CHAPTER TWO
ERDF INDIVIDUAL PROJECTS
PROJECT APPRAISAL
CONTENTS

ANNEXES

CHAPTER TWO
ERDF INDIVIDUAL PROJECTS
PROJECT APPRAISAL

2.1 THE PURPOSE OF APPRAISAL

2.1.1 This chapter sets out the underlying principles of appraisal and best practice. Secretariat/Executive recommendations for approval of projects are usually based on these guidelines. However, we recognise that decisions on ERDF support reflect the influence of a range of participants. UK Government Departments and Offices are expected to take views on projects in the light of Government policy and the practical implementation of the Single Programmes. Single Programme Committees (Committees) and the European Commission (Commission) are likely to give their opinions based on direct consideration of project eligibility under EC and Structural Fund Regulations and the Single Programme. If either Committees or the Commission express views on projects which appear to be at variance with this chapter, please contact the Regional European Directorate (REG E) in DTI and International Urban Policy Directorate in ODPM for advice.

2.1.2 Project appraisal is required to ensure that applications fulfil the criteria set out in the Structural Funds Regulations, the Community Support Framework (CSF) or the Single Programming Document, (SPD) and the Programme Complement. In addition, applications must demonstrate the maximum benefit to the area. The appraisal process also ensures that both Commission and HMG objectives and requirements are met. Moreover, effective appraisal also provides a safeguard against fraud. Successful appraisals will comply with the following points:

a) that they are in accordance with the objectives of the programme;

b) that value for money is offered. Where funds are limited, only those projects offering the best value are chosen; and

c) that there is a transparent selection process.

2.1.3 An important aspect of appraisal is understanding both the amount and timing of the anticipated expenditure and benefits of a project, usually expressed in terms of both its inputs (costs) and its outputs (results). The results of appraisal will be translated into the offer letter, which will be reviewed at the monitoring stage months or even years later. It will be difficult, if not impossible, to monitor performance which is not clearly specified. Project records are very likely to be subject to subsequent auditing, which will require clear evidence of both satisfactory appraisal and monitoring.

2.1.4 Whilst full appraisal is necessary before decisions can be taken and offers made, except where Partnerships or Action Plan approaches operate, the Secretariat/Executive should undertake an initial sift of applications when they are received. This will enable any obviously ineligible documents to be eliminated at an early stage, avoid duplication, and give an indication of geographic and Single Programme spread and quality.

2.2 PRINCIPAL ELIGIBILITY AND SELECTION CRITERIA

2.2.1 The provisions of the CSF [for over €1billion] and the SPD will enable the Committee to establish the detailed criteria appropriate for each Single Programme. ("Single Programmes" within these Guidelines is taken to be these provisions and criteria). However, in order to qualify for assistance projects must satisfy all of the following:

a) occur within the Single Programme area, although it may be possible under some Single Programmes to support projects outside the area, but which provide benefits within the area [see Eligibility Rule no.12 – Eligibility of operations depending on the location];

b) take place within the permitted timescale;

c) match at least one of the activities, known as measures, defined within the Single Programme; (this also includes actions - such as meeting environmental requirements and in the case of capital projects, planning consents);

d) contribute to one or more of the Single Programme strategic objectives. In all instances, projects must demonstrate an additional and sustainable benefit to the socio-economic development of the area;

e) have measurable outputs and detail clear, attainable and verifiable targets. (See also project outputs 2.18;)

f) have a funding package in place which identifies both the recipient of the assistance, (with the exception of delegated grant schemes), and the source of match funding. See also viability 2.19;

g) demonstrate the principle of additionality: See Annex K

h) ensure that the EU rules on state aid are not breached: see 2.20;

i) provide value for money: see 2.21.

j) not conflict with EU policies and actions, including the rules on competition and on the elimination of inequalities and promotion of equality between men and women.

k) demonstrate a positive environmental impact where possible or minimisation of any negative impacts.

2.3 THE APPRAISAL PROCESS

2.3.1 The Programme Monitoring Committee (PMC) has an overall monitoring role to ensure that ERDF grant is spent appropriately. Whilst working practices within each Single Programme are normally a matter for the Committee, best practice in procedures are likely to include the following:

a) Initial Sift: Secretariats/Executives should undertake an initial assessment of likely projects for approval, on the basis of key project details. The identification of these gives both a broad picture of those projects that are good candidates for support and helps to prioritise projects which should undergo detailed appraisal, especially when funds are limited. However, short summaries of projects can be misleading and should be considered carefully. A full application together with supporting information will still be required to carry out the full appraisal.

b) Application: The PMC decides when applications may be submitted for their consideration The Secretariat/Executive undertakes an initial check on all applications to ensure that:

i) the application form and accompanying information is both complete and accurate

ii) the criteria in Section 2.2 are met, e.g. the applicant is eligible, match funding is identified, and a reasonable explanation of project additionality is given.

In most cases, the Secretariat/Executive have delegated responsibility for PES cover, and should consider planning, environmental matters, compatibility within the timescale and to address any other unresolved issues.

c) The Secretariat/Executive undertakes detailed appraisal on compatibility with the Single Programme objectives. However, advice may be sought either from within the Government Office, or by officials within the Department with Public Expenditure Survey (PES) responsibility. However, interested Government Departments must be consulted in all instances of either over-delegation or difficult cases.

d) Approval: the PMC agrees criteria for the selection of projects. They may also endorse the approval of larger projects. (In practice, lower order committees such as working groups representing the partnership often advise or approve projects). Responsibility for making payments, however, rests with the UK Government. In England this responsibility normally rests with the appropriate Government Office Regional Director. Delegation within offices should be according to Government and departmental accounting rules.

e) SPDs generally require that applications for projects with total costs greater than €***50*** m must include additional details. The Commission requires notification to them of such projects on standard forms before approval can be given. The requirement is based on ***Article 25 of Regulation 1260/1999***

f) The National Assembly for Wales has drawn up separate advice on its implementation arrangements.

g) Some programmes in England operate partly on the basis of Action Plans (APs). These may be thematically or geographically based. Under this process, partners draw up an AP and submit it to the Programme Monitoring Committee for approval. The AP will need to appoint an Accountable body to handle the funds; issue offer letters and make payments.

2.4 INFORMATION REQUIREMENTS

Government requirements

2.4.1 It is important that all relevant information gathered on a project proposal is recorded. Simple telephone enquiries should be noted, but more complex enquiries should be undertaken by correspondence whenever possible. This ensures that all of the information provided by the applicant is on file, thus avoiding the possibility of any misunderstanding. It is similarly important that the reasons for decisions taken during appraisal are made clear. Standard case papers covering all the criteria should be used, showing the reasons for either acceptance or rejection: see Annex 1.

2.4.2 As appraisal provides the basis for offer letter drafting and monitoring, information in the case paper should point to the essential aspects of the case necessary for these. For instance, if timing of the project is of particular importance, this should be made clear so that it can be taken into account during project monitoring. Similarly, if there are doubts about whether the forecast outputs will be achieved or whether the organisation will be viable, the issues will need to be set out clearly.

Where it is not appropriate to include important details in the case paper, e.g. for confidentiality reasons, these should be clearly noted separately.

NB **All communication relating to the project, whether by fax, telephone or e-mail; should be noted on the file.**

Applicant requirements

2.4.3 Applicants must provide a clear description and assessment of the project. In the case of larger projects, this should include a full appraisal of the ***total and eligible*** costs and benefits. Large projects in this context are defined as either those where the amount requested would take more than 20% of the grant available under a Single Programme priority, or those with costs of at least €50 m, (€15m in the case of projects carried out in the textile and clothing sector). An application form can give most of the required information, but this will need to be checked quickly to decide whether additional information is required. Applicants will need to provide not only the details of their project, but should also be able to justify their proposal. Examples of supporting information can include local authority competitive tendering documents, consultants' reports, business plans or equivalent forecasts and at least three years annual accounts particularly if viability is in question. In the case of revenue project for business support and R&D, in particular, a detailed business plan or equivalent project proposal is essential. Annex 2 shows the information a complete proposal should cover, although it should be recognised that much of this will be routinely provided with the application anyway. When checking the eligibility of non-government organisations, details of their aims, memorandum and articles of association, etc and any local authority or similar guarantees are also required.

2.4.4 Producing effective appraisal within the required timescale depends on obtaining clear and relevant information from the applicant at the outset. Requesting full information at the earliest possible stage makes appraisal easier, more transparent and reduces delay, which benefits both the Secretariat/Executive and the applicant.

2.4.5 The application and supporting information should show that all of the necessary conditions for support have been fully met. In some instances, however, the conditions may only be finalised at a later stage. For instance, although the applicant has identified a funding package, final agreement might depend on a private sector contributor awaiting confirmation of ERDF support. In these cases, the Secretariat/Executive must ensure that this information is provided either during the appraisal process or that the offer letter has pre-conditions requiring evidence to be provided before grant is paid. If there is a possibility that sums allocated to a project would be tied up for a long time, e.g. if planning permission needed to be sought, proof that the condition had been met is required before grant is offered.

2.4.6 The application should ensure compliance with EC public procurement, environmental protection and publicity requirements. A broad explanation of public procurement is given in Annex 3. Publicity requirements are set out in full in Regulation 1159/2000. GOs will have full details of the environmental and water directives.

2.4.7 Where an initial sift of projects is to be undertaken, it may be helpful for the applicant to provide a shortened summary of the proposed project.

2.5 DEPARTMENTAL PES RESPONSIBILITIES FOR ERDF GRANTS

STRUCTURAL FUNDS PUBLIC EXPENDITURE SURVEY POOL (PES POOL)

The Structural Funds PES Pool is an association of English Government departments involved in the granting of European Structural Funds. The Treasury has agreed rules described below to allow greater flexibility for English Structural Funds between participating departments

Total Structural Funds expenditure for England covering the programme period plus two years, in this case 2000/01 to 2008/09, are shared between the participating departments on the basis of previous experience. DTI's share amounts to approximately 38%.

The financial regulations for the Structural Funds denote the expenditure profile throughout the period concerned. Basically the first year's tranche has to be spent, claims submitted and drawn down by the third year and the second year's tranche by the fourth year. You have two years beyond each yearly tranche during which the funds must be spent, claimed and drawn down. If this is not achieved then the funds remaining for that year's tranche become returnable to the Commission.

Applying the financial regulations to each departments share you achieve a profile for bidding for Structural Funds PES cover in the PES process. The PES Pool is not affected by the PES process only covering three years.

Within the PES Pool it is possible to transfer PES cover between departments. It is also possible to accumulate end year flexibility (EYF) to be used in future years if expenditure is slower than expected. In addition a department may anticipate up to 20% of the future years PES cover if the PES Pool is unable to supplement from underspends elsewhere in the Pool.

2.5.1 The Scottish Executive and the National Assembly for Wales have PES responsibility for most projects in their area; although there are some project types where central GB responsibility lies with other Departments.

2.5.2 In England, PES responsibilities for ERDF receipts generally correspond to departmental policy responsibility. However, in some cases, ODPM has PES responsibility for local authority capital projects in areas outside their policy responsibility.

2.5.3 Where responsibility is unclear, the Secretariat/Executive should seek agreement with interested Departments. If the Secretariat/Executive is unable to obtain agreement, the issue should be referred to Regional European Funds and Devolution Directorate, DTI.

2.5.4 In England and Wales, Supplementary Credit Approvals (SCA's) are issued to local authorities in order to provide ERDF PES cover for capital projects. Government offices will need to liase with ODPM over their issue. The system is different in Scotland. In Scotland, local authorities require consent, ***[under Section 94 of the Local Government (Scotland) Act 1973,]*** only for the co-funding of capital projects, ERDF grants are treated by local authorities as capital receipts.

2.6 DEPTH OF APPRAISAL

2.6.1 All applications will need to be checked to ensure that the project involved will meet the criteria. It will be for the Secretariat/Executive to decide what is required in each case. However, the depth of appraisal will depend on a combination of a number of factors:

a) type of organisation: applications will be received from a wide range of organisations with differing levels of experience. At the top end, local authorities will normally have significant previous experience in the project area; show costs based on competitive tendering; be able to provide supporting consultants' reports and will be viable. Consequently, the detail provided would often be readily accepted with little, if any, further investigation required. At the other end of the scale, a small charity, with no previous experience, may be able to provide little by way of supporting evidence to justify their application As a result; any such application will require substantial scrutiny. See also Viability: 2.19

b) type of project: some projects will have relatively simple, easily assessed costs and benefits. These are likely to require less detailed investigation than more complicated projects. Complexities might include the possibility of cost over runs; unreliable assessments of internal labour costs and overheads; a speculative customer base and outputs; and dependence on uncertain forecast revenue receipts to help fund the project.

c) size of grant: the depth of appraisal should also reflect the amount of funding at risk

2.7 VISITS

2.7.1 Visits to the proposed site(s) help to check both the accuracy of the application and provide a safeguard against fraud. For example, in cases, of derelict land clearance projects, visits are highly desirable as they ensure that the planned work is required. Meetings can also be efficient in terms of the time it can save in undertaking the detailed appraisal. For example, information can be obtained quickly and in cases where the personal capabilities of the applicant are important, such as business support, a judgement about those capabilities can be made.

2.7.2 The presumption should be that projects should be visited during appraisal unless the Secretariat/Executive considers that such a visit is not justified taking account of such factors as the risks, type of organisation and the amount of grant involved. In addition, offices should ensure that, as an anti-fraud measure, visits should be made to representative samples of at least 10% of projects within a Single Programme. Projects where grant of €1 m or above is requested should normally be visited.

2.8 **ASSISTANCE AVAILABLE**

2.8.1 Assistance is provided as a grant. Grant should not be provided ahead of need and will be paid after expenditure is defrayed. It is normally paid three times a year, although it is at the discretion of GOs to vary this period. In all cases, the level of grant will need to be assessed against eligible project costs, not against overall costs.

2.8.2 The levels of ERDF grant available will be shown in the Single Programme Document. Article 29 of Regulation 1260/1999 sets out the following maximum grant levels:

a) In Objective 1 areas, 75% of the total eligible costs.

b) In Objective 2 areas, 50% of the total eligible costs.

2.8.3 However, reduced rates of grant are payable where there is substantial net revenue generation or where the private sector benefits. There is some flexibility to set the level of grant, subject to the reduced maximum levels for these activities as set out in Article 29:

a) in the case of investment in infrastructure generating substantial net revenue, (defined as revenue over 25% of total cost):

(i) 40 % of the total eligible cost in the regions covered by Objective 1;

(ii) 25 % of the total eligible cost in the areas covered by Objective 2;

b) in the case of investments in firms, the contribution may not exceed:

(i) 35 % of the total eligible cost in the regions covered by Objective 1;

(ii) 15 % of the total eligible cost in the areas covered by Objective 2;

2.8.4 Although these rates are applied to measures in general, for ERDF these maxima also apply at project level. However, it is important to note that the maximum intervention rate of Structural Funds cannot exceed the aid levels permitted under the various State Aid frameworks. The European Secretariat of the nearest GO can provide more information. Alternatively, the DTI State Aid website provides useful guidance http://www.dti.gov.uk/ccp/stateaid/

2.9 ELIGIBILITY OF APPLICANTS

2.9.1 Eligible applicants will include:

a) Local authorities;

b) other public organisations;

c) voluntary organisations/bodies;

d) the profit-distributing private sector: see Chapter 5.

2.10 INELIGIBLE ACTIVITIES

2.10.1 Eligibility of projects will need to be considered on the basis of individual applications. Departmental advice on eligibility may need to be sought where guidance does not cover the particular case. However, there are a number of areas which are ineligible for support which include the following:

those covered by EC sectoral restrictions: see section 2.20 on State Aids and Annex A. Any project which does appears to come within these sectors will need to be referred to the sectoral divisions in DTI or to DEFRA, as appropriate). The DTIs State Aid Policy Unit has a helpful section on its website on Structural Fund Guidance http://www.dti.gov.uk/ccp/stateaid/

a) Banks and Insurance companies. These should not be directly offered grant, although they would be acceptable as supporting members of a consortium or as 'animateurs' in combination with public sector delivery mechanisms, (e.g. loan funds).

b) stautory or general education. However, specialised centres providing technical education or vocational training, (even at university level), are eligible.

c) social welfare facilities; e.g. hospitals, nursing homes, day nurseries and child-minding facilities. However, child-minding facilities can be eligible provided that such facilities are directly linked to activities of an economic nature specifically related to SPD objectives.

d) local government statutory services; health, education, police and fire services.

e) Under the current programme, support for purely retail development is discouraged on State Aid and revenue generation grounds. There are, however, a few instances where retail activity has played a small part of larger non-retail projects. With the emphasis on helping SMEs in the 2000-2006 programme, certain aspects of support for retail developments – but not to the retailers themselves unless by way of training, advice, or consultancy schemes – could be considered. However, any assistance must meet the normal Structural Funds requirements, including the region's SPD, State Aid Rules, etc.

f) sports, local leisure and cultural facilities; e.g. parks, public libraries, (when these are not directly linked to activities of an economic nature specifically related to Single Programme objectives).

g) coastal protection, soil conservation and infrastructures; (with an exclusively agricultural bias), reforestation and prevention of forest fires, insofar as such infrastructures can be financed under the EAGGF Guidance Section.

h) building and renovation of housing; although, as part of a wider strategy to regenerate the area, external improvement of estates and prominent buildings in key locations can be supported where this is closely linked to Single Programme objectives.

2.11 **INFRASTRUCTURE PROJECT ELIGIBILITY**

2.11.1 Infrastructure projects most likely to attract ERDF aid are those concerned with the provision of basic services or communications for existing and future industry and commerce. There must be a clear and demonstrable link between a project and the industrial or economic development of the Single Programme area. The project must also show that it will lead to a genuine improvement of facilities: neither a straightforward replacement project, (e.g. a sewer with no increase in capacity), would be likely to attract grant, nor would works of essential repair or maintenance.

2.11.2 The wide range of infrastructure provision which may receive aid includes most forms of fixed transport investment; sewerage, drainage and flood protection works; and industrial estate provision, including dependent on and off-site infrastructure. The following types of projects may also be accepted, but require justification to establish their relevance to the local economy:

a) coastal protection works must be for the protection of existing or proposed industry, commerce or infrastructure e.g. tourist attractions, important communication routes or industrial estates;

b) landfill waste disposal sites can receive assistance, where all or part of the waste is from industry, provided that the site will ultimately be returned to open space or agricultural use after completion of tipping and remains in public ownership;

c) tourist infrastructure projects which are financed and designed to attract or retain tourists. Authorities will need to demonstrate that such projects, perhaps in combination with other projects which may not be eligible for ERDF aid, will sustain or generate local jobs and revenue by, for example, increasing the use and/or provision of hotel bedrooms. Projects will need to come within the terms of the Tourism strategy within the Single Programming Document. The types of project receiving Fund aid include conference, indoor leisure, sports information and interpretation centres, specialist museums and major conservation projects. Facilities which primarily serve local people are not to be encouraged, and evidence of expected use by visitors from further afield is essential. There should be a clear expectation that the facility will attract a significant number of visitors from outside the region to ensure that it will not be a predominantly local facility. See also Section 2.13 and Annex H on the Department of Culture, Media and Sport (DCMS);

d) advance factories. Within the terms of paragraph 2.11.3, Small workshop units can receive aid where they are to be occupied by any non-retail or non-residential business;

e) derelict land clearance. Derelict land reclamation and associated works are eligible for ERDF grant where they are consistent with the Single Programme/measure. Comprehensive applications covering reclamation, site servicing and preparation for final use are preferred to separate applications covering different aspects of the work. In cases where reclaimed sites are to be sold or leased to the private sector, local authorities must certify that land will be disposed of at a market value rate for unspoiled land;

f) environmental improvement works can be assisted if they contribute to the aims of "Image programmes", e.g. improvement of prime transport corridors, town centres and other prominent sites or buildings;

g) single user infrastructure projects are a low priority and may be approved only in exceptional circumstances - usually at a reduced rate of grant. The principle of Structural Funds support is that the infrastructure should provide general benefits for the area. Provision of infrastructure for a single user, e.g. an access road for a single company, will normally give only narrow benefits to that user. Exceptions will therefore be those where significant wider Single Programme benefits accrue;

h) infrastructure projects for R&D, training and business development, where not covered above, are also eligible for support within the terms of the Single Programme.

2.11.3 The following rules apply to support to business premises:

a) the rent requested from the tenants should be at the prevailing market rate in the area;

b) the tenants should be, in general, small and medium sized enterprises (SMEs). If premises are envisaged for larger firms, an *a priori* opinion of the Commission is likely to be required, (unless specific arrangements apply, e.g. the Special Spatial Development Areas in Merseyside);

c) the premises should not be constructed to meet the specific requirements of a single user for the economic lifetime of the investment;

d) all productive activities, except direct consumer services, which enable the creation or maintenance of permanent jobs, are eligible as tenants;

e) demand within the Single Programme area, in terms of size and type of premises, must be demonstrated either by evidence on occupancy of existing units or by enquiries from potential occupiers.

It is recognised that it may be difficult to forecast accurately both the number and size of the manufacturing firms that will move into the site. If the applicant is unable to give clear assurances, such factors as previous usage, (e.g. if the site is being modernised), both the facilities being made available and the type of location will need to be considered. This will need to be judged at the appraisal stage, but in many cases the outcome will need to be checked during monitoring.

2.11.4 Infrastructure has been used here in the sense of the creation of capital assets beneficial to the growth of the area. It should not be confused with the frequently used narrower definition which only covers basic facilities such as roads, drainage, basic water supplies, etc.

2.12 **NON-INFRASTRUCTURE PROJECTS**

2.12.1 Outside infrastructure, assistance will largely be related to the support of revenue costs for a range of projects within the Single Programme, although capital elements may also be included. Projects will particularly cover business development and support of various sorts for SMEs, but may include a wide range of activities throughout the priorities e.g. tourist promotion, increased R & D collaboration, etc.

2.12.2 Where projects are directed at businesses directly, they will normally need to be restricted to SMEs. The main restrictions on such assistance will usually be:

a) In a grant aid scheme, the final beneficiaries should be SMEs,
b) assistance should not otherwise be provided for the specific benefit of a single user,
c) direct consumer services would not normally be eligible, and
d) the assistance will have to be consistent with state aid rules - see section 2.20 & Annex A.

2.12.3 The range of projects that could be supported is too wide to provide a definitive list. These should, be outlined in the Single Programme. However, a few useful examples follow:

a) support towards the operating costs of managed workshop units and business centres.

b) consultancy support for companies on marketing, quality improvement, etc.

c) improved dissemination of information on research, marketing opportunities, etc by supporting the costs of co-operation between companies and other agencies.

d) support for the costs of additional work by local development agencies towards, for instance working with other agencies in the area to provide centralised promotion of the region.

e) provision of tourist advice and information.

f) support for community partnerships to enable local people to become involved in the regeneration of their area. Community Economic Development (CED).

2.12.4 Business seminars are eligible for support under business support elements of Single Programmes. Vocational training, (i.e. activities aimed at enhancing the skills of individuals over a period of time), will not be considered eligible for the purposes of ERDF grant assistance. Business seminars/workshops that provide information for the benefit of the company or equivalent organisation are eligible for support under business support elements of the Single programmes.

2.13 DEPARTMENT OF CULTURE, MEDIA AND SPORT PROJECTS

2.13.1 In England, the Department Of Culture, Media and Sport (DCMS) has policy responsibility within Government principally for tourism; museums and galleries; the built heritage; the arts; broadcasting; film; the media; libraries; and sport and recreation, (see Annex H).

If an application for ERDF support in any of these areas is received in any of these areas which exceeds the region's DCMS delegated authority limit, please refer the application to the contact at DCMS who has responsibility for ERDF issues in the region. They will determine whether the project is consistent with Government policy and also whether it offers value for money.

2.14 **INWARD INVESTMENT PROMOTION**

2.14.1 Although inward investment promotion is eligible under ERDF rules within the terms set out in individual SPDs, not all categories of promotion are equally acceptable for support. There are two main restrictions:

a) Competitive inward investment activity directly aimed at attracting individual inward investors to one area rather than another does not provide an acceptable use of ERDF resources. There must therefore be a presumption that applications whose objective is to transfer jobs and other economic benefits between regions rather than to create additional economic activity should not be supported.

b) UK overseas inward investment promotional efforts should be complementary and incremental, provide value for money and must avoid fragmentation of the national effort. Within England, co-ordination of activities are undertaken by Regional Development

Agencies (RDAs), and in Wales by the National Assembly and the Welsh Development Agency.

2.14.2 Inward investment activities outlined in Single Programmes include a range of measures which are not fundamentally promotional in nature. Where these cover activities such as improvement in infrastructure, provision of quality industrial sites, etc to a standard which might attract inward investment, but which could equally encourage business growth generally, paragraph 2.14.1 will not impose any restrictions. Image enhancement projects, as are mentioned in some SPDs, aimed at general improvements to the area and at providing better information on and improved awareness of a region, which do not involve direct support for individual inward investors are also eligible. Offices should be aware, however, that projects whose main aim is the encouragement of investment from elsewhere in the Community are likely to be considered as anti-competitive by the Commission. Projects involving permanent representation in any overseas country are, in any case, unlikely to be eligible for support as they will involve activities outside the SPD area. However, some activities outside the eligible area are eligible support, such as tourist information offices.

2.14.3 Government considers that the overlap of local promotional effort with Government and its agencies' efforts provides poor value for money on the grounds of duplication of effort. Activities involving case handling, overseas promotional events or campaigns, and appointing overseas representatives or consultants must therefore be channelled through and managed in England by RDAs. (Note, however, activities which are ineligible for ERDF support under paragraph 2.14.1a)) and 2.14.2.) It is not enough to claim that new activities will be complementary to the RDAs own work, as controlling and managing independent or sub-regional initiatives will be extremely difficult in practice. Support for visits to or by interested companies outside the EU are therefore only likely to be eligible for support if they are channelled through RDAs or done in collaboration with them.

2.14.4 Given these considerations, acceptable candidates for support for promotional activity by English applicants other than the RDAs include:

a) the production of promotional materials. This would not include material integral to an overseas campaign, for instance, but would include more general material such as that which might be used by RDAs in their promotional effort;

b) economic research within the UK, (e.g. the production of reports on the unique selling points or sectoral strengths of a region), which does not duplicate research already undertaken or underway; and

c) local activities agreed with the RDA and designed to strengthen their delivery on the ground. An example might be the appointment of local staff responsible for increasing the quality of promotional material and co-ordination of local efforts for their production. Although such assistance may be given to RDA organised visits, care should be taken to ensure that this does not provide hidden support for independent inward investment related visits.

d) **UK Trade and Investment** and the appropriate RDA will be able to advise on what is already happening. Other eligible promotional activities in England can normally only are supported when undertaken by RDAs.

2.14.5 RDAs should try to ensure that promotional efforts are complementary, incremental and provide value for money. Projects which are particularly worthy for support are therefore likely to be those which increase the co-ordination of the regional effort.

2.14.6 Applications that do not meet these criteria should be rejected on the grounds that lack of co-ordination of Inward Investment effort and the resulting proliferation of competing local activities provides bad value for money.

2.15 **TECHNICAL ASSISTANCE -** Eligibility Rule 11

Costs incurred in managing and implementing the Structural Funds

2.15.1 Technical assistance is available under ERDF for the administration of Single Programmes. The details of what costs are eligible for support should be covered within the Single Programme. They may, however, cover additional costs of the partners and external experts and consultants as follows:

a) 50% of the costs of seconding staff to the secretariat from partnership organisations and supporting additional administrative costs associated with expanded levels of support. Payment of secondees by the partnership organisation will provide the funding required to match the grant payment in such cases. It may also be possible, for instance in Scotland, for independent secretariats to be set up, although this is not accepted in England. The full costs of government office secondees might in such cases be taken to match the grant payment;

b) the costs involved in researching, piloting, co-ordinating or delivering training or local development initiatives, including the support of training co-ordinators and local economic development agents;

c) the costs of purchasing expertise and, advice on particular questions related to the management of the Single Programme, including the commissioning of studies and reports - including the commissioning of annual reports;

d) the costs of publicising the activities of the Structural Funds in the area;

e) the costs of research into specific sectors to identify need and act as guidance for the development and selection of projects in the Programme. Other points could be environmental and equal opportunities.

2.15.2 In addition, co-funding of additional civil service secretarial staff, in excess of the baseline number of those set in post on 31 December 1999, is permitted provided additional criteria are met:

a) the date of expenditure is eligible from the date on which the duly documented decision was signed, (i.e. a letter of secondment). Any period of secondment must not exceed the final date for eligible expenditure. No retrospection of co-funding is permitted under these arrangements;

b) individual records to be kept on each secondee, including the terms of employment and the time spent on delivering the seconded activity;

c) reimbursement of the co-funded portion of salary to be in arrears and to be in accordance with the grant rate in the Technical Assistance measures in the financial tables, (e.g. 50% for ERDF and 45% for ESF).

2.15.3 Examples of costs excluded from the scope of technical assistance:
a) funding of programme evaluations;

b) payment of the salaries of civil servants or local government officers prior to 31 December 1999;

c) other general running costs, such as building equipment.

2.16 LOAN AND EQUITY FUNDS

2.16.1 - <u>General Rule</u>
The Structural Funds may co-finance the capital and/or loan funds or of venture capital holding funds (VCLF) under the conditions set out in Eligibility Rule no.8. For the purposes of this Rule, “Venture capital and loan funds”, mean investment vehicles established specifically to provide equity or other forms of risk capital, including loans to small and medium-sized enterprises, (SME’s).

2.16.2 Examples of such finance available to SME’s include The Enterprise Fund, The UK High Technology Fund and Regional Venture

Capital Funds. Further information is contained in Annex J. (Please note that this is only a guide and that these schemes are subject to change).

2.16.3 Government Offices should refer to the guidance notes provided by ODPM for the use of VCLF.

2.17 ELIGIBLE COSTS

2.17.1 Although some projects will contain both capital and revenue elements, many will be able to be separated into support for capital costs or support for revenue costs. In the case of local authority projects in England and Wales, identification of capital costs during appraisal will be essential because of the system of government accounting in force for PES purposes. The following therefore separates costs between those for capital and revenue projects. There is potential overlap in the definitions in some areas, e.g. fees. If both capital and revenue are covered within a single project, it will be necessary to ensure that there is no double counting. Consultants fees can be eligible, provided that they are both legitimate and are value for money, (vfm). The consultant(s) must either be a party to a contract or a subsidiary clause, (this also has the benefit of ensuring a proper audit trail).

2.17.2 Retrospection
Normally eligible expenditure can only be incurred from the date the Commission receives a programme application which in content meets the requirements of Article 30 of Regulation 1260/1999. For example, for some of the UK's Objective 1 programmes this was in November 1999. There is derogation for programmes applications received between 1 January 2000 and 30 April 2000. Here the date for eligible expenditure is 1 January 2000.

It is not normal practice to take advantage of retrospection and to maximise value for money funding takes place from the date the project is approved. However where programmes start late, and to get them of to a good start, the programme Monitoring Committee can decide whether and to what extent they want to make use of retrospection. Normally this only applies to the first round of project applications.

Capital Costs

2.17.3 The costs for capital projects should be based on a Quantity Surveyor assessment and can cover the following:

a) site investigation;

b) site clearance and preparation, including decontamination and demolition works;

c) construction works; or the cost of acquiring buildings for conversion, and subsequent conversion costs. (If there is doubt about building values, the position should be discussed with the applicant. Professional advisors will have standard information about prices per square metre which can be applied if necessary, although it must be recognised that specialist buildings may involve additional costs);

d) non-mobile plant and machinery, (and the costs of their installation), including IT equipment for R&D projects. Some mobile plant and machinery can be considered eligible, depending on its contribution to the capital project, but each case will need to be judged on its merit. Replacement, operational or maintenance items will not normally be eligible;

e) fees and salaries for design and supervision are allowable as long as they are reasonable and clearly linked to project implementation. Although there is no fixed maximum percentage, any excess over 12.5% of overall costs would need to be justified by a detailed explanation. Consultants' fees should be claimed according to the appropriate professional scales, e.g. the RIBA scale for architects' fees. (The Offer Letter often includes a maximum level of fees for individual projects where it is considered necessary. Apportioned administrative costs of applicants are also eligible: see paragraph 2.17.5. Given that these costs are fundamentally revenue items, but which can be incorporated into capital costs, particular care must be taken to avoid double counting);

f) Landscaping: in full for Image projects or where it forms a minor part of the project cost for more general projects such as roads;

g) other capital costs: e.g. commuted payments to secure easement of wayleave, (rights to cross land), and disturbance and severance payments. Disturbance payments cover people who have to leave their homes during construction and severance payments are compensation for partial purchase of property as part of compulsory purchase orders. Where severance payments occur they should normally be considered as land costs, since they clearly form part of the price of acquiring the land. However, if this would bring the land costs significantly above the normal price for the land, it may be appropriate to consider the costs as completely separate;

h) land costs, where the land is permanently sterilised e.g. in the construction of a principal highway and access roads to industrial estates, including small areas of land rendered unusable by virtue of their being cut off by a new road. (Legal fees and stamp duties incurred by the applicant in the land purchase are eligible). Land purchase will therefore need to be directly linked to the benefits of the project. Land costs may not exceed

10% of the total eligible expenditure of the project costs, unless a higher percentage is fixed in the assistance approved by the Commission;

i) maintenance, replacement and repair works are not eligible expenditure.

2.17.4 Hire purchase, extended credit agreements and finance leases can be treated as capital costs. Under hire purchase and extended credit agreements, the assets become the property of the purchaser. Leases, however, remain the property of the lessor. An operating lease is not automatically acceptable as a capital cost because the lessor does not necessarily depend on the first lease to cover the cost of the asset. They may need further leases to other customers to cover their costs. (The operating lease could then be treated as a revenue cost.) Operating leases need to meet both of the following conditions if they are to be considered as capital costs:

a) they should involve sufficient payment to cover the costs of the assets; and

b) the assets should be retained by the applicant for either the duration of the project or the life of the Single Programme, whichever is longer.

Revenue costs

2.17.5 Revenue costs are those which cover administrative costs for a project which results in the provision of service or which directly provides support to the end user, e.g. local authority grants to companies. In addition to direct grants, these costs will include such items as labour, heating, rental or leasing of premises, rates, rental charges and publication and publicity costs. Legal and accounting services which are strictly part of the implementation of the project may be included, although legal costs dealing with litigation and accounting costs dealing with grant claims should not be included. A reasonable level of overhead costs - normally up to 100% of labour costs - can also be included. One off costs, e.g. removal costs and early payment of an existing lease to allow movement to more suitable premises should only be accepted if essential to the project and provided they are a small part of total eligible costs. Equipment with an asset life of less than one year is revenue cost.

2.17.6 Some projects will receive income during the life of the project, (e.g. payment by companies for a consultancy report). If the maximum permitted ERDF grant is being paid to a project where imposing a fee is practicable, such fees should be required. Single Programme grant rate tables may, in any case, normally require the imposition of fees for some types of project. See Section 2.8. Exceptions to this will need to be justified. The income generated is taken as a contribution to the funding of the project. For continuing projects, the longer-term impact on project costs may also need to be considered. Infrastructure projects do not normally involve the payment of fees.

General

2.17.7 A full schedule of costs should be considered to ensure that they are reasonable. If the project is fully worked up and based on competitive tender estimates, there ought to be no danger of excessive charges. Although it is not normal practice, it has been accepted that an applicant or other organisations involved in the funding package can provide "in kind" contributions, (e.g. provision of their own assets or services), directly for the project. As these can be included both in eligible costs and in their contribution to the funding package, the level of such contributions will need to be clearly justified and objectively measurable. There must therefore be a cost to the sponsor, (e.g. cost of staff providing the service, expenditure on the asset within the Single Programme period). When claims for payment are made, the cost of payments in kind will need to be shown clearly and will need to be capable of being audited, as required for other costs. If there is doubt whether the costs to the provider reflect the true value of the contribution, (e.g. equipment which has already had significant use but where HP payments are evenly spread over a number of years), a realistic valuation should be obtained. See Eligibility Rule no. 1 for the rules governing in-kind contributions

2.17.8 Redundancy payments are not eligible for assistance. Costs in respect of the provision of accountancy services relating to the carrying out of audit work and any legal costs in respect of litigation should be excluded.

2.17.9 The amount of Value Added Tax (VAT) is excluded for grant purposes from the purchase price of an asset or the cost of a service. This is because VAT input will be set off against VAT output. Irrecoverable VAT may be included. This will apply if the applicant is an exempt trader or if the VAT is charged on an item that is otherwise non-deductible. An exempt trader is one who is not required to charge his customers VAT on the goods or services which he provides. However, in some areas the Commission have opposed inclusion of irrecoverable VAT and those offices will have to decide whether to exclude all VAT. Applicants claiming that VAT is irrecoverable will need to justify their claim. Applicants with enquiries on VAT should be referred to their local VAT office. (See also Eligibility Rule no.7).

2.18 PROJECT OUTPUTS (RESULTS)

2.18.1 The application should set out the outputs from the project as anticipated by the applicant. The outputs are fundamental to the project as they measure the benefits required under the Single Programme. They therefore need to be clearly stated and the basis for them must be demonstrated. Wherever possible, the applicant should be asked to provide a value for these outputs so that the benefits can be measured. See Section 2.21.

2.18.2 As outputs are fundamental to project monitoring and eventual evaluation, the applicant must provide outputs which can be practically measured. Applicants must show that they will have adequate monitoring systems and that they will be able to record the outputs effectively. A requirement for applicants to report on progress on the specified targets will be included in the offer letter, as will the requirement that they keep information related to the project for a period after the end of the Single Programme.

2.18.3 Wherever possible, Secretariat/Executives should ensure consistent specification of output measures across projects so that the overall effect of the Single Programme can be calculated. It is similarly desirable for project targets to be set which reflect programme priorities, etc. It is also important that, consistent with offer letter needs in paragraph 2.18.4, targets allow clear assessment of benefits without double counting, if possible. Double-counting may reflect benefits included in figures for successive phases of a project, or benefits may be attributed to more than one Structural Funds scheme where several are involved, This would include co-funding by domestic grant regimes. For instance, a training project may receive ERDF support for a capital element, whilst the training itself may be supported by the ESF. Wherever possible, targets should be defined in a way which either excludes or separates benefits which are attributable to other forms of assistance or other phases of the project. If outputs cannot be readily disentangled, it should be made clear that outputs cover the whole project’s funding.

2.18.4 Whilst paragraph 2.18.3 is important in evaluation terms, targets must also be set which ensure that the offer letter retains the power to withdraw grant if essential overall aims are not met. For instance, ERDF assistance could be given for a training centre, with ESF providing grant for resulting training. Simple avoidance of double counting might lead to the level of training only being set as an ESF target. However, subsequent failure of the applicant to undertake any training at all would seriously impair the project’s value and recovery of grant provided for the centre might be warranted. A training target of some sort would, therefore, be desirable.

2.19 **VIABILITY**

2.19.1 The viability of both the project and the applicant need to be considered at the outset of the appraisal.

2.19.2 The depth to which organisational viability will need to be considered will depend on the organisation involved. A local authority or other government-sponsored body can be assumed to be fully viable. The same assumption can not be made of a Non-Government Organisation, (NGO), particularly in the case of a small independent NGO. Where the viability of an NGO is doubtful, copies of the last three years annual accounts, preferably audited, should be obtained. Management accounts are acceptable only if audited accounts have not been produced. Where an NGO is not required by law to produce full annual accounts, the Secretariat/Executive will need to rely on the information the organisation is able to supply. Where an NGO of doubtful viability is guaranteed by organisations of known worth, (such as Banks, Insurance companies, large corporate organisations etc.), the grant should be dependent on confirmation that the guarantee has been completed. This will either need to be seen during the appraisal or as a condition of grant being paid. Where the applicant has no previous history, their future forecasts will need to be scrutinised carefully, (e.g. comparisons between actual performance against the forecast). **N.B.** Government Offices must refer to the guidance provided by ODPM when assessing ERDF applicants who are not in the public sector.

2.19.3 Project viability will depend on sufficient financing being available to cover the costs involved during the period of the project. The applicant will need to be able to demonstrate that non-ERDF support will be available. Proof of other funding, (apart from revenue from the project), should be made available during appraisal. However, where this is dependent on agreement to the overall financing of the project, the provision of evidence of other funding should be set as a condition of grant in the offer letter. Cost and revenue forecasts will need to be checked to ensure that they are realistic, for example the proposed profitability level could be compared against either any similar project or against the accepted industry figure for that sector. In obtaining firm quotations for costs, the applicant demonstrates a responsible approach. Clearly, such documentation is likely to be more reliable than unsupported estimates. However, quotations can be open to variation and detailed project requirements may change. When viability is dependent on revenue generated by the project, the accuracy of the market assessment will need to be considered carefully. When applicants consider their financial requirements, whilst it is prudent to take account of both potential cost overruns and revenue shortfalls, contingencies should not be permitted.

2.19.4 If there are doubts about viability, accountants should be consulted.

2.20 STATE AIDS (SEE ALSO ANNEX A)

State Aid Rules: General

2.20.1 State Aids schemes require prior notification and approval by the Commission unless they fall within the block exemptions, viz: *de minimis* aid, training aid and aid to SME's. N.B. These exemptions remove the requirement to notify the Commission and are not an exemption from the State aid rules. (Regulations 68/2001, 69/2001 & 70/2001 refer). The Annexes attached to the Training and SME block exemptions must be completed and returned to the State Aid Policy Branch for forwarding to the Commission before schemes are launched.

SMEs, are defined as having:

i) under 250 employees and;

either an annual turnover not exceeding €40m* or a balance sheet total not exceeding €27m* and

iii) no more than 25% ownership by one or more non-SME companies, although investment and venture capitalist ownership which do not exercise control are excluded.

*wef 1/1/05 these limits are increased to €50m and €43m respectively.

2.20.2 State aids legislation is available on the following website: http://europa.eu.int/comm/competition/state_aid/legislation

A guide on the State aid rules is available from the DTI's State Aid Policy Branch from its website on http://www.dti.gov.uk/ccp/stateaid/

2.20.3 Where support is provided which breaches state aid rules, the aid is illegal. The offer may need to be withdrawn or, if grant has already been paid, it will have to be reclaimed with interest payable from the date of the first instalment of the grant.

Notifying aid to the Commission

2.20.4 The minimum period for State aid clearance of notified projects/schemes by the Commission is two months, assuming that full information is provided at the outset. This only occurs exceptionally. In practice the usual clearance period for a given project/scheme is 4 to 6 months from the original notification to the Commission. Where the terms of either one of the three block exemptions cannot be met, GOs should refer the case to the SAPU in DTI who can give advice on notification requirements.

2.20.5 Aid awarded under notified schemes may need to be cumulated with aid under other notified schemes where they go towards the same eligible costs. An example would be a company requesting both an ERDF grant and UK funds for investment purposes in a new production line (plant & machinery) where it is already in receipt of RSA which covers the same eligible costs. This should be considered as one project and therefore, the grants would need to be added together to ensure the ceilings were not breached. However, two grants to a company for different purposes would not need to be cumulated e.g. an RSA grant and Training aid package. The nature of the assistance is different.

<u>Running a scheme involving state aids</u>

2.20.6 Offer letters set out the general requirement that State aid limits must be met. All State aid compliance requirements must be satisfied. Criteria for schemes involving State aid must be defined in a way that ensures this. GOs will need to particularly need to ensure this where they are responsible for state aids, (i.e. for NGOs).

2.20.7 There is particular risk where assistance is being provided from different sources. It is essential that any organisation undertaking a scheme where benefits could/will be passed to an arena where there is/could be economic activity (Tradable/traded products or services), checks, makes, and maintains contact with any other office providing similar assistance to a given beneficiary. The granting authority must require applicants to inform them of any other relevant grants.

2.21 **VALUE FOR MONEY**

<u>The need for grant</u>

2.21.1 The financial additionality requirement that ERDF grant must provide additional funding ensures that the overall effect of grant is to sponsor further overall activity. Project appraisal does not involve any further assessment of financial additionality. However, it is a fundamental part of project appraisal that individual projects should also require grant for them to proceed.

<u>The basic criterion</u>

2.21.2 Projects should be supported only to the extent that the activity is undertaken at all, on a larger scale or earlier as a result of being supported by expenditure under the Structural Funds. When grant payments mean that projects go ahead earlier or on a larger scale, only the <u>incremental</u> benefits can be considered as additional.

2.21.3 Justification should be sought for the need for grant of each project. For instance, local authorities may be able to demonstrate that particular projects are a lower priority in spending plans. NGOs may be able to demonstrate with some ease that they do not have sufficient funding. Ultimately, however, a judgement of the validity of the applicants' claim will have to be made. In all cases, the reasons for accepting the claim should be recorded.

Need for grant when project started

2.21.4 The case for grant is weakened if a project has begun before approval is given. However, this does not included preparatory work, which is essential for all projects. Where projects have started, the Office will need to assess rigorously whether the benefits are incremental. In addition to the usual requirement to justify the need for grant, the applicant will also have to provide a convincing explanation of why the project has started without the commitment of grant. Projects, which have been completed, are not eligible, as grant would not affect their outcome.

Retrospective assistance for projects

2.21.5 Despite the foregoing, some projects have been given retrospective assistance at the start of the project selection period. This has been agreed in recognition of the problems to applicants caused by the late start of programme periods. It should not provide a precedent for subsequent projects.

Minimum necessary grant

2.21.6 Once the need for grant has been established, assistance should be the minimum necessary for the project to proceed. The available non-grant funding for the project and its potential revenue, (if any), will need to be considered. The minimum necessary is fundamentally a matter of judgement and similar considerations apply. For instance, it may be reasonable to accept that the constraints on local authority spending power mean that ERDF funding will inevitably involve additional activity. In other cases, projects may be more central to the activity of the organisation or those funding it and a reduction in grant may be necessary. For example, an applicant whose principle occupation is the provision of business support may have a strong interest in pursuing a business support project. Justification of the level of grant may therefore depend on such factors as evidence of an overall limitation of their funding. In such cases, grant should not be reduced to a level where the viability of the project is jeopardised taking into account, for instance, any provision that may be included for revenue shortfalls, etc.