

ELIGIBLE EXPENDITURE

1. ELIGIBLE EXPENDITURE

1.1 This Schedule sets out the categories of Eligible Expenditure for which Grant Funding may be claimed by the Recipient.

1.2 The only costs that will amount to Eligible Expenditure are those which:

- 1.2.1 are incurred within the Grant Funding Period;
- 1.2.2 are net of VAT recoverable from HM Revenue and Customs and gross of irrecoverable VAT;
- 1.2.3 are directly attributable to the delivery of the Draw Down Project to which the Grant Funding relates;
- 1.2.4 are incurred by or Distributed to UK-based organisations (non-UK organisations may be Project Participants but cannot receive Distributions of Grant Funding);
- 1.2.5 are capable of being capitalised and/or treated as capital expenditure in line with the Consolidated Budgeting Guidance; and
- 1.2.6 otherwise meet the requirements of this Section 1.

1.3 Eligible Expenditure can only be within the following categories and at all times subject to any limitations in guidance or rules published or notified by the Authority or HM Government:

#	ELIGIBLE EXPENDITURE	DESCRIPTION AND COMMENTS
1	Labour costs	<p>This category covers employed staff (on your payroll and subject to PAYE) working directly on the Draw Down Project to which the Grant Funding relates. This category also covers contractors on your project team who are working directly on the Draw Down Project to which the Grant Funding relates. Labour costs include relevant national insurance and standard pension expenditure.</p> <p>Under this category you cannot claim:</p> <ul style="list-style-type: none"> • blended labour rates inclusive of overheads (see the next item for overheads); • discretionary bonuses or performance related payments; • time spent not working directly on the Draw Down Project to which the Grant Funding relates; • dividend payments; or • forecasted pay increases.
2	Overheads	<p>This category covers direct and indirect labour overheads. Up to and including 20% of 'Labour costs' set out in above can be claimed towards overheads. No further claim will be permitted. Overheads cannot be claimed for any sub-contractor costs.</p>
3	Materials costs	<p>The category covers the cost of materials used directly on the Draw Down Project to which the Grant Funding relates and purchased from third parties. Examples of materials include hardware, software, connectivity, civil engineering work directly associated with the Draw Down Project, sub-contractor work directly associated with the Draw Down Project, and capitalised research, development and innovation. If any materials have</p>

		<p>residual or resale value at the end of the Draw Down Project, the costs in this category should be reduced accordingly.</p> <p>Any costs incurred by companies/individuals who are associated with/related parties of the Draw Down Project team must be charged at cost (without profit or margin).</p>
4	Capital usage costs	<p>This category covers the usage costs of capital assets (e.g. equipment and tools) purchased for use on the Draw Down Project to which the Grant Funding relates, provided that:</p> <ul style="list-style-type: none"> notwithstanding the Term of this Overarching Grant Agreement, the assets have a useful life of at least one year; the assets are stand alone, clearly definable and moveable; and the accounting treatment for calculating usage costs (depreciation) conforms to the Recipient's capitalisation policy. <p>Capital usage costs are calculated using the following series of equations. First calculate the monthly depreciation charge:</p> $\text{Monthly depreciation charge} = \frac{\text{Original purchase price (ex VAT*)}}{\text{Effective life of asset in months}}$ <p>Then calculate the Draw Down Project capital usage cost:</p> $\text{Draw Down Project capital usage cost} = \text{Monthly depreciation charge} \times \text{Number of months in claim period} \times \text{Percentage of time used on Draw Down Project in claim period}$ <p>Then calculate the overall capital usage costs for all assets.</p> <p>*Any VAT paid on the asset can be included to the extent that it is not recoverable from HMRC.</p>
5	Travel and subsistence costs	<p>This category only covers reasonable travel and subsistence costs for staff already identified as working directly on the Draw Down Project to which the Grant Funding relates, to the extent those costs are necessary and incurred exclusively for the progression of the Draw Down Project.</p>
6	Other direct Draw Down Project costs	<p>Other project costs that meet the general criteria in Section 1.2 may be claimed provided they have been agreed to in writing by the Authority before they are incurred.</p>

- 1.4 All Eligible Expenditure must be permitted by UK GAAP and/or international accounting and financial reporting standards.
- 1.5 The Recipient must not deliberately incur liabilities for Eligible Expenditure in advance of need, nor pay for Eligible Expenditure sooner than the due date for payment.
- 1.6 A payment is defined as taking place when money passes out of the Recipient's control, including when:
- 1.6.1 legal tender is passed to a supplier (or, for wages, to an employee);
 - 1.6.2 a letter is posted to a supplier or employee containing a cheque; or
 - 1.6.3 an electronic instruction is sent to a bank/building society to make a payment to a supplier or employee by direct credit or bank transfer.
- 1.7 All Eligible Expenditure must be consistent with the approach to State Aid Regulations agreed between the Parties as documented in Clause **Error! Reference source not found.** (Compliance with Applicable Laws) of the General Terms and Conditions and **Error! Reference source not found.** (State Aid Assessment) of the Draw Down Proposal in relation to the Draw Down Project to which the Grant Funding relates.
- 1.8 In cases of doubt about what constitutes Eligible Expenditure, the Recipient shall contact the Authority at the earliest opportunity.
2. **WHAT IS NOT ELIGIBLE EXPENDITURE**
- 2.1 Any costs that are not Eligible Expenditure as described in Section 1 will not be considered to be Eligible Expenditure for the purposes of this Overarching Grant Agreement and/or the relevant Draw Down Agreement.
- 2.2 Without limiting Section 2.1, the following costs are not Eligible Expenditure:
- 2.2.1 non-capital operating costs (including pay and accommodation costs) other than the sums permitted in accordance with Section 1;
 - 2.2.2 capital usage costs other than as permitted in accordance with Section 1. Any costs that are claimed as materials costs but are for capital must be claimed as capital usage costs;
 - 2.2.3 payments that support lobbying or activity intended to influence or attempt to influence Parliament, Government or political parties, or attempting to influence the awarding or renewal of contracts and grants, or attempting to influence legislative or regulatory action;
 - 2.2.4 payments for activities of a political or exclusively religious nature;
 - 2.2.5 payments of costs that have been reimbursed or are to be reimbursed from funding provided by other public authorities or from the private sector;
 - 2.2.6 payments to cover interest (including service charge payments for finance leases);
 - 2.2.7 payments of statutory fines, fines issued by a regulator, criminal fines or penalties;
 - 2.2.8 costs to petition for additional funding;
 - 2.2.9 input VAT reclaimable from HM Revenue and Customs;

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- 2.2.10 goods or services that the Recipient has a statutory duty to provide;
- 2.2.11 contributions in kind (i.e. a contribution in goods or services, as opposed to money);
- 2.2.12 depreciation, amortisation or impairment of fixed assets;
- 2.2.13 gifts to individuals;
- 2.2.14 entertaining (entertaining for this purpose means anything that would be a taxable benefit to the person being entertained, according to current UK tax regulations);
- 2.2.15 liabilities incurred before the issue of this Overarching Grant Agreement unless agreed in writing by the Authority; and
- 2.2.16 buildings or land.