



Catchment Restoration Fund for England

Financial Guide

Version 1, August 2012

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1. Introduction

What's this document about?

This document provides guidance for dealing with catchment restoration funding (CRF) and financial aspects on applying for funding, on submitting claims, monitoring progress and auditing.

Who does this apply to?

This applies to all those dealing with catchment restoration fund (CRF) projects such as:

- project managers
- funding staff
- finance staff

Which funding conditions must be met?

■
To ensure that we obtain **value for money**, fund sustainable projects and keep within government spending guidelines, you must meet the following conditions on the use of grant funding:

- Projects must be within the aims and scope of the CRF and contribute to the objectives of the Water Framework Directive (WFD).
- Projects must not duplicate work undertaken by other funding, but where it's possible to link it with other funding streams for the benefit of WFD, this will be considered.
- Projects will need to be delivered within the financial year for which funding is provided. Where projects are multi year, they will need to have specific delivery milestones within each year. Finances cannot be carried over or brought forward from one year to the next unless requested and approved by the Environment Agency.

Which works will not be funded?

Funding will **not** be provided to those who have a duty to undertake specific work and can't be used to ensure adherence to a legal obligation. A project to convert existing practice to best practice may be eligible for public funding

Allocation of resource and good financial management

The project costs, staff and other resources required must be assessed carefully when preparing the application as there are limited opportunities for making amendments once the bid has been submitted and approved.

Sufficient resources must be allocated to ensure the project is being managed properly, keeping complete financial records and supporting documents. Expenditure must be identified by financial year in project applications and the schedule maintained for the submission of grant claims.

The Government procurement strategies

Applicants need to adhere to Government procurement rules.

The principle of the procurement procedure must ensure that the process and decisions are transparent and given equal treatment. The contract must be value for money.

Public entities

For public entities, the government procurement principles must be followed. However, they must comply with the EC Treaty and EC Public Procurement Principle.

Private entities

For private legal entities, the general procurement principles which the beneficiary usually applies for the selection of procurement contract should be followed when tendering for consultants or contractors. The procedure used should be in proportion to the size of the contract.

Contract and further information

Please refer any queries to our Catchment Restoration Fund Manager, the appropriate River Basin Programme Manager or the Grant Administration Team. Alternatively, you can find useful information on the Catchment Restoration Fund web page.

[Link to CRF web page](#)

We have also established single point of contact for all financial matters such as the payment of grant aid and final accounts. This contact is our Capital Grant Administration Team, Business Finance, and their e-mail is:

CRFFinance@environment-agency.gov.uk

2. Common financial issues

Multi year project

For multi-year projects, the budget allocated to the project will be subject to available funding each financial year. Although the budget allocation will match the project profile as much as possible, the project can claim its work up to the approved budget in any financial year.

Project slippage

There is a presumption project works and claims will deliver to plan and not slip into subsequent financial years. Any such slippage may result in a loss of grant if not agreed and approved in advance.

As a result, the project progress profiles might be varied to reflect the change of budget allocation.

Treatment of VAT

All VAT whether incurred in the UK or in other countries must be excluded from budgets and claims, if the VAT is reclaimable by the beneficiaries.

If the beneficiary cannot claim their VAT for their expenses, they can include the VAT element into the budget and claim form. However, the VAT expended must be shown separately from the other costs.

Double funding

Projects that duplicate work undertaken by other funding will not be approved. It will not be possible to match-fund work being carried out under existing Defra WFD funding.

Any other match-funding which the beneficiaries might have received from other funding bodies for the project must be disclosed.

Over-spending

If estimated project costs are projected to increase over the Approved Sum, a variation order form (CRF 4) must be submitted to us for approval. Beneficiaries cannot claim costs over the Approved Sum unless a variation order has been obtained.

3. Claims and auditing

Submitting claims for payments

Successful grantees submit interim claims for grant using form CRF 3 to our Capital Grant Administration Team, Business Finance.

The claim schedule within the Grant Conditions requires successful applicants to submit claims at least every six months. However, provision is made for more frequent claims (e.g. quarterly) if this more in line with the organisation's own processes.

Claims are normally made in arrears. However we recognise the cash flow constraints on some organisations. Therefore we will also allow claimants to claim the coming 3 months project expenses in advance. This means you can claim the actual expenses incurred, plus 3 months estimated costs on the claim forms (CRF 3).

The allocation budget is base on each financial year, you cannot claim the three months in advance beyond the 31 March of each year.

For example, if you submit your CRF 3 form at 1 October, you can include the estimated project costs up to 31 December. If you submit your CRF 3 form on 31 January, you can only include the estimate project costs up until 31 March.

In extreme cases (e.g. cash flow problem) a claim can be submitted solely for the three months advance of the project cost on 1st April.

Grant rate

The grant rate is the "approved sum" over the "project total cost".

Both the "approved sum" amount and "project total cost" were stated on our offer letter. The grant rate information normally cross references to the application form "CRF 1" paragraph 5.2 and 5.3.

Applicants need to apply their grant rate when calculating the grant claim amount. On exceptional grounds such as timing of the other contributions being received, we can apply a 100% rate to the initial claim at the beginning of the project. However, subsequent claims will be adjusted to ensure the approved grant rate applies to the overall project.

Evidence required when submitting a claim

Basic evidence to support the expenses reported on your claim form should be attached with any claim. For example, copy of invoices, receipts, time sheets and salary confirmation.

A worksheet should be attached to reconcile the total cost you have claimed to the details of your expenses or using our standard cost statement template.

For the three months estimated advance payments, no evidence is required.

Audit requirements

The Environment Agency may audit the project expenditure at any time, from the commencement of the project and up to six years from the end of the project.

The Beneficiaries should:

- Demonstrate compliance with UK audit requirements and UK accounting standards;
- retain original documents at least six years from the end of the project;
- maintain true, full and complete records of all expenditure funded by the grant, such as invoices, bank statements or equivalent to show the payments were made;
- evidence of compliance with procurement procedures such as proof of advertising, quotations, tendering and methodology used for selecting the successful suppliers;
- permit the Environment Agency's internal and external auditors to have access to and take copies of such records at all reasonable times and to interview employees of the beneficiaries with regard to such expenditure;
- at the request of the Environment Agency, permit Defra internal and external auditors to have access to and take copies of such records at all reasonable times and to interview employees of the beneficiaries with regard to such expenditure.

Final Statement of Account

When the project has been completed, the beneficiary should submit a Final Statement of Account (CRF 5) as soon as possible and no later than the end of the first complete financial year following the date of substantial completion of the works.

A project completion form (CRF 8) should also be submitted once the project has been completed.

The **whole project cost** needs to be audited and certified on the Final Statement of Account (CRF5 form). The Final Statement of Account needs to be certified by a public auditor unless the project cost total is below a £125,000 de-minimis. The Environment Agency will carry out an internal audit on the final accounts if the project cost is below this de-minimis. In some cases an audit certificate for the project cost below the de-minimis will be required.

The Environment Agency has the ability to claw back grant if an organisation fails to comply with the audit requirements. Reasonable audit costs are funded.

4. Costs eligibility

Defining project costs

All costs claimed to date must be those actually incurred and not estimated, budgeted or imputed. They must be directly related to the project activities and paid by the beneficiaries. All indirect costs must be charged under the “overhead” category (please refer to the “overhead” section for details).

The project costs also need to be incurred during the duration of the project life (except the costs relating to final report and audit cost for the final statement of account).

For the submission of interim payment claim form (CRF 3), the beneficiary can use the closest possible estimated cost on claiming the advance project costs up to three months or the financial year end (whichever is earlier).

Eligible Costs

The following costs are eligible subject to whether they are directly related to the project activities and also in line with CRF grant memorandum and the financial guideline. The Environment Agency operates under the framework of the Government’s Concordat with Voluntary Organisations and has the final decision on any expenses or costs which are deemed to be excessive:

- staff costs, such as salaries, employer’s national, insurance contributions and employer’s contributions to any occupational pension scheme or stakeholder pension scheme;
- administration of the project during the project life (2012-2015) is funded, but not document retention costs. This can be absorbed as part of the overhead
- overheads proportional to the work carried out for the project including rent, non-domestic rates, heating, lighting, cleaning. Please also refer to [Defining overheads](#) and [Calculating overheads](#) for details;
- postage, telephone, stationery and printing for the the project;
- travel and subsistence;
- running conferences, seminars and events;
- plant and equipment, tools, information technology equipment;
- auditor’s fees relating to the funded work only;
- communications materials in all media;
- paying for specialist help, external contractors or consultants provided they are separately budgeted on the application form (CRF 1).
- Please also refer to [Ineligible cost items](#)

Preparation costs

If preparation costs are eligible they must be calculated in the same way as if they were to be included within the main project budget.

Preparation costs are only repaid if the project is actually approved by the funding programme and may only contribute to the actual costs incurred.

Travel costs, subsistence and accommodation

Actual travel and related subsistence costs relating to the project may be considered as eligible cost. They should comply with the beneficiary’s usual business and accounting practices.

Any travel costs must be as required for the specific project-related work or activities. A flat rate will be acceptable provided they comply with the beneficiary’s usual business and accounting practices. In principle, travel costs must be limited to what is necessary, justifiable and reasonable for the project activities.

Video conferencing could be considered as a way to help reduce the cost and environmental effects of national and international travel.

Note: Any extension of travel for other professional or private reasons is not an eligible cost.

Defining overheads

Overheads, also called indirect costs, are all the structural costs and administration costs which the beneficiary cannot identify directly with the project. However, the overheads should be directly attributed to the particular project. They should also be identifiable and verifiable through the beneficiary’s accounting system.

Internal invoices or recharges are **not eligible** for direct costs or used for the calculation of overhead costs. General apportionment of costs as overheads is not an eligible cost.

Calculating overheads

Only the actual overheads are eligible cost. The actual overheads can be calculated by different allocation methodologies provided it is in line with the general accounting policy and allocation method used by a similar organisation. A reasonable apportionment basis, such as a percentage of direct staff cost or a fixed hourly rate of time charged should be used.

In any cases, overheads should not exceed 20% of direct cost.

Note: Any overhead calculation method or percentage (such as a percentage on manpower costs) used will have been be specified on the application form. See the table below to identify if overheads are eligible costs for your project.

| Overheads included in calculation | Overheads not included in calculation |
|--------------------------------------|---------------------------------------|
| Rent or depreciation of building and | Financial management |

| | |
|---|-----------------|
| plant | |
| Utilities such as gas, water and electricity | Human resources |
| Maintenance, insurance and office equipment or supplies | Training |
| Communication and postage cost | Legal advice |

Charging for non-eligible overheads

You can charge for non-eligible overheads if they can be directly attributed to the project, such as recruitment cost of a project manager to handle the specific project. In this case, the incurred costs or staff cost should be charged to the project directly and not included in the overheads.

Alternative overhead calculation (Flat rate)

Optionally, the applicant may opt for a flat overhead rate of 15% of the direct cost. The percentage is not applicable to procured or outsourced project costs such as equipment purchases or external consultants to deliver project activity.

Ineligible cost items

| Ineligible cost items |
|---|
| Any amounts that do not represent an additional cost exclusively incurred as a result of the work described in the grant application, unless otherwise agreed in writing. |
| Overheads allocated or apportioned at rates materially in excess of those used for any similar work carried out by the grant recipient. |
| Activity that results in commercial gain or profit. |
| The purchase of land or the purchase and construction of buildings. |
| Provisions, contingent liabilities or contingencies |
| Loans or cash contributions |
| Dividends declared |
| Interest charges or other finance charges |
| Service charges arising on finance leases, hire purchase and credit arrangements. |
| Costs resulting from the deferral of payments to creditors. |
| Depreciation and amortisation |
| Costs involved in winding up a company |
| Redundancy payments, unless as part of a fixed term contract on the project |

| Ineligible cost items |
|--|
| Payments into private pension schemes |
| Payments for unfunded pensions |
| Compensation for loss of office, bad debts arising from loans to proprietors, partners, employees, directors, shareholders, guarantors, or a person connected with any of these. |
| Gifts or entertaining |
| Travel and subsistence that would give rise to a taxable benefit were the cost to be incurred by, but not borne by, an individual. |
| Reclaimable VAT |
| Other tax (except PAYE) |
| Statutory fines and penalties |
| Criminal fines and damages |
| Penalties/civil damages arising from civil/criminal legal proceedings taken against the grantee or civil proceedings started by the grantee, whether or not the grantee is successful or acquitted, even if the proceedings were in pursuance of, or in consequence of, the project having been given grant. |

Contract rate for consultants

Rates charged by consultants vary from one to another and costs charged to a project should correspond to the general rates used in a similar industry. However, the Environment Agency can set the maximum rate used for a consultant's work.

Meeting, seminars and publicity costs

These activities can be expensive so it is essential that proper consideration of the cost and necessity has been given before holding meetings, seminars and promotion.

The cost of any activities which are related to the above project activities and performed by the beneficiary's staff can be included within manpower costs.

The words "Catchment Restoration Fund, Defra" should be displayed on these activities.

Equipment costs

Adequate consideration must be given to whether the project will need to pay for any additional equipment for new or existing employees.

Unless the equipment is solely used for the project, a proportion of equipment costs should be calculated upon reasonable ground.

If the equipment will be kept after the end of the project, a remaining value of the equipment should be deducted before calculation.