

# ENGLAND EUROPEAN SOCIAL FUND OPERATIONAL PROGRAMME 2014-20

## Programme GUIDANCE

December 2016

## Contents

1.	Introduction.....	4
2.	Applications .....	4
3.	Monitoring Visits and Audit of documents.....	5
4.	Claims .....	5
	Contingency claim process.....	5
	eClaims.....	6
5.	Electronic Data Storage.....	6
6.	Electronic signatures .....	7
7.	Eligible Direct costs .....	8
	Staff salaries and costs .....	8
	Backfilling .....	8
	Participant costs .....	9
	Participant allowances .....	9
	Redundancy costs/payments.....	9
8.	Expenditure .....	10
9.	Expenditure Deadlines .....	10
10.	Hourly Rate.....	10
	What is an hourly rate.....	10
	How the hourly rate is calculated.....	11
	Periods of Absence .....	13
	Checking and Validation of the Hourly Rate .....	14
	Timesheets .....	14
11.	Ineligible expenditure.....	14
12.	Irregularities.....	15
13.	Match Funding.....	15
	Considering eligible activities.....	16
	Sources of ESF Match funding .....	16
	Match funding certificates .....	16
	Match funding in kind.....	16
	Volunteer Time .....	16
	How to value unpaid volunteer time.....	16

14.	Operation – definition and use in ESF .....	17
	Examples of ‘operation’ .....	17
15.	Participants.....	18
	Age limit.....	18
	People in Prison .....	19
	Students .....	19
	Zero hour contracts .....	19
16.	Petty Cash .....	19
17.	Simplified Cost Option - Projects Claiming Direct and Indirect Costs for ESF: Non– OPT IN/CFO .....	20
	Indirect Costs.....	20
	Direct Costs .....	20
	Project Example A.....	21
	Project Example B.....	21
	Applying SCOs in practice .....	22
18.	Retention of Documents .....	24
19.	Youth Employment Initiative (YEI) .....	25

# 1. Introduction

1.1 This document is a source of guidance and information for potential applicants, grant recipients and their delivery partners and also Managing Authority (MA) Staff<sup>1</sup>. This should be used alongside information already published on GOV.UK for the European Social Fund (ESF) 2014-2020 Programme, which includes, but is not restricted to:

- National Eligibility Rules
- Selection Criteria
- Scoring Framework
- Technical Assistance Guidance
- Branding and Publicity Requirements
- Output and result indicator definitions
- Guidance on Community Led Local Development.

1.2 This programme guidance has been developed and informed by questions raised by applicants, partners and MA staff. Information is provided alphabetically for ease of navigating through the document.

## 2. Applications

2.1 All direct bid applications are to be submitted as detailed in the call specification as provided on the 2014-2020 European Structural and Investment Funds (ESIF) Call Finder.

2.2 The deadline for applications is one minute to midnight on the day the call ends unless otherwise stated in the call specification.

2.3 Co-Financing Organisations (CFOs) provide the required eligible Match funding and use their expertise to procure and contract manage, or grant fund, ESF provision. In the 2014-2020 ESF programme most CFOs fund locally defined activities through an open, transparent and competitive grant-giving or procurement process. CFO's have different procedures in place regarding procurement and application deadlines. For more information view their [websites](#).

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<sup>1</sup> Throughout this document, unless indicated otherwise, the phrase "Managing Authority" will mean the European Social Fund Managing Authority (Department for Work and Pensions) and the London Intermediate Body (Greater London Authority).

### **3. Monitoring Visits and Audit of documents**

3.1 The scheduling of monitoring and verification visits will be co-ordinated across ESF.

3.2 Documents and records relating to each project must be maintained and made available for the purpose of:

- The examination and certification of the accounts of the organisations and projects;
- Any examination pursuant to the Section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which the organisation and or project has used its resources; and
- Any form of investigation or audit by the Secretary of State, the European Court of Auditors, the European Commission auditors, the National Audit Office (and also their respective auditors).

3.3 The MA, the Certifying Authority (CA), the Audit Authority (AA) and others may examine such documents connected with ESF which are owned, held or otherwise in the control of the organisation and or project and their grant holders or providers. They may also require oral or written explanations as considered necessary for the purposes of that examination.

3.4 Organisations and projects must provide (and shall require their grant holders or contractors to provide) access to premises where the relevant documentation is held and all reasonable assistance at all times during the term and for the retention period outlined in [Section 18](#).

3.5 Organisations and projects must make available (and shall require their grant holders or contractors to make available) all relevant and necessary personnel responsible for the operation under examination, at the time of the examination.

### **4. Claims**

#### **Contingency claim process**

4.1 All claim data received will be stored on the MA's IT system, eClaims. Until such a time that the eClaims is accessible for external use by projects, ESF will be operating a contingency claims process.

4.2 In order for the grant recipient to report on delivery and draw down ESIF grant in line with the terms and conditions set out in the Funding Agreement (FA), an application for reimbursement 'Grant claim' must be made.

4.3 Claims are to be produced in arrears reporting on a pre-defined period of actual activity. This is referred to as the 'Claim Instalment period'.

4.4 Claim instalment periods are confirmed within the project specific conditions contained within the FA.

4.5 Claims are to be submitted following the end of the preceding claim instalment period. For Direct Bid projects, this must be within 25 working days, for CFOs this must be within 60 calendar days.

4.6 Projects are expected to submit the following documents when completing a claim during the contingency process;

- Dual Claim Submission and Forecast template;
- Participant Data Schema;
- Transaction List;
- Progress Report.

4.7 These templates and the accompanying guidance can be obtained from your Contract Manager.

4.8 All claim data received will be subject to a Desk Based Verification check for accuracy and completeness. Direct Bid projects are also required to provide source documentation for a number of transactions being claimed for, that will be randomly selected by the MA.

4.9 After undertaking the checks outlined above, once the MA is satisfied that all data and expenditure is eligible and correct, a project will be paid.

## **eClaims**

4.10 eClaims is a new digital service that is being designed specifically for structural funds in England (ESF and ERDF only). It is being developed jointly between Department for Work and Pensions and Department for Communities and Local Government to allow the full end to end process of 'applying for', 'claiming reimbursement of eligible expenditure' and 'contract management of' ESF and ERDF to be undertaken electronically. The system will allow beneficiaries to apply for and claim ESF through an intuitive user interface with a similar look and feel to other Government Digital Services (such as applying for road fund tax etc.).

## **5. Electronic Data Storage**

5.1 The Data Protection Act 1998 requires the ESF MA and all delivery partners

who have access to or store or otherwise process personal customer information to adhere to a set of data and security requirements.

5.2 For the purposes of the 2014 to 2020 Programme, DWP MA is defined as the Data Controller and any organisation delivering provision on behalf of DWP is defined as the Data Processor.

5.3 For Direct Bid organisations, details of the role and responsibilities of the Data Processor and information regarding data storage requirements are contained in the FA with the MA.

5.4 For CFOs or Intermediate Bodies (IBs) operating within a Memorandum of Understanding (MOU), details of the role and responsibilities of the Data Processor and information regarding data storage requirements has been provided directly from the MA.

## 6. Electronic signatures

6.1 The use of electronic signatures on ESF documentation is permissible. Regulations make provision for signature evidence to be held electronically and for “wet” signatures to be digitised. All such documentation should be stored within the requirements referred to in sections 3 and 6 above.

6.2 An electronic signature is the electronic equivalent of a written signature. Electronic signatures come in many forms, including:

- Typewritten
- Scanned
- An electronic representation of a handwritten signature
- A unique representation of characters
- A digital representation of characteristics, for example, fingerprint, retina
- A signature created by cryptographic means

6.3 Electronic signatures can be divided into three groups:

- **Simple electronic signatures** - these include scanned signatures and tick box plus declarations
- **Advanced electronic signatures** - can identify the user, is unique to them, is under the sole control of the user and is attached to a document in a way that it becomes invalidated if the contents are changed
- **Qualified electronic signatures** - an advanced electronic signature with a digital certificate encrypted by a secure signature creation device e.g. smart card

6.4 This does not mean that every type of electronic signature will be acceptable for every type of transaction. Electronic signatures are only as secure as the business processes and technology used to create them. High value or more important transactions need better quality electronic signatures - signatures used for these transactions need to be more securely linked to the owner in order to provide the level of assurance needed and to ensure trust in the underlying system.

## **7. Eligible Direct costs**

### **Staff salaries and costs**

7.1 Staff costs can include salaries and 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 way:-

- 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.

7.2 If a staff member is spending all their working time working on ESF activity the organisation should claim actual salary costs for the time they are employed on the project.

7.3 If a staff member is working part of their time on ESF then an hourly rate should be used to calculate salary costs.

7.4 [Section 10](#) of this document provides further detail on calculating an hourly rate.

7.5 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.

### **Backfilling**

7.6 In a situation where an organisation needs to replace a staff member being funded by ESF, the post that becomes vacant as a result must be backfilled.

## **Participant costs**

7.7 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. Where an ESF funded post is vacant due to long term illness or maternity leave (for example), the ESF will pay for either the original post-holder or the cost of employing replacement staff, but not both.

7.8 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 (such as travel tickets and so on which must be retained for audit purposes).

7.9 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'.

7.10 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**

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

- The MA 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 participants are entitled to, so this issue should be discussed beforehand with the local Jobcentre Plus office.
- Small incentive/bonus payments or gifts are allowable. These must be small and proportionate. No individual may receive cash or gifts as incentives in excess of £50 per project.

7.12 HM Customs and Revenue may regard some allowances as taxable benefits, so it is important to check with them before setting the allowance levels.

## **Redundancy costs/payments**

7.13 Redundancy costs/payments will not be eligible in the ESF 2014-2020 programme.

## 8. Expenditure

8.1 National Offender Management Service (NOMS), Skills Funding Agency (SFA), Big Lottery Fund (BLF) and Department for Work and Pensions (DWP) Co-financing Organisations will claim for ESF and match on the basis of contract costs for programme activity and actual costs for administration activity.

8.2 Direct bid projects will declare expenditure on the basis of actual costs for ESF and match. Claims based on actual expenditure can cover staff, participant and other costs. There is a distinction between direct and indirect costs explained in [Section 17](#) of this document.

## 9. Expenditure Deadlines

9.1 Under European Union regulations, the 'N+3' expenditure rule requires a certain level of expenditure by the Member State within three years of receiving funding.

9.2 To enable claims to be submitted to the Commission in time, CFO's and other beneficiaries must spend their allocations and claims must, in all cases, be submitted quarterly in arrears to the MA.

## 10. Hourly Rate

### What is an hourly rate

10.1 The Common Provisions Regulation (CPR — Regulation 1303/2013) allows a Member State to use a more simplified method to calculate an hourly rate unit cost. The 1720 hour rules below apply to All ESF applicants responding to ESF calls published on the ESI Funding finder on or after 17 March 2016.

10.2 The old methodology set out in Versions 1 and 2 of the ESF National Eligibility Rules applied to ESF specific applications submitted in response to calls published up to 16 March 2016.

10.3 There are a few exceptions where applicants responding to ESF calls published prior to 17 March 2016 can use the 1720 hour methodology to align the calculations being applied to members of staff who are working part of their time on both ESF and ERDF activity. These are:

- applicants that submitted ESF Technical Assistance (TA) applications as part of joint ESF/ERDF TA operations.

- applicants that submit ESF (stage 2) Community Led Local Development (CLLD) applications as part of an ESF and ERDF multi-fund operation or where a mono-fund application is submitted.

10.4 The hourly rate is the cost per hour of a project staff member whose time needs to be time sheeted because they:

- Do not spend 100% of their time working on the approved project i.e. the activity covered by the relevant FA;
- Are funded through more than one ESI fund (e.g. ERDF and ESF);
- Work on more than one ESF funded project;
- Do not spend 100% of their time working on the project and work across more than one category of region;

**Note: Staff working all of their time on the project but across more than one CoR, Priority Axis or Investment Priority is not required to use the hourly rate.**

10.5 The underlying principle is that the project pays for the hours of work it receives – no more, no less. It allows an organisation to make use of existing staff as well as newly appointed staff on a temporary or ad hoc basis whilst being appropriately compensated. If a member of staff is absent from work for whatever reason (including sick leave, maternity/paternity leave) the assumption is that hours of work required by the project would be covered by an alternative member of staff and thus paid at an agreed rate.

10.6 1720 hours assumes a working week of 33 hours – it therefore overcompensates by between 4 and 9 hours depending on an organisations standard working week to take account of annual leave costs.

10.7 If a staff member is working on a part-time contract but only working part of that time on ESF, then only those hours on ESF can be claimed. The hourly rate applicable will be calculated by undertaking a pro-rata of the latest documented annual gross employment costs (related to contracted part-time working hours) up to a full time hours equivalent and then dividing those gross employment costs by 1720 hours.

10.8 It is understood and accepted that a unit cost may benefit one organisation more than another – however that is the very nature of a unit cost – it is an average standard.

### **How the hourly rate is calculated**

10.9 Although not complex the rate must be calculated on an individual basis with the methodology scrutinised at appraisal stage. The methodology involves calculating the number of working hours an individual has to work once holiday entitlement has been deducted and standard working days taken into account. This

rate would require regular recalculation, checking back to actual cost at claims stage and amending each time any actual cost changed.

10.10 Once the unit cost is calculated it can be applied to:

- individuals – this means if 10 people are used in a project they would each have their own hourly rate;
- groups of staff in similar posts or with similar salaries – if a project uses 20 employees to work part of their time on a project and 10 of them earn between £20-30k p.a. and 10 earn £31-50k p.a. then 2 average hourly rates can be calculated for the 2 groups of staff. The average would be calculated by adding up the gross employment costs of the individuals included in the calculation then dividing this by the number of people included;
- a single group of employees on varying salaries – this means one average hourly rate is calculated and used for all employees included in the calculation. Where this option is used care should be taken not to artificially inflate the hourly rate by including those on a significantly higher salary than the majority.

10.11 When an average hourly rate is calculated for a group(s) the hourly rate unit cost will, in some cases will be higher than that person's actual hourly rate – in some cases it will be lower. This is accepted and is the intended consequence of this flexibility.

10.12 The calculation:

$$\text{Hourly staff cost} = \frac{\text{latest documented annual gross employment costs}}{1720}$$

10.13 Once agreed with the MA the hourly rates are fixed and cannot be changed other than with the agreement of the MA.

10.14 The MA reserves the right to review any average hourly rate used dependent on the lifetime of the project.

10.15 Points to note:

- The latest annual gross employment cost has to be documented through accounts, payroll reports, etc. This information does not have to be audited ex-ante but has to be auditable.
- A calculation method based on historical data of the beneficiary is not usable given that the Regulation refers to latest documented annual gross employment costs.

- Latest documented annual gross employment costs means having a past reference period of one year (12 consecutive months). In cases where the post is a new post or has been in existence for less than a year it must be ensured that the salary used in the calculation is the basic salary of the relevant individual i.e. no incentives are included due to a short term contract being in place.
- Only the hours actually worked should be used for calculating the eligible staff costs. Annual leave for instance is already included in the calculation of the hourly staff costs.
- The added value of this methodology is that the 1720 hours cannot be questioned.
- This method can be used to formulate the 15% or 40% flat rate for indirect costs. Further details are provided in [Section 17](#).
- As this is a unit cost the rate does not have to be justified with each claim.
- Evidence is through time sheets.
- The rate can be used for the duration of the project or the MA may choose to revisit the calculation if the project has an extensive delivery period,
- Added value is reduced calculation and checking requirements at full application stage, appraisal, claims and audit stages.
- When used for groups of employees the unit cost will in some cases exceed the actual and will in some cases be less than the actual hourly rate – this is however a characteristic of any unit cost.

## Periods of Absence

10.16 Projects cannot claim for notional hours that might have been worked should an individual be absent from work.

10.17 If a particular individual is absent from work due to sick leave/maternity leave/paternity leave (or any other reason) then that individual does not contribute working hours to the project therefore costs cannot be claimed. It cannot be justified that costs are eligible based on what **might** have been worked as this would be a notional cost to the project and notional costs are not eligible. If other individuals are required to backfill and undertake work on the project as a result of someone's absence then that individual's hours (if evidenced by time sheets) can be charged to the project.

10.18 Maternity/sick/paternity pay in respect of staff who work all of their time on a project (whether full time or part time) are eligible as this is an actual cost to the project as that individual is employed solely for project purposes.

## Checking and Validation of the Hourly Rate

10.19 For particularly small organisations introducing a new post where no direct benchmark on salary is available, the MA would need to see the job description, contract of employment and rationale for the proposed salary.

10.20 All posts included in the hourly rate calculations will be checked.

10.21 Evidence of defrayal will be checked to ensure that the gross salary costs used to calculate the hourly rate are correct. This will be based on the previous 12 month period and not the salary paid in the first quarter claim.

## Timesheets

10.22 Hours are charged to the project on the basis of time sheets – and the time sheets are the critical piece of evidence required to justify the costs claimed.

10.23 Manual copies of timesheets must be authorised.

10.24 There is no standard timesheet for completion. It is the responsibility of the project to produce their own and ensure that it meets the evidence requirements for ESF.

10.25 Time sheets must be retained and available for audit.

## 11. Ineligible expenditure

11.1 The EU Regulations state the following costs are not eligible for ESF support.

- In-kind contributions which comprise the provision of land, real estate, equipment
- Purchase of furniture, vehicles and equipment (other than small items of equipment under £1,000)
- 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 costs if people leave the employment of the organisation at the end of or during the life of the project.

NB: This list is not exclusive and any queries about the eligibility of costs not included in the list above should be addressed with your Contract Manager.

## **12. Irregularities**

12.1 'Irregularity' means any breach of Union law, or of national law relating to its application, resulting from an act or omission by an economic operator involved in the implementation of the ESI Funds, which has, or would have, the effect of prejudicing the budget of the Union by charging an unjustified item of expenditure to the budget of the Union.

12.2 'Systemic irregularity' means any irregularity, which may be of a recurring nature, with a high probability of occurrence in similar types of operations, which results from a serious deficiency in the effective functioning of a management and control system, including a failure to establish appropriate procedures in accordance with this Regulation and the Fund-specific rules.

## **13. Match Funding**

13.1 The contribution from ESF finances only a specified percentage of the total eligible costs of a project. The percentage is based on the categorisation of the region (as 'less developed', 'more developed' or 'transitional');

13.2 The funding for the remaining balance of eligible costs (known as match funding) must be available from the outset.

13.3 The requirement to Match ESF is central to the operation of ESIF programmes. Most of England is covered by the more developed category of region and the ESIF 'intervention rate' (that is the ratio between ESF and Match) will be 50:50. In the less developed area (Cornwall & Isles of Scilly) Match funding must contribute at least 20% of total eligible project costs. In the nine English 'transition' areas Match contribution will be 40%. At an operation level intervention rates may vary in exceptional circumstance approved in advance by the MA.

13.4 Match funding is treated the same as ESF regardless of source, this means that the total eligible expenditure must be used for the agreed purposes and defrayed on eligible expenditure.

13.5 All expenditure must be evidenced, auditable, and defrayed prior to the inclusion in any claim and follow all other ESF compliance rules.

13.6 Auditors will select and test Match funds as part of their audit regime. Failure to demonstrate an audit trail for Match could lead to financial penalties for the project.

## **Considering eligible activities**

13.7 The following conditions must be applied when considering activities eligible to be used for Match funding.

- Match funding must be for activity deemed to be eligible within the Operational Programme
  - Match funding must meet the eligibility requirements of each Priority within the Operational Programme
  - Match for activities within
    - a) the less developed area (Cornwall)
    - b) the transition areas and
    - c) the more developed areas
- Must be drawn from within the same category of region as the funding is ring fenced.
- Any statutory training that must be provided (e.g. training employers must provide under health & safety legislation) is ineligible.

## **Sources of ESF Match funding**

13.8 Match funding may be from either public or private funds. This is a change from the previous ESF programme where only public Match funding was eligible.

## **Match funding certificates**

13.9 Match funding certificates should be provided with the application form.

## **Match funding in kind**

13.10 The use of in kind funding for Match purposes is limited to the use of Volunteer Time (see below).

## **Volunteer Time**

13.11 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 MA. The MA require projects to also have 10% cash Match funding as a minimum.

## **How to value unpaid volunteer time**

13.12 Match up the volunteer role to the mean hourly wage rate for the specific role e.g. align pay rate of '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).

13.13 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.

13.14 The MA will require a project using volunteer time as Match to submit full audit trail details for example timesheets with their first – and all subsequent – claim(s) for payment.

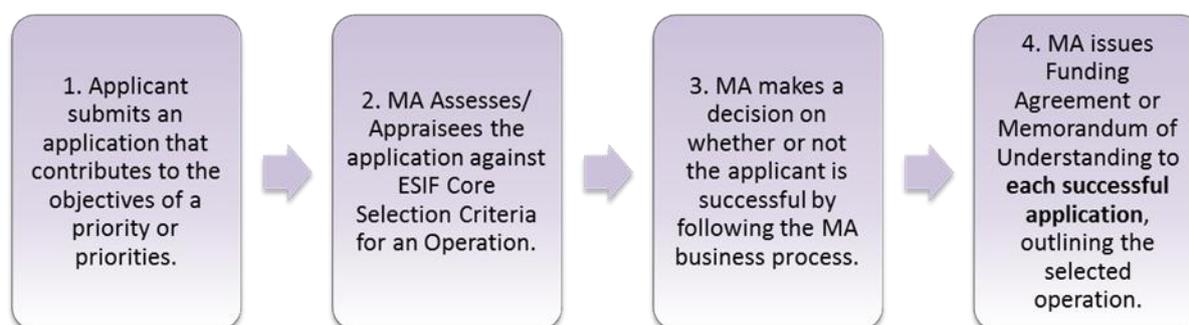
## 14. Operation – definition and use in ESF

14.1 The term ‘Operation’ is defined in the ESF Common Provision Regulation:

- Regulation (EU) No 1303/2013 Article 2: 'operation' means a project, contract, action or group of projects selected by the MA of the programmes concerned, or under their responsibility, that contributes to the objectives of a priority or priorities. In the context of financial instruments, an operation is constituted by the financial contributions from a programme to financial instruments and the subsequent financial support provided by those financial instruments.

14.2 Essentially, an ‘operation’ is what the MA selects and forms a single FA or MoU. The selection process and Growth Programme Board agreed Core Selection Criteria for ESIF Operations apply. Below is the business process for selection of operations.

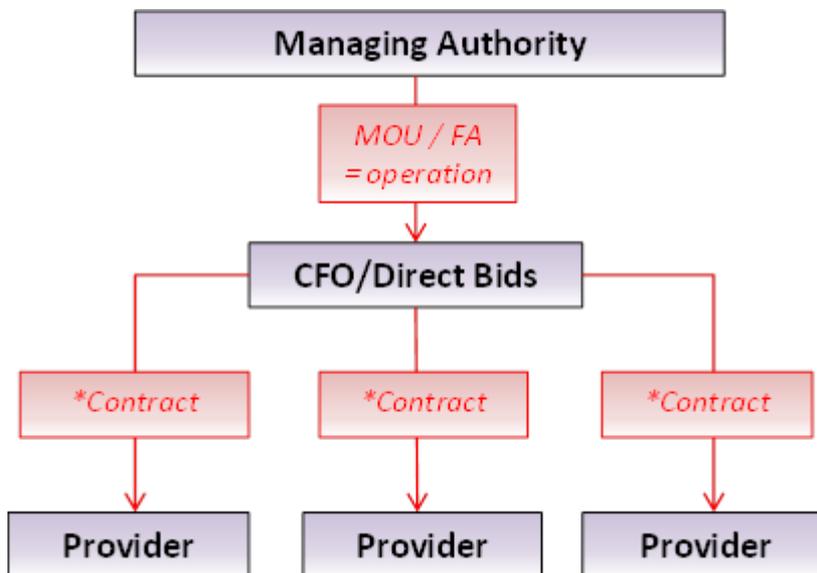
### ‘Operation’ Business Process Flow-chart



### Examples of ‘operation’

- CFO’s
  - The MA will have a MoU with the CFO.
  - The MoU between the MA and the CFO defines the selected operation.
- Direct bid organisations
  - The MA will have a FA with the Direct Bid organisation.

- The FA between the MA and the organisation defines the selected operation.
- Operation vs. Project
  - In the 2014-2020 Programme, the agreement between the MA and the CFO / direct bid organisation covers an 'operation'. As the definition in Article 2 shows, the 'operation' can also be referred to as a 'project'. What is critical is that the MA has to select it.
  - The CFO / direct bid organisations may have providers who deliver contracts to help them achieve the operation they have agreed with the MA.



\*'Contract' refers to the contract between the CFO / direct bid and a provider organisation, NOT between the MA and the CFO / direct bid organisation. Only what the MA selects is an 'operation'. The providers under the grant recipient (CFO or direct bid) are, as this graph illustrates, at the level below the 'operation'.

## 15. Participants

### Age limit

15.1 There is no upper age limit which can be applied to potential participants to work towards labour market entry (or the ability to enter the labour market if up-skilled) is a requirement. If labour market entry/re-entry is not a possible outcome at some stage the individual cannot be considered eligible for ESF support.

15.2 There is an ESF programme specific indicator that counts participants aged 50+.

## **People in Prison**

15.3 Prisons with sub-groups including older offenders, or offenders reintegrating into the community following long sentences, are more likely to receive referrals for offenders considerably over the age of 50. Information will need to be provided to substantiate the enrolment. This should include any specific plans for future employment and address any issues which may prevent labour market entry. If provider support would not be able to remove identified barriers, then consideration must be given as to whether to continue with the enrolment.

15.4 If a potential offender participant is over the age of 68, the case will automatically be escalated for consideration by the NOMS CFO. Each case will be reviewed in terms of the ability to gain employment in the future, even if this is not the immediate focus. Cases where severe health issues would permanently prevent employment will not be accepted as starters.

## **Students**

15.5 Full time students are not eligible for ESF support.

## **Zero hour contracts**

15.6 People with zero hour contracts are treated as employed.

## **16. Petty Cash**

16.1 The use of Petty Cash as a vehicle to facilitate low level cash purchases is allowable in ESF project delivery within the following rules:

- No more than £50 may be used on one transaction from petty cash. No deviations from this limit will be allowed;
- All expenditure must be receipted – receipts should clearly show the amounts involved and, if necessary, additional documentation should be available to show the nature or reason for the purchase. This should be capable of being linked to a specific individual; and,
- Only ESF eligible items may be included in claims.

16.2 Items in claims which include petty cash transactions must be capable of being tracked back to individual items claimed and related evidence in the petty cash system. The MA, CA or AA will need to be able to see the defrayal between the organisations bank account and the petty cash account (that is how and from what source the petty cash account is routinely replenished) and would need to reconcile the petty cash operation to the bank account.

## **17. Simplified Cost Option - Projects Claiming Direct and Indirect Costs for ESF: Non– OPT IN/CFO**

17.1 When applying for ESF support outside of the CFO /Opt in route; the costs associated with delivering the activity fall into two categories: indirect costs (described at 17.5 below) and direct costs (described at 17.7 below)

17.2 Applicants should note that the use of the Simplified Cost Option (SCO) is mandatory in the 2014-2020 ESF programme and no other methodology for calculating shared organisational costs may be used.

17.3 The scope to claim for indirect costs on a flat rate basis has been introduced to simplify ESF arrangements. Indirect costs can only be claimed by projects on an agreed flat rate basis and no other form of apportioning costs will be permitted.

17.4 The SCO (which replaces the different types of calculation used in previous programmes) was introduced in the Common Provisions Regulation (1303/2013) Article 68 (b) and the European Social Fund Regulation (1304/2013) Article 14 (2) both published on 17 December 2013. On that basis, the obligation to use the SCO started at the beginning of the 2014-2020 European Social Fund England programme.

### **Indirect Costs**

17.5 Indirect costs are shared organisational costs, which cannot be connected directly to project activity, and which are difficult to attribute to the project.

17.6 Indirect costs are costs such as:

- Central/support staff and personnel costs - where the ESF element of their duties cannot be extracted from general duties and put on timesheets – e.g. reception, central finance;
- Equipment (no single item can cost more than £1,000) and premises costs where these are not used wholly for ESF activity;
- Telephone and postage costs;
- Electricity, gas and water;
- Insurance.

The above list is not exhaustive because every organisation is different. It would be impossible to describe all the possibilities in a guidance document.

### **Direct Costs**

17.7 Direct costs are those costs which are directly related to activity supported by an ESF project for example

- salaries of staff directly engaged in ESF activity;

- participant costs (such as allowances); childcare costs; and,
- other costs that are solely attached to the delivery of the ESF project.

17.8 In accordance with Article 68 (b) of the CPR and Article 14(2) of the ESF Regulation referred to above, where the implementation of a project gives rise to indirect costs, there are two options available for ESF projects to calculate total project costs, including the amount to cover indirect costs.

- Option 1: (available for ESF and ERDF) using a calculation of 15% of staff costs to calculate indirect costs; and then adding all other direct costs.
- Option 2: (only available to ESF) uses a calculation of 40% of staff costs only to calculate direct and indirect costs (not adding in any other direct costs).

### **Project Example A**

#### **Option 1**

17.9 Using a calculation of 15% of staff costs to calculate indirect costs and then adding all other direct costs. For example:

Total Staff Costs - £256,000

Other Direct Costs - £12,300

The calculation is 15% of £256,000 (£38,400) which is then added to staff costs and other direct costs to produce:

Total project costs £256,000 (staff costs) + £38,400 (indirect costs) + £12,300 (other direct costs) = £306,700

#### **Option 2**

17.10 Option 2: Using a calculation of 40% of staff costs only (not adding in any other direct costs). Total Staff Costs - £256,000

Other Direct Costs - £12,300

The calculation is 40% of 256,000 = £102,400 which produces:

Total project costs £256,000 (staff costs) + £102,400 (indirect costs) = £358,400.

17.11 The above examples suggest that the 40% option can be the best approach for projects with a high proportion of staff costs. The following examples illustrate a project with higher staff costs, but with a lower overall proportion of staff costs:

### **Project Example B**

#### **Option 1 (15%)**

Total Staff costs - £577,800

Other Direct Costs £446,000

15% of £577,800 = £86,670 (indirect costs).

Total project costs are 577,800 (staff costs) + 86,670 (indirect costs) + 446,000 (other direct costs) = £ 1,110,470

### **Option 2 (40%)**

Total Staff costs - £577,800

40% of 577,800 = £231,120 (indirect costs).

Total project costs are £577,800 (staff costs) + £231,120 (indirect costs) = £600,912.

17.12 Clearly in this case the 15% option provides the applicant with an increased level of project funding because of the higher proportion of other direct costs.

### **Applying SCOs in practice**

17.13 In the majority of cases, the SCO should provide organisations with sufficient funding to meet all indirect costs.

17.14 The SCO has been introduced to remove the need for organisations to provide evidence of the basis of the calculation.

17.15 For organisations who may consider the transition to the SCO as difficult the MA suggests scrutiny of the previously claimed indirect costs to ascertain whether some of the indirect costs might have been incorrectly regarded as indirect costs in the past and could therefore have actually been other direct costs. This would mean that such organisations could adopt the 15% SCO calculation (the 40% option does not, of course, allow addition of the other direct costs)

17.16 For example if an ESF project were exhibiting at an event – **as long as all costs were able to be attributed and evidenced in an auditable manner** – it would be possible to regard that cost as direct using the following example:

Cost of renting the exhibition space is £100,000. The ESF space takes up 20% of the space. The applicant may then claim £20,000 as an eligible other direct cost as long as the highlighted text above is adhered to.

17.17 Clearly some indirect costs (for example photocopying or electricity) could never be deemed as direct. This might go some way to alleviating the problems of introducing the SCO to organisations with very high indirect costs.

17.18 Project Example C below contains more detail of how SCO works:

- **Option 1: 15% of Direct Staff Costs – No calculation required and available to all Structural Funds**

**Example:**

Total project costs = £113,772

Of which:

Total Staff costs = £100,763

Of which:

Salaries (internal) = £ 60,895

Travel costs = £622

Subsistence = £104

Salaries (external) = £39,143

Travel Costs = £0

Participant Costs = £0

Other direct Costs = £13,009

Consumables = £9,056

Publicity = £3,096

Organisation costs = £857

Other costs = £0

A. This means direct costs are (£60,895 + £39,143) = £100,038

B. Indirect costs = 15% of direct staff costs = £100,038 x 15% = £15,006

C. Other direct costs = £ (13,009 + 622 + 104) = £13,735

Total eligible costs = A+B+C = £128,779

- **Option 2: 40% of Direct Staff Costs – No calculation required but only available to European Social Fund**

<b>Example:</b>	
Total project costs	= £113,772
Of which:	
Total Staff costs	= £100,763
Of which:	
Salaries (internal)	= £60,895
Travel costs	
Subsistence	= £622
Salaries	= £104
(Consultants)	= £39,143
Travel Costs	
(Consultants)	= £0
Participant Costs	
Non Staff Costs	= £0
Consumables	= £13,009
Publicity	= £9,056
Organisation costs	= £3,096
Other costs	= £857
	= £0
A. This means direct costs are $(60,895 + 39,143) = £100,038$	
B. All other eligible costs = 40% of direct staff costs = $£100,038 \times 40\% = £40,015$	
Total eligible costs = A+B = £140,053	

## 18. Retention of Documents

18.1 Organisations and projects must ensure that all documents relating to each project and its implementation and financing are retained for a two year period from 31 December following the submission of the accounts in which the final expenditure of the completed project is included, in accordance with Article 140 of Regulation 1303.

18.2 The MA shall inform beneficiaries of the start date of the period referred to in the paragraph above.

18.3 As stated in Article 140 of (EU) Regulation 1303/2013 documents shall be kept either in the form of the originals, or certified true copies of the originals, or on

commonly accepted data carriers including electronic versions of original documents or documents existing in electronic version only.

18.4 Where documents exist in electronic form only, the computer systems used shall meet accepted security standards and can be relied on for audit purposes (see [Section 3](#))

18.5 Further information is available in the ESF [Guidance on Document Retention for 2014-2020 projects](#).

## **19. Youth Employment Initiative (YEI)**

19.1 The Europa website contains [Guidance on Implementing the Youth Employment Initiative](#).

19.2 The beneficiaries shall ensure that those taking part in an operation are specifically informed of the YEI support provided through the ESF and the specific YEI allocation.

19.3 There are deadlines for spending of YEI as it is a time-limited funding source. The YEI funding must be spent by the end of 2018. This will mean beneficiaries submitting claims probably no later than the end of September/early October to allow the MA to undertake the necessary checks prior to payment.'

19.4 Participants 'at risk of NEET<sup>2</sup>' are not eligible for YEI as by definition they are not NEET and therefore the YEI regulations rule them out.

19.5 15 year olds are eligible, but only within a very small window. If they are enrolled in school but are not attending then this would constitute duplication of provision and they would remain the responsibility of the school/local authority. YEI eligible 15 year olds have to have left school. Those in scope have birthdays in July or August and turn 16 after they have left school.

19.6 There is no separate YEI logo and there should be no unofficial logos developed for YEI. The ESF Logo should be used and the document/information or publicity material shall include a statement to the effect that the operation was supported under the Youth Employment Initiative. For any YEI logo related queries please contact [EUROPEAN\\_SOCIAL\\_FUND.2014-2020@DWP.GSI.GOV.UK](mailto:EUROPEAN_SOCIAL_FUND.2014-2020@DWP.GSI.GOV.UK)

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<sup>2</sup> Not in Education, Employment or Training.