

4. Financial assistance for investors: Grants and incentives

An introduction from the UK Department for Business, Enterprise and Regulatory Reform

There is growing interest from international companies looking for both outward investment opportunities and partnerships in the form of joint ventures, technology transfers and licensing and distribution agreements.

Whereas there are numerous different reasons why companies decide to invest in the UK, grants and financial incentives still play a major role and act as a “welcome” at a European, central government and local government level.

Investment incentives are available in the UK at national, regional and local levels. A project may be eligible for assistance under more than one incentive scheme, in which case the assistance available under a particular scheme may be affected by other assistance available.

Eligibility for any grants or allowances described below should be checked with professional advisers or the relevant public body, before plans based on such eligibility are implemented. Most programmes do not allow a project to start until it has been approved; assistance may be lost if the project starts before approval. Foreign investors generally qualify for incentives, but some schemes are only available to UK concerns.

The body responsible for administering a given incentive varies with the type of incentive and location of the project, but initial queries may usually be addressed to the nearest local office of the Department for Business, Enterprise and Regulatory Reform (BERR) in England, the Scottish Executive, the Welsh Assembly Government and Invest Northern Ireland. (Websites: www.berr.gov.uk www.rsasotland.gov.uk www.wales.gov.uk www.investni.com)

4.1 Financing for national and regional investments

The UK government and the European Union are the two main sources of help for companies seeking financial support to set up or expand in the UK. The UK government is the more important, as it operates the main support programme in England, Scotland, Wales and Northern Ireland. European Union help is less direct as it is primarily aimed at sectors rather than individual companies.

Programmes in this category primarily provide grants or loans to finance capital investments, although in some areas subsidies toward research or non-capital expenses are given as well. Current government policy for the regions encourages investment in areas which have previously been over-dependent on a particular industry or significant employer. Programmes are designed to balance these economic inequalities.

4.2 Regional assistance

This is the main type of support offered by the UK government in the Assisted Areas of England, Scotland, Wales and Northern Ireland. It is offered to companies planning expansion, modernisation or rationalisation, as well as to those making an investment in the UK for the first time. Companies in the services sectors, as well as those in manufacturing, are equally able to apply for the support.

You may also be eligible for additional local authority assistance such as support towards training of staff, transitional loan funding, and business plan development support. Not all local authorities offer grant or loan assistance, but they are still important sources of advice and support.

Capital Grants Scheme

The capital investment incentive scheme in the UK is known as:

- In England: *Grant for Business Investment*;
- In Northern Ireland: *Selective Financial Assistance*;
- In Scotland: *Regional Selective Assistance*; and
- In Wales: *Single Investment Fund*.

The scheme is designed for businesses that are looking to invest in an Assisted Area, but need financial help to do so. The support, which is discretionary, normally takes the form of a grant, or occasionally a loan. This support helps fund new investment projects that lead to long-term improvements in productivity, skills and employment.

To qualify, investment projects must meet certain criteria (see below). There is a minimum threshold for applications of £10,000 per grant in England and £5,001 in Wales. In Scotland there is no minimum level of grant available and for Northern Ireland there are particular arrangements for financial assistance which should be discussed directly with Invest Northern Ireland. For all the regions there is no upper limit provided the application supports the level of grant requested.

Financial support is available to businesses of all sizes located, or planning to locate, in an Assisted Area. The majority of cases in England are appraised by the Regional Development Agencies but a few, because of their size, are appraised by the Department for Business, Enterprise and Regulatory Reform (BERR) in London. The organisations Invest Scotland, the Welsh Assembly and Invest Northern Ireland have similar roles in their respective countries.

Assisted areas

These are areas of the UK with lower levels of economic activity than the rest of the UK for historical economic reasons. This situation is often as a result of the decline in traditional manufacturing industries. Assisted Areas can be found in all regions of the UK. These areas have the potential to benefit from new investment and employment opportunities. Grant levels vary between these areas.

Small and medium size companies can receive additional levels of funding in Assisted Areas and may be eligible for funding in Non Assisted Areas across the UK (except for London). To qualify as a small or medium sized company, a company must satisfy the employment criteria and a minimum of one out of the two other criteria:

	Annual turnover	Balance sheet total	Employees
Small	Less than or equal to €10 million	Less than €10 million	Less than 50
Medium	Less than €50 million	Less than €43 million	Less than 250

The current part of the country designated as Assisted Areas will remain in force until 31 December 2013. A map showing the assisted areas in the UK can be viewed on the BERR website www.berr.gov.uk/whatwedo/regional/assisted-areas/assisted-areas-review/page24618.html

Types of investment project supported

Regional assistance can support investment projects in Assisted Areas that would not otherwise happen. The financial support provided can be used for:

- launching a new business;
- modernising, expanding or reorganising an existing business;
- upgrading a business: introducing technological, or other innovatory improvements into manufacturing or other business processes;
- taking a new product, service or process from the development stage to production.

The Government is looking for high-quality new investment, in services or manufacturing, to improve regional economic disparities.

Qualifying criteria

Support is available for businesses investing in manufacturing, as well as businesses in service industries that supply a national rather than a local market. Applicants can be companies, partnerships or sole traders. Grant is discretionary and your investment project will be assessed against the following criteria:

- The location of your project. Your project must be located in an Assisted Area. If you are not sure whether this is the case, please contact your nearest Regional Development Agency or Business Link.
- Your need for financial support. Your project must require financial support in order to go ahead as planned. This may be to reduce the risks associated with the project, or to influence the location of a project in an Assisted Area. Financial support may also be needed to secure parent company or shareholder approval, allowing the project to meet established investment criteria. Each case is considered on its own merits.
- Whether you have made any prior commitment. You should not have made any irrevocable commitment to the project prior to your application; otherwise there will be difficulty in establishing a need for support. Project appraisal must have been completed and a formal offer of support made before you enter into a commitment to go ahead with the project.
- The nature and eligibility of your investment. Your project must involve capital expenditure on fixed assets, such as property, plant and machinery. These assets can be purchased outright or by using lease finance or hire purchase. Some property leases may also be eligible. Certain non-recurring costs may also qualify, for example patent rights and professional fees. The working capital spent on a project does not directly qualify, but may be taken into account when determining the need for support. Your project will be monitored for a minimum of five years through to completion of the investment and beyond to ensure the conditions of the offer have been met.

If support is to be assessed on the basis of net new jobs created, eligible expenditure can include two years gross salaries of the new jobs to be created set against the percentage of grant available in the area.

- The type of jobs created or safeguarded. Your project must create new jobs or safeguard existing employment. The more your project increases skills and involves investment in the skills base, the more value will be placed on this criterion when considering support.
- Viability, competitiveness and profitability. Your project should be viable and help your business become more competitive. Projects are usually expected to become profitable within three years. The wider impact of your project will also be assessed, particularly its likely effect on existing businesses in that area and the economy as a whole.

- The quality of your project. It is intended that the majority of support should be focused on high quality, innovative, knowledge-based projects that provide skilled jobs. Apart from a small proportion of cases that have significant employment benefits, the emphasis is on raising productivity and improvement in the skills base. Productivity growth will be measured on the basis of Gross Value Added per full time employee and benchmarked against the sector and national averages. Projects will be expected to provide the majority of jobs at NVQ level 2 and above in order to help improve skills levels.
- The regional and national benefits. Your project should contribute positive benefits to both the regional and national economy. Applications will be assessed for their impact on existing investment within and outside the region.

4.3 Local assistance

Local assistance usually involves making land and buildings available or providing loans in inner-city areas for building and site work that improves the locality. Grants or loans are available for projects that create or preserve employment or stimulate the local economy.

The UK has a number of new towns and urban regeneration companies. These enjoy wider powers than other local authorities.

4.4 Research and development assistance

Grants for R&D

The UK Government is committed to supporting businesses that undertake leading-edge and innovative R&D activities in the UK. An important aspect of this support is the provision of financial assistance in the form of discretionary grants for specific activities in areas considered strategically important to the UK.

Grants are available from both the UK Government and the European Union to support R&D nationally regardless of location. UK and foreign companies wishing to undertake R&D in the UK can apply for financial assistance under a number of schemes which include:

- The Carbon Trust's Applied Research Programme for research projects aimed at developing carbon saving technologies;
- The Technology Strategy Board for collaborative research projects involving UK partners;
- EU Seventh Framework Programme (FP7) for collaborative research projects involving UK and EU partners; and
- Grant for Research and Development to support development and applied research projects predominantly for small and medium sized companies.

The qualifying criteria and eligibility vary between the different programmes and a number of them require companies to respond to calls for proposals in specific areas of R&D. Support is available for projects across a number of different industries.

R&D tax credits

R&D tax relief can be claimed in arrears (within limits) and small and medium sized companies can also trade in tax losses resulting from qualifying R&D for a cash sum.

R&D tax relief is available to both large corporations and small and medium-sized companies (SMEs) that invest in R&D:

Large company scheme: all companies are entitled to a 100 per cent deduction from their taxable income for eligible R&D expenditure. In addition to this, large companies may be entitled to a further 30 per cent deduction for their current spending on qualifying R&D. For example, if a company spends £100,000 on qualifying R&D, it will be able to deduct £100,000 from its taxable income under ordinary tax rules and an additional £30,000 under the R&D tax relief scheme.

SME scheme: in addition to the normal 100 per cent deduction, SMEs are entitled to a further deduction from their taxable income of 75 per cent of their current spending (of a minimum of £10,000) on qualifying R&D. Companies which are SMEs can, in certain circumstances, surrender this tax relief to claim payable tax credits in cash from HM Revenue & Customs, up to a value of 24 per cent of qualifying expenditure. To be eligible, a company must have fewer than 500 employees and either turnover not exceeding €100 million per annum or a balance sheet total not exceeding €86 million. Additional eligibility criteria apply in respect of companies which are not independent.

The main differences between the two schemes are outlined below:

SME scheme	Large company scheme
175% rate of enhanced deduction.	130% rate of enhanced deduction.
Payable credit at up to £24 for every £100 of qualifying expenditure on R&D.	No payable credit.
Company can claim for expenditure on R&D it sub-contracts to others.	Company can only claim for expenditure on R&D it sub-contracts in certain limited circumstances.
Company cannot claim for contributions to independent research.	Company can claim for contributions to independent research.
Claim can be reduced if the R&D project is subsidised or a grant is received in respect of it.	No reduction for grant or subsidy.
Company must own the intellectual property arising out of the R&D.	Company need not own the intellectual property arising out of the R&D.

Further information on R&D tax credits can be found at: www.hmrc.gov.uk/randd

Science parks

Over 100 science parks have been developed by universities and regional development agencies, usually in co-operation with industry and commerce, to encourage research and the development of high technology activities. The UK Science Park Association website lists their locations and has a Chinese link: (www.ukspa.org.uk).

Research Councils UK

Research Councils UK (RCUK) is a strategic partnership bringing together the nation's strengths in science, research, universities and colleges to build a dynamic knowledge-based economy.

Each year, the Research Councils invest around £2.8 billion in research covering the full spectrum of academic disciplines from the medical and biological sciences to astronomy, physics, chemistry and engineering, social sciences, economics, the arts and humanities. Through RCUK, the Research Councils are working together to create a common framework for research, training and knowledge transfer. In doing this, RCUK works alongside the Department for Innovation, Universities and Skills (DIUS) www.dius.gov.uk

4.5 Assisted areas for industrial and commercial premises

Industrial and commercial premises, whether new or previously occupied, are available for sale or rental in assisted areas. UK Government support is directed to disadvantaged areas or to locations that may require "pump priming". It provides grants either towards mains utilities services for new developments or towards the refurbishment of an existing building. The grant covers the difference between project cost and the open market value of the completed development.

How can Deloitte help?

Grants

Deloitte's Grants Unit is well placed to maximise benefits available to international companies and is happy to talk through any details on potential projects. The Grants Unit can help to position your company in a way that enables you to secure the highest grants package available from a variety of sources.

R&D tax credits

Deloitte has the largest, most experienced R&D Tax Services Team in the UK. Our investment in senior, industry experienced technical staff means we also cover the broadest areas of technical expertise of any adviser in this area in the UK. Out of our team of 30 dedicated R&D specialists, whose sole responsibilities are to assist clients in optimising their R&D claims, approximately one third are experienced technologists and engineers.