

Exceptional Regional Growth Fund (eRGF)

Applicant Guidance

The Regional Growth Fund State Aid Compliance Statement

The Regional Growth Fund “RGF” (which includes ‘exceptional’ RGF) is an aid scheme that operates under the General Block Exemption Regulation (Commission Regulation No 651/2014) “GBER” under the reference number SA.39273 (2014/X). The scheme covers all businesses and sectors permitted within GBER. All aid awarded under the scheme is made in full compliance with the applicable conditions contained in GBER. This includes the Chapter 1 ‘Common Provisions’, the Chapter 2 ‘Monitoring’ provisions and the specific conditions for the relevant category of aid laid down in Chapter III. Each award made under the scheme is also be subject to specific grant terms and conditions.

The full GBER document and further State aid details can be found using this link to the European Commission’s State Aid website: https://ec.europa.eu/competition/state_aid/legislation/block.html

The UK’s State aid guidance page can be found using this link the Gov.UK website: <https://www.gov.uk/guidance/state-aid>

Introduction to eRGF

- 1) Exceptional Regional Growth Fund (eRGF) support is a discretionary grant award. Ministers have the option to use eRGF funding to respond to opportunities arising from internationally mobile investment or unanticipated economic shocks at a local, regional or national level that could have a significant impact on a particular area.
- 2) All eRGF funding awards are subject to in-depth appraisal (including a due diligence process) and scrutiny by the Industrial Development Advisory Board (IDAB) and Her Majesty’s Treasury.
- 3) All eRGF awards are subject to the following requirements:
 - a. significant private sector leverage,
 - b. sustainable job creation/safeguarding,
 - c. value for money,
 - d. targeting areas of public sector dependency, and
 - e. state aid compliance.
- 4) eRGF support will only be awarded in exceptional economic circumstances, where;
 - a. **Either** the eRGF application is associated with a significant opportunity related to internationally mobile investment; i.e. Generating a new capability for the UK or securing the retention of a key capability that would otherwise be lost to the UK;
 - b. **or** the eRGF applications are responding to/avoiding major economic shocks (i.e. major job losses concentrated in a single area that has a high reliance on those jobs); and/or are located in a designated Local Enterprise Partnership (LEP) low Gross Value Added (GVA) per capita area.

AND in all cases,

- c. the potential funding should offer clear wider benefits or unique strategic importance to the UK economy e.g. research and development in new technology or up-skilling the workforce, **and**
- d. Government involvement must be small in relation to the overall private investment.

[This document](#)

- 5) Provides guidance to applicants on three of the key elements that will be tested as part of the eRGF appraisal and due diligence process. These three elements are;
 - a. Case for assistance, or business need for eRGF,
 - b. State aid compliance, and
 - c. Value for money.

- 6) This guidance outlines the evidence that is required to support an application.

eRGF Applicant Guidance – Case for assistance

Introduction

- 7) The case for assistance is used in assessing the value for money, state aid and financial basis of any bid. It is an essential part of the application process.
- 8) There are two things applicants need to demonstrate in the case for assistance: that the grant is the minimum necessary to achieve the desired outcome, and that the counterfactual (what would happen in the absence of a grant) has a sound and realistic basis. The counterfactual is needed to be able to demonstrate minimum necessary grant.
- 9) All applicants will need to demonstrate a robust and credible case for assistance in order for us to;
 - a. Be able to agree that the amount of grant requested is indeed the minimum required;
 - b. Report on our appraisal of the application and respond to scrutiny from the Industrial Development Advisory Board (IDAB), Her Majesty's Treasury and Ministers;
 - c. Demonstrate we are delivering value for the UK Taxpayer, and;
 - d. Demonstrate compliance with EC State Aid regulations.

Minimum necessary grant

- 10) eRGF awards are based on the **minimum** necessary to achieve the stated outcomes.
- 11) As per General Block Exemptions Regulation Ch 1 (Common Provisions), the EC can and may wish to check that any award (or aid) given is the minimum necessary. Failure to comply with state aid regulations could lead to any offer being revoked, or to the applicant being required to repay funds already awarded, plus interest.**
- 12) In addition, minimum necessary grant is an expectation to deliver value for money for the UK Taxpayer.
- 13) The basis of the minimum grant necessary is tested during due diligence.

Counterfactual

- 14) eRGF applicants are required to set out the counterfactual – what would happen without eRGF intervention - for the project as a key component of their application. This is essential to demonstrate minimum necessary grant, because our appraisal only considers the outcomes which would not happen in the absence of grant. The counterfactual provides a baseline for this assessment and is tested during due diligence.
- 15) The counterfactual provided by applicants generally falls into two categories: 'international mobility' and 'insufficient returns'. Applications can include one or both of these. Guidance on the information and evidence initially required to demonstrate each type of counterfactual is provided below.
- 16) All information and evidence provided should be accompanied by a narrative explaining the key strategic considerations of the applicant and the main assumptions underlying any analysis.
- 17) Applicants need to provide a description of the key investment decision or problem being faced by the applicant, and where in the group the decision is being made (i.e. national, regional or global). This should include the strategic context in which the decision is being made. Detail of the 'next level' decision, which would include the options for implementing the key investment decision.

International Mobility – Information required

- 18) An international mobility counterfactual exists where the applicant has an alternative overseas location for the project that will be selected if grant support for UK operations is unavailable.
- 19) Applicants should provide all cost details that relate to the UK and the counterfactual option (i.e. in the absence of grant) which in this case relates to selection of the non-UK location. All costs which will be incurred on selecting each option should be provided, including costs of closure of alternative sites.
- 20) Financial and cost information should be presented in terms of net present value analysis and discounted cash flow, showing the source of the information and that it is validated at parent/group level.
- 21) Applicants should be aware that as part of our appraisal process we will require access to senior decision makers/executives within the applicant's parent/group structure. This might be at a European or global level.

International Mobility – evidence

- 22) Applicants must provide evidence to support the arguments for international mobility, including details of the investment criteria that senior decision makers/executives will apply when making the investment decision. This could be in several different forms, including, but not restricted to;
 - a. Who the ultimate decision-makers are for the project's location, what information is presented to these decision-makers and how a decision will be reached;
 - b. The metrics that the final decision-makers will use to compare the proposed options;
 - c. Parent/Group policy or guidance documents relating to how investment decisions are made;
 - d. Parent/Group investment appraisal documents;
 - e. Extracts from Board papers/minutes where the different location options have been discussed;
 - f. Feasibility studies on the different options (internal or external);
 - g. Communications from Senior Executives;
 - h. Precedents set previously with similar type/scale investment decisions; and
 - i. Evidence that ultimate decision makers are giving serious consideration to the counterfactual option.
- 23) If a cost gap exists between the UK and counterfactual, the following evidence is required (this can change depending on the exact nature of the case presented);
 - a. A comprehensive breakdown of the relevant costs, broken down into key categories (e.g. labour, capex, energy etc).
 - b. Inclusion of additional costs associated with the counterfactual option, for example costs relating to; closing or scaling down UK operations, recruitment & training, transportation & logistical (if parts/product are now located further away from assembly/market), licensing, legal, brand reputation.
 - c. Explanation of any strategic benefits/costs of the respective options where appropriate.
 - d. Information as to why any identified cost gap cannot be met by other means (including internal company funds).

- 24) Any non-UK option costs should be net of grants that have been or are in the process of being awarded, and the UK costs should be provided (1) with eRGF support and (2) without eRGF support.
- 25) Validation of cost information by senior decision makers/Executives at parent/group level is needed to confirm the information is considered accurate at a group level and is not just the UK subsidiary's view. Written evidence should confirm that normal group processes and policies have been used to calculate these costs and that they are ratified by the company board or ultimate decision makers. The source of any cost information should be included. Figures provided will be tested during our due diligence visit(s).
- 26) The viability of the overseas option can be demonstrated by:
 - a. certified minutes from board-level meetings that discuss the overseas location,
 - b. feasibility studies carried out by the company (or a third party),
 - c. evidence of similar projects previously happening overseas,
 - d. communications from the decision-maker requesting cost reductions at the UK facility or directly addressing the capability of the overseas facility, and
 - e. location studies and relevant analysis feeding into board papers etc.
- 27) Historical evidence that the metrics used for the decision-making process have been used previously by the applicant and are in line with wider company policy can help provide weight to the cost-gap calculation. This can come in the form of extracts from company policy or previous location decisions that demonstrate the metrics and calculations reflect the applicant's standard practice.
- 28) All costs should indicate any risk factors applied, assumptions and key estimates made, and should relate back to the information to be supplied to the ultimate decision maker and the Parent/Group policies relating to how investment decisions are made.
- 29) The applicant should include details regarding the sources of funding for the project and how they intend to pay for it. This will demonstrate that HMGs requested contribution is small in comparison to the overall (non-HMG) investment.
- 30) Critically, applicants will need to demonstrate how eRGF funding will help bridge this gap. How can you demonstrate it is the minimum funding required for the project to go ahead in the UK?

Insufficient Returns – Information required

- 31) An 'insufficient returns' counterfactual exists where the project does not meet the applicant's required internal rate of return or payback period (hereon 'return') without eRGF support, and will be delayed, cancelled, or proceed in a severely diminished form as a result. eRGF funding is required for the project to meet the return target needed for approval.
- 32) Applicants should provide all cost details that relate to the project and the counterfactual options (i.e in the absence of grant) which relate to the alternative diminished or a 'do nothing' option. For 'do nothing' applicants have to demonstrate that this is a credible and probable business alternative.
- 33) In addition to following the guidance in paragraphs 20-21 above, which applies for both internationally mobile counterfactuals and those based on insufficient returns, the case for assistance should address the following issues:
 - a. How does eRGF funding add value? What will happen without eRGF support? Will the project be delayed, cancelled or diminished?

- b. What is the target return and how has this been arrived at? What are the constraints on company funds that make this target necessary and what are the consequences of failing to meet the target? Is this standard company policy and can this be demonstrated?
- c. Give a detailed breakdown of the cost of conducting the project at the UK facility and the projected return from this investment relative to the investment target (with and without eRGF funding). How does this demonstrate that the funding requested is the minimum required to meet this threshold? Explain relevant strategic considerations.
- d. How is it that the counterfactual is a credible business option and under serious consideration by the ultimate decision makers?
- e. The eRGF is designed to be the fund of last resort – why can the necessary financing not be sourced through other means?

Insufficient Returns – evidence

- 34) The suggested evidence in paragraphs 23-25 and 27-30 above applies for counterfactuals based on insufficient returns.
- 35) The case for assistance needs to give details of the investment criteria that senior decision makers/executives will apply when making the investment decision. This could be in several different forms, including, but not restricted to;
 - a. Who the ultimate decision-makers are for the project investment, what information is presented to these decision-makers and how a decision will be reached;
 - b. The metrics that the final decision-makers will use to compare the proposed options;
 - c. Parent/Group policy or guidance documents relating to how investment decisions are made;
 - d. Parent/Group investment appraisal documents;
 - e. Extracts from Board papers/minutes where the different options have been discussed;
 - f. Feasibility studies on the different options (internal or external);
 - g. Communications from Senior Executives;
 - h. Precedents set previously with similar type/scale investment decisions; and
 - i. Evidence that ultimate decision makers are giving serious consideration to the counterfactual option.
- 36) It is key to demonstrate that the target return is accurate, consistent with company policy, and reflects the view of the ultimate decision-maker. This can be provided in the form of:
 - a. certified minutes of Board meetings,
 - b. global policy documents (e.g. capital management guidelines from the finance department),
 - c. communications from the decision-maker highlighting the target return,
 - d. if projects have previously been rejected due to insufficient projected returns, communications or minutes reflecting this can be provided.
- 37) Describe the assumptions used to estimate the projected cost and return of the project and show they are consistent with standard company policy. This can be evidenced through communications from the decision-maker or global finance department.

eRGF Applicant Guidance – Value for Money

Introduction

- 38) The value for money (VfM) assessment is a key aspect of the eRGF appraisal process. VfM assessments are a requirement for every eRGF bid as part of our obligations in reporting to HM Treasury, IDAB, the National Audit Office and, ultimately, parliament.
- 39) The VfM assessment is closely linked to the case for assistance, especially through the counterfactual. There will inevitably be some overlap between the two, but this section focuses predominantly on those requirements which have not already been covered in the previous section.
- 40) The value for money assessment estimates economic benefits arising from multiple sources. Although these vary from case to case, the main sources of economic benefits are likely to be high-value jobs, training and upskilling of the UK workforce, and knowledge spillover from research and development (R&D) activity.

Quantifying Economic Benefits

- 41) The economic benefits associated with projects supported by eRGF funding can vary significantly between cases. This section lists the main categories of economic benefit that can be captured within the value for money assessment and the information and evidence that is required from an applicant to demonstrate the proposed project will generate them.
- 42) A project is unlikely to generate all benefits listed below. Applicants are invited to select only the benefits that are relevant to the project in question. Any benefits will need to be verified by accompanying evidence.

Employment benefits

- 43) Information relating to the employment supported by the project should be included in Section A of the 'Exceptional RGF Application Form – Part 2'. An example is provided alongside the application form which provides more detail on how this information should be inputted.
- 44) The jobs supported should be broken down by category in the form. For each category, we require the proposed number of workers performing that role in each year, the average salary provided to the workers, the skill level (NVQ) of the workers, and their location.

Salaries

- 45) The salaries provided should be the total of the workers' base wage, employer-paid National Insurance contributions, and employers' pension contributions. Expected additional payments for overtime and performance-related bonuses can be included as applicable.
- 46) If the exact salaries are currently unknown, applicants should explain how the salaries provided have been estimated.

Job Numbers

- 47) Jobs listed as 'created' must be created as a direct result of the applicant receiving eRGF funding for the proposed project. These must be new workers that are hired specifically for the project in question who would not be hired without funding.
- 48) Jobs listed as 'safeguarded' must be existing jobs at the company which in the absence of eRGF funding would be lost within 12 months of the proposed signing of the Final Grant Offer Letter.

Evidence

- 49) The salaries and NVQ levels of existing employees will be verified using data from HR systems. Where expected salaries of newly created roles have been included, the assumptions used to estimate these salaries must be provided, demonstrating the estimates are in line with expected hiring activity.
- 50) The salaries and NVQ data are verified at the due diligence stage of the application and monitored across the life of the project.

R&D Spillovers

- 51) Knowledge and Innovation Spillovers are positive externalities stemming from R&D activity. New knowledge generated by R&D may 'spill out' and benefit other areas within the firm, extend beyond the company that invested in the research, or even beyond the sector the firm operates in.
- 52) Below are some examples of how R&D projects can provide spillover benefits to the wider economy:
 - a. Improvements to consumer products where the new price does not fully reflect the value of the technical improvement presented to users
 - b. 'Networking effects' arising from the circulation of employees with a working knowledge of the technology between firms
 - c. Collaboration with academic institutions or Catapult centres, and the publication of the underlying scientific theory in academic publications
 - d. Diffusion of knowledge through the supply chain

Information Required

- 53) Applicants are directed to the 'Article 25 – Research, Development and Innovation' document. Please complete questions A-O for each work package of the R&D project. It is important to answer these questions in sufficient detail to allow appraisers to fully understand the nature and value of the R&D activity, enabling them to make an assessment of the benefit to the wider UK economy from making this investment.
- 54) *Can replicate the questions here, but the form will become quite long. Can break down the list into only those required for VfM, but that could confuse things if the whole list needs to be answered for State Aid purposes.*
- 55) The following questions offer some guidance on the key issues an application must address to accommodate the VfM assessment. These should be completed for each R&D workstream.
 - a. What is the problem to be overcome? What will the workstream achieve within the applicant's operations?

- b. What capability will the applicant have that it currently does not have?
- c. What will the workstream cost and how has this cost been arrived at?
- d. In addition to being new to the applicant, will this capability be new to the sector and the UK?
- e. Will the workstream's outputs have applications beyond this project? If so what are the wider applications?
- f. Does this workstream include any collaboration with other businesses in the UK (including supply chain partners), Catapult centres, or academic institutions? What would this collaboration involve and how does it add value?
- g. How will this workstream benefit the applicant's supply chain partners?
- h. Who retains ownership of the IP generated? Will the R&D findings be disseminated outside of the applicant?

Evidence

- 56) Projected levels of R&D expenditure can be verified by the finance department's budgeted expenditure for the project, or the amount of expenditure allocated to the project by the applicant's global/regional decision-making body. Business cycle plans from corporate/board level may also include relevant information. Applicants should develop and share an exploitation and dissemination plan showing what they intend to do with the newly-acquired knowledge arising from the R&D investment. Evidence must reflect the position of the ultimate group decision-maker, not just the UK subsidiary's "view".
- 57) Where partnerships have been entered into with academic institutions, Catapult centres, or supply chain partners that will benefit from involvement in the R&D project, letters of commitment can provide useful evidence.
- 58) Evidence for the projected levels of R&D expenditure will be tested in detail at the due diligence stage of the application.

Training/Skills

Information Required

- 59) Information relating to the upskilling of the UK workforce as a result of the project should be included in Section A: Table 3 of the 'Exceptional RGF Application Form – Part 2'. Guidance on how to complete this section is contained within the application form. Provide a supporting appendix, detailing the nature and contents of any training modules delivered over the course of the project.
- 60) Table 3 should include the number of workers achieving a new higher NVQ level as a result of the project and the average salary increase the workers should expect to see as a result of receiving this additional training (if applicable).
- 61) A description of the nature and contents of any training modules provided over the course of the project should be provided in an accompanying appendix document. This document should address the following:
- a. How will this training benefit the workers involved?
 - b. How is this training additional, upskilling workers beyond the minimum standards of the company and the minimum safety standards required by law?

- c. Is this training required by current or future regulations within the UK?

Evidence

62) Extracts from HR systems (which will be checked in due diligence) can demonstrate salary and skill levels of staff undergoing training. Corporate training plans and any skills gap analysis that may have been conducted can also form supporting evidence.

Environmental/other

Information Required

- 63)** Section D of the 'Exceptional RGF Application Form –Part 2' provides the opportunity to applicants to outline any wider (non-employment or R&D) costs or benefits associated with the project **that arise as a result of the project receiving eRGF funding.**
- 64) Where a wider benefit has been included in the application, applicants should specify what the benefit is and how eRGF funding specifically leads to the benefit being realised. Where an attempt has been made to quantify or monetise the expected benefit (e.g. tonnes of CO₂ savings), supporting analysis and evidence should be provided. Provide detail of this in an appendix to the application.

Evidence

- 65) Where wider benefits have been estimated (environmental or otherwise), the evidence used to guide their calculation must be provided.
- a. For example, where environmental benefits are attributed to a product containing a new carbon saving technology, applicants must demonstrate how the level of carbon saving resulting from the innovation has been estimated. This could be achieved by providing the relevant engineering and environmental studies that the estimation of carbon saving relies upon and business plans stating the planned number of units to be manufactured and exported.

Counterfactual

66) As stated in previous sections, eRGF applicants are required to set out the counterfactual – what would happen without eRGF intervention - for the project as a key component of their application. Regardless of which category (international mobility, insufficient returns or economic shock), all information and evidence provided should be accompanied by a narrative that explains the key strategic considerations of the applicant and the main assumptions underlying any analysis. Applicants must ensure that they have submitted the required information.

Market view

Information Required

67) The application should describe the competitive environment facing the applicant in the UK, addressing the points below where possible. This helps provide context for the business environment the applicant is operating in and the challenges facing the applicant.

- a. Who are the applicant's main competitors in the market for this product? Do these competitors manufacture in the UK or overseas? Please provide estimated market shares where known.
- b. Who else has the capacity to produce this/exploit this technology in the UK and how does the applicant's proposed activity differ?
- c. Who are the expected future challengers in this market and what are the long-term challenges facing the applicant in the market?

Evidence

68) Evidence of key competitors and their respective market shares can be provided through the market intelligence or sector analysis conducted or commissioned by the applicant that has been used to guide the estimates.

Risk

Information Required

- 69) The information below allows appraisers to better understand the risks facing the project, divided into 'company risk' and 'technical risk'. The application and resulting VfM assessment must both show they have accounted for the key risks affecting the project.
- 70) 'Company risk' is the risk that the applicant defaults over the course of the project and the economic benefits generated being lower than projected as a result. Company risk can be proxied through an applicant's credit rating.
- 71) 'Technical risk' is the risk that the project underperforms, and the economic benefits generated are lower than projected as a result. For example, if the product developed is less effective than expected, decreased demand for the product may lead to a downward revision of the number of manufacturing roles required.
- 72) The applicant should demonstrate that the key technical and execution risks facing the project have been identified, and that an appropriate strategy is in place to manage these. The project's risk register, with RAG ratings and individual risk mitigation strategies should be provided alongside the application.

Evidence

- 73) 'Company risk' can be addressed through the provision of the applicant's public credit rating.
- 74) 'Technical risk' can be addressed through the project's risk register and relevant mitigation strategies. Where a new technology is to be developed, relevant engineering studies addressing the feasibility of the technology may provide further support. Where the applicant has a successful track record of similar projects, demonstrating this would be beneficial.

eRGF Applicant Guidance – State aid

75) Applicants may find the following publications useful

- a) <https://www.gov.uk/guidance/state-aid>
- b) The latest General Block Exemption Regulation (GBER) published by the European Commission

Introduction

- 76) Using taxpayer-funded resources to aid one or more organisations in a way that gives an advantage over others may be state aid.
- 77) Giving assistance as state aid will nearly always be more time consuming and difficult than designing assistance in a way that avoids doing so. Some state aid is illegal under EU rules because it distorts competition in a way that is harmful to citizens and companies in the EU. But where it is unavoidable, state aid can be given legally by:
- a. using one of a set of approved EU mechanisms for state aid.
 - b. by getting approval for the scheme from the EU Commission.
- 78) As per General Block Exemptions Regulation Ch 1 (Common Provisions), the EC can and may wish to check that any award (or aid) given is the minimum necessary. Failure to comply could lead to any offer being revoked or repayment of funds (plus interest) already awarded.
- 79) It is the applicant's responsibility to demonstrate that their specific project and request for eRGF support is State aid compliant (ie State aid legal). This will be tested during our normal appraisal process.
- 80) It is likely that the European Commission (EC) will scrutinise the eRGF award (if made), and if identified as non-compliant, awards can be revoked or repayment (plus interest) required.

Information required & Evidence

- 81) Your application must show that the costs you wish to claim support for are eligible under the current General Block Exemption Regulation (GBER) rules and specifically relate to the GBER Article/s under which you are applying. You should demonstrate that the percentage of aid you are seeking (the "intensity") is appropriate for the type of activity planned.
- 82) Evidence that there is no question of the investment going ahead in the UK without eRGF support - in State Aid technical terms, if the project would go ahead anyway the required "incentive effect" would be absent, and you could be precluded from receiving an award, or have to repay any award made.
- 83) You will need to provide a detailed breakdown of each individual key activity/sub-project you are claiming grant funding for against the relevant GBER articles that each of these activities relates to. Eligible and non-eligible spend activities should be highlighted. Evidence that the eligible activities meet the required criteria against the relevant GBER article.
- 84) Your total proposed investment under the relevant GBER Article and the detail and explanation on the number of separate work packages, especially if applying for multiple 'sub-projects' under any one GBER article.

- 85) An explanation as to the purpose of the investment (e.g explain what the purpose of the R&D is), and an explanation of the sequential nature of the work packages.
- 86) Confirmation of the size of the company and the specific (post code) location of the UK location option
- 87) Copies of any external or legal confirmation the applicant may have sought with regard to State aid.