



**CUMBRIA GROWTH FUND RGF PROGRAMME**

SUMMARY GUIDELINES

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# PART 1: BACKGROUND

The Cumbria Growth Fund RGF Programme (CGF) is administered by Cumbria Chamber of Commerce, a company limited by guarantee and registered in England, registration number 04211364.

The Chamber has received an offer of up to £4,000,000 from the Department of Business, Innovation and Skills (BIS) from Round 6 of the Regional Growth Fund (RGF). RGF is a £3.2bn fund operating across England from 2011 to 2017. It supports projects and programmes that lever private sector investment creating economic growth and sustainable employment. It aims particularly to help those areas and communities currently dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity.

Cumbria Growth Fund aims to achieve those objectives by offering grants to businesses of all sizes in Cumbria and established businesses elsewhere setting up an operation in the county to encourage investment which will create new jobs or safeguard existing jobs, promoting competitiveness, sustainability and growth.

The Fund will be run primarily as a monthly competition with closing dates for applications published on the Chamber’s website and Cumbria Business Growth Hub web portal and in CN Group publications.

## Application process

The application process is competitive. Grants may be offered to projects that:

* offer good value for money, measured by the value of the grant offered per new job created/existing job safeguarded
* make a clear and reasonable case for needing grant support
* have adequate private sector funding towards the balance of the project
* comply with State Aid regulations
* can complete within the required timescales

Grants are discretionary and there is no obligation on the Chamber to offer grants even where all the above criteria appear to have been met.

The application process comprises the following stages:

* Submission of an Expression of Interest (EOI) form which can be found at [www.cumbriachamber.co.uk](http://www.cumbriachamber.co.uk).
* Review of the EOI against scheme criteria.
* If the EOI is accepted, a full application will be invited. There will be a monthly deadline (published on the Chamber website and Cumbria Business Growth Hub web portal and in CN Group publications) for submission of full applications, with the opportunity, at the discretion of the Chamber, for consideration of individual applications between these deadlines where the opportunity is time dependent. Growth Hub advisers are available, at no charge to the applicant, to support completion of applications by small and medium sized businesses (SMEs).
* Application Assessment against the scheme criteria, including light touch due diligence for applications up to £50,000, with recommendations made to an Investment Panel.
* Consideration by the Investment Panel. Applications for £10,000 up to £50,000 which are approved by the Panel will be made a formal offer of grant at this point. Applications for over £50,000 approved by the Panel will be made a provisional offer subject to successful completion of full due diligence.
* Full due diligence for applications of over £50,000. A due diligence fee (2% of the grant amount requested) is payable by the applicant before this commences. Applicants may be required to submit further information at this stage. The due diligence appraisal process is outlined in Part 3 below and will involve further investigation of the information submitted with the application. The level of grant may be negotiated at this stage to ensure it is the minimum necessary for the project to proceed and meets the State Aid criteria.
* A formal offer is made with an appraisal and administration fee payable at this stage of 3% for grants up to £50,000 and an administration fee of 1% for grants over £50,000 (a 2% appraisal fee having already been paid). The applicant can commit to the project once this formal offer of assistance has been made but not before.

## Eligible businesses and geographic location

SMEs in any area of Cumbria are eligible. The EU SME definition is set out in <http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf>

Large companies are only be eligible to apply for a grant towards capital investment costs if the investment is to be located in an Assisted Area in Cumbria and the project relates to an initial investment in favour of a new economic activity. The current Assisted Areas map, which applies from 1 July 2014 until 31 December 2020 can be found at: <http://www.ukassistedareasmap.com/>.This map is based on ward boundaries in effect on 31 December 2011. A full list of eligible wards is set out in Annex C.

R&D projects by any size of business in any area of the county are eligible for Cumbria Growth Fund grants.

## Project timescales

Projects should be substantially complete by 31 December 2016 and all claims for grant payment submitted by 15 April 2017. No claims for grant payments can be accepted after this date.

## Eligible project expenditure

Projects may involve investment in new assets or in Research & Development (R&D) leading to the creation or safeguarding of jobs.

Expenditure must be incurred and fully defrayed before grant claims relating to that expenditure can be submitted, other than expenditure via HP, leases and capitalised salaries. In the latter cases only the amount actually defrayed at the time of the claim can be included. At no stage of the project will the payment of grant exceed the applicant’s actual cash expenditure.

Examples of eligible expenditure can include the following:

**Capital expenditure**

* Land and buildings, including the purchase or lease of larger premises and premises extension and re-fit
* Plant, equipment and machinery
* Salary costs of new employees whose jobs have been created as a result of the project

**R&D expenditure**

* Eligible costs for R&D include salaries (supported by timesheets), overheads, consultancy and materials
* Costs of instruments and equipment
* Consultancy and other external costs

**Training expenditure (if associated with an investment project which will create/safeguard jobs)**

* Trainers’ personnel costs for time spent delivering training
* Trainers’ and trainees’ operating costs directly linked to the project

Training costs cannot exceed 10% of total project costs.

## Job creation and safeguarding

All investment projects must create or safeguard sustainable direct jobs, normally within the applicant business. Priority will be given to projects which create new permanent jobs. For safeguarded jobs, the applicant must be clearly able to demonstrate that the jobs are at imminent risk (within the next 12 months) if the project does not go ahead. Indirect jobs created within the supply chain will not normally be taken into account.

The ratio of grant to jobs created/safeguarded and the cost per job will be taken into account in assessing value for money.

Where aid is calculated on the basis of the investment cost of a project, the intentions must be for jobs created/safeguarded by the project to be maintained for a minimum of five years (three years for SMEs) after the whole investment has been completed.

Where aid is calculated on the basis of wage costs EC State Aid rules specify that the job creation associated with the project must occur within three years of project completion and each job must be maintained for a minimum period of five years in the case of employment by a large company and three years in the case of employment by a SME.

## Levels of grant support available

The minimum grant available from Cumbria Growth Fund is £10,000 per project and the maximum is £1m. A business may apply for and receive more than one grant under CGF but the total of the awards made must not exceed £1m.

The maximum percentage of grant support offered for any project depends on the size of the business and the geographic location of the project. Grants are offered as a percentage of eligible project expenditure as shown in the table below. The percentage indicated is the maximum permissible percentage of grant support that can be offered in each case.

The Assisted Areas referred to in the table are shown on the map which can be found at

<http://www.ukassistedareasmap.com/>. It is based on ward boundaries in effect on 31st December 2011. A full list of eligible wards is set out in Annex C.

The SME definition is available at

<http://ec.europea.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf>

Cumbria Growth Fund aid is primarily provided under European State Aid regulations. The Fund provides the following types of aid in accordance with the EU General Block Exemption Regulation No **651/2014**(“GBER”):

* Regional investment aid (Article 13)
* Investment aid to SMEs (Article 17)
* Aid for research and development projects (Article 25)
* Training aid (Article 31)
* Aid to disadvantaged or disabled workers (Articles 32 and 33).

This has the following limits for the rate of assistance given:

* Capital Expenditure

|  |  |  |
| --- | --- | --- |
| **Size of company** | **Non-assisted** | **Assisted** |
|  | **area** | **Area** |
| Large | 0% | 10% |
| Medium | 10% | 20% |
| Small | 20% | 30% |

* R&D and Training Expenditure

All sizes of business, irrespective of location 25% for development research, 50% for industrial research and 50% for training.

In exceptional circumstances grants may be awarded at a rate of up to 50% of the first year’s salary for workers who are classed as disadvantaged.

**Use of de minimis, training aid and aid to disadvantaged workers**

The fund is also able to offer a limited number of grants under de minimis aid as set out in the EU Regulation no 1407/2013. This can only be utilised when certain conditions apply and the grant cannot exceed the limits available under the GBER exemptions referred to above.

The total of any support provided under training aid, de minimis and aid to disadvantaged workers cannot exceed 15% of the overall programme funds of £4m. This may restrict the Chamber’s ability to offer grants under these measures.

De minimis aid:

* will only be provided for costs that would be eligible under a provision within GBER (to ensure that it is only used for investment in productive capacity rather than on operating expenses
* for capital investment projects will  be restricted to a maximum of 10% above the intervention rates thresholds which would apply to the beneficiary under the GBER vehicles of Regional Aid or Investment Aid to SMEs (covers small, medium and large companies and allows flexibility to apply the same level of support to large companies regardless of their geographical location)
* is used only where there is no suitable GBER state aid vehicle for the project
* will not be given as a top up to any other type of aid (de minimis cannot be mixed with GBER support for the same company)

# PART 2: ELIGIBILITY CRITERIA

Cumbria Growth Fund may offer discretionary grants to businesses which fulfil the criteria set out in these guidelines. The following key criteria are described further in this section:

* Location
* Eligible activity
* Eligible project costs
* Creation or safeguarding of jobs
* Viability
* Additionality – there must be an incentive effect
* Gross Grant Equivalent (GGE) limits
* No prior start

## Location

The Assisted Areas Order 2014 defines the Assisted Areas of Great Britain for the period from 1 July 2014 to 31 December 2020. The areas are based on ward boundaries in effect on 31 December 2011 and a full list of Assisted Area wards in the Cumbria is set out at Annex C. Any offers made under Regional Investment Aid will be based on this Assisted Areas Order.

Within the Assisted Areas Cumbria Growth Fund capital investment support may be given to large companies (only where the project relates to an initial investment in favour of new economic activity (as defined in Annex A) in the area concerned (see flowchart at Annex E) and SMEs as long as the scheme operates within the rules set out in the guidelines on regional state aid for 2014-2020 (OJ 2013/C 209/01) and the Commission General Block Exemption Regulation 651/2014. For the purposes of Cumbria Growth Fund support, the area concerned is Cumbria.

R&D and training support can be provided to all sizes of business whether in an Assisted or non-Assisted Area providing that the support complies with the provisions set out in the Commission General Block Exemption Regulation 651/2014.

Outside of the Assisted Areas investment support may be given to SMEs providing that the support complies with the provisions set out in the Commission General Block Exemption Regulation 651/2014.

## Eligible activity

Cumbria Growth Fund aid is aimed primarily at businesses in most manufacturing sectors and at business to business service providers. All projects should contribute positive benefits to both the regional and national economy. The impact of the proposed investment on other UK businesses must be considered during the assessment of any application for Cumbria Growth Fund support.

Assistance will be concentrated on projects which will strengthen the national and regional economy. The factors taken into consideration include the income generated directly by a project, export and/or re-shoring activity, the displacement effects on other businesses and the wider benefits to the competitiveness of the economy at large.

Relocation projects qualify for Cumbria Growth Fund support where the relocation involves a significant expansion and creation of jobs new to the UK.

Projects which are likely to have a major negative impact on jobs in other businesses within the UK will not be eligible. For example if the applicant operates in a sector where it supplies only UK customers and this market is already fully supplied by UK–based businesses, then any new project jobs are likely to result in the loss of jobs within competitor businesses.

State Aid rules mean that Cumbria Growth Fund cannot be used to provide aid that favours undertakings active in:

* the fisheries and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000 of 17 December 1999 on the common organisation of the markets in fishery and aquaculture products and European Commission Guidelines on State Aid to Fisheries and Aquaculture (2008/C 84/06) and any successor measure
* the primary production of agricultural products (as defined in Annex A)
* the processing and marketing of agricultural products (as defined in Annex A) when:
* the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the undertakings concerned, or
* the aid is conditional on being partly or entirely passed on to primary producers

In addition, Cumbria Growth Fund cannot provide support under Regional Investment Aid to provide aid that favours undertakings active in:

* the coal sector as defined in Annex A
* the steel sector as defined in Annex A
* the transport sector as defined in Annex A
* energy generation, distribution and infrastructure
* the shipbuilding sector
* the synthetic fibres sector as defined in Annex A

Cumbria Growth Fund will not normally be available to businesses in the following sectors, unless applicants can demonstrate that the project will not displace jobs in other businesses and will add exceptional value to the economy:

* retail
* local services
* tourism (including hotels and leisure facilities)
* warehousing
* construction
* education
* health service (including medical services and residential care)
* public sector
* infrastructure
* franchise operations
* property development and investment.

In situations where there is an inconsistency between EC restrictions and the objectives of the Cumbria Growth Fund scheme, the EC restrictions take precedence.

In all cases, to qualify as a commercial activity at least 50% of income or profits must be derived from business trading.

**Contract bids**

Assistance will not be offered to underpin a contract bid under the rules of a competitive tender. In addition to the potential distortion of price, the benefit could also be to the detriment of other bidders. Projects based on single contracts also carry more risk with regard to sustainability.

**R&D projects**

Research grants help businesses assess the technological and commercial feasibility of an innovative technology. These projects will involve planned research or critical investigation aimed at producing new scientific or technical knowledge, which may be useful in developing new products, processes or services. ‘Blue skies’ research is not eligible.

Projects may include: conceptual formulation and design, technical feasibility studies, trials and testing, small-scale demonstration to provide basic proof of technical feasibility, IP protection, investigation of production and assembly options, pre-clinical research studies including target identification and validation.

Research Projects will aim to:

* confirm the original technical and commercial aims are viable
* carry out any basic research [[1]](#footnote-1) needed to define the objectives
* define the operational, technical and design aspects
* consider action on any intellectual property arising from or needed by the project
* determine the prospective benefits, including the potential outputs
* determine the longer term market effects and the possibility of exploitation
* set overall and phase objectives and target dates for the full project and subsequent exploitation and
* define the economic, commercial and dissemination objectives.

Development projects will shape the results of industrial research into a plan or design for a new, altered or improved product, process or service for commercial use, including creating an initial prototype which could not be used commercially. It does not include the routine or general changes made to products, production lines, manufacturing processes, existing services and other operations in progress, even if those changes may represent improvements.

Development projects will aim to:

* create a pre-production prototype (i.e. up to but not including industrial application and commercial exploitation, but including pilot and demonstration prototypes) or carry out Phase 0 trials
* define the operational, technical, design and manufacturing aspects of the final product, process or service
* consider the ownership or licensing of intellectual property arising from or needed by the project
* determine the prospective benefits, including the potential outputs
* determine the longer term market effects and exploitation
* set objectives and target dates for subsequent exploitation, and
* define the economic, commercial and dissemination objectives for exploitation.

## Eligible project costs

### Investment support

Cumbria Growth Fund support to businesses operating in Assisted Areas and support to SMEs operating outside the Assisted Areas are both considered to be investment aid schemes by the Commission. In order to be considered an eligible cost for the purposes of Cumbria Growth Fund, investments shall consist of one or more of the following:

* an investment in tangible and/or intangible assets relating to the setting-up of a new establishment, the extension of the capacity of an existing establishment, diversification of the output of an establishment into products not previously produced in the establishment or a fundamental change in the overall production process of an existing establishment
* an acquisition of assets belonging to an establishment that has closed or would have closed had it not been purchased, and is bought by an investor unrelated to the seller and excludes sole acquisition of the shares of an undertaking. Where a member of the family of the original owner, of an employee, takes over a small enterprise, the condition that the assets be bought from third parties unrelated to the buyer shall be waived
* wage costs arising from jobs created as a result of an initial investment, calculated over a period of two years.

#### Notwithstanding the above, large companies can only receive investment support if they are based in an Assisted Area and the project relates to the initial investment in favour of new economic activity in the area concerned. New economic activity is defined in Annex A and a flowchart is included at Annex E. For the purposes of Cumbria Growth Fund, the area concerned is Cumbria.

Regional Investment Aid cannot be provided to a beneficiary (at the group level) which has closed down the same or a similar activity in the European Economic Area in the two years preceding its application for Cumbria Growth Fund or which, at the time of the application, has concrete plans to close down such an activity within a period of up to two years after the initial investment for which the grant is requested is completed.

For relocation projects only the expansion element of any capital costs will be eligible. Cumbria Growth Fund assistance can be provided for the purchase of the assets or, if appropriate, the business of another company in receivership or liquidation where it is clear that there is only one realistic bidder. Such assistance can also be provided if there is a clear and imminent threat to employment even if the business in question is not in receivership or liquidation. These circumstances apart, assistance should not be provided to one company in order that it might take over another company.

#### Expenditure associated with tangible and intangible assets

In order to be considered eligible costs for the purposes of Cumbria Growth Fund tangible or intangible assets must be purchased from third parties under market conditions, without the acquirer being in a position to exercise control, within the meaning of Article 3 of Council Regulation (EC) No 139/2004 on the control of concentrations between undertakings (the EC merger Regulation, see Annex A) on the seller or vice versa. Self-built assets, or newly built assets acquired from other companies within the same group are considered to fulfil the conditions of this paragraph if the assets are independently valued.

For Regional Investment Aid projects relating to a fundamental change in the production process, the eligible costs must exceed the depreciation of the assets linked to the activity to be modernised in the course of the preceding three fiscal years.

For Regional Investment Aid projects relating to the diversification of an existing establishment, the eligible costs must exceed by at least 200% the book value of the assets that are reused as registered in the fiscal year preceding the start of works.

In the case of the acquisition of an establishment, only the costs of buying assets from third parties shall be taken into consideration, and only where the transaction has taken place under market conditions. Where the acquisition is accompanied by other investment, the costs relating to the latter shall be added to the cost of the purchase. If aid has been granted for the acquisition of assets prior to their purchase, the costs of those assets shall be deducted from the eligible costs related to the acquisition of the establishment.

Costs related to the acquisition of assets under lease, other than land and buildings, shall only be taken into consideration if the lease takes the form of financial leasing and contains an obligation to purchase the asset at the expiry of the term of the lease. For clarity, Hire Purchase (“HP”) agreements which include an option to purchase the asset at the end of the term will be eligible providing the applicant confirms that they will pay the option to purchase fee.

EU State Aid rules specify that for a capitalised lease of land and buildings to be regarded as eligible expenditure it must continue for at least five years after the anticipated date of the completion of the investment project or three years in the case of SMEs. Land and building leases with related parties will not be eligible.

Land and building leases should not normally be capitalised for longer than the minimum period specified by State Aid rules, nor should a land and building lease be capitalised over a period where the company has an option to terminate the lease. In unusual situations where it is desirable to capitalise a land and building lease for longer than the minimum specified by EU State Aid rules then the phasing of the grant (and therefore the conditions period) should be extended by an equal amount.

Except in the case of SMEs and takeovers, the assets acquired shall be new to the company and must not replace existing assets.

The investment must be maintained in the Cumbria for at least five years, or three years in the case of SMEs, after the whole investment has been completed. This shall not prevent the replacement of plant or equipment that has become outdated due to rapid technological change, provided that the economic activity is retained in the region for the minimum period.

Cumbria Growth Fund will not be provided for routine investment, including routine upgrading of products with a short life span, unless there is convincing evidence that the alternative is to relocate.

Spend on development and building of prototypes is not an eligible cost for the purpose of calculating investment expenditure.

Expenditure on the purchase of transport equipment is not eligible for Cumbria Growth Fund support. Regional Investment Aid cannot be granted to other movable assets.

Intangible assets are eligible if they fulfil all of the following conditions:

* + they must be used exclusively in the establishment receiving the aid
  + they must be amortisable
  + they must be purchased under market conditions from third parties unrelated to the buyer
  + they must be included in the assets of the undertaking receiving the aid and must remain associated with the project for which the aid is granted for at least five years, or three years in the case of SMEs.

For large undertakings, the costs of intangible assets are eligible only up to a limit of 50% of the total eligible investment costs for the initial investment.

#### Expenditure associated with job creation

In order to be considered an eligible cost for the purposes of Cumbria Growth Fund, employment directly created by an investment project shall fulfil the following conditions:

* each post shall be filled within three years of completion of works
* the investment project shall lead to a net increase in the number of employees in the establishment concerned, compared with the average over the previous twelve months, meaning that any job lost shall be deducted from the apparent created number of jobs during that period
* the intention is that each job created through the investment will be maintained in the area concerned for a period of at least five years from the date the post was first filled, or three years in the case of SMEs

The eligible costs for the purposes of calculating the maximum grant available shall be the estimated wage costs arising from job creation as a result of an initial investment, calculated over a period of two years.

### R&D costs

Only costs that can be properly defrayed (that is, money that has in effect been paid from the grant recipient’s bank account) on the project are eligible for support. “In kind” contributions are not eligible**.**

The following costs are eligible for grant support:

* Personnel costs of researchers, technicians and other supporting staff to the extent employed on the project.
* Costs of instruments and equipment to the extent and for the period used for the project. Where such instruments and equipment are not used for their full life for the project, only the depreciation costs corresponding to the life of the project, as calculated on the basis of generally accepted accounting principles are considered as eligible.
* Costs of buildings and land, to the extent and for the duration used the project. With regard to buildings, only the depreciation costs corresponding to the life of the project, as calculated on the basis of generally accepted accounting principles are considered as eligible. For land, costs of commercial transfer or actually incurred capital costs are eligible.
* Costs of contractual research, knowledge and patents bought or licenced from outside sources at arms’ length conditions, as well as costs of consultancy and equivalent services used exclusively for the project.
* Additional overheads and other operating expenses, including costs of materials, supplies and similar products, incurred directly as a result of the project.

All eligible costs may be subject to agreed adjustments for residual or recoverable value.

Where any project cost incurred has a residual value to the applicant at the conclusion of a project, or a scrap recovery value applies, only a proportion of that project cost may be considered eligible for grant support. In the case of Capital equipment that eligible proportion will be equivalent to the depreciation charge over the life of the project.

Further details of eligible costs for R&D projects are included at Annex D.

### Training costs

In exceptional cases, CGF may consider supporting training costs associated with an investment project which will create new jobs but training which is carried out to comply with national mandatory standards will not be supported.

The eligible costs of a training project are:

* Trainers' personnel costs, for the hours during which the trainers participate in the training
* Trainers' and trainees' operating costs directly relating to the training project such as travel expenses, materials and supplies directly related to the project, depreciation of tools and equipment, to the extent that they are used exclusively for the training project (accommodation costs are excluded except for the minimum necessary accommodation costs for trainees who are workers with disabilities)
* Cost of advisory services linked to the training project
* Trainees' personnel costs and general indirect costs (administrative costs, rent, overheads) for the hours during which the trainees participate in the training

Training which could be funded under ESF will not be eligible.

### Aid to disadvantaged or disabled workers

In exceptional cases CGF may consider supporting up to 50% of the first twelve months’ salary costs for newly created jobs filled by employees who are either a disadvantaged or disabled worker as defined in Annex A.

## Creation or safeguarding of jobs

All investment projects must create or safeguard sustainable direct jobs, normally within the applicant business. Priority will be given to projects which create new permanent jobs. For safeguarded jobs, the applicant must be clearly able to demonstrate that the jobs are at imminent risk (within the next twelve months) if the project does not go ahead. Indirect jobs created within the supply chain will not be taken into account.

Projects which are likely to create over-capacity and/or displace jobs from elsewhere in the UK do not qualify for aid.

The ratio of grant to jobs created/safeguarded will be taken into account in assessing value for money.

Where aid is calculated on the basis of the investment cost of a project, the intention must be that the jobs created/safeguarded by the project will be maintained for a minimum of five years (three years for SMEs) after the whole investment has been completed.

Where aid is calculated on the basis of wage costs EC State Aid rules specify that the job creation associated with the project must occur within three years of project completion (see Annex A) and each job must be maintained for a minimum period of five years in the case of employment by a large company and three years in the case of employment by a SME.

The Cumbria Growth Fund programme will favour projects which create highly skilled sustainable jobs.

R&D projects must be able to demonstrate a clear link to the creation or safeguarding of jobs within the applicant business.

## Viability

The business undertaking the investment project must be able to demonstrate that it is viable and the project must have a good chance of being self-sustaining by the completion of the investment.

Cumbria Growth Fund cannot be used to support undertakings or firms in difficulty, unless the Chamber is satisfied that the project and company are viable. In such cases, support may be offered under the de minimis regulations. A definition of a firm in difficulty is included at Annex A of these guidelines. Cumbria Growth Fund grants will not be provided to any beneficiary (at a group level) which is subject to an outstanding recovery order following a previous Commission decision declaring an aid illegal and incompatible with the internal market.

Further details to be considered when appraising viability are outlined in Part 3 of these guidelines.

## Additionality

The applicant must be able to demonstrate convincingly that without Cumbria Growth Fund assistance the project would not go ahead at all or on the proposed scale or in the proposed timescale.

Details of how additionality will be appraised are included in Part 4 of these guidelines.

### Incentive effect

It is a requirement of EU State Aid law that Cumbria Growth Fund may only be awarded when it produces an incentive effect, which is to say it positively influences the behaviour of the aid recipient and facilitates investments that would not otherwise happen or would work differently in the absence of the aid.

Cumbria Growth Fund granted under Regional Aid is also considered to have an incentive effect if, in the absence of the aid, the investment project would not have been carried out in the Assisted Area concerned.

Aid granted to SMEs will be considered to have an incentive effect if, before work on the project or activity has started, the beneficiary has submitted an application for the aid to the Chamber.

Aid granted to large enterprises shall be considered to have an incentive effect if, in addition to fulfilling the condition above, it can be verified, before the grant offer is made, that documentation prepared by the beneficiary establishes one or more of the following criteria:

* a material increase in the size of the project due to the aid
* a material increase in the scope of the project due to the aid
* a material increase in the total amount spent by the beneficiary on the project due to the aid
* a material increase in the speed of completion of the project concerned, or
* that the project would not have been carried out as such in the deprived area concerned in the absence of the aid (this applies to Regional Aid only. R&D projects must be able to demonstrate one of the other criteria above).

Large companies must be able to provide evidence that the applicant has analysed in an internal document the viability of the project with aid and without aid, and that the internal document contains a credible analysis and demonstration of the incentive effect of the aid as defined in Article 8 of GBER. **A declaratory statement from an applicant that the grant helps to increase the scope or size of a project is not considered sufficient to demonstrate the incentive effect.**

## Gross grant equivalent aid intensity

Cumbria Growth Fund support can be awarded to companies, partnerships or sole traders.

In these Guidelines the term “company” includes all legal vehicles for carrying on business (including partnerships, limited liability partnerships, sole traders and companies registered in other jurisdictions as well as limited liability companies registered in Great Britain) unless the context dictates otherwise.

For the purposes of calculating aid intensity, all figures used shall be taken before any deduction of tax or other charge. Where aid is awarded in a form other than a grant, the aid amount shall be the grant equivalent of the aid. Aid payable in several instalments shall be discounted to its value at the moment of granting. The interest rate to be used for discounting purposes shall be the reference rate applicable at the time of grant plus 1%. The reference rate can be found at [European reference rates hyperlink](http://ec.europa.eu/competition/state_aid/legislation/reference_rates.html)

Any other form of aid provided under GBER or de minimis should be included in the gross grant equivalent calculation in addition to the grant provided by the Fund, where it is provided in respect of the same eligible project costs. The total of such funding should not exceed the maximum aid intensity set out in GBER. This could include the following forms of aid:

* Rent free periods on publicly owned facilities. If the value of the annual rental is not known, an estimate should be made. The value of the rental may be discounted.
* Loans from any public body at below commercial rates (in this case, the amount of aid is equivalent to the interest saving to the company).
* Local authority assistance, such as capital grants and loans at below commercial rates; loan guarantees which lower the cost of capital of the applicant company and rent free periods.
* Assistance provided towards training.
* Lottery funding (very exceptionally where a project does not involve commercial competition, it may not be necessary to cumulate).

If a project is located in an Enterprise Zone which offers Enhanced Capital Allowances (ECAs) then the business will not be entitled to claim both ECAs and Cumbria Growth Fund aid on the same assets. In this case the business must choose which option it wishes to pursue.

Where project expenditure includes the costs of special equipment funded or part funded by the Ministry of Defence, the aid ceiling for the project must be reduced by an amount equal to the subsidy provided by the MOD.

Department for Work and Pensions employment measures and Skills Funding Agency training assistance which is based on national schemes directly aimed at benefiting individuals and are therefore not project related should not be cumulated.

Where Cumbria Growth Fund is given to a project involving research and development, the research and development expenditure may not be eligible for a research and development tax credit.

### Regional Aid

For projects assessed under the Regional Aid criteria, the aid intensity in present gross grant equivalent shall not exceed the regional aid threshold which is in force at the time the aid is granted as set out in the regional Assisted Areas aid map for the period 2014 - 2020.

For the Cumbria, the threshold is 10% for all assisted wards. A full list of all wards by UA is included in Annex C.

The thresholds may be increased by 20% for aid awarded to small enterprises and by 10% for aid awarded to medium-sized enterprises.

The thresholds shall apply to the intensity of the aid calculated either as a percentage of the investment’s eligible tangible and intangible costs or as a percentage of the estimated wage costs of the person hired, calculated over a period of two years, for employment directly created by the investment project.

In determining whether these maximum aid intensities laid down in are respected, the total amount of public support measures for the aided activity or project shall be taken into account, regardless of whether that support is financed from local, regional, national or Community sources.

Cumbria Growth Fund may be cumulated with any other aid granted under an EC notified scheme (for example training aid and aid for research and development) as long as those aid measures concern different identifiable eligible costs.

### SME Investment Aid

Cumbria Growth Fund SME investment aid in favour of small and medium-sized enterprises operating outside the Assisted Areas of the Cumbria shall be compatible with EC State Aid rules, provided that the following conditions are fulfilled:

* + The gross aid intensity shall not exceed:
  + 20% in the case of small enterprises
  + 10% in the case of medium-sized enterprises
* The eligible costs for the purposes of determining the aid ceiling for an investment project shall be the following:
  + the cost of investment in tangible and intangible assets, or
  + the estimated wage costs of employment directly created by the investment project, calculated over a period of two years.

In summary, the maximum grant available for capital investment projects (as a percentage of eligible costs) is:

|  |  |  |
| --- | --- | --- |
| **Size of company** | **Non-assisted** | **Assisted** |
|  | **area** | **Area** |
| Large | 0% | 10% |
| Medium | 10% | 20% |
| Small | 20% | 30% |

### R&D&I Aid

Eligible R&D projects must qualify as “industrial research” or “experimental development”. The definition of each is included at Annex A of these guidelines. It is not the intention of Cumbria Growth Fund to support fundamental research projects. The maximum aid intensity in respect of R&D projects under Cumbria Growth Fund is 25% for development research and 50% for industrial research.

### Training aid

The maximum aid available under Cumbria Growth Fund for training costs is 50%.

**De Minimis**

Where grants are awarded under the de minimis regulations, the aid intensity cannot exceed the Assisted Area limits set out above for each category of spend.

De minimis aid:

* will only be provided for costs that would be eligible under a provision within GBER (to ensure that it is only used for investment in productive capacity rather than on operating expenses
* for capital investment projects will  be restricted to a maximum of 10% above the intervention rates thresholds which would apply to the beneficiary under the GBER vehicles of Regional Aid or Investment Aid to SMEs (covers small, medium and large companies and allows flexibility to apply the same level of support to large companies regardless of their geographical location)
* is used only where there is no suitable GBER state aid vehicle for the project
* will not be given as a top up to any other type of aid (de minimis cannot be mixed with GBER support for the same company)

## No prior start

If work on a project has started then it is ineligible for Cumbria Growth Fund support. An application for assistance must be submitted and a firm offer made before work on the project is started. “Start of work” is defined in Annex A.

If, during the course of an appraisal, it becomes clear that an applicant has incurred, or wishes to incur, expenditure on a project before the Investment Panel has decided whether assistance is justified, this would normally nullify the additionality case. However, there are exceptions to the “no prior expenditure’’ rule, for example research and feasibility work undertaken or planned to help identify the options or secure the possibility of an option.

A more serious difficulty may arise if the applicant incurs significant expenditure on physical assets associated with the project, for example on land and buildings or plant and machinery, before the appraisal has been completed. Whilst each application must be treated on its merits, in most cases such commitments or expenditures demonstrate the intention to carry out the project irrespective of assistance and should result in the application being rejected.

# ANNEX A: DEFINITIONS

For the purpose of these Guidelines the following definitions shall apply:

***Industrial research*** means the planned research or critical investigation aimed at the acquisition of new knowledge and skills for developing new products, processes or services or for bringing about a significant improvement in existing products, processes or services. It comprises the creation of components parts to complex systems, and may include the construction of prototypes in a laboratory environment or in an environment with simulated interfaces to existing systems as well as of pilot lines, when necessary for the industrial research and notably for generic technology validation.

***Experimental*** ***development*** means the acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services. This may also include, for example, activities aiming at the conceptual definition, planning and documentation of new products, processes or services. Experimental development may comprise prototyping, demonstrating, piloting, testing and validation of new or improved products, processes or services in environments representative of real life operating conditions where the primary objective is to make further technical improvements on products, processes or services that are not substantially set. This may include the development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes. Experimental development does not include routine or periodic changes made to existing products, production lines, manufacturing processes, services and other operations in progress, even if those changes may represent improvements.

***Arm's length*** means that the conditions of the transaction between the contracting parties do not differ from those which would be stipulated between independent enterprises and contain no element of collusion. Any transaction that results from an open, transparent and non-discriminatory procedure is considered as meeting the arm's length principle.

***SME*** The definition of a SME is set out at:

<http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf>

***Large enterprises*** means undertakings not fulfilling the criteria laid down in the SME definition.

***Control*** has the meaning set out in Article 3 of Council Regulation (EC) No 139/2004. Specifically, control shall be constituted by rights, contracts or any other means which, either separately or in combination and having regard to considerations of fact or law involved, confer the possibility of exercising decisive influence on an undertaking, in particular by:

* ownership or the right to use all or part of the assets of an undertaking
* rights or contracts which confer decisive influence on the composition, voting or decisions of the organs of an undertaking

Control is acquired by persons or undertakings which:

* are holders of the rights or entitled to rights under the contracts concerned or
* while not being holders of such rights or entitled to rights under such contracts, have the power to exercise the rights deriving therefrom

***Tangible assets*** means assets consisting of land, buildings and plant, machinery and equipment.

***Intangible assets*** means assets that do not have a physical or financial embodiment such as patents, licences, know-how or other intellectual property.

***Number of employees*** means the number of annual labour units (ALU) full time equivalent (FTE) staff, namely the number of persons employed full time in one year, part-time and seasonal work being ALU fractions.

***Undertaking in difficulty*** means an undertaking in respect of which at least one of the following circumstances occurs:

* In the case of a limited liability company (other than an SME that has been in existence for less than three years), where more than half of its subscribed share capital has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital. For the purposes of this provision, "limited liability company" refers in particular to the types of company mentioned in Annex I of Directive 2013/34/EU34 and "share capital" includes, where relevant, any share premium.
* In the case of a company where at least some members have unlimited liability for the debt of the company (other than an SME that has been in existence for less than three years or, for the purposes of eligibility for risk finance aid, an SME within 7 years from its first commercial sale that qualifies for risk finance investments following due diligence by the selected financial intermediary), where more than half of its capital as shown in the company accounts has disappeared as a result of accumulated losses. For the purposes of this provision, "a company where at least some members have unlimited liability. for the debt of the company" refers in particular to the types of company mentioned in Annex II of Directive 2013/34/EU.
* Where the undertaking is subject to collective insolvency proceedings or fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors.
* Where the undertaking has received rescue aid and has not yet reimbursed the loan or terminated the guarantee, or has received restructuring aid and is still subject to a restructuring plan.
* In the case of an undertaking that is not an SME, where, for the past two years the undertaking’s book debt to equity ratio has been greater than 7.5 and the undertaking's EBITDA interest coverage ratio has been below 1.0.

***Job creation*** means a net increase in the number of employees directly concerned with the activity to which the investment relates, including employment created following an increase in the utilisation rate of the capacity created by the investment. The net increase is the increase in employment compared to the average number of employees over the previous 12 months.

***Job safeguarding*** is not defined in EC State Aid law. For the purposes of Cumbria Growth Fund applicants must be able to clearly demonstrate that these jobs will be lost if the project does not go ahead. We would usually expect the jobs to be lost within fifteen months of the project commencing.

***Wage cost*** means the total amount actually payable by the beneficiary of the aid in respect of the employment concerned, comprising over a defined period of time the gross wage before tax and compulsory contributions such as social security, child care and parent care costs.

***'net increase in the number of employees'*** means a net increase in the number of employees in the establishment concerned compared with the average over a given period in time, and that any posts lost during that period must therefore be deducted and that the number of persons employed full-time, part-time and seasonal has to be considered with their Annual Labour Unit fractions

***Employment directly created by an investment project*** means employment concerning the activity to which the investment relates, including employment created following an increase in the utilisation rate of the capacity created by the investment.

***A disadvantaged worker*** means any person who meets one or more of the following criteria:

* has not been in regular paid employment for the previous six months
* is between 15 and 24 years of age
* has not attained an upper secondary educational or vocational qualification (International Standard Classification of Education 3) or is within two years after completing full-time education and who has not previously obtained his or her first regular paid employment
* is over the age of 50 years
* lives as a single adult with one or more dependents
* works in a sector or profession in a Member State where the gender imbalance is at least 25% higher than the average gender imbalance across all economic sectors in that Member State, and belongs to that underrepresented gender group
* is a member of an ethnic minority within a Member State and who requires development of his or her linguistic, vocational training or work experience profile to enhance prospects of gaining access to stable employment

***A worker with disabilities*** means any person who:

* is recognised as worker with disabilities under national law or
* has a long-term physical, mental, intellectual or sensory impairment(s) which, in interaction with various barriers, may hinder their full and effective participation in a work environment on an equal basis with other workers

***Completion of works*** is not defined in EC State Aid law. For the purposes of Cumbria Growth Fund it is taken to mean the date of mechanical completion of the investment project, or the date that the material assets associated with an investment project become operational, whichever is earlier.

***Start of works*** means the earlier of either the start of construction works relating to the investment, or the first legally binding commitment to order equipment or any other commitment that makes the investment irreversible. Buying land and preparatory works such as obtaining permits and conducting feasibility studies are not considered start of works. For take-overs, ‘start of works’ means the moment of acquiring the assets directly linked to the acquired establishment.

***Initial investment in favour of new economic activity*** means:

* an investment in tangible and intangible assets related to the setting up of a new establishment, or to the diversification of the activity of an establishment, under the condition that the new activity is not the same or a similar activity to the activity previously performed in the establishment
* the acquisition of the assets belonging to an establishment that has closed or would have closed had it not been purchased, and is bought by an investor unrelated to the seller, under the condition that the new activity to be performed using the acquired assets is not the same or a similar activity to the activity performed in the establishment prior to the acquisition

***The same of a similar activity*** means an activity falling under the same class (four digit numerical code) of the NACE Rev 2 statistical classification of economic activities as laid down in Regulation (EC) No 1982/2006 of the European Parliament and of the council of 20 December 2006 establishing the statistical classification of economic activities NAVE Revision 2 and amending council regulation (EEC) No 3037/90 as well as certain EC regulations on specific statistical domains. The NACE codes can be found at:

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006R1893&from=EN>

***Agricultural product*** means:

* the products listed in Annex I of the Treaty, except fishery and aquaculture products covered by Regulation (EC) No 104/2000
* products falling under Council Note codes 4502, 4503 and 4504 (cork products)
* products intended to imitate or substitute milk and milk products, as referred to in Council Regulation (EEC) No 1234/2007

Annex I of the Treaty is reproduced in Annex B.

***Primary agricultural production*** means production of products of the soil and of stock farming, listed in Annex to the Treaty, without performing any further operation changing the nature of such products.

***Processing of agricultural products*** means any operation on an agricultural product resulting in a product which is also an agricultural product, except on-farm activities necessary for preparing an animal or plant product for the first sale.

***Marketing of agricultural products*** means holding or display with a view to sale, offering for sale, delivery or any other manner of placing on the market, except the first sale by a primary producer to resellers or processors and any activity preparing a product for such first sale. A sale by a primary producer to final consumers shall be considered as marketing if it takes place in separate premises reserved for that purpose.

***Coal sector*** means undertakings which carry out an activity in connection with coal production where ‘coal’ is defined as high-grade, medium-grade and low-grade category A and B coal within the meaning of the international codification system for coal laid down by the United Nations Economic Commission for Europe.

***Shipbuilding sector*** means any undertaking which is involved in the building, repair or conversion of ships where ‘shipbuilding’ means the building, in the Community, of self-propelled seagoing commercial vessels.

***Transport*** ***sector*** means the transport of passengers by aircraft, maritime transport, road, rail or by inland waterway or freight transport services for hire or reward. More specifically, the 'transport sector' means the following activities in terms of NACE Rev. 2:

* NACE 49: Land transport and transport via pipelines, excluding NACE 49.32 Taxi operation, 49.42 Removal services, 49.5 Transport via pipeline
* NACE 50: Water transport
* NACE 51: Air transport, excluding NACE 51.22 Space transport related infrastructure

***Tourism activities*** means the following activities in terms of NACE Rev. 2:

* NACE 55:Accommodation
* NACE 56: Food and beverage service activities
* NACE 79: Travel agency, tour operator reservation service and related activities
* NACE 90: Creative, arts and entertainment activities
* NACE 91: Libraries, archives, museums and other cultural activities
* NACE 93: Sports activities and amusement and recreation activities

***Synthetic fibres sector*** means:

* extrusion/texturisation of all generic types of fibre and yarn based on polyester, polyamide, acrylic or polypropylene, irrespective of their end uses
* polymerisation (including polycondensation) where it is integrated with extrusion in terms of the machinery used
* any ancillary process linked to the contemporaneous installation of extrusion/texturisation capacity by the prospective beneficiary or by another company in the group to which it belongs and which, in the specific business activity concerned, is normally integrated with such capacity in terms of the machinery used

***Steel sector*** means all activities related to the production of one or more of the following products:

* pig iron and ferro-alloys: pig iron for steelmaking, foundry and other pig iron, spiegeleisen and high-carbon ferro-manganese, not including other ferro-alloys
* crude and semi-finished products of iron, ordinary steel or special steel: liquid steel cast or not cast into ingots, including ingots for forging semi-finished products: blooms, billets and slabs; sheet bars and tinplate bars; hot-rolled wide coils, with the exception of production of liquid steel for castings from small and medium-sized foundries
* hot finished products of iron, ordinary steel or special steel: rails, sleepers, fishplates, soleplates, joists, heavy sections 80 mm and over, sheet piling, bars and sections of less than 80 mm and flats of less than 150 mm, wire rod, tube rounds and squares, hot-rolled hoop and strip (including tube strip), hot-rolled sheet (coated or uncoated), plates and sheets of 3 mm thickness and over, universal plates of 150 mm and over, with the exception of wire and wire products, bright bars and iron castings
* cold finished products: tinplate, terneplate, blackplate, galvanized sheets, other coated sheets, cold-rolled sheets, electrical sheets and strip for tinplate, cold-rolled plate, in coil and in strip
* tubes: all seamless steel tubes, welded steel tubes with a diameter of over 406.4 mm

# ANNEX B: “ANNEX 1” AGRICULTURAL PRODUCTS

The following list contains descriptions of the agricultural products found in Annex I of the European Treaty:

* Live animals
* Meat and edible meat offal
* Fish, crustaceans and molluscs
* Dairy produce, birds’ eggs, natural honey
* Guts, bladders and stomachs of animals (other than fish), whole and pieces thereof
* Animal products not elsewhere specified or included; dead animals of Chapter 1 or Chapter 3, unfit for human consumption
* Live trees and other plants, bulbs, roots and the like, cut flowers and ornamental foliage
* Edible vegetables and certain roots and tubers
* Edible fruit and nuts, peel of melons or citrus fruit
* Coffee, tea and spices, excluding maté (heading No 09.03)
* Cereals
* Products of the milling industry, malt and starches, gluten, inulin
* Oil seeds and oleaginous fruit, miscellaneous grains, seeds and fruit, industrial and medical plants, straw and fodder
* Pectin
* Lard and other rendered pig fat, rendered poultry fat
* Unrendered fats of bovine cattle, sheep or goats, tallow (including `premier jus’) produced from those fats
* Lard stearin, oleostearin and tallow stearin, lard oil, oleo-oil and tallow oil, not emulsified or mixed or prepared in any way
* Fats and oil, of fish and marine mammals, whether or not refined
* Fixed vegetable oils, fluid or solid, crude, refined or purified
* Animal or vegetable fats and oils, hydrogenated, whether or not refined, but not further prepared
* Margarine, imitation lard and other prepared edible fats
* Residues resulting from the treatment of fatty substances or animal or vegetable waxes
* Preparations of meat, of fish, of crustaceans or molluscs
* Beet sugar and cane sugar, solid
* Other sugars; sugar syrups, artificial honey (whether or not mixed with natural honey), caramel
* Molasses, whether or not decolourised
* Flavoured or coloured sugars, syrups and molasses, but not including fruit juices containing added sugar in any proportion
* Cocoa beans, whole or broken, raw or roasted
* Cocoa shells, husks, skins and waste
* Preparations of vegetables, fruit or other parts of plants
* Grape must, in fermentation or with fermentation arrested otherwise than by the addition of alcohol
* Wine of fresh grapes, grape must with fermentation arrested by the addition of alcohol
* Other fermented beverages (for example, cider, perry and mead)
* Ethyl alcohol or neutral spirits, whether or not denatured, of any strength, obtained from agricultural products listed in Annex I to the Treaty, excluding liqueurs and other spirituous beverages and compound alcoholic preparations (known as `concentrated extracts’) for the manufacture of beverages
* Vinegar and substitutes for vinegar
* Residues and waste from the food industries, prepared animal fodder
* Unmanufactured tobacco, tobacco refuse
* Natural cork, unworked, crushed, granulated or ground; waste cork
* Flax, raw or processed but not spun; flax tow and waste (including pulled or garnetted rags)
* True hemp (Cannabis sativa), raw or processed but not spun; tow and waste of true hemp (including pulled or garnetted rags or ropes)

**Non- “Annex I” products**

It is not possible to provide an exclusive definition of the term ``non-Annex I good’’ since it represents all goods not listed in Annex I of the Treaty of Rome i.e. those which are made by processing the agricultural products listed in the basic agricultural product Regulations. Thus it covers the vast majority of manufactured foods. As a general guide, the term can be taken to include:

* ready meals
* bakery products
* flavoured yoghurts
* frozen sweet corn
* margarine (some)
* sugar confectionery
* chocolate confectionery
* malt extract
* pasta
* breakfast cereals
* ice cream
* bread
* biscuits
* sandwiches
* snack products
* frozen desserts
* pizzas
* potato crisps
* tinned sweet corn
* peanut butter
* sauces
* soups
* mineral water
* soft drinks
* spirits
* beer

**Exceptions**

The following processed foods are specifically excepted from the term ”non-Annex I good’’:

* goods covered by the processed fruit and vegetable regime (for example, orange juice, tomato paste)
* first stage processed products listed in the Annex I regimes (for example, cheese, jam, flour)

# ANNEX C: CUMBRIA ASSISTED AREA WARDS

**ASSISTED AREA WARDS**

Ward boundaries are based on those in effect on 31 December 2011. An interactive map can be found at:

<http://www.ukassistedareasmap.com/>

A full list of all assisted wards in the Cumbria is set out below by local authority area:

**Allerdale**

* Aspatria Ward
* Broughton St. Bridget's Ward
* Ellen Ward
* Ellenborough Ward
* Ewanrigg Ward
* Flimby Ward
* Harrington Ward
* Holme Ward
* Marsh Ward
* Moorclose Ward
* Moss Bay Ward
* Netherhall Ward
* St. John's Ward
* St. Michael's Ward
* Seaton Ward
* Silloth Ward
* Solway Ward
* Wampool Ward
* Waver Ward
* Wigton Ward

**Barrow-in-Furness**

* Barrow Island Ward
* Central Ward
* Dalton North Ward
* Dalton South Ward
* Hawcoat Ward
* Hindpool Ward
* Newbarns Ward
* Ormsgill Ward
* Parkside Ward
* Risedale Ward
* Roosecote Ward
* Walney North Ward

**Carlisle**

* Belah Ward
* Burgh Ward
* Castle Ward
* Denton Holme Ward
* Longtown & Rockcliffe Ward
* Stanwix Rural Ward

**Copeland**

* Arlecdon Ward
* Beckermet Ward
* Bootle Ward
* Bransty Ward
* Cleator Moor North Ward
* Cleator Moor South Ward
* Distington Ward
* Egremont North Ward
* Egremont South Ward
* Frizington Ward
* Gosforth Ward
* Harbour Ward
* Haverigg Ward
* Hensingham Ward
* Hillcrest Ward
* Holborn Hill Ward
* Kells Ward
* Millom Without Ward
* Mirehouse Ward
* Moresby Ward
* Newtown Ward
* St. Bees Ward
* Sandwith Ward
* Seascale Ward

**Eden**

None

**South Lakeland**

* Low Furness Ward
* Mid Furness Ward
* Ulverston Central Ward
* Ulverston East Ward
* Ulverston North Ward
* Ulverston South Ward
* Ulverston Town Ward
* Ulverston West Ward

# ANNEX D: ELIGIBLE COSTS FOR R&D PROJECTS

#### Pay of Employees

Pay of employees must only include the pay of personnel employed directly by the company and directly engaged on the project. First-line supervision is allowed, but not managers remote from the project unless the applicant can reliably calculate their contribution to the project. National Insurance contributions and pension contributions are eligible for support but applicants should include them in the amount for overheads (see below). Directors’ fees charged as consultants to their own companies are not eligible for grant support.

#### Limited Liability Companies

Have a separate legal identity from their employees (including directors), who are paid salary from which tax is deducted and accounted for to the Inland Revenue. When applicants include salaries as eligible costs, they must incur and defray them before claiming grant on them.

#### Partnerships (including Limited Liability Partnerships) and Sole Traders

Do not have a separate legal identity from their businesses. They own the business and accordingly they cannot pay (defray) themselves salaries. They take profits or losses from which tax is deducted and accounted for to the Inland Revenue. They may draw some money, but offset this against their capital/investment. This does not affect the tax position that is computed before any drawings**.** The value of the work put in to a project by a partner or sole trader as “salary” is purely notional. This means that, when the applicant makes a claim, it cannot be certified as “defrayed”. The method of verifying labour expenditure must be agreed at the application stage.

All labour costs, whether for directors, employees or “drawings” must be reasonable and fully justified in relation to the work being done. Labour costs must be consistent with established labour charges within the business. For example, if a senior employee undertakes work that could be done by a junior the eligible cost should be based on the salary rate appropriate to the junior. The rate of remuneration (hourly, daily or weekly rate) and an analysis of each individual’s labour put into the project should be agreed at the earliest possible stage of assessment, and the project costs should be modified if necessary before the project is approved. Applicants must also maintain timesheets to record this information.

#### Overheads

An allowance covering items of general application across the business (e.g. rent, rates, telephone), often too small or too difficult to establish for a specific project, would not be eligible unless it represents a direct allocation of expense to the R&D project.

Employer National Insurance, pension charges and healthcare contributions related to the labour directly involved in the project should be included under overheads. Such costs can only be included for labour directly involved in the project and exclude ineligible items such as surplus capacity.

The purchase of land and buildings is not eligible for support. Land or building rented or leased wholly and exclusively for the project is eligible for support as part of general overheads.

#### Materials and Consumables

Items that have an expected useful life of over a year should be considered to be capital. However, items that have a value of less than £500 may be classed as consumables and included under materials. This will be clarified and agreed at the appraisal stage (but in any case, before an offer is made).

All bought-in materials used for the project should be materials purchased from third parties. All items such as materials, equipment or subcontracts, purchased from subsidiaries and associated companies must be charged at cost within the group. Inter-group/associated companies may not add profit or overhead allowances to these charges. When profit has been included, the applicant must make a deduction for profit and overheads, even if this is on an estimated basis. Applicants may include the cost of raw materials up to the normal limit of trial wastage in the industry. However, where scrap material has a significant resale or re-use value, the cost allowed should be net of the estimated disposal value. This should be checked at the final claim/monitoring stage.

Costs have not been defrayed where work/materials/services were obtained free of charge (i.e. in-kind contributions). Such costs are therefore not eligible.

#### External Costs

Work accounting for less than 25% of the project costs need not be undertaken in England. Where external costs (such as sub-contracts, consultancy, fees for trials and testing, acquisition of technology and “buying-in” Intellectual Property Rights) exceed 25% (individually or collectively) of project costs, these costs must be properly explained and justified during the appraisal process.

Where subcontract costs (especially a single subcontract) account for more than 50% of project costs, there is an assumption that the project is not controlled by the applicant and therefore the project will not be eligible for support. The appraisal process will examine closely the fees charged when one consultant or sub-contractor carries out a major part of the project. This examination will ensure that the contractor or consultant really is a third party and that they do not inflate the charges and discount them later.

Where a grant recipient has sub-contracted work to an organisation part financed by public funding and that body properly invoices the grant recipient, double funding is not considered to have taken place.

#### Consultancy

Reasonable charges for external (third party) consultancy work essential to the project are eligible.

Consultancy includes ‘intellectual and associated facility’ (that is, advice and use of physical resources such as laboratory equipment) support from experts such as Universities and/or technology providers, and professionals such as designers and usability experts who can provide intellectual input and can help guide technical development. All labour costs associated with working with consultants should be included under labour costs.

Applicants must justify the need to access the specialist services and explain why work cannot be carried out more effectively and cheaply in-house. The reasonableness of the costs in the context of the total project costs will be clarified and agreed at the earliest possible stage of project assessment.

Confidentiality agreements should be in place between the applicant and the consultant. The consultant should have no rights to the Intellectual Property resulting from the project.

Directors’ fees charged as consultants to their own companies are not eligible for grant support.

#### Subcontract

The reasonable charges for external sub-contract work that is essential to the project are eligible. Sub-contract work usually refers to the purchase of a service/building of a piece of kit requiring specialist facilities or equipment but requires no “intellectual input” for example design of printed circuit boards, building of rigs.

Any sub-contractor associated with the applicant or who is a subsidiary or a member of the same group of companies, must exclude its profit from any charge, even if this element has been estimated.

Confidentiality agreements should be in place between the applicant and the sub-contractor. The sub-contractor should have no rights to the Intellectual Property resulting from the project.

#### Licensing in New Technology

The cost to the project of licensing in new technology from technology providers (not involved in the project), which the project will build upon or utilise, is eligible.

Applicants may source technology from suitable technology providers (e.g. RTOs, Contract Research & Technology Organisations, HEIs or other appropriate public or private body). This is subject to them demonstrating they need to undertake further and/or joint development work on the technology and there is still technical risk involved in the project, in addition to any borne by the “technology provider”.

Where it makes sense licensing-in should be encouraged (for example, where it would be more expensive or time consuming for an applicant to develop an appropriate technology itself). What is being used and why it is required should be agreed at the application stage. The applicant should provide satisfactory evidence that a licensing agreement is in place and that this covers both the development and exploitation stages of the Project.

Where imported technology accounts for a significant portion of the cost of the project, the Chamber should satisfy themselves that the applicant is proposing additional development to integrate the new technology into the project.

#### Fees for External Trials and Testing

Fees for trials and testing are eligible (e.g. EMC testing), but Certification fees (e.g. EMC Certification) are not eligible as such costs are incurred post-production. The scope of the work and the organisation to be used should be agreed at the earliest possible stage of project assessment.

Confidentiality agreements should be in place with the applicant and any external party. The external party should have no rights to the Intellectual Property resulting from the project.

All labour costs associated with working on trials and testing activity should be included under labour costs.

#### Preparation of Technical Manuals

The cost of preparing draft operating, service and maintenance manuals is eligible (but must be separately identifiable as defrayed expenditure in the independent accountant’s Project Audit) but printing such manuals for general commercial supply will not qualify.

The process of authoring technical and user manuals can be a useful design tool helping to consider the product from a user perspective – thinking how the product will be operated, serviced and maintained during the development phase rather than at the end can inform the technical specification of the technology/product.

#### Intellectual Property and Patent Costs

Costs for confidentiality agreements, Copyright or any other protection directly associated with the project and protection and maintenance of the IPR are eligible; for example, software copyright - mailing of source code/NCC copyright register. This must be agreed at application/appraisal stage.

The cost associated with taking out and maintaining a patent to protect the Intellectual Property Rights arising from the project (including the cost of patent searches) is eligible for support. It is particularly important to ensure that those applying are not held back because they cannot afford to patent the results of their project. In all cases, applicants will have to demonstrate that patenting to the extent proposed is necessary. For example, there is little point in applying for worldwide patents, if the applicant can obtain appropriate protection through registering patents in the major markets for the product/process.

Projects are focused on R&D work and patent costs (or costs of intellectual property protection) should only form a minor (supporting) part of overall project costs.

The cost of patenting work undertaken during a previous project is not eligible.

#### Capital Equipment

Depreciation of capital equipment purchased specifically for the project is eligible and should be classed as capital expenditure.

A full list of the capital equipment should be agreed at the earliest possible stage of the project assessment. The residual value and useful life of equipment will be agreed with the applicant as part of the appraisal process. Without clear evidence of the useful life of equipment, 5 years represents a typical useful life for mechanical equipment and 3 years for computer hardware. The depreciation rates used should normally be in line with those used in the annual accounts. Interest payments on hire purchase and leasing of equipment are not eligible for support. The residual value should be deducted at the time of the claim.

Capital equipment purchased for the project is eligible for support on the following basis:

* if the grant recipient does not complete the project, support will be at the percentage of grant agreed in the offer, less the residual value when halted
* if the project finishes, support will be at the percentage ofgrant agreed in the offer of depreciation costs for the life of the project

# ANNEX E: FLOWCHART FOR LARGE COMPANIES SEEKING REGIONAL AID

Eligibility for large companies in “c” areas to receive regional aid in connection with setting up a new establishment or diversifying activities of an existing establishment

Does the investment relate to setting up a new establishment?

Yes

No

Has the beneficiary closed activities under same 4-digit NACE code anywhere in the EEA in the past 2 years or does it have plans to do so before two years after the investment is complete?

No

Yes

No

**Aid is permitted under GBER**

Does the investment relate to an activity (at 4-digit NACE code level) which is not carried out by the company in that assisted area?

No

Yes

Yes

Is the total regional aid granted to the beneficiary in the same NUTS3 area in the past 3 years more than €7.5million?

**Aid must be notified to Commission**

1. Basic research is defined as original theoretical or experimental work to achieve a new or better understanding of the laws of science, engineering and technology as they might apply to the full project. This may involve the creation of an early “bench top” experimental model. [↑](#footnote-ref-1)