

Tees Valley Business Compass



BUSINESS GROWTH INVESTMENT SCHEME

GUIDELINES

Contents

PART 1: BACKGROUND **4**

Application process

Procedure for resubmitting an Application

Eligible companies.....

Geographic location.....

Eligible projects

Project timescales

Eligible project expenditure

Job creation

Levels of grant support available.....

PART 2: ELIGIBILITY CRITERIA **7**

Location

Eligible activity

Contract bids.....

Eligible project costs

 Investment support.....

Creation or safeguarding of jobs

Viability

Additionality

Incentive effect

Gross grant equivalent aid intensity

Aid intensity thresholds.....

No prior start.....

PART 3: PROJECT APPRAISAL **13**

Process.....

Record keeping and Freedom of Information.....

Publicity

Third party advice to applicants.....

Jobs14

Viability

 Market prospects.....

 Management

 Costs

Additionality

Incentive effect

Level of profitability.....

Amount of investment and time path of cash flows

Level of risk involved in the project

Evaluating alternative project locations

Level of assistance
Quality.....
Payment of grant
The offer letter

PART 4: MONITORING

19

Role of the monitoring officer.....
Mechanics of project monitoring.....
 Legal entitlements and administrative practices
 Processing of claims for payment
 Post completion monitoring.....
 Action where payment claims are not received
 No obligation to pay dates.....
Changes in projects.....
 Increase in project costs
 Clawback.....
 Projects reduced in scale
 Changes in the nature of the project
 Changes in financing.....
 Changes in ownership.....
 Employment shortfall.....

ANNEX A: DEFINITIONS

23

ANNEX B: “ANNEX 1” AGRICULTURAL PRODUCTS

26

ANNEX C: TEES VALLEY ASSISTED AREA WARDS

28

PART 1: BACKGROUND

The Tees Valley Business Growth Investment Scheme (the Scheme) is administered by the BE Group on behalf of Tees Valley Unlimited (TVU) and the five local authorities within the Tees Valley. Business and Enterprise Commercial Limited (BEC), part of the BE Group, is contracted to deliver the Scheme by Stockton on Tees Borough Council.

The Scheme is funded by the Government's Cities & Local Growth Unit from the Local Growth Fund (LGF) through the Growth Deal Programme. The Scheme is part of the Tees Valley Business Compass service and it has an initial allocation of £500,000 to support projects that will create new, sustainable, private sector jobs within the Tees Valley and leverage private sector investment. This is consistent with the broad aims of the LGF, to help those areas and communities currently dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity.

The Scheme promotes the expansion, rationalisation, modernisation and diversification of economic activities of businesses located within the Tees Valley, in particular by encouraging firms to expand their operations or to set up new establishments there. The Scheme can also be used to address some of the market failures that limit the development of SMEs and specifically to offset the difficulty that SMEs have obtaining capital given the risk-averse nature of certain financial markets and the limited collateral they may be able to offer.

The Scheme will be delivered as follows:

Application process

The application process is competitive and there is no obligation on the BE Group to offer grants, but grants may be offered to projects that:

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

(See Parts 2 and 3 for further details)

The application process comprises the following stages (see Part 3 for details):

1. Expression of Interest (EOI). EOIs may be submitted at any time until funds have been fully committed.
2. Full Application. A full application will be invited if the EOI is accepted.
3. Application Assessment and Eligibility Appraisal.
4. Consideration by an Investment Panel. Applications which pass the assessment and appraisal (stage 3 above) will be considered by an Investment Panel.
5. Final approval. A grant offer is made after final approval. An acceptance fee of 5% of the grant offered is payable.

Procedure for re-submitting an Application

Applications that are rejected by the Investment Panel can be re-submitted in the following circumstances only:

1. The Project has changed fundamentally, or
2. There is new information available which materially alters what was presented to the Investment Panel

Eligible companies

(See Part 3 for details). Applicants must be SMEs, in accordance with the EU SME definition set out in the following document: http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf

Geographic location

Projects must be located within the Tees Valley, in one of the following 5 local authority areas:

- Darlington
- Hartlepool
- Middlesbrough
- Redcar & Cleveland
- Stockton-on-Tees

Eligible projects

(See Part 2 for details). Projects must be designed to achieve sustainable business growth for the applicant company. Projects must directly generate new, permanent, jobs within the applicant company. Projects must have a minimum of £33,000 eligible project expenditure. Projects must create a minimum of 2 new jobs and also offer good value for money, measured by the value of the grant offered per new job created.

Project timescales

Projects must be complete, with all expenditure incurred and defrayed, by 31st December 2015. Grant claims must be submitted by 31st January 2016 and there will be no obligation to pay claims submitted after this date. Eligible claims will be paid in full by 31st March 2016. All project jobs must be created (new employees on the payroll) by 31st March 2017.

Eligible project expenditure

(See Part 2 for details). All projects must involve capital expenditure by the applicant company, aimed at expanding the business. All expenditure must be incurred and fully defrayed before grant claims relating to that expenditure may be submitted. Expenditure via HP and leases, however, does not need to be fully defrayed. In such cases, only the amount actually defrayed at the time of the claim may be included, as at no stage of the project will the payment of grant exceed the applicant's actual cash expenditure on the project.

Examples of eligible expenditure can include the following:

Capital expenditure:

- Land and buildings, including the purchase or lease of larger premises, premises extension and re-fit.
- Plant, equipment and machinery.

Job creation

(See Part 3 for details). All projects which are offered grant support must lead directly to the creation of new, permanent, jobs within the applicant company. Jobs must last for a minimum of 3 years after the end of the project. Jobs must be created by 31 March 2017. In terms of value for money, the programme must achieve a maximum cost of £10,000 grant paid in aggregate per job created. Individual projects may be offered more or less than £10,000 grant per job, at the discretion of the Investment Panel.

Levels of grant support available

(See Part 3 for details). The minimum amount of grant support available is £10,000 per project, and the maximum grant available is £49,999 per project. The maximum percentage of grant support offered per project depends on the size of the company 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.ukassistedareamap.com/>

The Assisted Area map is based on ward boundaries in effect on 31st December 2011. A full list of eligible wards is set out in Annex C. See also SME definition at http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf

Company size	Assisted Area	Non- Assisted Area
Small enterprise	30%	20%
Medium enterprise	20%	10%

Powers to support businesses through the Scheme are provided by Section 7 of the Industrial Development Act 1982. Section 7(1) of the Act provides for financial assistance to be given on a discretionary basis in order to provide employment in the Assisted Areas. Powers to support businesses outside of the Assisted Areas are provided by Section 8 of the Industrial Development Act 1982.

The Scheme is provided under European State Aid regulations. The Scheme provides the following types of aid towards capital expenditure, in accordance with the EU General Block Exemption Regulation No. 651/2014 ("GBER"):

- Regional investment aid (Article 13); and
- Investment aid to SMEs (Article 17).

The Scheme also provides aid through the De Minimis Aid Regulation No. 1998/2006

PART 2: ELIGIBILITY CRITERIA

The Scheme 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 of jobs
- Viability
- Additionality – there must be an incentive effect
- Gross Grant Equivalent (GGE) limits
- No prior start

Location

The Assisted Areas Order 2007 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 Tees Valley 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 capital investment support may be given to 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.

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.

De Minimis Aid can be provided to all sizes of companies whether in an Assisted or non-Assisted Area providing that the support complies with the provisions set out in the Commission De Minimis Aid Regulation No. 1998/2006.

Eligible activity

The Scheme may be used to support businesses in most manufacturing sectors of the economy, and to service sector businesses which offer more than a local service. All projects should contribute positive benefits to both the regional and national economy. The impact of the proposed investment on existing UK businesses must be considered during the assessment of any application for support.

Projects must be designed to achieve sustainable business growth for the applicant company. Projects must directly generate new, permanent, jobs within the applicant company. Projects must have a minimum of £33,000 eligible project expenditure. Projects must create a minimum of 2 new jobs and also offer good value for money, measured by the value of the grant offered per new job created. All projects must involve capital expenditure by the applicant company, aimed at expanding the business. All expenditure must be incurred and fully defrayed before grant claims relating to that expenditure may be submitted. Expenditure via HP and leases, however, does not need to be fully defrayed. In such cases, only the amount actually defrayed at the time of the claim may be included, as at no stage of the project will the payment of grant exceed the applicant's actual cash expenditure on the project.

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, the displacement effects on firms both in and outside the Assisted Areas and the wider benefits to the competitiveness of the economy at large.

Projects which have the potential to have a major impact on jobs in other companies within the UK will not be eligible. For example if the applicant operates in a sector where it supplies only to 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 TVBGIS cannot be used to provide aid that favours undertakings active in:

- a) 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.
- b) the primary production of agricultural products (as defined in Annex A);
- c) the processing and marketing of agricultural products (as defined in Annex A), in the following cases:
 - i. 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
 - ii. when the aid is conditional on being partly or entirely passed on to primary producers;

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

- a) the coal sector as defined in Annex A;
- b) the steel sector as defined in Annex A;
- c) the transport sector as defined in Annex A;
- d) energy generation, distribution and infrastructure;
- e) the shipbuilding sector; or
- f) the synthetic fibres sector as defined in Annex A.

In addition to these EC sectoral restrictions, the Scheme 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 (i.e. businesses which provide a service solely within the North East of England);
- tourism (including hotels and leisure facilities);
- warehousing;
- construction;
- education;
- health service (including medical services and residential care);
- public sector;
- infrastructure;
- franchise operations; or
- property development and investment.

In situations where there is an inconsistency between EC restrictions and the objectives of the 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 should 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.

Eligible project costs

Investment support

The Scheme provides support for capital investment consisting of the following:

1. an investment in tangible and/or intangible assets relating to the setting-up of a new establishment, the extension 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; or

PART 2: ELIGIBILITY CRITERIA

2. 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;

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 TVBGIS, 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 grant is requested is completed.

For relocation projects, only the expansion element of any capital costs will be eligible. TVBGIS 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 firm 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 the Scheme, 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 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 three years after the anticipated date of the completion of the investment project 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 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 grant (and therefore the conditions period) should be extended by an equal amount.

The assets acquired shall be new to the company and must not simply replace existing assets.

The investment must be maintained in the North East for at least 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.

The Scheme will not provide support for routine investment, including routine upgrading of products with a short life span, unless there is convincing evidence that the alternative is to relocate. There will also be a presumption against giving assistance in response to repeated applications relating to one establishment.

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

Expenditure on the purchase of road transport equipment is not eligible for support. Regional Investment Aid cannot be granted to fund other moveable assets, though certain other types of movable assets may qualify for support via SME Investment Aid.

Intangible assets are eligible if they fulfil the following conditions:

- a) they must be used exclusively in the establishment receiving the aid;
- b) they must be amortisable;
- c) they must be purchased under market conditions from third parties unrelated to the buyer;
and
- d) 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.

Creation or safeguarding of jobs

All investment projects must create new, sustainable jobs within the applicant company. Existing jobs which may be safeguarded as a result of the project and indirect jobs created within the supply chain will be taken into account when appraising applications, but will not count towards the contractual outputs of projects. Safeguarded and indirect jobs will not count towards the value for money assessment of applications.

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

The ratio of grant to jobs created will be taken into account in assessing the relative value for money of applications. Overall, the Scheme must achieve an average £10,000 grant paid per new job created. The skill level and annual salary of jobs created will also be taken into account in assessing applications and the Scheme will favour projects which create highly skilled sustainable jobs.

All jobs must be created by 31 March 2017 and must be maintained in the area concerned for a minimum of 3 years in the case of SMEs, from the date the post was first filled.

Viability

The company undertaking the investment project must be viable and the project must have a good chance of being self-sustaining by the completion of the investment.

The Scheme cannot support undertakings or firms in difficulty. A definition of a firm in difficulty is included in Annex A of these guidelines. TVBGIS 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 assistance from the Scheme, the project would not go ahead at all in the disadvantaged area, or in exceptional cases, would go ahead on a smaller scale.

A project that is low risk for the company will not normally justify assistance unless the rationale for support is based on an alternative project location outside of the Assisted Areas. For example, the Scheme should not be used to support a project to simply acquire land or general purpose buildings, since these assets could be readily realised and therefore involve the company in little risk.

Details of how additionality will be appraised are included at Part 3 of these guidelines.

Incentive effect

It is a requirement of EU State Aid law that a TVBGIS grant 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 at least would work differently in the absence of the aid. TVBGIS grants will not be provided for activities in which the applicant would in any case engage even in the absence of the aid.

TVBGIS support 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 shall 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 BEC.

Gross grant equivalent aid intensity

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](#)

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 Scheme, 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:

- a) 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;
- b) 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);
- c) 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;
- d) assistance provided towards training;
- e) 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) or Business Rates Discount (BRD) then the business will not be entitled to claim both ECAs and aid from the Scheme on the same assets. In this case the business must choose which option it wishes to pursue. A company can, however, claim BRD as well as aid from the Scheme provided its De Minimis limit is not exceeded.

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.

Aid intensity thresholds

The Scheme will operate on the basis that the percentage of grant support available (or “aid intensity”) in present gross grant equivalent shall not exceed the Regional Aid or SME Investment Aid thresholds which are in force at the time the aid is granted, as set out in the regional Assisted Areas aid map for the period 2014 - 2020. A full list of all Assisted wards by local authority is included in Annex C.

The Regional Aid threshold for Assisted wards in the following local authorities is 10%:

- Darlington
- Hartlepool
- Middlesbrough
- Redcar and Cleveland
- Stockton-on-Tees

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

SME Investment Aid allows support up to 10% for medium enterprises and up to 20% for small enterprises regardless of location.

The thresholds shall apply to the intensity of the aid calculated as a percentage of the total eligible expenditure of the project.

In determining whether these maximum aid intensities laid down 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.

Aid from the Scheme 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.

In summary, the maximum grant available as a percentage of the eligible costs is as follows:

Company size	Assisted Area	Non- Assisted Area
Small enterprise	30%	20%
Medium enterprise	20%	10%

No prior start

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

If, during the course of appraising an application, 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.

PART 3: PROJECT APPRAISAL

Process

The Scheme is operated on a competitive basis and there is no obligation on the BE Group to offer grants. Applications will be assessed solely on the information provided by applicants and all applications must include the following information:

- Fully completed expression of interest and application forms and financial appendices;
- The applicant's most recent financial statements;
- Up to date management accounts for the current year;
- If applicable, the most recent financial statements for the group;
- Cash flow forecasts for the period of the project; and
- CVs for the project management team and directors.

Any application which does not include all the above information will not be considered.

Applications which are approved at the expression of interest stage will be permitted to submit a full application. Full applications will be assessed and appraised for eligibility.

The purpose of the application appraisal is to ensure that aid is provided only to projects that, for example, would not have gone ahead without the aid, that have a good chance of becoming sustainable, and that provide a net benefit to the wider economy. The appraisal will seek to establish:

- State Aid compatibility
- Project finance and viability
- Project deliverability, including timescale
- Project management arrangements, including skills and experience of the delivery team
- Project expenditure, including timescale and timing of grant claims
- Job creation, including timescale for creation of jobs
- Offer Letter conditions and monitoring requirements

Those that pass the assessment and appraisal will be considered by an Investment Panel, which will decide whether or not projects will be approved.

The Investment Panel comprises senior representatives of the Tees Valley business community, with observers from the Department for Business Innovation and Skills (BIS) and the Department for Communities and Local Government (DCLG), and with advisors from BE Group. The Panel is chaired by a senior representative of the Tees Valley business community.

The Investment Panel will provide final approval or decline projects based on an assessment of:

- The relative quality of the project measured against other applications;
- value for money (including grant per job and private sector leverage);
- eligibility; and
- deliverability and viability

A grant offer will be made after final approval, and an Acceptance Fee of 5% of the grant offered will be payable by the beneficiary. There are no charges to applicants until they have been approved at this stage of the application process.

Record keeping and Freedom of Information

In order to meet the requirements of the Freedom of Information Act 2000 reasons for decisions about applications and claims must be recorded properly on file at all stages. This record keeping will also ensure that there is a clear audit trail for all applications. Administrative records will be maintained for all applications irrespective of whether they were successful.

Guidance on the Freedom of Information Act can be found at:

<http://www.foi.gov.uk/practitioner/index.htm>

Publicity

Businesses that are offered support will be required to agree to their projects being publicised in various media, including local and national press, once an offer has been accepted by the business.

Third party advice to applicants

It is not uncommon for third parties such as consultants to advise companies with regard to their applications, or even provide information on behalf of the applicant. If the third party continues to play an active role in the application after the application form has been submitted, the BE Group will request that the applicant company designate an in-house point of contact. All correspondence regarding the appraisal of the application should then be copied to this company contact. It is the responsibility of the applicant to ensure that any information submitted on its behalf is accurate and complete,

If the BE Group believes that information provided by third parties is not a true and fair reflection of the business plan of the company then they have a duty to:

- request confirmation from the applicant company that the data presented in the application form and financial appendices is accurate and reflects their business model; and
- ensure that the final recommendation or decision regarding the application records these concerns.

Jobs

Job creation estimates provided by applicants will be critically examined. The BE Group will require assurance that the number and timing of jobs forecast accords with the investment proposed and the company's existing staffing arrangements or with the normal employment densities for the industry in question. Only new jobs to be created by the applicant company as a direct consequence of the project should be taken into consideration. Indirect employment on the project through sub-contracting of support activities permanently based on site such as maintenance engineers, security and catering staff may sometimes qualify under this standard.

On occasions staffing of an establishment may be wholly contracted to an independent agency that supplies staff on an individual contractual basis. Providing that the contracts are for a fixed term with the applicant business, such arrangements may qualify for assistance. Amongst other things it will be necessary to show that the jobs created will be an integral and permanent part of the project. Temporary employment cannot be considered. Jobs which involve the transfer and/or retraining of existing employees cannot be considered as new jobs.

Viability

Viability means that after receiving assistance, the project/business will become sufficiently profitable for the associated employment to be sustained without further subsidies.

It is important to establish that a project has a good chance of being viable. However, if public funds can be protected by a robust parental guarantee then this will be considered in a favourable way.

Properly analysed financial and commercial data are the foundation of the viability assessment. However, other factors will also be taken into account. These include:

Market prospects

A realistic appraisal of the market for the applicant company's products, at home and overseas, and of the company's ability to sell in those markets, is essential. Support will rarely be justified for projects that only serve declining markets (because it is unlikely that the project would be sustainable) or markets which are over-supplied by existing UK suppliers.

Management

An assessment of the quality of the management of the applicant company is important. An investment project is more likely to succeed and be sustainable if the management of the company are of good quality. The project plan for the investment project will be examined, and the company management will be probed with regard to contingency planning. Curricula Vitae should be provided for all directors and other key personnel and these will be examined for evidence of successful past project management.

Costs

If the applicant company operates in a sector that is facing or is expected to face considerable import penetration the long-term, the running costs of the project will be analysed critically.

In reviewing viability, a judgement will be made as to whether the applicant company will be capable of paying its debts as they fall due for the foreseeable future. In many cases this decision will not be clear cut. However, if there is at least a 50:50 chance that the business will survive in both the short-term, and will be able to deliver sufficient profits to embed the business and related jobs in the region, then support can be offered.

Where a director of a company applying for a grant is known to have been bankrupt but is now discharged or has been given permission by the bankruptcy court to be a director, this would not automatically rule out acceptance of the grant application but it is a factor that would have to be taken into account in considering the viability and probity of the applicant company. Where a director was found to be an undischarged bankrupt who was not entitled to be a director of a company, this would be grounds for considering prosecution of the director and would be likely to lead to rejection of the company's grant application.

Caution will be exercised when handling applications from "phoenix" companies. Reasons for failure of the previous business should be investigated and special attention should be paid to the viability of the new operation. Checks should also be made into the financial history of the directors involved in the new business.

When an offer is accepted by a subsidiary within a group, the subsidiary undertakes obligations to repay any assistance if it defaults on the conditions set out in the offer letter. Although the obligations in the offer letter are for the subsidiary it is standard practice to obtain a parental guarantee where the grant recipient is a subsidiary company.

Where the grant cannot be underwritten by a parent guarantee or alternative security, payment should be backloaded.

Additionality

The aim of the additionality criterion is to establish whether assistance is necessary for the project to go ahead at all or whether its quality, scale, timing or location (or any combination of these factors) would justify the provision of assistance.

Analysing the additionality of a potential award is the most important condition for determining whether it would be value for money. The additionality test is an assessment of whether the proposed award will induce undertakings to pursue an investment in a disadvantaged area which they would not otherwise have pursued. In testing the additionality of an award the following elements will be taken into consideration:

Incentive effect

Consideration must be given to the level of intended activity with and without support. The difference of the two scenarios is considered to be the impact of the award and describes the incentive effect.

Level of profitability

If a project would be more profitable at an alternative location outside of a disadvantaged area it is more likely that support from the Scheme will have an incentive effect. Standard financial methodologies should be used to evaluate the overall profitability (or lack thereof) of a project – these may include calculating the Net Present Value (the sum of the discounted expected cash flow resulting from the investment minus the investment cost), the internal rate of return (IRR) or the return of capital employed (ROCE) for the project. Financial reports and internal business plans containing information on demand forecasts; cost forecasts; financial forecasts, documents that are submitted to an internal investment committee and which elaborate on various investment scenarios, or documents provided to the financial markets should be used as evidence.

Amount of investment and time path of cash flows

High start-up investment costs, limited appropriable cash flows and a significant fraction of cash flows arising in the very far future will be considered positive elements in assessing the additionality of an award.

Level of risk involved in the project

An award from the Scheme will not be additional where a project is low risk (unless there is an alternative location – usually overseas - for the project outside of the disadvantaged area). Project risk should be assessed, drawing on feasibility studies and expert opinions where these are available, and in particular take into account the irreversibility of the investment, the probability of commercial failure, the risk that the project will be less productive than expected, the risk that conducting the project would undermine other activities and the risk that the project costs undermine the undertaking's financial viability.

In assessing additionality the following points will be addressed:

- a) identifying what precisely the grant will cause to happen which would not happen without assistance;
- b) challenging why the company considers that a grant is required; and
- c) making a judgement about whether the additionality case is convincing.

The burden of proof in demonstrating that additionality is satisfied rests on the applicant. Companies should be aware that the due diligence appraisal will include testing whether the case is convincing and challenging it where appropriate.

It is acceptable for companies to base their need for grant assistance on the additional cost of doing business in an Assisted Area. However this argument will be tested.

If the amount of assistance applied for is small in relation to project costs, the appraisal will consider whether it is credible a grant would make the difference between a positive and negative decision on the project.

Where a project is strategic, and financial implications may not be relevant, then the case for grant support may be weak.

Finally, the following questions will be directly addressed when appraising an application:

- a) is there evidence that the applicant has explored alternative sources of finance?

- b) has the applicant company produced a convincing rationale for needing the assistance?
- c) is the case for any alternative project location credible?

Evaluating alternative project locations

When an applicant bases their application on the existence of an alternative project location the credibility of the alternative location should be tested by monetising the costs and benefits associated with siting the project at each location. The value of the different locations should be appraised in the context of the company's overall strategy and the full costs and risks of each location should be considered, not just particular elements, such as comparative wage rates.

Specifically, answers will be sought to the following questions:

- a) is the company's overall strategy based on a distribution of capacity over main markets of which the UK is one?
- b) is there evidence that the company has seriously assessed the costs and risks of alternative project locations?
- c) how would relocation to an alternative site affect distribution, marketing costs and the ability to win contracts?
- d) how do labour costs compare, taking account of relative productivity, employer social security contributions and hiring and firing costs?
- e) what would be the costs to a company of closing a facility in a deprived area and relocating elsewhere?
- f) are any claims about foreign assistance credible and/or documented?

Evidence of other UK operations being closed and moved to overseas locations will help to demonstrate the mobility of a project.

Level of assistance

When appraising an investment project, the BE Group will also make a judgment regarding how much support is appropriate. This amount, which is known as the "quantum", should be the minimum necessary for the project to go ahead within the Tees Valley. The following factors will be taken into account when considering the minimum necessary:

- a) the quantum must not be greater than the maximum permitted by the EU State Aid rules set out in Part 2;
- b) the cost per job for the project must be consistent with the overall targets for the Scheme; and
- c) once the level of support has been agreed by the recipient it cannot be revised upwards to reflect increased project expenditure or employment.

Quality

Higher quality projects may attract higher levels of support. Wage and skill levels are normally the best measures of job quality. Detailed information on pay scales is obtained at appraisal and this provides a sound basis for assessing job quality.

New work practices may require a continuous re-skilling of employees. In addition to assessing the quality of work provided by the project, the value of training will be assessed. This will be done by examining the extent to which a firm is prepared to fund training of employees, thereby adding to the stock of trained labour in the region.

Payment of grant

Support from the Scheme will take the form of a grant, payable upon the achievement by the recipient company of specific expenditure and/or job creation targets set out in the grant offer letter.

Payment of grant cannot exceed the applicant's actual cash expenditure on the project.

The offer letter

The payment of grant will be linked to the achievement of specific project targets. These will be set out in the offer letter and will be related to the disbursement of capital expenditure and the creation of jobs.

The offer letter text is non-negotiable, although it is frequently necessary to add clauses to ensure that all of the conditions associated with the grant are accurately reflected in the offer letter.

Applicants will be formally notified by email that their application has been approved prior to the issue of the offer letter. The offer letter will be issued as soon as practicable after this email has been sent.

PART 4: MONITORING

BE Group has a responsibility to obtain enough information to assess the continuing viability of the company and progress of the project, to ensure that the assistance is being used for the purposes for which it was provided and to confirm that related assets and jobs stay in place in accordance with the terms of the offer letter.

This section provides guidance on the monitoring of supported projects. It sets out:

- a) the role of the monitoring officer;
- b) the mechanics of project monitoring; and
- c) guidance for dealing with changes in projects.

Role of the monitoring officer

A monitoring officer will be assigned to monitor each project. The essential tasks of the monitoring officer are:

- a) to ensure that public funds are used for the purpose for which they were provided. This will include the achievement of skills benchmarks in addition to the normal capital expenditure and job creation conditions;
- b) to ensure that the company complies with the terms of the offer letter and to give consent to variations where these are justified;
- c) to consider the factors critical to the success of the project and be satisfied about its continuing viability at each stage. The viability of a project should be checked before payment of each instalment of grant. Monitoring officers will make use of accountancy advice as appropriate. Viability reassessment should not be a purely mechanical process and it should be proportionate to the degree of risk associated with the project;
- d) to check whether the project is proceeding according to plan or whether there are substantial variations in its scale, nature or timing;
- e) if there are changes to the project plan, to assess the impact of these changes with regard to the scheme criteria;
- f) to safeguard the BE Group's position wherever necessary either by reducing, delaying or withholding payment or by requiring the repayment of part or all of the assistance already provided; and
- g) where a parental undertaking or guarantee has been obtained to monitor the financial status of the parent with regard to the value of that guarantee.

Monitoring officers will rely as far as possible on the information produced for the company's own management purposes and on audited accounts where available. Furthermore, the complexity of additional information required of the company and the monitoring approach used (for example visits and written requests) will be proportionate to the amount of expenditure at risk. All contact with companies and the reasons for decisions taken during monitoring will be recorded on file by the monitoring officer.

Mechanics of project monitoring

Legal entitlements and administrative practices

Payment of grant is made on the basis of a legally binding agreement between the company and the BE Group (the offer letter). The terms of the offer letter, once accepted by the company, impose legally enforceable obligations on both the company and the BE Group. Monitoring officers will ensure that the company's rights are properly observed. Similarly, in negotiating any reduction or repayment of assistance with a company in the event of it being in default of its obligations, monitoring officers will make the legal basis for the action clear to the company.

Monitoring officers may seek authority to bring forward or otherwise vary payments where progress on cases justifies it. Where such changes are agreed they will be set out in a letter of variation agreed with the recipient company.

Processing of claims for payment

Claims for payment must be made using the claim documents provided by the BE Group. Claims must be complete, with all monitoring information and progress reporting supplied in full. Claims must be accompanied by an Accountants Report in the format set out in the offer letter. The information supplied in support of the application for payment will be carefully examined by the monitoring officer against the offer letter in line with Scheme guidelines and the prevailing State Aid regulations.

Post completion monitoring

It is important that monitoring ensures that the assets and jobs are maintained for an appropriate period after completion of the project. This “conditions period” is specified in the offer letter and is project specific.

For offers made under the Assisted Area map 2014 - 2020, the minimum applicable conditions periods are set out below:

Regional Investment Aid

For all offers where the grant or part of the grant is against capital investment, the conditions period for the assets and jobs will be 5 years from “completion of the investment. This can be reduced to 3 years for SMEs.

Action where payment claims are not received

There is no contractual obligation on monitoring officers to issue reminders where payments fall due and consequently no need for any immediate action if companies fail to submit claims by the due date. However, the reasons for delayed claims will be investigated by monitoring officers, who will seek information about the current state of the project and the reasons for the delay in claiming payment.

No obligation to pay dates

No payments can be made by the Scheme after 31 March 2016 and no claims will be accepted after 31 January 2016.

The No Obligations to Pay Date (NOPD) will be specified in every offer letter, and is the deadline after which the BE Group is no longer under any contractual obligation to make payments. This will not be later than 31 January 2016. If a company claims a grant before the NOPD, it is entitled to receive that payment, provided it satisfies the conditions set out in the offer letter, even if the time taken to process the claim means that payment is not made until after the NOPD date has passed.

Changes in projects

It is a requirement of EC State Aid Law that offer letters contain a general provision to allow the recovery of all state support in the event of a grant not being compliant with EC State Aid rules.

This general provision gives the BE Group wide ranging powers to withhold, delay, reduce or reclaim (clawback) all or part of the proposed assistance in certain circumstances and in particular in the event of:

- a) a substantial change in the nature or scale of the project;
- b) the disposal of all or a significant part of the assets provided for the project;
- c) an unsatisfactory rate of progress towards project completion; or
- d) employment shortfall, in terms of either numbers or skills;

BE Group will act reasonably in deploying these powers.

Increase in project costs

Once the offer has been accepted, no allowance can be given for any subsequent increase in overall project costs.

Clawback

Careful consideration will be given to the circumstances of the case when determining the level of assistance to be reclaimed. The monitoring officer will consider whether the failure of the company to fulfill the conditions in the offer letter arose from circumstances outside the company's control, for example a major change in market conditions or technical problems which the company has made reasonable efforts to overcome. The ability of the company to repay assistance should be taken into account, for example there should be a greater presumption of clawback if a company is in a position to do so.

Projects reduced in scale

Where the scale of the project has been reduced, or the project has underachieved, the level of assistance will normally be reduced pro rata with the reduction in the scale of the project. However, if the monitoring officer considers this justified the grant may be reduced by a different amount.

In assessing the extent of the reduction in scale, the monitoring officer will take account of the extent to which total project costs are reduced, and the implications of any employment shortfall.

Asset sales should be regarded as reducing net project costs. If a significant disposal of assets occurs during the post completion period, or there are sales which alter the character of the project, monitoring officers will take account of the proportion of the conditions period for which an asset has been in place when deciding how much assistance should be recovered.

If a company has failed to perform as well as could reasonably have been expected, or has made a deliberate decision to abandon a project in order to concentrate resources on other investment, or in obtaining assistance has unreasonably withheld information about difficulties being encountered, a greater clawback than indicated by the pro rata calculation should be considered. Monitoring officers will assess whether all of the paid assistance should be reclaimed in these circumstances.

If a company is sold or if its ownership is otherwise transferred, recovery of grant paid will only take place when the obligations of the offer letter (including all guarantees) cannot be novated to the purchaser.

Changes in the nature of the project

Where the nature of the project alters to such an extent that it effectively represents a different project from that originally considered, a view will need to be taken as to whether the revised project qualifies for support. Examples of this situation include a company choosing to manufacture a different product; a company failing to purchase a key piece of equipment as described in the original application; or a company altering the general scale of a project.

Monitoring officers will take a view as to whether it is best to address changes in the nature of a project by a revised application. In this case the new application should include a reference to the basis for the original award. New accountancy and market advice will also be sought as appropriate. In considering whether support can be given to the revised project, all the normal criteria will be applied, including the minimum level of assistance.

Alternatively it may be more appropriate to negotiate a variation of the original offer letter.

Changes in financing

In some cases, the project may proceed as planned but the company may decide, after the offer of grant has been made, to change the basis on which it is financed - i.e. acquiring under hire purchase or extended credit agreements assets which it had intended to purchase outright. In such cases, the monitoring officer will consider the implications of the revised arrangements for the project and the company.

For example, the change in financing arrangement may be an indication that the company has cash flow problems which it is attempting to control by spreading capital payments over a longer period. The monitoring officer should determine whether the offer is still the minimum required to secure the project or whether it should be reduced to take account of any benefits to the company arising from the revised arrangements. The offer letter contains a provision for such reconsideration.

Changes in ownership

As part of the normal monitoring the recipient company will be asked if its name or ownership has changed and the implications for the project of any change in company ownership will be analysed by the monitoring

officer. In particular an assessment of the viability of the project going forward and the value of any parental guarantee will be made.

If a grant is to be novated it is normal for the purchasing company to “step into the shoes” of the vendor and take on all the obligations associated with the grant. In these circumstances it is not normally appropriate to withhold assistance to a new owner because they may have, for example, sufficient funds to carry out a project without support, as the value of the grant will have already been reflected in the purchase price.

Legal advice will be sought in any case where a Receiver or Liquidator is seeking to transfer the project as a way of realising assets. As a general rule the monitoring officer will draw attention to the company's obligations set out in the offer letter, and request the potential claim to be noted by the Liquidator/Receiver pending the signing of the novation agreement. If the project is not continued satisfactorily or if a new project owner is unwilling to take over the offer, clawback must be considered.

In certain limited circumstances, it is not necessary to action a novation or transfer agreement:

- a. If the change occurs early in the life of a project, before expenditure on the project has started, the matter may be dealt with by the issue of a new offer letter to the company undertaking the project with parallel withdrawal of the original offer;
- b. If the change occurs in the post-completion monitoring period then:
 - for small cases (less than £100k) in the last 12 months of the conditions period the monitoring officer may choose to forego the issuing of novation agreement if, in his or her considered judgement, it is likely that the project will be taken forward satisfactorily by the new owner; or
 - if the monitoring officer would not recommend the exercise of clawback conditions in the event of failure to achieve a novation agreement. This discretion is likely to be used only in cases where the project achievement, at the point of the transfer, can be said to have justified the assistance paid, or where the cost of recovery action is likely to exceed the amount repayable.

Employment shortfall

Monitoring of the jobs created by a project is of paramount importance in ensuring that the purpose for which assistance has been provided is fulfilled. During monitoring, it may become apparent that the company is in fact failing to achieve the level of employment it forecast in its original application for assistance. The monitoring officer will take this up with the company.

Projects given aid for investment

If the company was simply over optimistic in its original job forecast or if the shortfall is due to substantial change in the scale or nature of the project, for example, because only part of the fixed capital equipment is installed, assistance will be withheld unless it is clear that the changes, had they been known about beforehand, would not have affected the amount of assistance offered.

The skill level of jobs created will be assessed at the time of the claim. Any shortfall in the forecast skill levels will be treated in the same manner as a shortfall in employment.

Generally, when accounting for a job creation shortfall in an investment project the following procedure will be adopted:

- a) calculate the number of full time job-year equivalents required by the terms of the offer letter over the relevant time period for the project (i.e. from the date of project commencement until the end of the monitoring period)
- b) calculate the number of full time job-year equivalents associated with the project over the period from the start of the project and the date at which monitoring officer judges that the project has come to end. This data should be supplied by the company and verified by the monitoring officer
- c) the ratio of these two quantities should then be used as a guide by the monitoring officer in assessing the appropriate amount of clawback.

ANNEX A: DEFINITIONS

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

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

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:

(a) 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.

(b) 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..

(c) 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.

(d) 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.

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;

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.

Completion of works is not defined in EC State Aid law. For the purposes of the Scheme 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:

(a) 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;

(b) 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:

- i. the products listed in Annex I of the Treaty, except fishery and aquaculture products covered by Regulation (EC) No 104/2000;
- ii. products falling under Council Note codes 4502, 4503 and 4504 (cork products);
- iii. 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:

- (a) NACE 49: Land transport and transport via pipelines, excluding NACE 49.32 Taxi operation, 49.42 Removal services, 49.5 Transport via pipeline;
- (b) NACE 50: Water transport;
- (c) NACE 51: Air transport, excluding NACE 51.22 Space transport
Related infrastructure

Tourism activities means the following activities in terms of

NACE Rev. 2:

- i. NACE 55: Accommodation;
- ii. NACE 56: Food and beverage service activities;
- iii. NACE 79: Travel agency, tour operator reservation service and related activities;
- iv. NACE 90: Creative, arts and entertainment activities;
- v. NACE 91: Libraries, archives, museums and other cultural activities;
- vi. NACE 93: Sports activities and amusement and recreation activities;

Synthetic fibres sector means:

- i. extrusion/texturisation of all generic types of fibre and yarn based on polyester, polyamide, acrylic or polypropylene, irrespective of their end uses; or
- ii. polymerisation (including polycondensation) where it is integrated with extrusion in terms of the machinery used; or
- iii. 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:

- i. 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;
- ii. 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;
- iii. 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;
- iv. 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;
- v. 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: TEES VALLEY 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 Tees Valley is set out below by local authority area:

The following wards in the local authority area of Darlington UA—

- Bank Top
- Central
- Eastbourne
- Faverdale
- Heighington and Coniscliffe
- Lingfield
- Middleton St George
- Sadberge and Whesoe

The following wards in the local authority area of Hartlepool UA—

- Brus
- Dyke House
- Elwick
- Fens
- Foggy Furze
- Greatham
- Rossmere
- Seaton
- St. Hilda
- Stranton

The following wards in the local authority area of Middlesbrough UA—

- Ayresome
- Clairville
- Coulby Newham
- Gresham
- Middlehaven
- North Ormesby and Brambles Farm
- Pallister
- Stainton and Thornton
- University

The following wards in the local authority area of Redcar and Cleveland UA—

- Brotton
- Coatham
- Dormanstown
- Grangetown
- Guisborough
- Lockwood
- Loftus
- Longbeck
- Saltburn

- Skelton
- South Bank
- St. Germain's
- Westworth

The following wards in the local authority area of Stockton-on-Tees UA—

- Billingham South
- Billingham West
- Bishopsgarth and Elm Tree
- Eaglesfield
- Fairfield
- Grangefield
- Hardwick
- Hartburn
- Mandale and Victoria
- Newtown
- Northern Parishes
- Norton North
- Norton South
- Norton West
- Parkfield and Oxbridge
- Roseworth
- Stainsby Hill
- Stockton Town Centre
- Village
- Western Parishes

