ICNZ Outer Hebrides Transition Fund Eligibility Guidance

This document provides guidance on the claim process for grant recipients and defines what is likely to be considered eligible capital expenditure within the Islands Growth Deal**.** This document is not intended to be prescriptive. Grant recipients should ensure that they liaise with the ICNZ OH Project Manager regarding eligible spend.

Claim Process for grant recipients

1.1 If your proposal is successful and approved as part of the ICNZ OH Full Business Case you will receive a grant offer letter which will set out the conditions attached to your grant offer, a schedule for claims, and other relevant information. You will not receive the funding at that stage. You must actively submit a claim(s) to us for the grant funds after you have incurred the expenditure.

1.2 Funds will be paid in arrears, on receipt of a completed claim for grant. This means that you/your project will only be able to claim for, and be paid, the grant funding after you have received and paid for the item or service, etc., for which you have applied for the grant. This means grant payments cannot be made in advance of expenditure.

1.3 All organisations submitting proposals must ensure that:

- The organisations are solvent and able to undertake the work paid for by the grant.
- The funding being applied for, together with business capital and any approved loans, is sufficient to complete the project fully and successfully within the timescales set out in the application.
- There is sufficient capital and/or loans to complete the project in full, or the relevant phases of the project, **prior to payment in full of any ICNZ OH Transition fund grant** (offered at the applicable grant rate, which can be up to a specified maximum percentage of the total eligible project costs or total eligible costs of project phases).
- Applicants have all necessary legal permissions for the project in place, such as relevant licenses, outline planning permission, etc., and provide evidence of this.

Islands Growth Deal General Points

1.4 The following highlights some general points regarding eligible project expenditure: -

- Full Business Case approval and acceptance of a signed Grant Offer Letter is required before claims for eligible expenditure can be made and funding drawn down. Projects intending to claim expenditure incurred before Full Business Case approval do so at the project owner's risk and should discuss this with the Programme Leads and the relevant local authority.
- It is possible for projects to proceed at risk and claim funding after their Full Business Case has been signed off for eligible expenditure relating to their project and incurred from the date of signing of the Islands Growth Deal Heads of Terms.

- Approval from the lead local authority and the Programme Management Office should be sought to proceed on this basis.
- It is the responsibility of the grant recipient to cash flow spend, and ensure it is eligible expenditure that can be reclaimed.
- All funding in respect of a project under the Islands Growth Deal Programme shall be subject to a formal Grant Agreement, which shall be entered into by the lead authority on behalf of the Joint Committee, with the relevant Grant Recipient. This is done through the Grant Offer Letter process.
- Claims will be based on financial year running from 1st April to 31st March
- Progress against key metrics and outcomes will be monitored

Capital Expenditure

2.1 The guidance provided below is taken from the Chartered Institute of Public Finance & Accountancy (Cipfa), Code of Practice on Local Authority Accounting in the United Kingdom (2023/24). Although guidance relates to Local Authorities, the Cipfa Code of Practice will be used to define eligible capital expenditure within Islands Deal.

2.2 The definition of capital expenditure relates to the definition of property, plant and equipment (4.1.2.13 of the Code) and covers expenditure on assets with physical substance (tangible assets), that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

2.3 The Code requires items of property, plant and equipment that qualify for recognition as an asset to be measured at cost and capitalised on an accruals basis. For assets that have been purchased, cost is defined in paragraph 4.1.2.24 of the Code as:

- purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

2.4 The code defines purchase price of an asset to include import duties and non-refundable purchase taxes. Acquisitions should therefore be capitalised net of any reductions in prices made as part of the normal course of business, such as bulk purchase discounts. Purchase price is accounted for gross of any grants or contributions towards the authority's acquisition.

2.5 Cases where a project involves an exchange of assets or a leasing arrangement should be referred to the Project Management office for specific consideration.

2.6 Examples of directly attributable costs include:-

- construction costs specifically identified with the project
- stamp duty where relates to the acquisition of a specific asset as agreed in the project
- project management costs (e.g. site manager salary) provided it relates directly to the agreed capital project
- enhancement of an asset (e.g. refurbishment) if it improves the lifespan of the asset
- professional fees relating to a Capital project, such as Architect, Engineer's fees. **Fees for speculative or aborted projects are ineligible**
- the costs of site preparation
- initial delivery and handling costs
- installation and assembly costs
- costs of testing whether the asset is working properly (after deducting net proceeds from the sale of any items produced during the commissioning period)
- specific administration and overhead costs which are incremental costs to the authority that would have been avoided only if the asset had not been constructed, e.g. the costs of a temporary office on the site of the development that would not have been incurred but for the project.
- staff costs which are specifically allocated to the project e.g. officers are supervising the work of others in order to secure the completion of a project according to its intended design, are allowable to the extent that they are specifically identifiable to particular projects
- costs of making material and transport available to particular construction projects
- start-up or commissioning period should be included in the cost of an asset only up to the point that the item becomes capable of operating in the manner intended by management
- costs of dismantling and removing an item and restoring the site on which it is located should be included in the measurement of the cost of the asset, whether these obligations are incurred when the item is acquired or as a result of having used the asset
- rental of property or equipment acquired for the express purpose of facilitating the capital works (e.g. portakabin accommodation, specialist equipment needed for carrying out works) All other rental costs are revenue., e.g. renting accommodation for staff while the capital works are ongoing would be deemed revenue as they relate to the operation of the building
- broadband installation – the cost of installing the hardware for broadband and WI Fi can be capitalised. The running costs are considered revenue
- site security – treat as revenue unless costs deemed to be protecting damage to asset under construction
- training costs – the cost of training staff to use new equipment should be treated as revenue as they are operating costs rather than directly attributable to the asset

2.7 Goods must be received before they can be claimed for.

Capitalisation of Staff Costs

3.1 **Staff time generally should not be capitalised.** However, staff costs directly attributed to bringing a specific, separately identifiable asset into working condition or substantially enhancing the working life of an existing asset may be included. Staff time that contributes directly to the outcomes of a capital project may be eligible. Capitalisation of internal staff costs should be discussed with the Programme Management Office in advance of a claim being submitted for these.

3.2 Where grantees wish to claim for internal staff time, the following is required:

- job descriptions of any FTE staff for which 100% funding in relation to the project will be claimed, or;
- where the position is not an FTE post fully devoted to the project, information on the job role / tasks that person is undertaking in relation to the project.

3.3 All new posts should be advertised through an open and transparent recruitment process.

3.4 In these instances, salaries (based on daily or hourly rate and time spent on project) and On-Costs (Employers NI and Pension contributions) can be included. For staff costs to be eligible, it needs to be demonstrated that costs were incurred in order to bring an asset into working condition (i.e. not admin tasks) and need appropriate records detailing time spent e.g. an appropriately authorised timesheet which states hours and activity on a particular asset must be in place. Scottish Government only allow time spent working directly on a project to be claimed and therefore all sick pay is ineligible.

3.5 Staff costs that are ineligible as capital expenditure include:-

- staff time spent scoping potential solutions / choosing between sites - feasibility
- finance, admin and general overhead costs
- training staff to use new assets
- staff time spent on an aborted capital scheme
- all sick pay, even where the post is 100% related to Islands Growth Deal

3.6 As a rule internal staff costs must always be actual costs to the Organisation.

3.7 For external staff it is acceptable to capitalise the entire price of the services rendered, which can include items that are not capitalised for internal staff, such as allocated overheads of the external company's back-office staff and any profit included in the price you pay.

3.8 **Travel and subsistence**: whilst travel and subsistence may be eligible for inclusion in claims for Capital funding, they must directly contribute to achieving the project's outcomes. Only travel and subsistence relating to site visits, project meetings and training events will be considered eligible. General meeting expenses, for example catering for these meetings, will not be eligible as capital. Any travel and subsistence expenditure included on claim forms must also contain details of purpose of trip/meeting, and how this contributes to furthering the project outcomes.

If considering an application, we recommend that you contact the ICNZ OH Project Manager Matthew Logan (matthew.logan@communityenergyscotland.org.uk) at an early stage to discuss your project and ensure its eligibility, although this is not essential for your application to be considered.