



Llywodraeth Cymru  
Welsh Government

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# A Guide to Welsh Government Repayable Business Finance

## Section 1



*Repayable business finance means we can recycle resources to assist waves of new and growing businesses.*

*We are concentrating financial resources where most value can be added to the Welsh economy.*

*Economic Renewal: a new direction* is the Welsh Government's new approach to the provision of business support. The approach sets out a clearly defined role for government intervention, targeting resources in a way that will help all business in Wales and allowing the private sector to grow.

Financial support is now repayable, so investment can be recycled and continue to benefit more businesses in the long term. No interest will be charged (except if you are late in making a repayment when it has become due). Finance is provided to help fund capital investment, job creation, research, development and innovation (RD&I) and certain eligible revenue projects.

The level of support we offer is discretionary but will always be within state aid ceilings and no more than is necessary to enable the project to go ahead. Any funding support made is 100% repayable but Terms and Conditions reflect circumstance such as R&D and mobile projects – please refer to Section 2. Mobile international projects are an exception in that they only become repayable if key targets are not met.

#### Repayable Business Finance is available to:

- Eligible businesses within six priority sectors defined as playing a particularly important role in the future of Wales' economy.
- Strategically important projects outside of the priority sectors such as a compelling Research, Development or Innovation project.
- 'Anchor businesses' within or outside the priority sectors which are significant global or international players, have headquarters or a large corporate presence in Wales or provide significant employment within a particular region or sector.

#### The objectives of the funding are to:

- Encourage new investment which increases competitiveness and productivity, especially within the Assisted Areas of Wales.
- Help create, safeguard or maintain better skilled jobs.
- Encourage innovative research and technological development with commercial potential.
- Encourage industrial collaborations to carry out industrial research and pre competitive development.
- Increase entrepreneurship and the development of small and medium sized enterprises (SMEs).

- Increase and improve the modern commercial building stock in Wales.
- Develop the six key sectors in Wales.

### Alternative sources of finance

There are other sources of funding available in Wales outside of the Repayable Business Finance model which we can help you access, including:

- A range of finance products through Finance Wales, a wholly owned subsidiary of the Welsh Government.  
**[www.financewales.co.uk](http://www.financewales.co.uk)**
- Welsh Government grants for food, tourism and resource efficiency projects.  
**[business.wales.gov.uk](http://business.wales.gov.uk)**
- The Local Investment Fund, available through Local Authorities, which offers up to £10,000 for businesses in convergence assisted areas.  
**[www.lifcymru.org.uk](http://www.lifcymru.org.uk)**
- Bursaries for graduates planning a start-up business with growth potential.  
**[business.wales.gov.uk](http://business.wales.gov.uk)**
- A range of support through UK Government. **[business.wales.gov.uk](http://business.wales.gov.uk)**



*Our finance is 100% repayable with the exception of mobile international projects where finance is only repayable if outputs are not met.*

## When will you receive payment and what will the repayment terms be?

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Your assigned case officer will indicate the approximate level of support that might be available to you as soon as they have enough information to make a judgement. Support will only be available to you if your project satisfies the Repayable Business Finance criteria and will be 100% repayable. This is unless you are bringing a mobile project to Wales where funding will only become repayable if key outputs are not met.

Payment will normally be phased and made when specific audited milestones are reached. The most common trigger for payment is when you have actually defrayed the project costs associated with the payment.

### Repayment mechanisms

Capital investment projects will be repayable in equal, regular and agreed instalments. Timescales may be shortened for smaller projects. Repayments will be normally complete within two years of starting, being typically made in one, two or three instalments, depending on the size of the offer.

Further information is provided below:

A simple transparent repayment model will usually be employed linked to project deliverables/outputs and usually not directly linked to future performance or turnover.

- Repayment Period will normally start 1 year after the date of the final payment or completion of the project.

- If the final payment is not paid within 3 years of the project start then repayment will automatically begin.
- The Repayment Period is up to a maximum of 7 years with financial support being typically repaid in annual instalments over the period.
- The repayable amount will be set at 100% of the amount received by the company.
- Repayment will also be triggered in the event of a liquidity event such as a trade sale, acquisition, management buy-out (MBO), flotation or any material change in ownership.
- No interest will be charged (except if you are late in making a repayment when it has become due).
- If your company is making a loss or otherwise in difficulty we may agree to have your repayment period extended or deferred by up to 1 year.

Additionally, but typical only for Research, Development and Innovation projects:

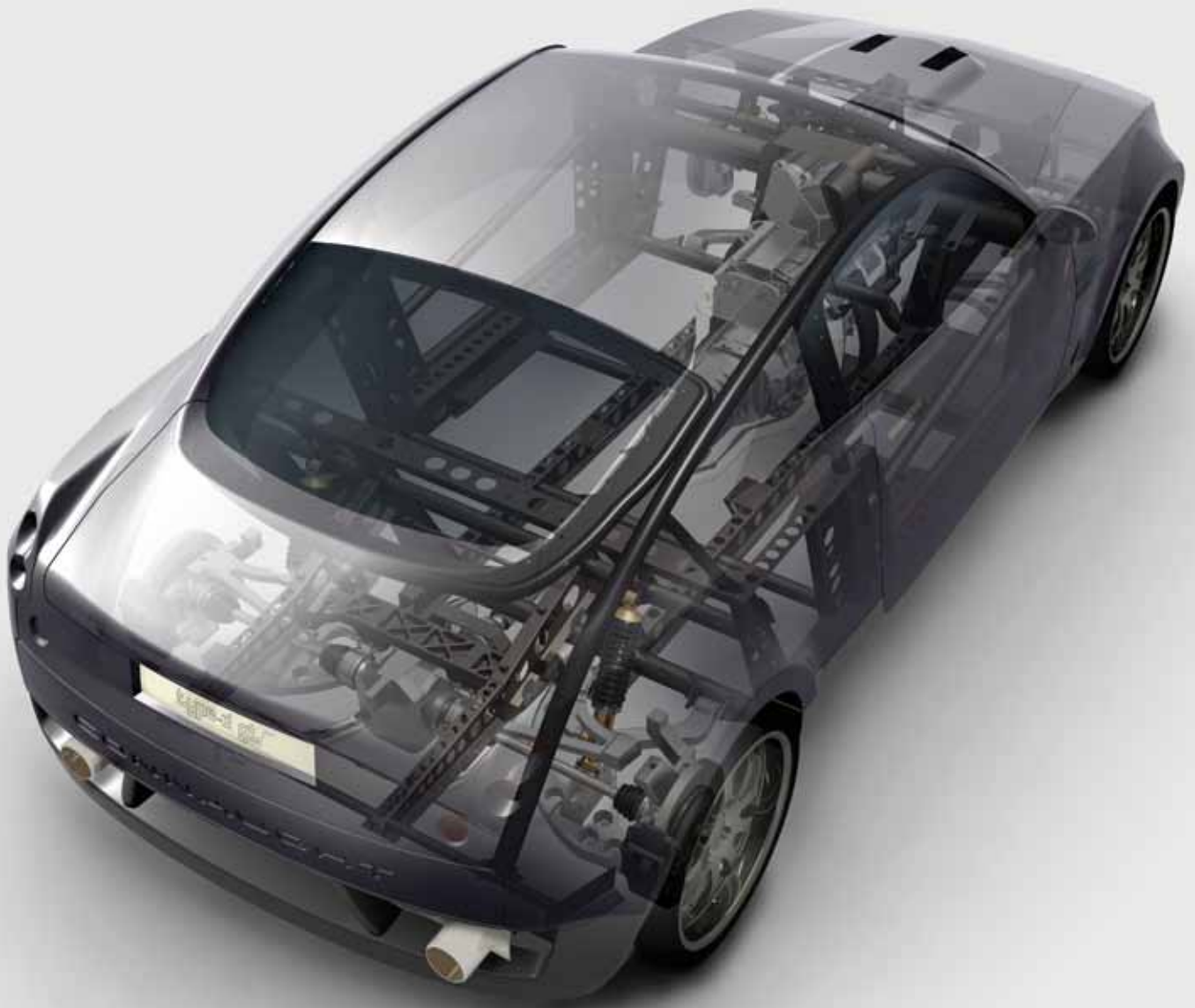
- Repayment may be linked to the growth of the whole business over an agreed period, using either the increase in annual turnover levels or annual gross profit levels to determine the amount repaid in any one year.

*A "commercialisation" option, repayable only if the project is commercialised within 5 years of the end of the project. If the project is commercialised during this time, an agreed percentage of project related sales will determine how much is repaid*

*over the standard 5 year period (with an option to extend to 7 years in certain circumstances) following the date of commercialisation.*

- Repayment will also be triggered in the event of a liquidity event such as a trade sale, acquisition, MBO, flotation or any material change in ownership or the sale of the intellectual property generated as part of the project.
- A 5 year conditions period following each project will be used, which is restarted by each new phase in the same development i.e. in the event of a follow on phase the 'clock' will start again on its ending. This means that the financial support for all phases supported is cumulated against the commercialisation of the development as a whole. The Exploitation phase is excluded from this as it is not actual project work, and would further prevent it being used as a delaying tactic for the repayment.
- Repayment of support will either be time based or based on a levy approach where a levy is placed on units of production e.g. 1p for each unit or £10 for each tonne of output.
- The total amount we will recover will be 100% of the amount awarded to your company.

## Section 3



*We are targeting financial intervention towards six key sectors which are of greatest economic importance to Wales.*

## Is your business eligible to apply?

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### Is your business in one of the six priority sectors?

The six priority sectors specified in *Economic Renewal: a new direction* are:

- Advanced Manufacturing and Materials
- Creative Industries
- Information and Communications Technologies (ICT)
- Energy and Environment
- Life Sciences
- Financial and professional services

For more information please refer to our weblink. Please bear in mind that priority sectors may be subject to change.

### Are you conducting a major strategic project outside of these priority sectors?

If your business does not fall within one of these priority sectors and you are conducting a major strategic project such as expansion or a compelling Research, Development or Innovation (RD&I) project, you may still be eligible to apply for repayable business finance. For further guidance please refer to your established Welsh Government contact or **business.wales.gov.uk** or tel: **03000 6 03000**.

If your company falls within one of the key priority sectors, then you are likely to be eligible to apply.

## Are you relocating a mobile project to Wales from an alternative country?

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**Mobile projects only become repayable if key targets are not met, e.g. number and quality of jobs, longevity of project, etc.**

The definition of a mobile project is:

- One that can be located in Wales or an alternative country: or
- One that can be undertaken by the applicant, another member of the same group or by their subcontractors in an alternative location. In this instance, subcontractors are defined as companies or organisations that are controlled or significantly influenced by the applicant or its group.
- To be eligible, you must be able to provide robust evidence as to the cost of any alternative location.

### Relocation

#### Concordat – Mobile Projects

The Concordat means that where the Welsh government is in competition with one or more other areas of the UK for a mobile project, under the Concordat there must be mutual consultation and agreement before financial support can be made by the parties.

For more information please refer to our weblink. Please bear in mind that priority sectors may be subject to change.

## Section 4



*Our Repayable Business Finance is offered under European Union (EU) State aid rules and within state aid ceilings.*

## Have you considered European Union Restrictions & UK legal bases?

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### EU Legal Basis

European State Aid cover for Repayable Business Finance is provided by the General Block Exemption Regulations (GBER). Specifically:

- Business Finance for capital investment projects is provided through the Welsh Capital Investment and Employment Aid Scheme; while
- Business Finance for Research, Development and Innovation (RD&I) projects is provided through the Welsh Government Research, Development and Innovation Scheme.
- For the exploitation phase of RD&I projects, cover is provided by the De Minimis Aid Regulation.

### What This Means

The restrictions are derived from EU State aid rules which exist to ensure that there is a level playing field amongst member states. The rules are mandatory and the Welsh Government is obliged to comply with them.

Under the rules, we cannot offer Repayable Business Finance to support the following activities:

- export-related activities which impact across state boundaries
- aid contingent upon the use of domestic instead of imported goods
- firms in difficulty

or in the following sectors:

- fishery and aquaculture

- primary production of agriculture products
- coal

Aid cannot be offered to large businesses, but can be offered to SMEs at reduced ceilings in the following sectors:

- steel
- shipbuilding
- synthetic fibres

There are also certain specific restrictions on transport businesses. Some other sectors or types of business are excluded to ensure proper use of public funds, EU restrictions, overcapacity, or that they are a local service. These restrictions do not apply to RD&I projects. Special care or restrictions also apply to the following:

Please refer to [www.EU.com](http://www.EU.com) for a full listing of restrictions.

Under State aid rules, we can only offer Repayable Business Finance when it has an incentive effect. The project would either:

- not go ahead or;
- proceed on a reduced scale or;
- take longer to complete.

If you are an SME applying for support, you can only do so providing your business has submitted an application before work on the project has started.

## Section 5



## Is the activity you are seeking funding for eligible?

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To be eligible for support your project must involve some of these activities:

- **Investment in tangible and/or intangible assets** relating to the setting up of a new establishment, the extension of an existing establishment, diversification into new additional products or a fundamental change in the overall production process of an existing establishment; or
- **The acquisition by an independent investor of the capital assets** directly linked to an establishment, where the establishment has closed or would have closed had it not been purchased. This can include management buy-outs or buy-ins. Where the acquisition is accompanied by other investment, the costs relating to the latter shall be added to the cost of the purchase.
- **The research and development** of new, technically innovative, products and processes with good commercial potential. Businesses (including start-ups) can be funded to take an innovative product or process idea through the various stages of development from a technical and commercial feasibility study all the way through to commercial exploitation.

Any applications which offset capital costs or wage costs, or any jobs created, must be as a direct result of the project.

## Capital Investment Projects – what are the eligible costs?

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Potentially eligible projects costs are as follows:

- Land – purchase (as part of a bigger investment project)
- Land – development/works
- Buildings – purchase (as part of a bigger investment project)
- Buildings – construction/improvement
- Certain professional fees
- Fixtures and fittings
- Equipment and machinery
- Intellectual property acquired from a third party
- Annual salary costs for new permanent employees
- Research & Development project costs – can include revenue costs and capital equipment and tooling

Shares of another business and goodwill are not eligible.

## *Investment in capital projects can be for tangible and intangible assets.*

### **Tangible assets**

- These must remain in the recipient region for at least five years after completion of the whole investment, or three years for small and medium sized enterprises (SMEs). This does not mean that you cannot replace grant-aided plant or equipment that has become out-dated during the retention period, as long as the economic activity itself remains in the region.
- Plant or equipment acquired under lease shall only be eligible if it takes the form of finance leasing and contains an obligation to purchase the asset when the term of the lease expires.

Except in the case of SMEs and takeovers, the tangible assets acquired must be new to the business and not replacement items. In the case of takeovers, any assets that have previously been assisted are ineligible.

The development of new premises and upgrading or extending existing ones are eligible costs as part of a wider investment project. If there is a gap between the cost and the final value of the development, this can no longer be funded. However this may be a reason why support is needed if there is also investment in productive assets.

The cost of new leases on land or buildings can be capitalised as eligible assets.

Land and building leases should not normally be capitalised for longer than the minimum period specified by State aid rules, nor should a land or 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 or building lease for longer than the minimum period specified by EU State aid rules, then the conditions period should also be extended.

As with plant & equipment, to be eligible, leases on land and buildings must continue for at least five years after the anticipated completion date of the project, or three years for SMEs.

Where there is a significant property related element in an application, we will need to ensure that the proposal fits with our spatial and strategic aims, and will meet the necessary quality standards. Many new build projects, for example, must meet certain BREEAM standards ratings. We will also be able to advise on possible alternatives where purchase or build is not necessarily the most suitable solution.

## *We offer support for jobs created directly by a new project.*

### **Intangible assets**

These are obtained from third parties by the transfer of technology or knowledge, e.g. the acquisition of patent rights, licences, know-how or unpatented technical knowledge. To be eligible, they:

- must be used exclusively at the location receiving the support;
- must be regarded as amortizable assets;
- must be purchased from third parties under market conditions;
- must be included in the assets of the undertaking, and;
- must remain with your business for at least five years, or three years in the case of SMEs.

For SMEs, the full costs of investment in intangible assets may be eligible. For large enterprises, they are only eligible up to a maximum of 50% of the total eligible investment costs of the project.

### **Job creating projects – what are the eligible costs?**

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When a project has capital investment and job creation, but the capital expenditure is low compared to salary costs, e.g. certain knowledge-based industries, we will consider support against revenue costs instead of capital costs.

The eligible expenditure in these cases is the basic salaries of the new employees, plus employer's national insurance contributions over two years. Basic salaries exclude overtime and bonuses, but can include shift allowances.

These projects must have new job creation, and support is not available for job safeguarding or maintenance. The eligible jobs figure is the net increase in employment at an establishment compared to the average for the previous twelve months.

In order to be eligible for support, jobs created directly by a project shall fulfil the following conditions:

- they will be created within 3 years of completion of the investment;
- they will be maintained for a minimum of 5 years, or 3 years for an SME

## Research, Development and Innovation – what are the eligible costs?

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We are keen to support Research & Development into new, technically innovative products and processes with commercial potential.

Projects are also eligible if they involve the research and development of new, technically innovative, products and processes with good commercial potential. The scheme enables companies (including start-ups) to take an innovative product or process idea through these various stages of development, often over a period of years.

Support may be available for the following categories within Research, Development and Innovation (RD&I) projects:

For full details please refer to the R&D guidance available at [business.wales.gov.uk](https://business.wales.gov.uk) or **03000 6 03000**.

**Technical & Commercial Feasibility ('TCF') Study** investigates the technological and commercial viability of transforming a technically innovative idea into a new product or process.

- Duration 1-6 months (typical)
- Maximum funding – up to £15,000

**Industrial Research ('IR')** involves the development of an early bench-top model of a new product or process representing a significant technological advance:

- Duration: 3-12 months (typical)
- Maximum funding – up to £100,000

**Experimental Development ('ED')** is for the development of a pre-production prototype of a new product or process representing a significant technological advance.

- Duration 6-24 months (typical)
- Maximum funding – up to £200,000

**Exploitation** is for the commercial exploitation of the products or processes previously developed through RD&I assistance.

- Duration: 1-12 months (typical)
- Maximum funding – up to £20,000

All costs must be specifically linked to the RD&I project to be considered eligible.

General costs that are associated with the running of the business are not eligible.

Eligible costs include:

- Pay of staff involved in the project (direct employees only)
- NI and pension contributions
- Overheads attributable to the project phase
- Materials and consumables (except TCF)
- Capital Equipment
- External Costs including sub-contracts, consultancy, fees for trials and testing, acquisition of technology, market assessment, registration of new intellectual property and 'buying-in' intellectual property rights.
- External costs should not exceed 30% of total project costs for Industrial Research and Experimental Development projects.

## Innovation Voucher projects – what are the eligible costs?

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**Intellectual Property and Patent Registration Costs:** Intellectual property and patent registration costs are not eligible for support for large companies. The maximum intervention rate for IR projects is 50% whilst the maximum for ED projects is 25% irrelevant of SME size.

**Exploitation Phase Costs:** Some additional costs are eligible under the Exploitation phase. Marketing material such as brochures, display boards and websites may be eligible provided they are product specific. Attendance at trade shows, purchase of advertising space and product specific training may also be eligible costs. These should be agreed at the appraisal stage and supported by quotations.

Innovation Vouchers provide grant support for projects that deliver advancements in new products and processes via work commissioned with appropriate third party expertise. This includes research, design, development and intellectual property related to new products or processes.

Innovation Vouchers support the following work commissioned with appropriate third party expertise:

- Technical problem solving
- New product/process research and design
- New product development
- New product testing (RD&I and pre-compliance)
- Prototype design and fabrication
- Design work related to new products and processes
- Manufacturing process development
- Evaluation and assistance with the introduction of new materials, processes or techniques
- Intellectual Property filing, searches and licensing (related to new products and RD&I)
- 1st attendance at relevant UK Trade Fair for promotion of new products (related to new products and RD&I)
- Market research (related to new products and RD&I)

## Section 6



*Projects must offer value for money and potential to deliver sustainable business benefits to the Welsh economy.*

## What appraisal criteria will be used to assess your project's eligibility?

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Repayable Business Finance is a discretionary scheme and there are no automatic qualifying criteria. In addition to the mandatory European Union (EU) restrictions, you must meet the UK and Welsh Government criteria detailed below for your project to be eligible for support.

**Additionality.** It is an EU rule that support must have an incentive effect on the proposed investment. You must be able to demonstrate convincingly that without Repayable Business Finance your project would not go ahead at all, or in exceptional cases, would go ahead on a smaller scale or more slowly.

**No prior start.** If work on a project has started then it is ineligible for Repayable Business Finance. An application for assistance must be submitted and an offer made before work on your project starts.

**Jobs.** All investment projects must or have the potential to lead to creation, safeguarding, or maintaining sustainable employment:

- Jobs created are new jobs above the current base level, generated as a direct result of the investment.
- Safeguarded jobs are those to which there is a clear and imminent threat if the investment does not proceed.
- Maintained jobs are the agreed number of jobs that will remain at the establishment following the investment.

**Productivity/Return on Investment.** To be eligible, the proposed investment will normally be expected to show a positive return on investment.

**Viability.** The enterprise proposing the investment project must be viable and the project must have a good chance of being self-sustaining by the completion of the investment.

**Funding.** Repayable Business Finance is not intended to replace private sector funding sources. You will be expected to show that you have explored other avenues of private sector funding, and that the majority of funding for the project comes from a combination of your own and other private-sector sources. This does not apply to Research, Development and Innovation (RD&I) projects where the majority of funding may come from Repayable Business Finance.

**Strategic fit.** If your project is within one of the six key sectors, or you fit the 'anchor company' or regionally important company criteria, this does not guarantee support. Your project needs to meet the quality criteria determined by our individual sector and regional strategies.

## Section 7



## How will your application be appraised?

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Before applying, you will need to consider how your application will be appraised and the level of information that will be required from you. The purpose of project appraisal is to ensure that we only offer support to projects which would not have gone ahead without aid; that have a good chance of becoming sustainable; that provide a net benefit to the wider economy, and provide good value to the tax payer.

Upon submission of your application you will be assigned a case officer whose role will be to appraise 3 key areas of information:

- Your project
- The level of funding you are applying for
- The potential impact of the funding on your project, or the additionality

### Your project

Your assigned case officer will consider:

**The location of your project** – your proposed activities must all occur in Wales, and not in another part somewhere else.

**Business sector** – your project must involve an activity in one of the six key sectors (and align with our sector strategies) or be deemed a project of “exceptional” potential.

**Financial viability** – your company must be viable. This can be demonstrated with a positive balance sheet and robust financial forecasts. Funding is not available to businesses experiencing financial difficulties with cash flow or balance sheet problems.

**The project** – we will consider whether the project meets our criteria for support. A project being in a key sector, does not automatically mean that it is of sufficient quality for support.

### The level of funding you are applying for

Your application will also be assessed against:

**The amount** – The entry level of Repayable Business Finance for capital investment in projects is £10,001. Innovation vouchers and applications for e-business funding can be for less than £10,000.

**The private sector** – at least 50% of project finance must come from the private sector for all capital investment projects – there are exceptions for Research, Development & Innovation (RD&I). If you are claiming financial constraint as the need for aid, you should be able to demonstrate that all available private sector sources of funding have been explored, and that the project is adequately funded.

**The risk** – for capital investment projects, the majority of risk must be borne by the private sector. There are exceptions for RD&I projects, where it is accepted that the Welsh Government will bear significant risk.

**The aid ceilings** – state aid ceilings must not be breached under any circumstances. Please refer to Section 4.

**The funding route** – can your project be supported within European Union State Aid rules? Please refer to Section 5.

## The potential impact of the funding on your project, or the additionality

Please refer to Section 6.

In cases where you are applying on the basis of lack of finance, you will need to demonstrate that you have exhausted alternative avenues of private sector funding, and still require additional finance. The majority of funding must come from private sector sources. For RD&I projects, funding acts as an incentive to increase research, development and innovation activities in Wales. As a small and medium sized enterprises (SME) applicant, you are not required to demonstrate additionality for RD&I projects, but you still cannot start the project before receiving an offer of support. As a non-SME applicant, you will need to satisfy the same additionality/need criteria as for capital investment projects.

The degree to which we will test the additionality case will be proportionate to a number of factors:

- The level of support being sought
- Whether or not you are an SME
- The nature of the project (capital investment would generally warrant more stringent testing than RD&I)
- How often you seek public sector funding for your business
- The nature of the additionally argument proposed.



*We will only issue an application form when a full assessment has been made on your eligibility.*

## What will you be expected to provide in your application?

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Your assigned case officer will maintain clear lines of communication with you throughout the application process. You will be asked to complete an application form and in most cases\* submit a full business plan containing:

- A description of the project, outlining the purpose and rationale, the product, the manufacturing process to be used, market objectives, its relationship to the company's existing operations, and employment projections for up to five years;
- A breakdown of the capital costs by year in which they are likely to arise;
- Audited accounts (if appropriate) for the last two/three years, and more recent management or unaudited accounts if the annual accounts are more than six months old, and group accounts if appropriate;
- Cash flow and forward trading estimates compared with a do nothing alternative;
- Details of how the project is to be financed;
- The rate of inflation assumed in future years; and
- Curricula vitae for all directors and other key personnel;
- Information on your company's markets and on the identity and location of competing firms.

*\* Account managed businesses within the six sectors, anchor and regionally important companies will be asked to provide a*

*detailed project plan for offerings of less than £100,000, but not necessarily a full business plan.*

Where the amount of assistance requested is £2 million or above the following additional information covered year by year for the expected life of the project (up to a maximum of 10 years) is required to enable a Full Economic Appraisal (FEA) to be carried out:

- the additional sales associated with the project (indicating whether they are on an accrual or payments basis). Sales should be split between exports and the domestic market;
- the labour costs of the project (including employers' national insurance and any pension fund contributions);
- the value of bought-in goods and raw materials (if possible, net of VAT and import duties) indicating the proportion of imports;
- the value of any other current expenditure, for example administrative and management charges, insurance premiums, rates, or utility costs;
- the value of any increase or decrease in working capital.

## How do I access support?

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Tel: 03000 6 03000

Website: [business.wales.gov.uk](http://business.wales.gov.uk)