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**Subject: State aid SA.39273 (2014/N) – United Kingdom
Evaluation plan for the block exempted large aid scheme "Regional
Growth Fund"**

Sir,

1. PROCEDURE

- (1) By electronic notification of 1 August 2014 the United Kingdom submitted a summary information sheet pursuant to Article 11(a) of the Commission Regulation (EU) No. 651/2014 declaring certain categories of aid compatible with the internal market in application of the Article 107 and 108 of the Treaty¹ (hereinafter "GBER") on the aid scheme Regional Growth Fund (hereinafter: RGF) which it had put into effect on 1 July 2014 in application of the Article 1 (2) (a) on the Scope of the GBER and plans to implement until the end of 2020. This submission was registered as SA.39273 (2014/X).
- (2) This aid scheme, with an average annual budget exceeding EUR 150 million constitutes a large scheme in the meaning of Article 1(2)(a) of the GBER. Under this provision, aid schemes are exempted only for a period of six months after their entry into force, unless a longer period of exemption is authorised by the Commission following the assessment of an evaluation plan for the scheme to be notified by the Member State concerned.

¹ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty

The Rt Hon Philip HAMMOND
Secretary of State for Foreign and Commonwealth Affairs
King Charles Street
London SW1A 2AH
UNITED KINGDOM

- (3) To obtain that prolongation, the United Kingdom notified an evaluation plan for the scheme on 1 August 2014 which was registered by the Commission under SA.39273 (2014/N). By letter of 19 September 2014 the Commission asked for supplementary information, provided by the UK on 18 October 2014. A meeting between the UK authorities and Commission services took place on 21 October 2014. By letter of 4 November 2014 the Commission asked for additional information. The UK provided the requested information on 13 November 2014.

2. DETAILED DESCRIPTION OF THE KEY ELEMENTS OF THE NOTIFIED EVALUATION PLAN

- (4) As required by Article (2)(16) of the GBER and in line with best practices recalled in the Commission Staff Working Document on Common methodology for State aid evaluation² (hereinafter: "Staff Working Document"), the notified plan contains the description of following main elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date of submission of the final evaluation report, the description of the independent body conducting the evaluation or the criteria that will be used for its selection, and the modalities for ensuring the publicity of the evaluation.

i) Objectives of the aid scheme to be evaluated

- (5) This scheme is the most important English scheme for regional investment aid and at the same time it foresees multiple measures which may cover also aid for compensating the costs of assistance provided to disadvantaged workers, aid for early adaptation to future Union standards for SMEs, investment aid enabling undertakings to go beyond Union standards for environmental protection or increase the level of environmental protection in the absence of Union standards, environmental investment aid for energy efficiency measures, aid for energy efficiency projects, investment aid for high-efficiency cogeneration, investment aid for the promotion of energy from renewable energy sources, investment aid for remediation of contaminated sites, investment aid for energy efficient district heating and cooling, investment aid for waste recycling and re-utilisation, investment aid for energy infrastructure, aid for environmental studies, aid for broadband infrastructure, aid for culture and heritage conservation, aid schemes for audio-visual works, SME aid, risk finance aid, aid for start-ups, investment aid for local infrastructures, aid for the employment of workers with disabilities in the form of wage subsidies, aid for compensating the additional costs of employing workers with disabilities, SME aid - Aid for scouting costs, fundamental research and industrial research.

The rationale behind the setting up of the RGF scheme are market failures consisting in difficulties to obtain finance by companies, collaboration/coordination failures (resulting in underinvestment in R&D and skills training) and significant

² Commission Staff Working Document on Common methodology for State aid evaluation, Brussels, 28.5.2014, SWD(2014) 179 final.

regional economic disparities resulting in lower employment opportunities in certain regions. The main objectives of the RGF are:

- (i) stimulating enterprises by providing support for projects/programmes with potential for economic growth, leveraging in private sector investment and creating additional sustainable private sector employment
- (ii) supporting areas which are currently dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity.

The scope of intervention of the RGF comprises in particular firm level subsidies; granted directly by the RGF, and grant and loan programmes financed with support of the RGF and run by programme intermediaries.

The RGF scheme is organised in subsequent rounds. Rounds 5 and 6 of the scheme (so far, of a total budget of 3.2 billion pounds (EUR 4 065 040 650) were announced in 2013. The evaluation exercise will take into account the results of Rounds 5, 6 and 7 (if the latter takes place). The scheme is not targeted at any particular sector of economy. The minimum amount of aid for a given project for which a company can apply under the direct intervention facility is EUR 1 million.

ii) Evaluation questions

- (6) According to the UK authorities, the RGF evaluation strategy is composed of two elements: impact and economic evaluation. The objective of the impact evaluation is to robustly establish the causal effects of projects and programs funded through RGF on beneficiary firms. The impact evaluation will look in particular at the casual effects of RGF on firm level subsidies and grant and loans programmes. In these cases the impact evaluation will explore the causal effects which the RGF had on businesses in terms of the intermediate outcomes (capital investment, training expenditure, numbers of workers trained, research and development expenditure, patents) and final outcomes (sustainable private sector employment levels, profitability, productivity).

The objective of the economic evaluation is to establish how far the costs of the RGF were justified by the benefits achieved. This evaluation is composed of the cost-effectiveness analysis (CEA) and a cost-benefit analysis (CBA).

iii) Result indicators

- (7) As far as the firm level subsidies and grant and loan programmes interventions are concerned, the main result indicators used will be the intermediary indicators (capital investment, training expenditure, numbers of workers trained, research and development expenditure, patents) and final indicators (employment levels, profitability, productivity). As far as the land and property interventions are concerned, the evaluation will focus on intermediate effects in local property markets (on floor space and rents), as well as employment and unemployment.

iv) Envisaged methodology to conduct the evaluation

- (8) The RGF database created through monitoring and containing information on unsuccessful applicants and non-applicants provides the basis for the assembly of a

sample of beneficiaries, unsuccessful applicants and non-applicants counterfactuals (matched with the treatment group). This data will then be linked to secondary sources of information to create longitudinal panel datasets. This approach will only be possible for firm level projects (aid for capital expenditure, R&D and training) and grant and loan programmes and it will be complemented by a rolling survey. This approach will be partially available for land and property schemes. For such cases an occupant survey and case studies are also envisaged. When longitudinal panel datasets are not available (mainly for „Other“ projects) case studies will be undertaken. The sampling exercise for survey and case studies will be based on the information held by the RGF monitoring system.

The econometric methodologies applied for the evaluation of different types of RGF interventions are summarized in the table below:

Intervention type	Counterfactuals	Data collection	Analysis	Case studies
Firm level projects	a) unsuccessful applicants b) non-applicants (matched by size, sector, location) c) exploit timing of rounds (R4 vs R1)	a) datalinking (BSD, ARD, BERD)for beneficiaries and counterfactuals b) controls sourced from monitoring of wider programmes c) ex-post census survey of beneficiaries	a) propensity score matching and fixed effects b) fuzzy RDD c) synthetic control methods	none
Grant&Loan programmes	a) unsuccessful applicants b) non-applicants (matched by size, sector, location)	a) datalinking (BSD) for beneficiaries and counterfactuals b) controls sourced from monitoring of wider programmes c) ex-post census of beneficiaries and unsuccessful applicants	a) propensity score matching and fixed effects b) difference in differences (for survey data) c) synthetic control methods	none
Land&property	a) area based counterfactual	a) spatial aggregation of BSD data b) occupant surveys	a) fixed effects	Local property markets case studies
Other (Transport, Tourism, Spatial Programmes and Infrastructure)	None	None	none	Project and programme level case studies

v) *Data collection requirements*

- (9) One of the requirements of the RGF scheme towards its beneficiaries is quarterly monitoring. Each grant recipient is subject to a range of monitoring obligations defining the Key Performance Indicators (KPI) against which they need to report through this quarterly process.

Monitoring data is stored in an online monitoring information system (MyMI). The system allows monitoring information to be collected and analysed centrally and regionally. It is designed to provide the majority of information that would be needed for any impact or economic evaluation (including contact details of beneficiaries, evidence on budget and forecast expenditure and outputs). In addition, the RGF records contain wide-ranging and extensive information on unsuccessful applicants.

vi) *Proposed timing of the evaluation, including the date of submission of the final evaluation report*

- (10) According to the UK authorities, the foreseen timing for evaluation is composed of the following phases:

- Preparatory phase: scoping study (commissioned in May 2013; results in 2014; to be published by early 2015)
- Phase One: Early Assessment of Impact (September 2014 to March/April 2015)
An early assessment of impact is to be completed by spring 2015. This early study would focus primarily on testing the feasibility of quantitative approaches to impact.
- Phase Two: Rolling Survey of Grant and Loan Beneficiaries (2015 to 2020)
A rolling survey of grant and loan beneficiaries would begin from March/April 2015. This survey would focus on establishing the financial measures of outcomes of interest (baseline and follow-up), self-reported views on the impacts of beneficiaries, and information that may be helpful in reaching an assessment of displacement.
- Phase Three: Medium Term Assessment (2017/18)
A medium term evaluation would take place in 2017/18 and provide a wider assessment of the additional impacts of the RGF.
- Phase Four: Long Term Assessment (2020)
A long term evaluation of RGF would take place in 2020 at which point the impacts of the full portfolio should be visible.

The UK authorities committed to submitting the final evaluation report to the Commission before 30 June 2020.

vii) *Independent body selected to conduct the evaluation, or criteria for its selection*

(11) The UK authorities confirmed that the body conducting the evaluation will be fully independent as its selection occurs through an open tender. The Invitation to Tender to choose the body conducting the evaluation was released on 23.7.14. The UK authorities informed that the contract for phase II of the RGF evaluation has been awarded to a consortium of IFF Research, Belmana, and University of the West of England and Middlesex University.

viii) *Modalities for ensuring the publicity of the evaluation*

(12) The UK authorities confirm that the evaluation plan including scoping study and the final evaluation report will be published on a UK government website (currently www.gov.uk) and that the data will be made available to relevant interested parties (provided commercial confidentiality is safeguarded).

3. ASSESSMENT OF THE EVALUATION PLAN

(13) The correct application of the GBER is responsibility of the Member State. The present decision on the evaluation plan does not assess whether the aid scheme to be evaluated was put into effect by the Member State in full respect of all applicable provisions of the GBER. It does therefore neither create legitimate expectations, nor does it prejudge the orientation the Commission might take regarding the conformity of the aid scheme with the GBER when monitoring it, or assessing complaints against individual aid granted under it.

(14) Pursuant to Article 1(2)(a) GBER, certain aid schemes³ in the meaning of Article 2(15) GBER⁴, if their average annual State aid budget exceeds EUR 150 million, should be made subject to evaluation. The Commission notes that, taking into account that Rounds 5 and 6 of RGF (spreading over 2013 and 2014) have the total annual budget of 3.2 billion pounds, the annual average budget of the aid scheme concerned, exceeds EUR 150 million as set in Article 1(2)(a) GBER.

(15) As the Commission explained in recital 8 of the GBER, the evaluation of large schemes is required *"in view of the greater potential impact of large schemes on trade and competition"*. The required *"evaluation should aim at verifying whether the assumptions and conditions underlying the compatibility of the scheme have been achieved, as well as the effectiveness of the aid measure in the light of its general and specific objectives and should provide indications on the impact of the scheme on competition and trade."* State aid evaluation should in particular allow the direct incentive effect of the aid on the beneficiary to be assessed (i.e. whether the aid has caused the beneficiary to take a different course of action, and how significant the impact of the aid has been). It should also provide an indication of

³ Schemes under Sections 1 (with the exception of Article 15), 2, 3, 4, 7 (with the exception of Article 44), and 10 of Chapter III of this Regulation (Article 1(2)(a) GBER)

⁴ 'Aid scheme' means any act on the basis of which, without further implementing measures being required, individual aid awards may be made to undertakings defined within the act in a general and abstract manner and any act on the basis of which aid which is not linked to a specific project may be granted to one or several undertakings for an indefinite period of time and/or for an indefinite amount (Article 2(15) GBER).

the general positive and negative effects of the aid scheme on the attainment of the desired policy objective and on competition and trade, and could examine the proportionality and appropriateness of the chosen aid instrument.⁵

- (16) In the light of these considerations, Article 2(16) of the GBER defines as evaluation plan "a document containing at least the following minimum elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date of submission of the final evaluation report, the description of the independent body conducting the evaluation or the criteria that will be used for its selection and the modalities for ensuring the publicity of the evaluation."⁶
- (17) The Commission considers that, as described in section II of this decision, the notified evaluation plan contains these minimum elements and was notified within 20 working days after the United Kingdom put the aid scheme into effect for in application of the GBER.
- (18) The evaluation plan gives a concise description of the key objectives of the measures concerned, and provides sufficient information to understand their 'intervention logic'. The scope of the evaluation is defined in an appropriate way. It also identifies and justifies pertinent result indicators that integrate the evaluation questions for the individual measures concerned, and explains the data collection requirements and availabilities necessary in this context.
- (19) The evaluation plan sets out the main methods that will be used in order to identify the effect of the aid, and discusses why these methods are likely to be appropriate for the scheme in question. The proposed evaluation methodology sufficiently allows identifying the causal impact of the scheme itself.
- (20) The proposed timeline of the evaluation is reasonable in view of the characteristics of the measures concerned and the relevant implementation periods for projects supported under the scheme. Findings of the early study and of the medium-term evaluation can serve a very important purpose of informing the early stages of scheme's revision process.
- (21) The proposed criteria for the selection of the evaluation body meet the independence and skills criteria.
- (22) The proposed modalities for the publication of the evaluation results are appropriate and ensure transparency. In particular, the Commission takes note of the commitment to disseminate and make publicly available emerging and final findings to stimulate policy debate.
- (23) In view of the above, the Commission considers that the evaluation plan meets all requirements laid down in the GBER, is established in line with the common

⁵ See the Staff Working Document cited in footnote 2 (footnote 3, section 2, second paragraph).

⁶ Further guidance on evaluation plans is given in the Staff Working Document cited in footnote 2.

methodology proposed in the Staff Working Document, and is suitable given the specificities of the large aid scheme to be evaluated.

- (24) The Commission notes the commitment made by the UK authorities to conduct the evaluation according to the plan described in the present decision and to inform the Commission of any element that might seriously compromise the implementation of the plan. The Commission also notes the commitment by the UK authorities to fulfil the obligation to transmit the final evaluation report by 30 June 2020, and that all plans to modify this aid scheme have to be notified to the Commission.
- (25) Therefore, pursuant to Article 1(2)(a) of the GBER, the Commission decides that the exemption for the aid scheme for which the evaluation plan was submitted is prolonged beyond the initial six months until 31 December 2020.
- (26) Alterations to this scheme, other than modifications which cannot affect the compatibility of the scheme under the GBER or cannot significantly affect the content of the approved evaluation plan, are pursuant to Article 1(2)(b) of the GBER excluded from the scope of the GBER.

4. CONCLUSION

(27) The Commission decides:

- To prolong the exemption under the GBER until 31 December 2020.
- To publish this decision.

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<http://ec.europa.eu/competition/elojade/isef/index.cfm>.

Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B – 1049 Brussels
Belgium
Fax No: 32 2 296 12 42

Yours faithfully,
For the Commission

Margrethe VESTAGER
Member of the Commission