



**Report to:** Development Committee

**Subject:** Consultation Regarding Revision of Industrial Development Act 1982

**Date:** 25 October 2011

**Reporting Officer:** John McGrillen, Director of Development, ext 3470

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<b>1</b>	<b>Relevant Background Information</b>
1.1	The Industrial Development Act 1982 (IDA) allows for financial support to be provided by the government to industry within designated parts of the UK. The Department for Business, Innovation & Skills (BIS) has issued a consultation with a view to updating this Act, incorporating a number of amendments.
1.2	These amendments include: <ul style="list-style-type: none"><li>- The removal of the automatic assisted area status of Northern Ireland</li><li>- An increase in the per project limit for aid (from the current £10 million) after which a parliamentary resolution is required and removal of the distinction that excludes payments under foreign currency guarantees from that increased limit</li><li>- The inclusion of telecommunications and broadband in the definition of the “basic services” that the Government can contribute towards in a development area</li><li>- Widening the basis on which the Government can develop land it acquires.</li></ul>
1.3	The most significant proposed amendment for Belfast is the first one, namely removing the automatic assisted area status of Northern Ireland.
1.4	The current status allows for government assistance towards selected industries at various levels of intervention throughout Northern Ireland. The assistance is generally capital support to large businesses and is used to support FDI as well as indigenous business growth. It is administered by Invest NI and Northern Ireland Tourist Board (NITB).
1.5	The rationale for the proposal is that the IDA 1982 reflected the exceptional circumstances of Northern Ireland at the time. The consultation suggests that the situation has changed from that time and that relatively prosperous areas of Northern Ireland qualify for State Aid to the detriment of other less prosperous areas elsewhere in the UK.

1.6	The “assisted areas” map i.e. the eligible areas for State Aid (appendix 2) is governed by EU population limits. The proposal suggests that the inclusion of the entire Northern Ireland population reduces the ability to include other less prosperous areas in the UK. The current status, it is argued, confers unfair advantages to Northern Ireland in terms of population coverage i.e. the whole population base of 1.7m whereas areas designated for economic assistance tend to be limited to populations of 100,000. This will be further exacerbated as population that can be assisted will be reduced from 2014 from 23.9% of the UK population to 20% and the population areas designated for assistance may be reduced to units of 50,000.
1.7	The consultation closes on 2 November 2011.

<b>2</b>	<b>Key Issues</b>
2.1	If the BIS proposal regarding changing the automatic designation of Northern Ireland was to be implemented, this would mean that all local authority areas in Northern Ireland would be measured against all other local authority areas in UK (except for Cornwall & the Scilly Isles and West Wales and the Valleys which are mandated for inclusion in the map in light of their relative deprivation compared to other parts of EU). Only those areas whose GDP levels were considered to be lowest would be eligible for State Aid.
2.2	The consequences are that areas of Northern Ireland will effectively be competing for funds not only with the rest of the UK but with each other. Under current measurements (GDP/GVA) the Belfast City Council area would not be eligible as a whole for assisted area status given that the GVA per head for this area is above the Northern Ireland (and UK) average. The implications of this would be that this would have a negative effect on being able to provide support for foreign direct investment (FDI) and capital investment in all parts of the City.
2.3	The unit of area that can be included in the revised assisted areas map can be drilled down to local authority electoral ward level. This would mean that wards within the Belfast City Council area will be compared against each other and some may be eligible while others may not.
2.4	Analysis of the most recent NUTs level 3 (i.e. local authority area) GVA statistics show that whilst Northern Ireland, as one of the 12 regions that are measured, has high levels of deprivation relative to the rest of the UK, Belfast as a city compares quite favourably with other cities such as Leeds and Birmingham. However, of the 582 electoral wards within Northern Ireland, 21 of the 51 wards in the Belfast City Council are within the top 10% of the most deprived wards in the region.
2.5	Depending on any revised guidelines for assessing qualifying areas (e.g. population size in total, population size for zones, measurement of relative deprivation) some areas of Belfast may remain in a position to continue to qualify for support for business growth and investment but other areas will almost certainly not.
2.6	The relative “wealthy” position of Belfast compared to other cities, is down to a number of factors. These include being responsible for over 50% of Northern Ireland’s GDP, attracting a large inflow of workers (this raises GVA of the city but

	is not necessarily a reflection of the relative wealth of the citizens) and having a relatively small population.
2.7	The Department for Enterprise Trade and Investment (DETI) will be opposing the proposal for a number of reasons. Firstly, they argue that it is wrong time to be having this consultation and proposal when the consultation on Rebalancing the Economy is ongoing.
2.8	Secondly, they suggest that there is the potential for inefficient use of state aid. For instance under current rules, the state aid rates for intervention in a large business in Belfast is 10% but outside of Belfast 15%. If no assistance is available in Belfast the government intervention in a scheme will have to be at a higher level in order to achieve the same net benefit.
2.9	Thirdly, there is a potential for contravention of Section 75 legislation if the division of aid in Belfast becomes only available predominantly to areas populated by one section of the community or another.
2.10	Finally, they suggest that the current reliance on pure statistical data (GDP/GVA) does not reflect the complex nature of the Northern Ireland economy and Belfast's role within it.
2.11	Invest NI, The Confederation of British Industry (NI), the Institute of Directors (IoD) and Centre for Competitiveness are all opposing the proposal on the basis that it will have potentially damaging effect on investment and private sector growth in Belfast and Northern Ireland.
2.12	If the proposal is accepted and Northern Ireland loses automatic assisted area status, it would make it very difficult to market Belfast to potential investors. While some designated areas within Belfast would probably remain, the city would be fragmented and it would make it complex to understand the various levels of support available to investors.
2.13	The consultation also incorporates a number of additional proposed amendments. The draft Belfast City Council response to the consultation is attached as Appendix 1.

<b>3</b>	<b>Resource Implications</b>
3.1	No specific resource implications associated with this measure.

<b>4</b>	<b>Equality and Good Relations Considerations</b>
4.1	An Equality Impact Assessment for Northern Ireland is being conducted through BIS as part of this consultation.

<b>5</b>	<b>Recommendations</b>
5.1	It is recommended that Members: <ul style="list-style-type: none"> <li>- Note the current consultation regarding the proposed changes to the Industrial Development Act 1982</li> <li>-</li> <li>- Approve the attached (Appendix 1) as the Belfast City Council response to this consultation.</li> </ul>

<b>6</b>	<b>Decision Tracking</b>
A report will be brought back to Committee on progress of this consultation.	
Timescale: January 2012	Reporting Officer: Shirley McCay

<b>7</b>	<b>Key to Abbreviations</b>
BIS – Business, Innovation and Skills	
GVA – Gross Added Value	
IDA – Industrial Development Act	
NUTs – Nomenclature Units for territorial Statistics	
IOD – Institute of Directors	
NITB – Northern Ireland Tourist Board	

<b>8</b>	<b>Documents Attached</b>
Appendix 1 - Draft Response to Consultation	
Appendix 2 – Map of “assisted areas”	