The most significant changes in 2014 were in relation to aid for large businesses (generally over 250 employees at Group level). The changes restricted RSA support to large businesses to only those projects involving setting up a new facility; or where the business is materially diversifying its output.

This means that aid for general expansion of the existing activity, by large businesses, is no longer eligible for support. This led to a marked reduction in our ability to offer grant assistance for capital investment and job creation by larger companies.

These changes were well trailed to the business community and in June 2013 we sent letters to all account managed businesses suggesting that they consider taking full advantage of the scope of the scheme under rules at that time; this was followed up by a similar communication in November. As expected, there was a “spike” in applications in advance of the changes which resulted in an exceptionally high volume of new offers over the period between 28 February and 30 June (offers issued from 1 July require to be under the new rules).