



European Social Fund

Programme for England 2014-20

National Eligibility Rules

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European Social Fund Operational Programme for England 2014-2020

National Eligibility Rules

1. PURPOSE

- 1.1 This document forms part of the legal basis for the implementation of projects supported by the English European Social Fund (ESF) Operational Programme for the 2014-20 programme period.
- 1.2 These Rules will be supplemented by guidance and action notes giving details of how these Rules should be interpreted for the Programme and projects. All guidance referred to within this document will be located on the European Structural and Investment Funds (ESIF) website pages on GOV.UK at <https://www.gov.uk> or www.gov.uk/european-growth-funding.
- 1.3 All guidance notes will be regularly reviewed and updated as necessary.

Please note it is the grant recipient's responsibility to ensure continued compliance with the National Eligibility Rules and any associated guidance, by taking account of any amendments to these documents.

2. INTRODUCTION

- 2.1 This document sets out the National Eligibility Rules for the 2014-2020 ESF Programme in compliance with [Article 65 of EC Regulation 1303/2013](#) (the Common Provisions Regulation (CPR)). All projects must comply with eligibility rules. Failure to do so can lead to financial penalties of up to 100%. If the European Commission considers that there has been systemic failure on eligibility issues, they could enforce a flat rate correction to the whole of a Programme.
- 2.2 To attract ESF support, expenditure by projects must be eligible in terms of the appropriate Operational Programme (OP), the relevant EU Regulations and the National Eligibility Rules. The CPR states that the eligibility of expenditure shall be determined on the basis of national rules, except where specific rules are laid down in or on the basis of this Regulation or the Fund-specific rules. **ESF eligibility rules apply to all project spend included in the eligible costs, including match funding.**

2.3 The ESF programme in England in 2014-2020 will be delivered through two frameworks (Co-financing and Non Co-financing):

Co-financing Organisations are;

- Department for Work and Pensions
- Skills Funding Agency
- Big Lottery Fund
- National Offender Management Service

2.4 The first three of these organisations will offer a service to Local Enterprise Partnerships and their committees and will deliver contracted provision. This provision will be matched by national domestic provision/funds.

2.5 NOMS will deliver support for offenders through a straightforward allocation of funds not delivered through the Local Enterprise Partnerships.

2.6 A proportion of ESF will be delivered through the non co-financing route – that is through individual direct call projects in the same way as all European Regional Development Fund (ERDF) programme calls are made.

2.7 It is important to ensure that the rules are strictly adhered to both during the project selection process and after approval. If there is any doubt, the ESF Managing Authority (MA) should be consulted. Eligibility rules applying to other (non ESF) sources of match funding cannot be used to justify departure from ESF eligibility rules.

2.8 This document sets out what is eligible and ineligible for ESF support. Projects must comply with applicable rules covering State Aid, Procurement and revenue generation.

2.9 These rules are applicable from the effective date of expenditure (see paragraphs 5.1 and 5.2).

3. LEGISLATIVE BACKGROUND

Regulation (EU) No 1303/2013 (the Common Provisions Regulation):

Article 65 (Eligibility)

3.1 The requirements of Article 65 (Eligibility), which are applicable to the English ESF OP, are the following:

- The eligibility of expenditure shall be determined on the basis of national rules, except where specific rules are laid down in, or on the basis of, this Regulation or the Fund-specific rules.
- Expenditure shall be eligible for a contribution from the ESI Funds if it has been incurred by a beneficiary and paid between the date of submission of the OP to the Commission or from 1 January 2014, whichever is the earlier, and 31 December 2023 [see paragraphs 5.1 and 5.2 for specific rules in England on the effective date of expenditure.]
- By way of derogation from the above requirement, expenditure under the Youth Employment Initiative shall be eligible as of 1 September 2013.
- In the case of costs reimbursed through a standard scale of unit costs or lump sums not exceeding €100,000 of public contribution, the actions constituting the basis for reimbursement shall be carried out between 1 January 2014 and 31 December 2023.
- Operations shall not be selected for support where they have been physically completed or fully implemented before the application for funding under the programme is submitted by the beneficiary to the Managing Authority, irrespective of whether all related payments have been made by the beneficiary.
- This paragraph shall apply to operations which generate net revenue during their implementation and to which paragraphs 1 to 6 of Article 61 do not apply. The eligible expenditure of the operation to be co-financed from the ESI Funds shall be reduced by the net revenue not taken into account at the time of approval of the operation directly generated only during its implementation, not later than at the final payment claim submitted by the beneficiary. Where not all the costs are eligible for Co-financing, the net revenue shall be allocated pro rata to the eligible and non-eligible parts of the cost.
- The above rule on revenue generation shall not apply to:
 - Technical assistance;
 - Financial instruments;
 - Repayable assistance subject to an obligation for full repayment;
 - Prizes;
 - Operations subject to State Aid rules;
 - Operations for which public support takes the form of lump sums or standard scale costs provided that the net revenue has been taken into account;
 - Operations for which the total eligible cost does not exceed €50,000.
- For the purposes of this Article and Article 61 <http://ec.europa.eu> any payment received by the beneficiary arising from contractual penalties as a result of a breach of contract between the beneficiary and a third party or third parties or that has occurred as a result of

an offer by a third party chosen under public procurement rules (the 'deposit') shall not be considered as revenue and shall not be deducted from the eligible expenditure of the operation.

- Expenditure that becomes eligible as a result of an amendment to an OP shall only be eligible from date of submission to the Commission of the request for amendment or, in the event of application of Article 96(11), from the date of entry into force of the decision amending the programme.
- An operation may receive support from one or more ESI Fund or from one or more programmes and from other Union instruments, provided that the expenditure item included in a payment request does not receive support from another fund or Union instrument or support from the same fund under another programme.

Article 69 (Specific eligibility rules for grants and repayable assistance)

3.2 The following costs are not eligible for a contribution from the ESI Funds:-

- Interest on debt, except for grants given in the form of an interest rate subsidy or guarantee fee subsidy;
- Purchase of land not built on and land built on, exceeding 10% of total eligible expenditure for the operation concerned. For derelict sites and for those formerly in industrial use which comprise buildings, this limit is increased to 15%. In exceptional and duly justified cases, the limit may be raised above the respective aforementioned percentages for operations concerning environmental conservation;
- Value Added Tax except where it is non-recoverable under national VAT legislation.

Regulation EU no 1303/2013 – the ESF Regulation

http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm

4. LOCATION OF PROJECT

- 4.1 In ESF, beneficiaries mean the providers whilst individuals being supported by activities are participants. For ESF in 2014-2020 the place where the activity is taking place – that is where the provision is – should be in England and this will be where the ESF support is counted as occurring. Any eligible individual with reasonable access to the opportunity may be supported.

5. ELIGIBLE EXPENDITURE

Effective date of expenditure

- 5.1 The effective date for incurring eligible ESF expenditure is the date the project is formally selected into the programme at outline application stage for Non Co-financed projects. Any expenditure incurred by a Non Co-financed project prior to this date is ineligible. For Co-financing organisations the effective date for expenditure is likewise when their application is selected (approved) into the programme. Outline approval of a project does not guarantee it full approval. .
- 5.2 Exceptions will be made for retrospection back to 1st January 2014 for ESF Co-financing Organisations and may also be agreed by the MA for individual, specific operations:
- Retrospection arrangements will end on 31 January 2016, unless a specific exception to this is agreed by the MA.
 - All exceptions must be supported by clear, strong, written evidence and agreed by the MA in advance of any payments being made.
 - Each call for applications must include an annex stating whether retrospection does/does not apply to that call, the terms and conditions of any retrospection and the earliest applicable date for retrospection applicable to that call.
- 5.3 All cases for retrospection must be subject to:
- The applicant agreeing, in writing, that any expenditure incurred prior to formal selection, is at their own risk and will not necessarily be reimbursed.
 - The applicant and operation meeting all MA retrospection criteria.
 - The case for retrospection being supported by strong, clear, written evidence and subsequently fully agreed by the MA.
 - Any additional retrospection tests to be carried out by the MA being fully undertaken and passed before payment is made.

ESF Match

Co-financing Organisations

- 5.4 Co-financing Organisations will continue to utilise match in the same way as they have in the 2007 – 13 ESF programme. These organisations (including The Skills Funding Agency; National Offender Management Service and the Department for Work & Pensions) use the contracted costs of domestic programmes that are delivering similar activities to ESIF to match against European Programmes. They will

continue to use separate but eligible public contracts to match with ESF.

5.5 Big Lottery will use cash match for its ESF contracts.

Non Co-financed projects

5.6 Actual match funding within the meaning of the EU and ESF regulations is in the form of cash payments and staff time. Non Co-financed projects will be required to provide additional cash match funds that are linked to the ESF side of the project. The use of volunteer time is limited to Community Led Local Development (CLLD) projects.

Volunteer time

5.7 Previous experience of using volunteer time as match has been that for some organisations the obligations have proved too rigorous. In order to mitigate this, the use of volunteer time as match must be agreed by the Managing Authority.

5.8 Unpaid voluntary work may be eligible as match funding in kind. In addition to the normal rules for match funding, the following conditions will apply:

- beneficiaries cannot be treated as volunteers during their time on the project;
- volunteer-time contributions must be calculated using the method and guidance set out;
- volunteers must be made aware from the beginning that they are helping the project in their own private time and they are not employed on the project;
- projects will need to show final claim entries for volunteer time. The project management should hold complete, accurate and up-to-date records which show not only the time sheets of volunteers but also a description of their activities. Projects should be able to match the information held to annual reports or final reports when the project ends. If they cannot do this, then the relevant report entries will be not be classed as eligible;
- if any paid employee performs additional duties on a voluntary basis, the costs are not eligible;
- the tasks performed by the volunteer should match the job titles and the notional rates given in the guidance;
- if a volunteer performs a task which is outside the range of the job titles provided, this activity cannot be claimed as match. The MA will need written evidence to justify technical or specialist rates to be agreed prior to the project making any claims;

- if a volunteer does the same or similar duties as paid staff, the rate allowed for the volunteer will be either the notional rate or the salary rate of the paid employee, whichever is lower.

Methods for valuing unpaid volunteer time

How to value unpaid volunteer time

- 5.9 Match up the volunteer role to the mean hourly wage rate for the specific role e.g. match paid 'groundsmen and greenkeepers' with volunteer greenkeepers. You can find these wage rates (there are hundreds of roles listed) - <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/index.html> (you need the 'Occupation' tables).
- 5.10 It is important to remember that the value of volunteer time is based on the theoretical value of the tasks performed by the volunteer for the project and not the current earnings of an individual in their usual paid employment.
- 5.11 The MA will require a project using volunteer time as match to submit full audit trail details i.e. timesheets with their first – and all subsequent – claim(s) for payment.

ESF-only eligible expenditure

Participants

- 5.12 To be eligible for support from the ESF an individual must be:
- legally resident in the UK,
 - able to take paid employment in a European Union member state

Age eligibility

- 5.13 It is expected that ESF support for unemployed people will be used to move individuals into work or closer to employment by providing vocational training, advice, guidance and information. Similarly support for individuals already in employment will be designed to increase their skills levels.
- 5.14 ESF support has no upper age limit. However ESF support is for individuals who will contribute to the growth of the economy through employment or increased skills levels. It will be the responsibility

of applicants for ESF support to show that participants meet these criteria.

- 5.15 As an exception to the general rule that ESF is only available to people who can work in the EU, the ESF Operational Programme in 2014-2020 allows additional ESF support for at risk young people age 15 to prevent them becoming NEET.
- 5.16 The participation in education and training age has now been raised to 18. This means that whilst 16 – 18 year olds may leave school before 18 they must be involved in education, employment and part time study or training and are therefore eligible for ESF support as they can undertake paid employment.

Youth Employment Initiative (YEI)

- 5.17 Participants in YEI provision must be NEET (not in employment, education or training), aged 15 to 29 and reside in a NUTS 2 region with youth unemployment rates above 25% in 2012.

There are four NUTS 2 regions in England: Inner London, Merseyside, Tees Valley and Durham, and West Midlands.

By NEET the Managing Authority means any young person aged between 15-29 who is not currently in any form of employment or undertaking any education or training.

Full time students are not eligible for YEI support.

Refugees and asylum seekers

- 5.18 Asylum seekers are individuals who are seeking international protection who claim they are unwilling or unable to avail themselves to the protection of the authorities in their home or habitual country of residence. Refugees are people who have been granted international protection and have been given permission to stay. Asylum seekers are not usually eligible for ESF support, but refugees are.
- 5.19 Asylum seekers are not generally allowed to work while their claims are being decided. However, since February 2005, they have been allowed to apply for permission to work if they have waited for over a year for an initial decision on their asylum claim. This is the result of an EU directive on reception conditions for asylum seekers.
- 5.20 If the asylum seeker's application has been rejected, they may request permission to work if they have made asylum-based further submissions which have been outstanding for more than 12 months.

This will primarily affect people who have already made further submissions.

- 5.21 Where asylum seekers have been given permission to work they will normally be able to access the full range of ESF support.
- 5.22 From the 9 September 2010, changes in the Immigration Rules came into effect. These confirm that the permission to work rules applies to both initial asylum applications and fresh claims for asylum. However, the amended rules also introduced new restrictions on all asylum seekers' employment rights. An asylum seeker given permission to work will not be allowed to become self-employed and will only be allowed to take up a job which is included on the list of shortage occupations published by the Home Office.
- 5.23 Asylum seekers who do not have permission to work may be supported through ESF pre-vocational provision which might take the form of:
- Initial English for speakers of other languages, other basic skills (literacy, numeracy and IT) where they are not part of provision that is designed to lead to employment.
 - Orientation provision to raise awareness of UK labour market needs asylum seekers' rights and responsibilities.
 - Provision of information about further education and voluntary work they can take part in.
 - General advice about life in Britain for those given leave to remain (information about law, culture, housing, welfare, health, educating and employment).
 - Involvement in voluntary activity.
- 5.24 Those individuals whose asylum application deemed to be unfounded and have not obtained permission to work may only be supported by ESF in the following circumstances:
- where they have signed up to return home as soon as they can and are taking all reasonable steps to leave the UK and that they meet one of the following criteria;
 - where they are unable to leave due to physical impediment to travel or other medical reason;
 - if in the opinion of the Secretary of State, there is no safe route of return for them;
 - if permission has been granted for a Judicial Review; and,
 - if support is necessary to avoid a breach of ECHR examples.

Croatian Citizens

- 5.25 From 1st July 2013, as European Economic Area (EEA) nationals, Croatian nationals have been able to move and reside freely in any

European Union (EU) Member State. However, Croatian nationals wanting to work in the UK need to obtain work authorisation (permission to work) before starting any employment, unless they are exempt from this requirement. Work authorisation is normally in the form of an accession worker authorisation certificate (or “purple registration certificate”). A Croatian national with an offer of employment in the UK must obtain this document from the Home Office before commencing work. This document will contain an endorsement restricting the holder to a particular job or type of employment. Those qualifying for a purple registration certificate will generally be skilled workers who meet the criteria for the issue of a certificate of sponsorship.

Further information can be found on the Home Office web site:
<https://www.gov.uk/government/organisations/home-office>

Self employed

5.26 Self-employed people who want to access ESF must be able to show that they are genuinely self-employed and that their business activities are registered with HM Revenue and Customs.

People in prison

5.27 ESF is primarily aimed at people who are available to work in the job market. The following eligibility criteria apply to people in custody:-

- people sentenced to less than three years can access ESF at any point during their sentence, and;
- people sentenced to more than three years can only access ESF during the last three years of their sentence.
- people sentenced to an indeterminate tariff (including life prison sentence and Imprisonment for Public Protection - IPP) must have regular reviews to determine eligibility status based on the likely length of sentence to be served during the lifetime of the Operational Programme; and
- Individuals who are on remand are eligible for ESF support. When their status changes their eligibility will be reviewed in the context of the two bullet points above.

Economically inactive

5.28 Economically inactive people are eligible for support from ESF. The term ‘Economically inactive people’ refers to those people who are out of work, but who do not satisfy the International Labour Organisation criteria for unemployment. This is because they are either not seeking

work or are unavailable to start work. This does not include 14-19 NEETS or young people at a risk of becoming NEET.

People at risk of redundancy

- 5.29 ESF can support those at risk of redundancy whether or not they have received notice of redundancy.
- 5.30 Support for those at risk of redundancy must not involve wage subsidies, but may include eligible activities such as retraining, up-skilling, careers advice etc.

Co-financing Organisations

CFO Expenditure

- 5.31 Some CFOs use profile funding for providers, although this is not an ESF requirement. Under this method of funding, payment is made regularly and then, at set intervals, what has been paid is reconciled against the evidence of activity, output or milestone supplied by the provider in line with the contract. If there is a shortfall, future profile payments can be adjusted, or in some extreme cases repayment might be required if there is little evidence that the provider will be able to fulfil the contract. So, over time, the total payment made by the CFO directly equates with the evidence of activity, output or milestone from the provider.
- 5.32 It is legitimate for CFOs to make claims for ESF funding on the basis of payments made to providers, even if those payments are profile payments and await confirmation from providers. Performance of providers against their contracts is an item for regular discussion with CFOs as part of the monitoring process.
- 5.33 CFOs may also make an initial advance payment to their providers to help ease cash flow. As such advance payments are contractual payments; they can legitimately be claimed by the CFO from the managing authority / Intermediate Body (IB) in the next claim.

CFO administration costs

- 5.34 This section explains what the administration costs can cover and how the costs involved in delivering ESF effectively should be recorded as supporting evidence for the claim to the managing authority (Staff and other costs). It should be noted that the administration costs must be based on actual activity and cannot be more than a maximum of 10% of the total declared costs incurred. Administration costs are at a national funding agreement level and should be used by CFOs to

ensure that ESF activity is delivered in an effective and efficient manner.

5.35

The activities below are eligible for support:-

Contracting:

- consulting and publicity events for the tender and prospectus and tendering documents
- preparing the Co-financing prospectus and tendering document
- handling tenders from providers
- negotiations after tenders have been received
- financial appraisal
- appraising contract quality with providers

Operations

- Developing and implementing policy, systems and processes for,;
- managing contracts
- information management including IT systems
- Innovative activity to support ESF delivery
- monitoring the performance of providers
- monitoring the quality of providers
- auditing providers including retention and collation of evidence
- evaluating and researching projects
- publicising the projects
- preparing claims for ESF support
- preparing and submitting ESF monitoring returns
- attending monitoring and committee meetings
- financial management
- Training on ESF systems and processes

5.36 The claim for administration costs must be supported by evidence that the activity has taken place (for example staff time sheets or invoices for non staff activity) and that the amount claimed is both reasonable and represents proper value for money. The claim must be based on actual costs (salary and other costs) plus any eligible overheads. Other costs must be supported by relevant documentation such as invoices.

5.37 Note that if CFOs intend to include eligible overheads in their claims they must agree with the Managing Authority which overheads will be included and the basis on which they will be calculated. The claim can be evidenced in the following ways:-

Staff employed wholly or for a specific part of their duty on ESF related activity need to have a letter of appointment and job description that clearly states starting and finishing dates (if appropriate) and makes clear that they will be wholly employed on ESF-related activity. Staffs

who also carry out work that is not related to ESF must record their time spent on ESF on a time sheet, diary, recording system etc. Any overhead expenditure included must be based on real costs, be related to the implementation of ESF and be allocated on a fair and equitable basis.

- 5.38 Records of either staff time or invoices relating to other costs (that is non staff) need only be kept at a national agreement level rather than the priority level.

ESF-only (non CFOs)

Actual eligible expenditure

- 5.39 Non CFO and Technical Assistance expenditure must be declared on the basis of actual ESF expenditure (including match funding). Expenditure declared must be justified by supporting paid invoices or other appropriate accounting documents.
- 5.40 Claims based on actual eligible expenditure can cover staff, participant and other costs. There is a distinction between direct and indirect costs:
- Direct costs are those costs which are directly related to activity supported by an ESF project e.g. salaries of staff directly engaged on ESF activity, participant costs such as allowances and childcare costs and other costs such as stationery and consumables;
 - Indirect costs are shared organisational costs and so cannot be connected directly to project activity and which are difficult to attribute to the project e.g. telephone costs, gas, electricity and water.

Staff costs

- 5.41 Staff costs can include employer's national insurance and superannuation costs. The application for funding must include any expected increases in grade or pay scales for the staff involved. Staff costs may include those costs covered in a person's contract of employment that are taxable incentives linked to pay and pension contributions. The claim must be based on actual salary costs relating to time spent on ESF activity. The claim can be evidenced in the following ways:-
- staff employed wholly or for a specific part of their duty on ESF related activity need to have a letter of appointment and job description that clearly states starting and finishing dates (if appropriate) and makes clear that they will be wholly employed on ESF-related activity.

- Sick or maternity pay can be claimed if it is in line with the organisation's staff policy or on the individual's contract of employment. Alternatively an organisation may claim for replacement staff costs but only if maternity or sick pay is not being claimed. If an organisation is entitled to claim statutory sick pay back from HMRC it should do so and offset any such payments received against its claim for ESF.

5.42 If a staff member is working full time on ESF activity the organisation should claim actual salary costs for the time they are employed on the project. If a staff member is working full-time but only working part of their time on ESF the following calculations should be used:

- work out how many hours they work in a year. This is 52 weeks multiplied by 5 days, less the number of days of annual and public holidays they are entitled to, multiplied by the number of hours they work each day; and
- Divide their annual salary by the number of hours worked as above to establish their hourly rate.
- Claims for ESF should then be based on the number of hours worked on ESF multiplied by the hourly rate.

5.43 The costs of training in connection with ESF activity can be claimed, although it is expected that all organisations who submit an application are in a position to deliver the project. Staff training costs can be claimed only if an individual has specific needs for training that could not have been identified before the project began. This needs to relate to the acquiring of specialist knowledge.

Participant costs

5.44 For **employed** participants, wages and allowances paid by their employer for the time they spend on the ESF funded activity may be claimed; this can include employers' National Insurance and superannuation contributions. Alternatively, the cost of employing replacement staff to cover for a staff absence on ESF funded activity may be claimed **but not both**. All costs must have supporting evidence of actual salary and time sheets. **Daily travel costs** for participants must have evidence to show the actual cost for each participant for each day. For costs relating to **external courses**, the length of the course, and the cost of travel, board and lodging must be shown. Costs for external courses should be claimed under 'other costs'. **Costs for caring for children or other dependants** should show the net weekly or hourly costs involved, excluding any contributions from participants towards these costs.

Participant allowances

5.45 If used as part of the project, participant allowances can be claimed. Although there is no upper limit for the allowances paid to participants, it is important to consider the following:-

- The managing authority will decide if allowances conform to levels within the locality and if the allowance represents value for money.
- Allowances may affect the level of benefits participant are entitled to, so this issue should be discussed beforehand with the local Jobcentre Plus office.
- HM Customs and Revenue may regard some allowances as taxable benefits, so it is imperative to check with them before setting the allowance levels.

Other ESF costs

Rent and leasing of buildings

5.46 Where a building which is wholly used for ESF activity is rented or leased, the rental or lease costs can be claimed as eligible expenditure.

Depreciation of buildings

5.47 Any asset, including a building, must have a fixed useful life. The length of a building's life varies according to its type and purpose. An organisation's accounting policies must set out the period of time and the way in which the amount of depreciation claimed has been calculated. Any depreciation claimed must be in line with the organisation's policy on calculating depreciation. Depreciation costs are ineligible if the cost of the building has already received EU support.

5.48 Generally, Government expect that a permanent building used for training purposes would depreciate in the range of 2% to 5% each year on a straight line basis (the same amount each year), reflecting a uniform life of between 20 and 50 years. A list of the premises for which depreciation will be claimed and the basis on which depreciation will be applied must be provided in the ESF application.

Hire and lease of equipment

5.49 Where equipment is used exclusively by ESF participants the actual costs of leasing such equipment, including VAT where this applies (see notes on VAT), is eligible for the period of time covered by ESF activity.

5.50 **Finance leases:** these are similar to hire-purchase agreements. The lessee (the person who leases the equipment from someone else) is responsible not just for maintaining the equipment but also for insurance, repairs and so on. At the end of the lease the equipment becomes the property of the lessee. The costs of leasing equipment

under a finance lease are **not eligible**. Rather, the item leased should be treated as a fixed asset and depreciated (the loss in its value) in line with the organisation's accounting policy.

- 5.51 **Operating leases:** under this type of lease, the equipment remains the property of the lessor (the person who leases the equipment). The costs of operating leases can be claimed if it can be shown that the costs of the lease are competitive and are similar to the rates charged in the market place. However, if a leasing charge for equipment (in any one year) goes over, or closely matches, the full cost of buying the item it would be seen as an attempt to introduce capital expenditure as an eligible item under a different heading, and capital expenditure (over £1,000) is not eligible .

Depreciation of equipment

- 5.52 The calculation of depreciation must be in line with the organisation's accounting policy. Claims must be based on the actual costs of equipment owned. Depreciation can be claimed on second-hand equipment providing it has not been claimed for previously. Depreciation can be calculated in many different ways, the most common being straight line and reducing balance methods (depreciation is calculated each year on the value of the assets in the books at the start of the year). It is normally expected that the smallest number of years over which an item can be depreciated is three years.
- 5.53 If an organisation has received capital grants towards the costs of fixed assets, these grants should be deducted from the costs before calculating depreciation costs for ESF. Where deferred credits are used to offset depreciation costs, the amount of the deferred credit must be deducted from the depreciation costs for ESF purposes. An accountant will be able to advise if deferred credits have been used.
- 5.54 Working papers must be kept to show how depreciation costs have been calculated for the ESF project. These must include the costs and descriptions of the items purchased, when they were purchased, how the depreciation was calculated, how long the items were in use, where they are now, and an estimate of their current value. When applying for ESF it will be necessary to provide a list of items to be depreciated and details of how the depreciation costs together are to be calculated.

Consumables

- 5.55 A list of required consumables, with the estimated expenditure, should be included in the application. Computer software should be treated in line with the usual accounting policy of the organisation.

Small items of equipment

- 5.56 The ESF Regulation precludes “purchase of furniture, equipment, vehicles, infrastructure, real estate and land”. It is recognised that there might be a need to purchase small items of equipment in the form of non capital items. Accordingly, a list of required small items, with the estimated expenditure, should be included in the application form.
- 5.57 No single item can cost £1,000 or more. There is no set limit to the number of small items of equipment under £1,000 which can be claimed, but the total expenditure on small items of equipment will be taken into account when assessing the project's value for money, bearing in mind that ESF is not a capital programme.

Other Eligible Expenditure

- 5.58 Other ESF expenditure categories are set out below and projects must define costs under the following expenditure categories for the purposes of claims.

- **Salaries**

See 5.33 above

- **Overheads**

In accordance with Article 68 (b) of the CPR, where the implementation of a project gives rise to indirect costs, the English ESF programme will apply a flat rate of either 15% or 40% of eligible staff costs for the calculation of indirect costs. This methodology will apply to all ESF (non CFO) projects incurring indirect costs.

Below is a link to a document produced by the European Commission outlining the rules around overheads.

http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/simpl_cost_en.pdf

Managing Authority staff will advise applicants on the most appropriate flat rate for their projects at application stage.

- **Premises**

This should include rent, rates, heat, light and service charges associated with the premises where it can be clearly demonstrated that these are incurred by the organisation solely for the ESF (non CFO) project. Where premises are shared the amount charged to the ERDF project should be apportioned accordingly unless such costs are deemed to be indirect costs in which case a flat rate will apply.

- **Fees**

This should include any work done by an independent consultant if the work was essential to the project and the costs were reasonable. Costs of independent project evaluations can be included if the work is essential to the project and/or a condition of grant. In both cases there should not be any double counting of fees under capital expenditure. Accounting and audit costs can be claimed if they relate to requirements imposed by the Managing Authority. The cost of guarantees provided by a bank or other financial institution to the extent to which the guarantees are required by National or community legislation can be included. Bank transaction costs are eligible but not debt interest.

- **Other Revenue**

This should include any eligible revenue expenditure not covered in the categories above provided it can be clearly demonstrated that these are directly related to the delivery of the project. Any expenditure related to marketing and publicity should also be included here.

5.59 Examples of eligible staff costs, hire of equipment; consumables and second hand equipment will be contained in the Guidance for ESF.

6. INELIGIBLE EXPENDITURE

ESF-only ineligible expenditure (non CFO projects)

6.1 Ineligible expenditure in non CFO ESF projects includes:-

- In-kind contributions which comprise the provision of land, real estate, equipment;
- Purchase of furniture, vehicles and equipment (other than small items of equipment – see para 1.10.23)
- Purchase of second hand equipment;
- Bank debit charges;
- Legal fees;
- Fines, financial penalties and expenses arising from litigation;
- Purchase of land
- Purchase of real estate (i.e. buildings after construction and the land on which they are built);
- Expenditure relating to venture capital loan and guarantee funds.
- Redundancy payments.

This list is not exhaustive.