



State Aid Law

Calculating the Gross Grant Equivalent in ERDF and ESF projects

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Introduction

Certain State Aid exemptions, such as the GBER and the De Minimis regulation, require that the value of the aid is calculated at the time of the award of the aid to the final beneficiary (e.g. SME). Where the aid is not in the form of a grant, the organisation awarding the aid is required to calculate the “gross grant equivalent”

Feedback has shown that organisations delivering ERDF and ESF projects have difficulty in calculating the GGE of the State Aid in projects involving the delivery of support services (such as training or consultancy support) to beneficiaries. This guidance sets out how to calculate the value in ERDF and ESF projects.

GGE Calculation

There are three parts to the GGE calculation.

- the GGE is the value of the grant which would need to be provided to the beneficiary in order to purchase the support or service from the private sector on the open market. It is important to note that this is not simply the actual cost of the support.
- the value is gross (i.e. before the deduction of tax or other contributions); and
- the organisation awarding the aid must have evidence to explain how they reached their assessment of the cost of purchasing the support services on the open market.

Evidencing the value on the open market

The main way to evidence the value is to identify the cost of comparable services provided by the private sector. We often see organisations claim that their support service is unique. However our experience is that in almost all cases it is possible to read across to similar services to establish a justifiable figure.

We recommend that three comparators are used.

Can the procured value of a service be used?

There is a limited situation where the procured value of a service may be used. This occurs where the nature of the support service means that it is delivered on a one to one basis and the cost to the organisation delivering the ERDF / ESF project was established through an open, transparent and competitive procurement process. For example, where a consultant (or external trainer) is procured to deliver one to one support to beneficiaries and has a set hourly / daily rate the GGE would be the

number of hours / days support x that rate. So, if a consultant was procured to deliver one to one support valued at £1,200 for a 6 hour day and 8 hours of support were provided, the GGE would be £1,600 based on 8 hours at £200 an hour.

What happens when the aid is provided to more than one organisation?

The principle is that the aid value is the amount it would cost each attendee to participate in such a session provided by the private sector. It is not the cost of providing the training divided by the number of attendees. It is not sufficient to state that the service provider has been procured and therefore their cost is the GGE. The market rate is the rate that the final beneficiary would have to pay if they sought the service for themselves, not the market rate to the provider of the service.

For example, if the provider of State Aid procured a firm to provide a two day intensive workshop for 25 people costing £12,000, we would not automatically say that the GGE per beneficiary was £12,000, nor would we say it was £480 (£12,000 divided by the number of beneficiaries) as it is extremely unlikely that this would reflect the actual cost that a business would pay to attend a similar workshop. The GGE would be what it would cost each of the beneficiaries to attend such an event if they accessed it outside of the project. If the provider of State Aid looked at similar courses that could be booked onto by individual beneficiaries and saw that the average cost was £2,000 then the GGE per beneficiary would be £2,000 as that would be considered the open market price.

What about support that is delivered Internally?

Where a provider of State Aid uses their internal staff to provide support to beneficiaries GGE should be calculated as set out in the GGE Calculation above (i.e. finding the value that the final beneficiary would pay to receive this support on the open market). It is important to avoid the error of using cost, as this will be non-compliant.

For example, if an ERDF Project delivers website design in-house for a beneficiary, the GGE should be calculated by determining the market value. This may be achieved through the provider of State Aid obtaining quotes for comparable support. So the provider of State Aid may undertake market research and find hourly prices for website design range from £70 - £100 an hour and that the average price is £80 an hour. Therefore it would be reasonable to reach the view that the GGE would be £80 an hour (as that is what it would cost the Final Beneficiary to purchase this support themselves) officers monitoring these costs, should not expect that the actual costs match the statements of aid given.

What happens where a comparator cannot be found?

In our experience there are very few circumstances where a comparator cannot be found. However if an ERDF / ESF Recipient can demonstrate to the satisfaction of the Managing Authority that there is no valid comparison, then they should use the

standard profit margins for a commercial businesses providing this service on top of their actual direct operating costs. For example the calculation would take account of the project overheads and project staff personal costs. The standard commercial profit margin would then be added to these costs to estimate the market cost equivalent.

The provider of State Aid needs to fully explore the open Market to be able to provide sufficient evidence that there is no comparable service. For example, if a provider of State Aid claimed that there were providing unique support as they were providing workspace and specific business support, this would be insufficient. There are numerous innovation centres / serviced workspaces where accommodation and support is provided. Therefore three quotes from facilities in a similar sector should be sought and the GGE value based on those. It does not need to be an identical service only a justifiable comparable service.

If the provider of State Aid has explored the options and concluded that there is no comparator then they should consider whether they have sufficient evidence to show that their project has a no aid structure (on the basis that there is no market). The GDT / ESF Delivery Team / Compliance team should not make this assessment for the provider of State Aid, but should refer the case to their local State Aid lead who will work with the MHCLG State Aid Network / BEIS State Aid Unit for ESF to decide the appropriate level of monitoring required.

Informing beneficiaries of support (De Minimis):

In line with the De Minimis Regulation, the provider of State Aid must write to the beneficiary at the start of the intervention and state the maximum level of support anticipated (and the beneficiary must confirm that the total amount of De Minimis aid received during the three fiscal years (standard annual financial years of the final beneficiary), plus that applied for is below €200,000). GGE should be reported in both in £ and €. The exchange rate to be used is the relevant exchange rate in place when the aid was committed to the beneficiary and should be taken from this [website](#).¹ The actual level of support should be monitored and if it appears the total estimated value committed before providing the aid, could be exceeded, it will be necessary to estimate the value of the additional support and write to the beneficiary again to confirm the additional support. In doing this a revised De Minimis declaration will be required and the exchange rate should be recalculated for the additional support.

Please remember that when undertaking the calculations, the additional costs which are eligible for State Aid may be different to those eligible for ERDF /ESF. It is therefore acceptable for the purpose of the State Aid calculation to include such costs as profit and inflation.

¹ http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm

Whilst it is not a requirement in the regulations, a lot of providers of State Aid chose to write to the beneficiaries at the end of the project to confirm how much support they have received, this is allowable however should be based on the GGE values determined at the start of the project. There is no requirement to recalculate GGE values annually, however it is permissible to build inflation into the original calculations if the project will span multiple years.

Summary

There is a logical system to establishing GGE which provider of State Aid are expected to follow if they are to award compliant State Aid.

Type of support	How to calculate the value
Grant	No calculation required. The value of the grant is the same as the value of the aid. This includes grants towards wage subsidies in ESF
Support services (consultancy, training etc)	Use three similar private sector comparators to establish the GGE rate. In rare circumstances it may be possible to use the procured value (only where one on one support) or a proxy value.
Loan	See Article 4 (3) of the De Minimis Regulations 1407/2013
Guarantee	See Article 4(6) of the De Minimis Regulations 1407/2013