



Department for
Communities and
Local Government



EUROPEAN UNION
Investing in Your Future
European Regional
Development Fund 2007-13

The National ERDF Handbook

For the English Convergence and Competitiveness Programmes 2007–2013 (ERDF-GN-1-001)



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1 Purpose and Scope

This handbook is a source of guidance and information for potential applicants, grant recipients and their delivery partners and also DCLG. It provides a practical interpretation of the regulations governing the English Convergence and Competitiveness Programmes 2007 to 2013:

- Council Regulation (EC) No 1083/2006¹ (the General Regulation);
- Council Regulation (EC) No 1080/2006² (the ERDF Regulation); and
- Commission Regulation (EC) No 1828/2006 (the Implementing Regulation).

This guidance shall be implemented from 1 April 2012 and shall not be applied retrospectively. Previous guidance continues to apply to projects contracted before 1 April with the exception of the procurement guidance. From 1 April all new procurements undertaken, including those within existing projects, must follow the new National Procurement Requirements (ERDF-GN-1-004).

The Handbook has been developed and informed by lessons learnt from the 2000–06 programmes and issues arising from Article 16 activities since 2007 as well as best practice in ERDF programme and project management developed by the ERDF teams since 2007.

It sets out the new standard ERDF application, selection and approval processes and describes the project management requirements.

Applicants and Grant Recipients are also advised to read the following documents:

- The National Eligibility Rules (ERDF-GN-1-002);
- ERDF State Aid Law Requirements (ERDF-GN-1-003);
- The National Procurement Requirements (ERDF-GN-1-004);
- ERDF Publicity Requirements (ERDF-GN-1-005);
- ERDF Article 55 – Revenue Generating Projects’ Requirements (ERDF-GN-1-006);
- Financial Engineering Instruments Requirements (ERDF-GN-1-007); and
- MCIS Requirements (ERDF-GN-1-008).

¹ As amended by Regulations (EC) No 1341/2008, (EC) No 284/2009, (EU) No 539/2010, (EC) No 1310/2011 and (EC) No 1311/2011.

² As amended by Regulations (EC) No 397/2009 and (EU) No 437/2010.

2 Overview

The European Regional Development Fund is one of the European Commission's Structural Funds which aims to reduce economic disparities within and between Member States by supporting regeneration and creating and safeguarding jobs. ERDF is used to support three objectives:

- Convergence;
- Regional Competitiveness; and
- European Territorial Cohesion.

In the current programme period, 2007 to 2013, 3.2 billion Euro has been allocated to support local projects across the nine Regional Competitiveness Operational Programmes in England and the Convergence Operational programme in Cornwall and Isles of Scilly.

Each Operational Programmes' objectives and priorities have been agreed by local partners under the framework of the Communities' Strategic Guidelines and the UK's National Strategic Reference Framework which require ERDF to be used to support enterprise and job creation, innovation, high tech investment, sustainable development and equality of opportunity. Each Operational Programme was agreed with the European Commission in 2007 and programmes must report annually on their progress against programme specific indicator targets.

Partnership plays a key role in each Operational Programme. A partnership-based Local Monitoring Committee (LMC) previously known as a PMC, agrees the broad selection criteria and oversees the progress and performance of each Programme. Some LMCs have established sub committees to determine their respective programme's approach to investment, such as the timing of calls for applications and specific criteria that they wish to see projects deliver against. LMCs or their sub committees are also involved in endorsing project proposals.

Any potential applicant seeking ERDF must be familiar with the relevant Operational Programme and its respective LMC role. Further information on each Operational Programme and respective LMC can be found on the Department's website:

<http://www.communities.gov.uk/regeneration/regenerationfunding/europeanregionaldevelopment>

For the London Programme go to the GLA's website:

<http://www.london.gov.uk/priorities/championing-london/london-and-european-structural-funds/erdf>

3 The Application Process

From 1 April 2012, a DCLG standard application process will operate across all the English programmes outside of London.³

Applications for ERDF must be made to a specific Operational Programme (OP) and the outputs of any project must be delivered within the eligible area of that OP. If an activity falls within two or more programmes, then separate applications for funding must be made and project management arrangements will need to ensure that all costs and deliverables can be attributed to the relevant OP. Further information on project monitoring and record keeping is in section 6.3.

LMCs or their sub committees will continue to determine their respect programmes' approach to investment and agree any programme specific criteria. Applications will be made on national standard templates and will be assessed, appraised and approved in line with new national standard requirements.

3.1 How do I find out what funding is still available?

As set out above, funding is allocated to each Operational Programme and this is split across priorities that have been determined by local partners. The local Programme Delivery Team (PDT), that is responsible for the day to day management of their respective OP, will publish a prospectus on the Department's website (or on the GLA's website setting out the specifications for applications for a particular priority, including deadlines for submission of applications, as agreed by the LMC or its sub committee.

3.2 Who can apply for ERDF?

An organisation can apply for ERDF if it is legally constituted and is a:

- local authority;
- statutory or non-statutory public funded body;
- voluntary/community organisation; and
- private sector organisation.

If the application is successful, the applicant organisation is awarded the grant under the conditions set out in the Funding Agreement and is defined as the final beneficiary of the

³ DCLG is not directly responsible for delivering the London Competitiveness Programme, though the GLA will seek to adopt much of the standard business process.

ERDF grant.

The applicant must also provide match funding which can be from other national or local public funders and private match funders but not other European funds. The amount of match funding required will depend on the specifications agreed by the LMC and/or State Aid requirements. All expenditure incurred by the applicant and any delivery partners must meet ERDF eligibility requirements. For further information on eligibility issues refer to the National Eligibility Rules.

Projects with named partners

Projects may be delivered by consortiums comprising of a lead partner and delivery partners.

The consortium's lead partner will be the applicant for ERDF investment. The lead partner shall be legally responsible to the Department for the delivery, monitoring and compliance of the entire project (whether delivered by themselves or through delivery partners). Therefore in bringing a consortium bid, the lead partner must take appropriate steps to ensure that the delivery partners have the necessary resources and expertise to deliver their elements of the project and that appropriate reporting structures are in place.

Each delivery partner will be required to execute a legally binding agreement with the lead partner setting out their involvement in the project. As with the applicant, the delivery partners are not able to receive any profit for delivering the project. Only the actual costs (based upon auditable expenditure) may be claimed. The lead partner is responsible for collecting information to demonstrate that the resources applied by the delivery partner are the minimum necessary to provide the service. Care should be taken to ensure that the involvement of any delivery partners is compliant with the Public Contract Regulations 2006.

Further information can be found in Section 7 on the Funding Agreement.

3.3 How are project applications approved?

DCLG operates a two-stage application process.

The Outline Stage

The purpose of the outline stage is to:

- provide sufficient information to confirm that proposals meet some basic criteria including: strategic fit and eligibility, rationale and additionality, value for money, due diligence and compliance; and
- to save abortive work on full applications which will not meet ERDF requirements.

However it is important to note that even if a proposal is selected to submit a full application there can be no guarantee that ERDF grant will be awarded.

Outline Applications must be made on the Outline Application Form (ERDF-Forms-2-001) and must complete the Outline Application Deliverables Costs & Funding Annex (ERDF-Forms-2-002). Both forms and a guidance note which contains details of how to complete the forms: Outline Application Form Guidance (ERDF-GN-2-001) are available on the DCLG website. Applicants are strongly advised to read the relevant Prospectus in full, all the guidance in this document and related guidance notes before completing the Outline Application.

As part of the assessment process at Outline Application stage, due diligence checks will be carried out on applicants and any delivery partners. These will consider previous experience and performance of managing ERDF projects and will include a review of the level of irregularities that may have been occurred in other projects that the applicant and delivery partners have been involved in.

A financial appraisal will be undertaken on all private sector organisations and voluntary and community organisations applicants and delivery partners to confirm that they have the financial capacity to manage the size of project proposed. Due diligence checks will also be carried out on all company directors and trustees of voluntary and community organisations.

The PDT, and in some programmes the LMC sub committee, will assess the Outline Application and agree which proposals will be selected to go forward to the Full Application stage. The assessment process will consider how well the proposal meets DCLG's standard requirements and the OP and LMC specific selection criteria as contained in the relevant Prospectus. As part of the selection process, recommendations may be made on how proposals could be improved to better align with local, regional and/or national strategies and best practice. These may take the form of conditions which must be met before the Full Application can be accepted for appraisal and/or approval of grant can be awarded.

The Full Application Stage

The purpose of the full application is to:

- enable a full appraisal of the application to determine eligibility, regulatory compliance and deliverability of the project and the intended outputs and results in the timescale indicated; and
- ensure that the project is sufficiently well defined to enable DCLG to enter into a legal agreement with the project applicant

The applicant must complete the Full Application Form (ERDF-Forms-2-007), the Full Application Indicators, Costs & Funding Annex (ERDF-Forms-2-008) and the Full

Application Checklist (ERDF-Forms-2-009) and provide any applicable supporting information listed in the Full Application Checklist. Guidance on how to complete the templates is provided in the Full Application Form Guidance (ERDF-GN-2-003) and also on tabs 1, 3 and 7 in the Application Indicators, Costs & Funding Annex workbook.

Applicants are strongly advised to read the relevant Prospectus in full, all the guidance in this document and related guidance notes before completing the Full Application Form.

Applicants should contact the relevant PDT for further technical advice on the application process and ERDF requirements.

Once the Full Application is received by the PDT it is reviewed to confirm that it is 'appraisal ready'. The PDT will confirm receipt of the Full Application and provide an indicative timeframe for the appraisal and approval process.

The purpose of the appraisal is to provide a rigorous and thorough assessment of the project proposal. It considers:

- fit with the OP and priority objectives;
- contribution to cross cutting themes;
- the need and demand for the project;
- market failure;
- ERDF Additionality;
- the options analysis;
- value for money;
- eligibility of costs including appropriate use of apportionment methodologies;
- robustness of match funding package;
- project management and governance arrangements including contractual requirements between a lead partner and any delivery partners; and
- compliance with state aid, procurement and publicity requirements.

In the event that further information is required to enable the appraisal of any of the above, the appraisal may be stopped until the information is provided.

If the PDT requests additional information, they will set a deadline by which time the information must be provided otherwise the application documents will be returned to the applicant and there can be no guarantee that the Full Application will be accepted for reappraisal.

During the appraisal process information in the Full Application Form is likely to be changed and the version control table on the front page of the Full Application Form must be updated accordingly. If ERDF grant funding is awarded, the Full Application

Form will form part of the legally binding Funding Agreement between the grant recipient and DCLG. More information on the Funding Agreement conditions is in Section 7 of this Handbook.

As part of the appraisal process, a paper is completed summarising the assessment against all the areas tested and on which basis the appraiser recommends whether the project should be approved, approved with conditions or rejected.

Depending on individual LMC arrangements (see Section 2 above), the recommendation may be considered by the LMC subcommittee who are asked to endorse or reject the recommendation.

Depending on the level of ERDF being requested, the Head of the PDT and/or the Senior Responsible Officer in DCLG will consider the appraiser's recommendation and where applicable, the LMC sub committee's views, when deciding whether to approve the award of ERDF grant. Only DCLG has the authority to approve the award of grant. DCLG is not obliged to approve ERDF even if the LMC and/or LMC sub group indicate support the project.

The PDT will contact the applicant to advise them of the outcome of the appraisal and approval process. Conditions may be attached to the approval of grant award. This may be pre contract, pre claims or post contract, and are put in place to manage project risk. All pre contract conditions need to be cleared prior to the issuing of the Funding Agreement. Pre payment and post contract conditions will be contained in the Funding Agreement. Further information on the conditions of grant award contained in the Funding Agreement are in Section 7.

Where the application is rejected, the PDT will write to the applicant explaining the reasons for the rejection.

3.4 Major Project Approval

Articles 39 to 41 of EC Regulation 1083/2006 set out a role for the EC in appraising and approving major projects. Article 39 defines a major project as 'a series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature, which has clearly identified goals and whose total cost (ie ERDF and match funding) exceeds EUR 50 million'.

A major project proposal will need to follow the standard application process detailed above incorporating/providing the following additional information in to the Full Application Form:

- results of feasibility studies;
- cost benefit analysis;
- market analysis;

- scenario mapping and options assessment;
- an analysis of the environmental impact (to indicate if a full environmental impact analysis is required); and
- communications plan.

In addition, the EC requires the completion of either Annex XXI (Infrastructure Investment) or Annex XXII (Productive investment) of EC Regulation No 1828/2006, depending on the type of project.

The proposal will require full LMC approval before submission to the EC. Your PDT will provide more advice on the process, but applicants should be aware that obtaining approval from the EC can be a lengthy process.

3.5 Financial Engineering Instruments

Financial engineering instruments (FEI) projects use ERDF grant as capital to create funds that are then used as loans or to make investments which are subsequently repaid, generating returns that can be reused for further investment.

Detailed guidance on the application process for FEIs including VCLF, JEREMIE and JESSICA is contained in Financial Engineering Instruments Requirements (ERDF-GN-1-007).

4 ERDF Requirements

In order for an application to be considered for ERDF, the proposed project must meet the following principles:

- meet relevant European and national eligibility criteria;
- contribute to the delivery of the relevant Operational Programme;
- respond to any programme specific criteria agreed by the PMC/LMC;
- demonstrate clear additionality and market failure;
- demonstrate acceptable value for money in terms of outputs and results returned on the investment;
- be sustainable;
- have a sound funding package in place;
- demonstrate a positive environmental impact where possible or a as minimum limit the negative impacts;
- demonstrate a positive contribution towards equality or opportunity;
- have progressed satisfactorily through the ERDF application process; and
- be deemed legally and technically compliant with the delivery requirements.

These are explained in more detail below.

4.1 Eligibility Criteria

All projects must comply with both the eligibility requirements of the EC Regulations and the National Eligibility Rules before they can be approved for grant. If an approved project does not comply, financial penalties up to the total value of the grant approved may be imposed.

Detailed information on the eligibility requirements of the EC Regulations and the National Eligibility rules are contained in The National Eligibility Rules (ERDF-GN-1-002).

ERDF eligibility rules apply to all project spend including the match funding. Projects can include ineligible costs provided this is not used to match fund ERDF. Where a project has ineligible expenditure, there needs to be careful record keeping to support all calculations used to apportion relevant eligible expenditure. Further information on claims, record keeping and audit trails are contained in Section 5.

Any expenditure that is found to be ineligible at claims and/or during contract monitoring visits and/or audit will need to be repaid under the conditions contained in the Funding Agreement.

Particular eligibility rules apply to Financial Engineering Instruments (FEIs) such as Venture Capital and Loan Funds and Urban Development Funds. The Eligibility rules for FEIs are contained in: Financial Engineering Instruments Requirements (ERDF-GN-1-007). Note too, that the criteria used to select investments made by the Funds and assess the associated business case must respect the ERDF eligibility criteria.

4.2 Contribution to the Operational Programme Objectives

A project should normally be delivered in the geographical area covered by the Operational Programme – the Programme Area.

The project must support the specific objectives of an OP by delivering a proportion of the target output and results indicators and demonstrating how it will contribute to the respective target impact indicators defined in the OP.

Detailed guidance describing the relevant outputs and the evidence that must be collected by projects to demonstrate that a target indicator has been delivered is contained in the relevant Prospectus and on the DCLG website page for each Programme.

In the event that a project assists a business outside an eligible area, on the understanding that the business will relocate into the eligible area as a result of the assistance, and the business subsequently fails to do so, all expenditure relating to that business assist will become ineligible and subject to clawback (repayment of grant).

Because of the risks outlined in the paragraphs above, it is strongly advised that such investments are not made in the first place. Very exceptionally a project outside the eligible area could be considered provided (a) the project is situated in a NUTS III area http://ec.europa.eu/eurostat/ramon/nuts/home_regions_en.html EUROPA – Eurostat – Regions – Home Page) adjacent to the programme area, (b) the results and impacts will be delivered within the programme area and (c) meets the LMC agreed selection criteria for the programme and does not lead to a substantial displacement of jobs. An example of such a project would be investment in a university business support project where the businesses assisted are located within the programme area but the businesses travel to a university outside the programme area for the support.

Care should also be taken to avoid contributing to displacement of jobs within the EU when assisting an applicant business outside the area to move into the programme area. The Commission has indicated that by targeting aid on SMEs rather than large enterprises, it is of the view that there is less risk of support going to the relocation of economic activities within the European Community. However, there is more risk when the measure involves a non-SME or a 'Major Project'. The Commission requires that "When appraising major productive investment projects, [it] should have all necessary

information to consider whether the financial contribution from the Funds does not result in a substantial loss of jobs in existing locations within the European Union, in order to ensure that Community funding does not support relocation within the European Union” (See section 3.3 for further information on appraisal of Major Projects). A special condition will be included in the Funding Agreement to specifically prevent ERDF being used in support of relocation of a production or service facilities from another Member State of the European Union.

4.3 Respond to any programme specific criteria agreed by the PMC/LMC

At the start of the 2007–13 programme period, all PMCs approved local selection criteria. In addition, PMCs/LMCs may identify other specific investment criteria as part of a call or bidding round. This information will be contained in the relevant prospectus. Applicants will need to demonstrate in their project will meet any programme specific criteria.

4.4 Additionality and Market Failure

Additionality

Additionality is a core principle of ERDF. Article 15(1) of Council Regulation (EC) No 1083/2006 states “Contributions from the Structural Funds shall not replace public or equivalent structural expenditure by a Member State”.

This principle exists to ensure that funding from the European Commission is not used merely to replace funding earmarked for projects by existing agencies and authorities in the UK but brings added value over domestic funding.

The contribution of ERDF to a project must add value to new or existing activity. Projects need to demonstrate that the activity paid for by ERDF would not have taken place in this form without ERDF support.

The basic criterion for additionality is that projects should be supported only to the extent that:

- the project would not proceed in any form without ERDF support; or
- ERDF support will allow a project to proceed within a shorter timescale; and/or
- ERDF support will allow a project to provide ‘more’ of an activity or type of intervention already being supported through national funds.

‘More’ can mean a higher level of intensity or type of specialist support offered to at an individual business level, **OR** an overall increase in numbers of businesses to be assisted.

Capital projects will need to demonstrate that it was not legally committed to paying for works/services for which it is seeking ERDF grant. If it is unable to demonstrate that the project cannot go ahead without the grant, then it will not meet additionality requirements. For example, an applicant may have made a legal commitment in a development agreement to pay for certain works or services, without reference to the works/services being conditional upon receipt of ERDF support these costs would fail the 'additionality' requirement.

Further information on Additionality and how to think about the issues when developing a project is in Annex 1.

Market Failure

Market failure refers to a situation in which markets fail to deliver and there is a need for the public sector to intervene.

Market failure can occur in many different ways but is generally classed as:

- externalities – this is where the actions of a firm create benefits (or costs) which are not captured (or borne by) that firm;
- market power – this is where there are barriers to entry which are preventing new firms with more efficient products from entering a market;
- imperfect information and uncertainty – this is where a lack of information is causing an inefficient allocation of resources; and
- public goods – this is a product or solution that everyone can benefit from but nobody has to pay for directly. This may present the problems in production of such goods.

Further information on Market Failure and how to think about the issues when developing a project is in Annex 2.

4.5 Value for money

Value for money (VfM) relates to whether or not a project will generate sufficient benefits to justify the costs of implementation and helps to identify whether it may be possible to do better with the available resources. By selecting projects that are better value for money then the Operational Programme will either:

- use less ERDF resource to generate the same level of benefits;
- use the same level of resource to generate higher levels of benefits; and/or
- combine the two, less resources used to generate more benefits.

VfM is therefore an important component in assessing whether a proposal should receive ERDF support. Further information on value for money and how to think about

the issues when developing a project is in Annex 3.

4.6 Sustainability

Sustainability is the prospect of the benefits of the project continuing after the period of ERDF subsidy. In the context of capital projects, it is important that the building will continue to be viable once the funding has ended by generating sufficient income to cover running costs or through being able to access funding from other sources. However, some projects, for example business support, may not continue to offer the service once funding has ceased and this is acceptable provided the project has demonstrated a clear exit strategy.

There are two important issues relating to sustainability which project applicants and grant recipients need to be aware of when developing and application and subsequently managing a compliant project.

Article 55: Revenue Generation Projects

Projects that generate revenue are subject to a number of requirements set out in Article 55 of Regulation 1083/2006 (the General Regulation). In terms of sustainability, Article 55 requires the continued monitoring and reporting of actual revenues for a number of years after the ERDF investment. Applicants will need to demonstrate how these obligations will be complied with in the Full Application. Detailed information on Article 55 requirements is contained in ERDF Article 55 – Revenue Generating Projects’ Requirements (ERDF-GN-1-006).

Economic Lifetime of Assets

Where ERDF is awarded in connection with capital projects involving ‘Fixed Assets’ (property, land, plant, fixtures) or is used to purchase a substantial piece of equipment whose value at the time of purchase is at least £5,000 (a ‘Major Asset’), the ERDF funding agreement contains certain conditions to ensure that value for money for the public purse, and the grant objectives are achieved.

The ERDF funding agreement requires the Grant Recipient to warrant that any Fixed Assets and Major Assets funded with ERDF will be used for their ‘Approved Use’ throughout their Useful Economic Life, and include an obligation on the Grant Recipient to secure consent to any change of use, which may be given subject to conditions, including the requirement to repay all or part of the grant.

The period of ‘Useful Economic Life’ will vary according to the type of project and needs to take account of depreciation, the purpose of the grant (the ‘Output Targets’) state aid issues and structural funds legislation. The default period will normally be 15 years from the purchase of the asset or the completion of the asset (whichever is the latter).

Further information on DCLG's policy on the Economic Lifetime of Assets is contained in Annex 4.

4.7 A sound funding package

There are a number of issues which contribute to a sound ERDF funding package. These include:

- match funding;
- contribution rate; and
- direct costs that can be evidenced.

Also note that in kind costs are generally ineligible.

Match Funding

European funding is designed to fill the funding gap for a project when other sources of finance are not available. There must be a reasonable expectation that another source of finance has been identified to contribute to the eligible costs. This is referred to as match funding. The match funding cannot contain any other type of European funding or be used as match against another source of European Funding.

Before a Full Application can be approved by DCLG, there must be sound evidence that the match funding has been identified and will be made available to the project to enable it to be delivered as described in the application. Evidence for this must be provided in the form of letters of commitment from other funding partners.

Public sector match funding can be provided by an organisation which directly or indirectly receives over 50% of its main funding from central or local government. (This does not include payment for work carried out by private enterprises for the public sector.) To decide if an organisation can supply public match funding, work out their previous financial year's receipts, excluding any EU monies, and the income forecast for the following year, again excluding any EU monies. If over 50% of the net amount (after deductions) comes from central or local government sources, they are able to provide public match funding for ERDF supported projects.

Non-profit making organisations, whether incorporated or unincorporated, that are registered with the Charity Commission can supply public match funding. The registration must be maintained throughout the period of the ERDF project. Public match funding can also be provided by private bodies designated or controlled by the State.

Private sector match funding may be included in the programme. This information will be clearly set out in the Prospectus. Contributions from companies can be included in the funding package, provided these will contribute towards the total eligible costs of the project. Where SME contributions form part of the funding package it is accepted that written evidence/letters of intent will not be in place at the time the project is approved, but the application will need to demonstrate that the level of demand for the service stacks up in terms of expected SME contributions.

For ERDF purposes, private match funds are defined as any money originating from private enterprise, including:

- public limited companies;
- private limited companies;
- partnerships which have no shareholders;
- social enterprises;
- co-operatives;
- self-employed people; and
- Individual investors.

All match funding, public and private, must be spent and evidenced in accordance with the ERDF requirements. Further information on audit trail requirements is contained in Section 6.3 below.

The requirements for accounting for private sector match funding in Financial Engineering Instruments are different. Further guidance is in Financial Engineering Instruments Requirements (ERDF-GN-1-007).

Contributions in kind ('CIK') such as the provision of volunteer time or the discounted sale of equipment are not eligible to be used as match funding.

The donation of land and/or buildings will only be eligible where:

- an independent valuation has been made establishing the arm's length value at the time of the award of ERDF. This must also take account of the amount of time the donation will apply for. If this is limited, for example to the project lifetime, the value must be properly apportioned;
- the donation of the land constitutes a detriment to the owner (i.e. they are not purely benefiting from having their asset improved). This may be achieved either by a transfer of the land to be used by the project or by way of a covenant entered into by the owner to use the land solely for the purpose of the project. A restriction should be placed on the title to ensure the ERDF position is protected; and
- the donation of land does not constitute more than 10% of the total project costs.

Further information on CIK can be found at Annex 8.

Contribution of Staff time can only be included as match funding if the employing organisation is either the lead applicant or a named partner in the bid and the defrayment of costs is supported by payroll information, timesheets signed by the line manager and employee or evidence of a fair and transparent apportionment methodology calculation used to evidence the time worked on the project. The time costed must be genuinely related to the project.

Contribution Rate

The percentage of eligible costs covered by ERDF is known as the contribution rate. Each Priority Axis will have a contribution rate that was agreed when the EC approved the respective Operational Programme. Some programmes will only support projects at the agreed contribution rate for the Priority Axis, others have agreed with their LMC to vary the contribution rate under particular calls. This information will be contained in the relevant prospectus and applicants must adhere to the local criteria.

Direct Costs

Eligible costs should be based on direct costs to the project. Where resources are shared, including overheads, it is permissible to include costs for them as eligible auditable expenditure, provided they are based on real costs which relate to the implementation of the project and are allocated pro rata to the project in an agreed justified fair and equitable methodology or are established via an agreed flat rate methodology.

Further information on projects costs and expenditure requirements and how to think about the issues when developing a project is in Annexes 5 and 5a.

4.8 Demonstrates a positive environmental impact

All ERDF projects must consider the impact of their activity on the environment to comply with EC Environmental legislation, which seeks to ensure that projects do not have any adverse environmental effects. For some projects an Environmental Impact Assessment (EIA) is required. If this is the case, planning permission cannot be granted until an EIA has been carried out. Applicants are therefore advised to consult the local planning authority at an early stage as possible where there is any question of an EIA being required. DTLR Circular 02/99 provides guidance on EIA procedures. Further guidance on environmental protection can be found on the DEFRA website at www.defra.gov.uk/environment/index.htm

Projects must also identify whether their project will operate in, or impact upon, designated areas; a NATURA 2000 Designated Site, an Area of Outstanding Natural Beauty, a National Nature Reserve, a Site of Special Scientific Interest, a Scheduled Ancient Monument or Listed Building, a National Park or any other designated area.

All projects involving major physical development⁴ will also be required to produce the following:

- Biodiversity Audit (using the Regional Biodiversity Audit);
- long-term environmental management plan;
- local labour strategy;
- employment strategy;
- transport Impact Assessment; and
- travel plan.

Those projects involving capital investments in land and/or buildings should also:

- prioritise existing buildings and brownfield land as development sites (where local conditions permit); and
- achieve Building Research Establishment Environmental Assessment Method (BREEAM) at least 'Good' and wherever possible 'Excellent rating' for new build projects (unless site constraints of project objectives mean that this requirement conflicts with the obligations to achieve value for money) or BREEAM 'Very Good rating' for refurbishment projects. Where alternative environmental assessment methods are used (e.g. EcoHomes Code for Sustainable Housing) an equivalent rating should be achieved.

Transport/Travel Plans

A travel plan is a strategy for managing access to a site or development. It considers how all forms of transport can be influenced using a combination of measures, both physical and behavioural. There is an emphasis on reducing reliance on single occupancy car use and increasing travel choice. Travel plans usually focus on the journey to and from work, but can also include business travel, travel reduction, fleet management, visitors and delivery vehicles.

⁴ Under The Town and Country Planning (General Development Procedure) (Amendment) (England) Order 2006 'major development' means development involving any one or more of the following:

(a) the winning and working of minerals or the use of land for mineral-working deposits;

(b) waste development;

(c) the provision of dwelling-houses where:

(i) the number of dwelling-houses to be provided is 10 or more; or

(ii)

the development is to be carried out on a site having an area of 0.5 hectares or more and it is not known whether the development falls within paragraph (c)(i);

(d) the provision of a building or buildings where the floor space to be created by the development is 1,000 square metres or more; or

(e) development carried out on a site having an area of 1 hectare or more.

The National Planning Policy Framework (NPPF) replaced DCLG Planning Policy Guidance 13: Transport. It states that all developments that generate significant amounts of movement, as determined by local criteria, should be supported by a Transport Statement or Transport Assessment. Planning policies and decisions should consider whether:

- the opportunities for sustainable transport modes have been taken up depending on the nature and location of the site, to reduce the need for major transport infrastructure;
- safe and suitable access to the site can be achieved for all people; and
- improvements can be undertaken within the transport network that cost effectively limit the significant impacts of the development. Subject to those considerations, development should not be prevented or refused on transport grounds, unless the residual impacts of development are severe, and the need to encourage increased delivery of sustainable development should be taken into account.

The NPPF adds that planning strategies should protect and exploit opportunities for the use of sustainable transport modes for the movement of goods or people. Therefore, developments should be located and designed where practical to:

- accommodate the efficient delivery of goods and supplies;
- give priority to pedestrian and cycle movements, and have access to high quality public transport facilities;
- create safe and secure layouts which minimise conflicts between traffic and cyclists or pedestrians;
- incorporate facilities for charging plug-in and other ultra-low emission vehicles; and
- consider the needs of disabled people by all modes of transport.

A key tool to facilitate this will be a Travel Plan. All developments which generate significant amounts of movement, as determined by local criteria, should be required to provide a Travel Plan.

4.9 Demonstrates a positive contribution towards equality or opportunity

Programmes must promote the objectives of equal opportunities and non-discrimination on the basis of race, ethnic origin, religion or belief, disability age or sexual orientation, as required by Article 16 of Regulation (EC) No 1083/2006.

Each Operational Programme reflects the legal requirements and has been subject to an Equality Impact Assessment, which is in an Annex to the relevant Operational

Programme. Each Operational Programme will have its own specific commitments and requirements around equality and diversity.

Applicants must be familiar with and respond to each Operational Programme's specific equality commitments. Embedding equality is integral to the effective delivery of any project – adverse equality impacts must be mitigated against and any opportunities maximised to enable benefit to all.

Projects will be appraised for their equality impact and will need to demonstrate that they will break down barriers in order to reach groups and increase access to opportunities.

In practice, this could include ensuring:

- that buildings and infrastructure are appropriate for disabled people;
- that business support and enterprise work is inclusive and responsive to challenges faced by protected or under-represented groups (thereby enabling them to take up self-employment or employment in higher skilled occupations);
- that technology advancements do not widen the digital divide; and
- that projects in similar geographical or themed areas work collaboratively to overcome challenges faced by particular groups.

In practical terms, embedding equality into projects demonstrates contribution to and compliance with the equality cross cutting theme, particularly at application stage when potentially in competition with other projects for funding. It also demonstrates that the project is not only achieving its quantitative targets but can also demonstrate qualitatively that it is embedding real quality into the project. This is then evidence for auditors of compliance in delivery when audited for impact.

What equality is NOT

Embedding equality into projects is not about political correctness, ticking a box or paying lip service. Furthermore, it is not about illegal preferential treatment of particular groups and should not be seen as a hurdle or a barrier or be a last minute add-on to a project. Instead, it is an integral ingredient to achieving economic success and to narrowing, rather than widening, the gap of disadvantage.

Going over and above basic legislative minimums

Providing only absolute minimums does not demonstrate the additionality ERDF requires, so projects are expected to demonstrate they are implementing additional good/best equality practice where possible.

Further information on Equality of Opportunity and how to think about the issues when developing a project is in Annex 6.

4.10 Progressed satisfactorily through the ERDF application process

Applications can only be considered if they have complied with the DCLG standard application process. Details of the application, selection, appraisal and approval process is set out in Section 3 above.

4.11 Legally and technically compliant with the EC requirements

Managing and delivering a compliant ERDF project requires the grant recipient and all delivery partners to adhere to the EC's Regulations and National Rules. As part of the assessment and appraisal process, DCLG will seek to ensure that the project applicant has the capacity and fully understands all the requirements and obligations. The full application will need to provide a detailed description of how the project will be managed, delivered and compliance issues handled.

The following sections explain the requirements and provides detailed information on how to manage compliant projects. This will help applicants design their management and control systems during the planning /application stage. If grant is awarded, this Handbook should be used to support project delivery and post funding requirements.

5 Compliance

5.1 Procurement

Applicants must demonstrate that their project complies with the Public Contract Regulations 2006 and the EC Procurement Directives in selecting the suppliers of goods, works and services for the project.

The suppliers of goods, works and services should be selected through an open, transparent and non-discriminatory competition process, which allows bidders from across the European Common Market the opportunity to be considered for public funded contracts.

Applicants are expected to collect appropriate data to demonstrate compliance throughout the term of their project. These records will be assessed during monitoring and audit inspection visits. Failure to comply with the procurement rules can result in financial penalties of up to the total grant awarded. Therefore it is important that all applicants carefully consider how they will comply with the Procurement requirements.

Further information on the Procurement Requirements are in The National Procurement Requirements (ERDF-GN-1-004).

5.2 State Aid

State Aid law regulates how public funding is applied in the European Union to ensure that it does not distort trade between different Member States and thereby undermine the European Common Market.

The consequences of non-compliant State Aid are severe. A finding of unlawful State Aid may mean that the award of ERDF (and any other public funding provided for the project) is immediately repayable with compound interest backdated to the point of the award.

The applicant is required to work through all the parties that may benefit from the project and for each assess whether the measure constitutes State Aid. The test for State Aid can be found at Article 107(1) of the TFEU and in ERDF State Aid Law Requirements (ERDF-GN-1-003).

Where State Aid is present the applicant must identify an appropriate exemption that can be used to lawfully enable the funding of the project. It is important that applicants familiarise themselves with the terms and conditions relating to any exemption that they apply.

Applicants wanting further information on State Aid are recommended to refer to the

European Commission website and where necessary to obtain independent legal advice.

5.3 Publicity

It is a condition of grant that support through an ERDF Programme is acknowledged through all stages of the project's life. Publicity is an eligible project cost so this should be considered at development stage and costs included in the budget as expenditure will only be eligible if the correct publicity was in place for the whole period covered by any ERDF claim.

Further information on the publicity requirements are in the ERDF Publicity Requirements (ERDF-GN-1-005).

6 Managing compliant ERDF Projects

6.1 Verification and Audit

The management of an ERDF project carries with it certain conditions and requirements that you must be able to satisfy. The applicant organisation will become the grant recipient and will be legally responsible for ensuring the project as a whole, including their delivery partners, when signing the Funding Agreement. Further information on the Funding Agreement is in Section 7.

Compliance with these conditions and requirements are checked at various point throughout the lifetime of the project and post funding. These include but are not limited to:

- claims;
- Project Engagement Visit (PEV);
- Project Progress and Verification Visit (PAV);
- Article 16 Visit;
- DG Regio Visits; and
- European Court of Auditor Visits.

During the lifetime of a project you should expect to receive as a minimum at least 1 PEV and PAV visit and any number of the other visits.

Claims

Projects will need to submit monthly or quarterly claims as agreed at approval and in line with the schedule set out in the Funding Agreement. Claims should clearly report achievement against financial and output profiles which will be checked by the PDT. Management and Control Information System (MCIS), the national management information system is used for the submission of all claims. Further guidance on the use of MCIS can be found MCIS Requirements (ERDF-GN-1-008). Under the Regulations claims are made in arrears and you can only claim for defrayed expenditure (where you have actually paid out for the wages, work, goods or services). You must list items of defrayed expenditure on a standard transaction listing with each claim. PDTs will scrutinise claims for accuracy and eligibility before agreeing to payment and you may also be asked to provide copy invoices of some expenditure items as part of the desk checks undertaken by the PDTs.

Project Engagement Visit (PEV)

Every project will receive a Project Engagement Visit which will take place no more than 3 months after the Funding Agreement has been signed. The aim of the visit is to ensure that applicants understand the requirements of the funding agreement and that you have put in place the required systems to meet the monitoring and audit requirements.

Project Progress and Verification Visit (PAV)

This is the main compliance check visit and is based on claims and performance to date. During the visit, the project will be assessed in terms of delivery and spend and compliance with national and European requirements including procurement and publicity. The PDT will expect to be able to verify expenditure and outputs declared in a claim by making checks back to original invoices, bank statements and other project records. As the frequency of PAVs is determined by the risk rating accorded a project by the PDT, some projects may be visited several times during the period of the Operational Programme, but all projects will be visited at least once.

Article 16 Visit

These visits are conducted by the Audit Authority on a sample of projects funded through the Programme. Similarly to the PAV visit, the inspector will verify expenditure, outputs and compliance with European Regulations. However, these checks will be at a much more intensive level, and a higher proportion of the project's defrayed expenditure will be checked.

In addition projects may also be subject to visits from the European Court of Auditors, DG Regio and the National Audit Office although this is not an exhaustive list.

6.2 Irregularities

Irregularities, Corrections and Errors all refer to mistakes made within a project that need action to correct. The different terminology refers to when the mistake is found and how the mistake is treated. Projects that are found not to be complying with ERDF regulations and requirements will be deemed to have an irregularity.

In simple terms, an irregularity is: Any action or deviation, financial and/or non financial, which breaches the terms of the Funding Agreement.

An irregularity may involve either a breach of grant funding conditions or result from poor management or inadequate control of the project. An irregularity could involve an inaccurate claim or any deliberate act by the claimant but they can also occur as a result of something the project does incorrectly (e.g. defray expenditure on items that are ineligible for ERDF) or something it fails to do (e.g. failure to publicise the contribution of ERDF).

Further information on Irregularities can be found at Annex 7.

6.3 Project Monitoring and Record Keeping

As stated in the Funding Agreement, projects are required to provide records to evidence claims and prove compliance with EC requirements.

Good record keeping is an essential project management tool. By keeping orderly and comprehensive records you will find it far easier to assess and report on the project status and progress ie monitor the project.

Record retention is an important consideration in the development and delivery of a project funded by ERDF. Projects can be subject to an audit at any time up to three years after Programme closure and it is therefore a requirement of grant that original documents are retained and available for inspection over the entire period. Failure to produce evidence can result in the repayment of grant.

To ensure that this process is followed, all applicants are required to produce and provide as evidence, policies for specific areas including document retention. This reference can be included in current policies that the Applicant already uses or separate policies specifically developed for the ERDF project to follow.

For projects delivered by a consortium of partners, it is the Lead Partner or Grant Recipient organisation that is responsible for the audit trail. The Grant Recipient must make sure that any delivery partners or sub contractors keep adequate records. To do this, they will need to show that they have system in place to verify and quality assure the information provided by partners.

How long should records be kept?

Applicants must ensure that all original ERDF project documentation relating to the project and its implementation and financing are retained until 3 years after the closure of the Programme currently estimated to be at least 31 December 2025. Projects operating under a State Aid scheme need to keep documents for 10 years after the last aid is granted under the scheme and for any land and building projects will need to prove they have continued their approved use for an agreed period between 5–15 years.

The information highlighted above should be included in all ERDF projects' document retention policies and plans. If a grant recipient is unable to provide the correct records, they may have to pay money back – even if the project ended some years previously.

Prior to the destruction of any documents, confirmation should be sought from the Managing Authority.

What should records show?

Core documentation must include:

- all ERDF related documentation including work carried out during the development, pre application, application and during and after the project;
- the Funding Agreement including any revised versions supported by appropriate correspondence from DCLG of the approval of changes to the Funding Agreement;
- correspondence from/to DCLG;
- quarterly or monthly claim forms;
- working papers showing how claims were calculated, including any flat rate methodologies;
- the audit trail for all procurement undertaken for the project;
- the State Aid approved scheme used where relevant; and
- An asset register. Further details on Asset Register Requirements are in Annex 8.

You must keep records of the following things although this list is not exhaustive. Grant recipients should keep all documentation relating to ERDF projects:

- evidence of all project expenditure. This must include invoices and bank statements or equivalent to show the payments were made.
- where indirect overheads costs and salaries have been apportioned to the project, records must show the agreed methodology for calculating these costs.
- records of eligible beneficiaries and the steps taken to discern their eligibility, including proof that an organisation qualifies as an SME The definition of an SME is available at:
ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf
- evidence of open and fair procurement of goods and services. Including proof of advertising and contract notices, quotations or tenders received and the scoring methodology used for selecting the successful candidate. This will include details of all preparatory work prior to the procurement process and the delivery/use of the procured service and goods. See The National Procurement Requirements (ERDF-GN-1-004) for further information on procurement requirements.
- evidence of auditable, accountable match funding, including copies of match funding acceptance letters and bank statements showing receipt of match funding
- compliance with publicity requirements. Copies of all publicity materials, including press releases and marketing must be retained to demonstrate the correct use of the EU logo and required text. See ERDF Publicity Requirements (ERDF-GN-1-005) for further information on publicity requirements.
- compliance with equal opportunities and environmental sustainability requirements (see section 4).

- clear records of businesses supported for state aid purposes, including signed SME declarations and that they are operating under any state aid rules, such as de minimis, or any other state aid ruling. See ERDF State Aid Law Requirements (ERDF-GN-1-003) for further information on State Aid.
- documentary evidence substantiating the outputs and results declared in ERDF claims and on completion of projects. This could include, for example, evidence of the types of assistance provided, and evidence of jobs created or safeguarded as a result of this assistance.

Special requirements apply to financial engineering.

Acceptable forms of documentation

Paper documentation is preferred by auditors and original documentation will need to be kept wherever possible, but some other forms of storage are also allowed.

Electronic document storage systems are acceptable, and necessary, as many documents now are electronically generated and have no paper original. They are accessible as audit evidence provided that they are subject at all times to an adequate system of control over their completeness and validity.

There is an important British Standard (BIP 0008) which lays down the process steps and guidelines required when converting paper records to legally admissible electronic records. The selection of a supplier whose process for conversion complies with this standard is essential. Further details can be found on <http://www.thecabinetoffice.co.uk/page28.html>.

Documents can be held either as originals or copies, or on commonly accepted data carriers. Commonly accepted data carriers include:

- photocopies of original documents; and
- electronic versions of original documents on optical data carriers and documents existing in electronic version only.

Each copy must be certified as conforming to the original document. A declaration by the grant recipient along the lines of the example below will satisfy this condition.

I certify that this is a true copy of the original document:

Signed

Date

Position in organisation

Name of organisation

This is the minimum requirement and grant recipients may add to this declaration or include additional procedures in line with their organisations policies should they wish to do so.

This minimum certification procedure places the onus on the grant recipient for ensuring the authenticity of the electronic copy. It is the grant recipient's responsibility to ensure the document can be retrieved and relied upon for audit purposes.

In instances where the grant recipient organisation is using an electronic Document Management System which involves the scanning of invoices and other documentation at the point of receipt, it is acceptable for the processes outlined above to be undertaken at the initial point of scanning by either the grant recipient or a third party acting on behalf of the organisation provided that the applicant organisation is satisfied with the procedures in place at the 3rd party organisation.

All electronic documents must be kept for the same duration as required for paper copies.

Grant Recipients should ensure that information kept on commonly accepted data carriers are kept secure and can be relied upon for audit purposes. Where documents exist in electronic version only, the underlying computer system on which the electronic versions are held must meet accepted security standards which ensure that the documents held meet with national legal requirements and can be relied upon for audit purposes. To evaluate electronic systems before relying on them, auditors should use guidance such as COBIT (issued by the IT Governance Institute) or ISO standards on information security.

<http://en.wikipedia.org/wiki/COBIT>

<http://www.datacapture.co.uk/information/legal-admissibility.htm>

All electronic documents also need to have the equipment/software retained, to ensure it's functional up to three years after the end of the programme.

6.4 Project Management

Project management system and procedures

Project management systems must cover all of the expenditure, funding, beneficiaries, activity and outputs in your project, not just those relating the ERDF funded element. It is therefore good practice to have a separate ERDF system to record expenditure and any income, activity, beneficiaries and outputs of your ERDF project from the other functions of your organisation.

You should have written procedures describing:

- project management and governance processes including:
 - monitoring of project activity;
 - approval and monitoring of spend;
 - recording and monitoring of deliverables, including collecting evidence required for outputs and results;
- public procurement procedures;
- records and document management; and
- financial management processes including:
 - the compilation and approval of claims;
 - recording of match funding;
 - recording of revenue/income;
 - apportionment methodologies where resources and overheads are also used by non ERDF activities; and
 - use of timesheets for staff.

7 The ERDF Funding Agreement

7.1 Introduction

This section provides an overview of how the ERDF Funding Agreement is structured. The funding agreement has been developed and agreed by the Department to enable the PDTs to fix the provisions required in order to meet particular project circumstances in compliance with the ERDF regulations. The clauses in the template are the minimum requirements. There is a presumption that these will be accepted by the Grant Recipient.

7.2 Background and Legal Status

As part of the process of setting up the management and control system for the English ERDF Convergence and Competitiveness Programmes, the Department has developed the standard 'Funding Agreement' template that sets out the rights and obligations of the parties in writing.

The Funding Agreement is a legally binding document having contractual force. A Funding Agreement is probably also enforceable directly under the law of the European Union. The Funding Agreement constitutes a promise to pay Grant on specified terms in support of project expenditure, and becomes binding and enforceable when the Grant Agreement is executed by the parties.

If the Grant Recipient fails to use the Grant for the specific purposes and those uses set out in the Application, which the Department has approved, then the Grant Recipient may be required to repay Grant.

7.3 Negotiation, Correspondence and Implementation

There is a presumption that the Funding Agreement as drawn by the Department will be accepted without the need to entertain any changes. However, this is not always going to be the case and it may be appropriate to send the draft for consideration of the terms and whether there is a willingness to enter into them. The Applicant should always take its own legal advice on what the Grant Agreement means to its organisation. Any advice taken by the Grant Recipient will be for the Grant Recipient's account.

If there are other legal documents to be entered into there may be clauses to deal with the execution of the other documents at a later date or the solicitor may call for all of the documents to be entered into contemporaneously with the completion of the Funding Agreement. The solicitor may arrange for the documents to be signed in escrow or in counterpart and thereby delaying the implementation (legal completion) until all the documents are signed and ready to be exchanged with the Grant Recipient's solicitor.

It does not follow that an offer will be made notwithstanding all the checks and appraisal process have been successful.

7.4 Security

A Charge (legal mortgage) may be required to be entered into by both the Grant Recipient and/or a guarantor. The Charge must be registered against the title of the chargor's Property. If a Charge is required a term setting out the details will be contained in the Project Specific Conditions. We may agree to enter into a suitable deed of postponement with a bank.

A Deed of Covenant may be required by to be entered into by Grant Recipient and/or a guarantor. The Deed of Covenant must be registered against the title of the chargor's Property. If a Charge is required a term setting out the details will be contained in the Project Specific Conditions.

Other security may be considered on a case by case basis.

7.5 Delivery Partner Agreements

Where Grant is offered to a consortium or a joint venture/partnering arrangement is contemplated consideration should be given as to whether there should be joint Grant Recipients or whether the Funding Agreement will be with one Grant Recipient who then enters into a collaboration agreement with the other party. All partnering arrangements must be contained in the Application. The Grant Recipient will be responsible for the actions of the partner. A partner must consent in an agreement between the partner and the Grant Recipient to being inspected by the Audit Authority.

The label 'partner' will not prevent an auditor holding the opinion that activities undertaken by the partner are services and should have been procured. To this end, careful consideration must be given to the relationship and the activities that are being undertaken to avoid incurring corrections for failure to follow the procurement requirements a clause to make this clear should be considered.

7.7 Standard Conditions

Standard Conditions of the terms of the Grant set out how and when payments are made and the obligation on the part of the Grant Recipient. They are standard for all Funding Agreements.

The Standard Conditions generally should not be altered. However in certain cases the Standard Conditions may be amended by the use of additional clauses in the Project Specific Conditions which are considered below.

7.7 Assets

The Standard Conditions refer to Fixed Assets and Major Assets. Fixed Assets are land, buildings and fixed plant and machinery (i.e. affixed to the land/buildings). Major Assets are not Fixed Assets, and could include equipment (not affixed to land or buildings) or it could include for example computer systems etc, but must have a value of at least £5,000.00.

Clause 8 in the main body of the Funding Agreement relates to all Assets – Fixed Assets and Major Assets. However, in relation to Fixed Assets additional provisions including plans etc may be required.

It is critical that any Assets which are funded by ERDF are used only for the purpose intended i.e. the 'Approved Use', during their Useful Economic Life. Best practice would be for a Grant Recipient to execute a Deed of Covenant, which can be registered at Land Registry, and protected by a restriction on title, so that the Fixed Asset cannot be sold without the consent of the Department. That consent will not be given until the purchase from the Grant Recipient executes a Deed of Covenant in favour of the Department, and imposes a new restriction upon the new title, for the remainder of the useful Economic Life of the Fixed Asset.

The Useful Economic Life of an Asset generally either:

- a. 15 years in the case of Fixed Assets; or
- b. 5 years in the case of Major Assets; or
- c. the appropriate period for the Asset having taken into account its depreciation.

The Useful Economic Life will be determined by the Department and contained in the Project Specific Conditions.

The Grant Recipient must establish an inventory of all Assets. The Inventory must be maintained in line with the Standard Condition for Retention of Documents.

If a Grant Recipient wishes to change the use of any Asset (whether Fixed Asset or Major Asset) during its Useful Economic Life, then the consent of the Department will be needed. If consent is given, the Department may ask for repayment of the whole or part of the Grant.

If disposal of an asset is being sought the grant recipient should contact the PDT and will be required to complete an asset disposal form (ERDF-Forms-8-004).

7.8 Legislation, Eligibility and State Aid Law

In utilising ERDF, it is an absolute requirement upon the Grant Recipient to comply with all relevant legislation, including in particular the regulations and COCOF guidance defined by the words 'Procurement Regulations' and the Structural Funds Regulations. Further guidance for the Grant Recipient can be found in the ERDF National Rules.

Grant Recipients must ensure that it seeks its own advice in order to fully understand the legislative requirements. Great care must be taken not to interpret clauses for Grant Recipients where the interpretation would change the meaning of the clause.

7.9 State Aid Considerations

The Department is responsible for ensuring that the projects that are selected for ERDF support are in its view compatible with EU law on State aid. As part of the appraisal process, the Department will assess if any aid is to be approved under a block exemption, an approved scheme, the de minimis regulation or any other Commission instrument. Further guidance on State aid procedures for ERDF is contained in ERDF State Aid Law Requirements (ERDF-GN-1-003). There are provisions in the Funding Agreement which set out clearly that the Grant Recipient must take its own legal advice in relation to the state aid treatment of the Grant to be received. The Grant Recipient cannot rely on the Department's view to protect itself from claw back by the Commission.

The Grant can only be offered if the Department is satisfied that the operation is State Aid compliant based on the representation made in the Application. The decision of how a project fits with the State Aid Rules must be recorded in the relevant space in the Project Specific Conditions. This must be clearly spelled out and be accurate. This is first considered at the appraisal stage and again at the point of drafting the Funding Agreement.

7.10 Events of Default, Material Breach and Consequences

Clause 12 sets out Events of Default and Material Breaches which include failure to comply with any Standard Conditions as well as Project Specific Conditions and more specific items such as failure to achieve Key Milestone Dates.

If an Event of Default arises, then the Department could either suspend payments or vary the Maximum Sum, or cease to make any further payments and indeed may require the repayment of all or part of the Grant.

7.11 Project Specific Conditions

The Project Specific Conditions are contained at Schedule [1]. The Project Specific Conditions have two functions:

First, they are the place where the matters peculiar to the relevant project are contained.

These include the following matters:

- the contributions rates;
- the contact details of the PDT contact officer for the project;
- the instalment periods;
- the state aid treatment, the milestone table and the dates;
- match Funding arrangements; and
- delivery Partner Arrangements.

Second they are the place where further Conditions if required are placed. The purpose of further Project Specific Conditions is to deal with matters and risks that that are not adequately covered by the Standard Conditions. For example:

- a.the need for a Guarantor;
- b.any additional reporting and monitoring requirements;
- c.any specific requirements relating to Article 55 of Regulation 1083/2006;
- d.the need for the Grant Recipient to facilitate any Evaluation activities;
- e.any project specific activities agreed in relation to Equal Opportunities and/or Sustainable Development;
- f. any agreement reached on Intellectual Property Rights; and
- g.Conditions subsequent/Conditions precedent (i.e. Conditions that must be fulfilled prior to either the payment of the Grant or the Funding Agreement becoming fully effective).

Contained in the other Schedules are the following:

- Project Specific Eligible Expenditure. This should be broken down by Revenue and Capital where appropriate. This Schedule may be used to ensure absolute clarity about eligible and ineligible expenditure;
- The Targets; and
- Expenditure Profile.

7.12 Changes to the Funding Agreement

A 'Change' is defined in the Funding Agreement under clause 1. The definition covers the common and fairly routine types of changes that Grant Recipients frequently request. This includes:

- change of project ownership;
- targeting a different beneficiary group;
- change of expenditure (e.g. expenditure on items not included within your approved budget headings);
- movement or 'virement' of funding from one budget category to another;
- change to the amount or proportion of match funding; and
- change to the project's practical or financial completion dates.

The Funding Agreement has a mechanism for dealing with the foreseeable Changes that may (if DCLG consent) be effected using the Project Change Request form and MCIS. Consent to Changes should be considered by the PDT. Where the Grant Recipient has requested a Change to the project the PDT should issue the Project Change Request (PCR) form (ERDF-Forms-3-003 and 004) to the Grant Recipient to complete. Likewise, if the PDT identifies that changes are required (following desk-based monitoring, Article 13 or 16 visits, for example) it should issue the PCR form.

Note that the PCR form is not required for actioning insignificant changes that are so minor as not to warrant the request being made formally. This will be up to the PDT's discretion. If in doubt however then we will revert to formality and send the form for completion. The purpose of the PCR form is to enable the PDT to consider (1) whether the Change is acceptable (2) whether the Change is acceptable with certain amendments or (3) whether the Change will be rejected.

Projects that do not comply with the ERDF rules and requirements can have their offer of grant retracted. This is known as 'de-commitment' or 'grant clawback' and can be imposed for a number of reasons, including:

- failure to spend funding against the agreed activity or profile;
- under-performance against outputs/results and other performance targets;
- financial Irregularity; and
- fraudulent activity.

The risk of 'de-commitment' can be avoided by good record keeping and regular project monitoring and consultation with the PDT to review to identify problems early and to allow contingency measures to be implemented.

Annex 1: Additionality

What is additionality?

Additionality is present if and when European Funding contributes towards achieving additional benefits and outcomes over and above those targeted by domestic public and private sector funding streams.

In the absence of ERDF, the additional benefits and outcomes of a project would not be created at all.

Essentially, there are two ways of looking at additionality. The first relates to funding, which shall demonstrate that ERDF is required as a vital irreplaceable funding source of the project. The second aspect of additionality relates to all inputs, outputs, results and impacts of a project which can be attributed solely to ERDF funding. These additional inputs, outputs, results and impacts would not have been created without ERDF funding.

Both aspects of additionality need to be addressed comprehensively by the project applicant.

Why is additionality important?

Additionality is a core principle of ERDF. Article 15(1) of Council Regulation (EC) No 1083/2006 states “Contributions from the Structural Funds shall not replace public or equivalent structural expenditure by a Member State”.

ERDF funding must, therefore, be treated as an essential yet additional source of funding supplementing and adding value to existing public sector expenditure clearly aiming to accelerate economic growth (GVA) and job creation.

The roots of the additionality requirement are to be found in the rationale that economically underperforming regions in Europe are in need of additional funding over and above those that other public resources already deploy in those regions. The intention of European funding is to bring the economies of the underperforming regions closer to the average economic performance of all regions, thereby increasing the overall economic performance of Europe.

If ERDF funding simply replaced domestic public sector expenditure, this additional boost and increase in GVA and jobs would be lost as the replaced expenditure might be channelled to other areas of the public sector. In practice, the situation is often less clear-cut. In an environment of scarce resources projects usually have to compete for funding, which can have the effect that the public sector requires projects to demonstrate ERDF eligibility before it is willing to commit any funding itself.

Additionality – the funding perspective

From a funding point of view, there are three ways a project can describe its additionality:

- without ERDF, the project would **not go ahead** at all;
- without ERDF, the project would go ahead, but at **a later time**; and
- without ERDF, the project would go ahead, but on **a smaller/lesser scale**.

The project applicant's tasks

The project applicant is required to provide detailed explanation regarding the following:

- Why can the project not be funded by the applicant's own resources alone?
- Which other funding programmes have been approached and whether any other funding has been secured. If not why not.
- How and why is a larger scale project justified? Is there any evidence that the project could go ahead on a smaller scale?
- What evidence (such as the applicant's Business Plan) exists which demonstrates that the project could go ahead, but at a later time?
- What justification is there to fund the same project again, i.e. when ERDF is targeted to support an ongoing or previous project (has the project changed by including additional geographic areas/ industry sectors/target groups, or are there supply/demand issues)?
- What other initiatives are currently underway targeting the same beneficiaries with similar or complementary services?
- Is there evidence that the proposed project does not duplicate other projects (i.e. has the project idea been discussed with a wide range of stakeholders involved in similar initiatives)?

In order to assess the additionality of the project, the appraiser will carefully assess and challenge the realism and comprehensiveness of the answers provided for the above questions throughout the Outline and Full Applications.

Additionality – the impact perspective

Additionality relates closely to the term 'Added Value', and the key question the project applicant must answer is:

'What is the ERDF grant buying that would otherwise not happen?'

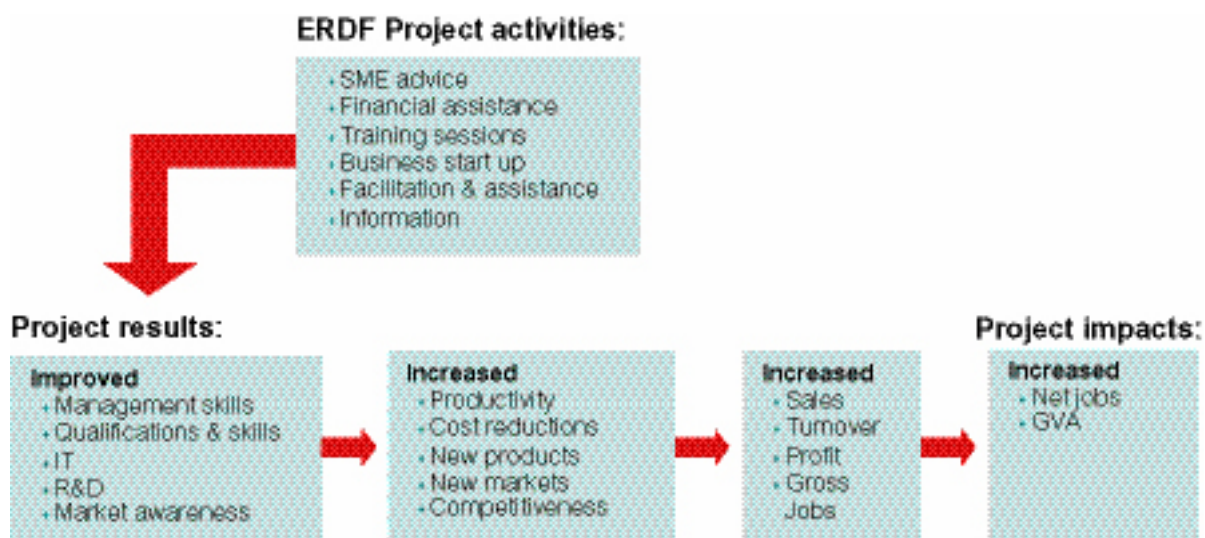
In this way, additionality is intrinsically linked to the quantification of project outputs and results identifying essentially how the project adds value in respect to long-term impacts

such as an increase in GVA, the ultimate aim of any ERDF Programme.

The project applicant is, therefore, required to quantify the project's outputs and results. This will allow the applicant to clearly demonstrate the added value of the project activities and estimate the impact on the local/regional economy.

Basic principles of Quantifying Outcomes and Impacts

ERDF funding seeks to improve the economic performance of an eligible region, which is ultimately measured by an increase in GVA. By using a logic chain approach, the project journey from project activities, to project outputs, outcomes/results and project impacts is represented by the various performance indicators of an ERDF Programme.



The logic chain is also represented through the range of activity, outcomes, and impact performance indicators under each of the ERDF Programme priorities.

What should a project applicant be looking for?

To quantify the project gross outcomes and impacts realistically and in line with the logic chain approach, the project proposer has to think through the likely effects the proposed project activity will have on the beneficiaries based on the available project resources.

Table 1 (below) provides a basic set of questions and issues to be considered in this process. Although the chosen example is that of a business support project, the principles and type of questions to be considered are easily transferable to any other project theme.

In order to assess the additional value of ERDF and to demonstrate what particular additional benefits ERDF funding will have on the project outputs and outcomes/results, it is helpful to undertake this quantification from both perspectives, i.e. the project without and the project with ERDF funding. This is detailed in the last three columns of Table 1.

This exercise represents good practice in project planning, joining-up various areas of project development, including project rationale, market failure, project costing, added value, and option development (i.e. considering the size/quality of a project).

What will a project appraiser be looking for?

The project appraiser will assess the realism and likelihood of the quantification exercise at each stage. Experience from previous, similar initiatives, project evaluations and benchmarks quoted in programme documentation will also inform the assessment.

Other baseline data and information will be used to establish if the estimated number of businesses and assumed benefits are a realistic assumption. Relevant questions for the project appraiser include:

- What is the overall number of SMEs in the relevant sectors residing in the Programme area? Is the assumed penetration rate realistic in this context?
- What other similar projects are currently taking place in the Programme area with the same target audience? This could constitute a competition for beneficiaries between projects and consultation fatigue, negatively affecting the assumed penetration rate of the project.
- How realistic are the assumed numbers in context of the planned intensity and quality of the project activities? i.e. how likely is it that an awareness raising campaign (leaflets and a conference) will change company behaviour? Is it feasible and realistic that the number of delivery staff proposed can reach/assist the assumed number of beneficiaries in the given time frame of the project?
- Are the assumptions made regarding the scale of the relationship between changed behaviour and increased sales and job creation realistic?
- Is the extent of estimated ERDF additional benefits reasonable and truly additional?
- Gross additionality is established if the above questions can be answered positively ensuring that the project's benefits have been realistically estimated and that ERDF funding is genuinely facilitating or increasing the job creation and GVA.

TABLE 1: KEY CONSIDERATIONS WHEN QUANTIFYING THE ADDITIONAL PROJECT OUTPUTS AND OUTCOMES/RESULTS DUE TO ERDF FUNDING

Quantification Steps	Key Considerations	Project Outcomes		
		Without ERDF	ERDF only	With ERDF
Step 1: Quantify the number of activities to be implemented.	<ul style="list-style-type: none"> Depending on the type of project and the number of project delivery staff available, how many activities (workshops, outreach days, advice sessions, etc.) will be accommodated by the project? How many business advisors are required to implement the activities, maybe in specific target areas, or in specific target groups if ERDF funding would be available? 	2	1	3
Step 2: Quantify the number of companies that are likely to be assisted by the project.	<ul style="list-style-type: none"> How many companies can be realistically engaged during the project period? How many relevant (i.e. sector specific) companies are located in the project area? How relevant is the project thematic for the targeted companies to be interested in receiving assistance from the project? The more relevant the higher the number of likely interested SMEs. 	70	30	100
Step 3a: Quantify the number of SMEs supported that are likely to act on the assistance received.	<ul style="list-style-type: none"> How effective will the project assistance (i.e. advise, workshops, training, finance etc.) be in actually changing companies' behaviours? How many SMEs assisted will put advice into action (in the short, medium, long-term)? 	14	6	20 (short term)
Step 3b: Quantify the increased in intensity of support to be provided to an SME.	<ul style="list-style-type: none"> How many additional hours/days of advice/specialist expertise will be provided to SMEs? 	2 days	3 days	5 days

<p>Step 4: Quantify the number of assisted companies that will be successful in increasing their sales/reducing their costs.</p>	<ul style="list-style-type: none"> Will the project provide assistance of sufficient intensity and quality to ensure that companies are likely to be successful in implementing the advice received? I.e. a leaflet campaign or conference series might be less effective in actively engaging companies than a project with face to face consultancy and individual company assistance. 	11	5	16
<p>Step 5: Estimate the average increase in sales and/or reduction in costs that will be made by the successful companies.</p>	<ul style="list-style-type: none"> On the basis of the sector, type and size of companies assisted, and in relation to the type and quality of assistance provided, what scale of increase in sales (reductions of costs) can a company expect on average? Calculate the estimated increase in sales for the project over the project period (i.e £50,000 per annum per company). 	£550,000	£250,000	£800,000
<p>Step 6: Calculate the number of jobs created over the project period.</p>	<ul style="list-style-type: none"> Not all successful companies will convert an increase in turnover/sales directly into new jobs, particularly if they have operated below capacity in the past How many jobs will be created in each successful company on average considering the average expected increase in sales? The jobs counted here should represent the number of jobs expected to be created as a direct consequence of receiving project support. 	6FTE	3 FTE	8 FTE
<p>Step 8: On the basis of the jobs created calculate the gross GVA.</p>	<ul style="list-style-type: none"> The number of gross FTE jobs created can then be multiplied by the GVA per capita in the relevant industry sectors. The GVA figures can be found in national Input-Output Tables (we assumed £38,000 here). 	£228,000	£114,000	£342,000

From Gross to Net – Economic Impact Assessment – Basics

Although not a formal requirement for the project applicant, this section provides a basic insight into the assessment of net impact additionality. Only if we know what the likely net impacts (i.e. the net jobs created) of a project are, can we really speak about additionality in the sense that ERDF funding has truly created new, additional jobs and GVA.

An economic impact assessment (EIA) represents a further logic chain that covers a number of key elements in assessing project additionality from the gross benefits reported at project level to establishing net values at the local, regional and national levels.

An EIA is usually calculated on the basis of job creation and pursues the important question of how many jobs have been newly created excluding those that only have replaced jobs elsewhere, or would have been created anyway even without the project or ERDF intervention. An EIA, therefore, includes considerations of positive and negative impacts of the project.

A basic introduction of the key elements of an EIA conversion from gross to net project impacts is presented below.

TABLE 2: KEY ELEMENTS OF AN ECONOMIC IMPACT ASSESSMENT

EIA Elements	Definition
Deadweight	Deadweight is the proportion of total impacts/outcomes that would have been secured by the beneficiary businesses anyway, or would have occurred in the absence of the public sector intervention of the project.
Leakage	The number or proportion of impacts/outcomes under the intervention that benefit those outside the ERDF programme area. Such affects should be deducted from the gross attributable impacts.
Displacement	Displacement is an estimate of the proportion of gross additional impacts accounted for by reduced outputs elsewhere within the ERDF programme area. These effects can occur in product markets (e.g. amongst non-assisted businesses competing in the same market) or in factor markets (e.g. in the labour market) and should be deducted from the gross additional impacts.
Substitution	The benefits gained in an area of the business, reduced the income/sales or number of jobs in another area of the business.

Multipliers	<p>Further economic activity (e.g. jobs, expenditure or income) associated with additional income for those employed by the project (income multipliers), with local supplier purchasers (supplier multipliers) and with longer term development effects (dynamic effects e.g. induced inward investment). Economic benefits of an intervention are multiplied because of knock-on effects within the economy.</p> <p>Multipliers are calculated at the national level with the latest data provided in Input-Output Tables, which provide multiplier factors for a range of industry groups.</p>
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When these and all of the above additionality factors have been applied to the gross attributable impacts we are left with net impacts. A simple example is provided in the following to illustrate the above EIA steps:

EIA – PROJECT EXAMPLE

The xyz project has supported 4 SMEs to gain the ISO 14001 Environmental Standard to improve the companies' environmental performance and to increase sales from an improved company image.

An ex post project evaluation and beneficiary survey have established that all of the supported SMEs have achieved their ISO 14001 standard and that 14 jobs have been created since then.

TABLE 3: Basic Example of EIA

SME	Gross Jobs	Dead-weight	Jobs	Leak-age	Jobs	Displace-ment	Jobs	Sub-stitution	Jobs	Income Multiplier	Supplier Multiplier	Net Jobs
1	0											0
2	2	100%	0									0
3	2	0%	2	100%								0
4	10	50%	5	0%	5	10%	4.5	0%	4.5	1.9	1.2	9
Total	14		7		5		4.5		4.5			9

One company (SME 1) did not create any jobs since their environmental standard has been achieved.

SME 2 has created 2 jobs since their ISO14001, but survey findings showed that both jobs would have been created anyway regardless of the new environmental standard (100% deadweight).

SME 3 has created 2 jobs as a direct consequence of ISO 14001, but the jobs were generated at a branch located outside the Programme area (100% leakage).

SME 4 has created 10 jobs of which 50% would have been created anyway regardless of the project participation. The SME has no branches outwith the ERDF Programme area (leakage 0%) and operates in a sector for which there is very little local/regional competition (displacement 10%). The implementation of the ISO 14001 standard has not caused the company to reduce its activities in other areas, therefore substitution is 0%. In terms of knock-on effects, the 45 jobs created have been multiplied by an income multiplier relevant to the company's industry sector (1.9). The increased sales of the company have a positive impact on the company's suppliers. The created jobs will therefore have to be multiplied by a

EIA – PROJECT EXAMPLE

factor of 1.2 (see relevant Input-Output tables). On the basis of the EIA, the project has created nine net jobs.

Annex 2: Market Failure

What is market failure?

Put simply, market failure refers to a situation in which markets fail to deliver and there is a need for the public sector to intervene. The causes of market failure can be many and varied but generally (although not exclusively) the ones most likely to be addressed through the ERDF Programme will include:

- **externalities** or spill-over – where the costs or benefits of an economic activity are not paid for or enjoyed by those that generate them. An example of a negative externality would be where previous industrial activity has left behind a contaminated site. Before it can be brought back into productive use this contamination needs to be treated, imposing clean up costs on the developer. A positive externality would be where a company develops a new innovation for which it receives no payment, but which benefits other companies or society as a whole;
- **imperfect information** – good information on a range of factors is needed for markets to work well. For example, companies need to know what customers want, where and when they want it, what prices they are willing to pay, etc. Likewise, customers need to know who can supply the good or service, when it will be available, what it will cost, etc. Market failure can occur where information is not fully available to both sides of the market (to both buyers and sellers), thereby restricting the supply or demand for goods and services;
- **merit goods** – these are goods and services that it is believed an individual or society should have on the basis of need, rather than ability and willingness to pay. Such goods should be subsidised or provided free at the point of use. An example of a merit good is training which benefits not only the individual trainees but also society as a whole by improving economic productivity capacity;
- **public goods** – these are goods or services which everybody can consume and one person's consumption does not impact on another's. For example, improving the access, signage or public realm to a town centre which could generate benefits which outweigh the costs of implementation. These benefits would be enjoyed by all users beyond those that pay for the improvements. Given that there is no mechanism to 'charge' there is no real 'market' and there is a valid role for the public sector to intervene to make provision;
- **market power** (or monopoly) – this can arise because of insufficient competition, where one or a few buyers or sellers have sufficient market power to influence prices. For example land ownership can bestow market power. With average residential land values around 300% higher than average employment land values

the market seeks to achieve these higher values. Even where land owners are unwilling to appeal on planning designations they may decide to leave the land undeveloped and wait till values rise further or planning circumstances change; This can lead to a situation of an inadequate supply of land for industrial or commercial development; and

- **equity** – this not a market failure *per se* but is a consideration used to justify intervention and generally relates to re-distribution policy. The key rationale is that intervention is necessary to ensure an equitable distribution of benefits. Good examples include the targeting of support on disadvantage groups or areas.

What is not market failure?

Confusion abounds among many (even experienced) practitioners about what constitutes market failure. The most common issue is to confuse the *symptoms* of market failure with the *cause* of market failure – and consequently treat the symptom and not the cause.

e.g.

The fact that businesses are unable to afford to access a service is not in itself evidence of a market failure. Paying the full costs of access might not be justified in terms of the benefits that would be derived. In these circumstances, public sector intervention to subsidise access and encourage service take-up may simply be a redistributive action (transferring resources from the public purse to the users/suppliers of the service in question). However, in some cases the inability to afford to access services may reflect the monopoly power of the suppliers, in which case intervention is justified.

e.g.

SMEs might find it difficult or expensive to obtain credit from the banks (the symptom) but the main reason is that the banks have no valid basis upon which to assess the risk of lending (the cause). Banks may take the safe option of either refusing credit or pricing in the perceived higher risk. In this case the market failure is not the bank's unwillingness to fund projects but the lack of information available to inform lending decisions.

e.g.

There is generally a lack of private industrial and commercial property in rural areas and may reflect that rural property markets are thin and weak and there is limited demand (a symptom). It may also be that 'market rents' in rural areas are too low (again a symptom) to make development viable (another symptom). The unwillingness of rural businesses to pay a rent which will attract private development is not market failure – and the private sector not developing in rural areas is actually the market acting rationally. In this case the rationale for intervention is based more on equity related issues (although there is likely to be a level of information failures to contend with).

The above examples present some of the typical projects that ERDF gets asked to support and some of the erroneous market failure arguments that are often made. The crucial aspect is that unless the cause of the market failure is fully understood it is difficult to design an effective and efficient response mechanism and intervention.

What should a project developer look for?

The table below sets out an approach for people involved in developing potential ERDF projects to identify and take account of market failure. These outcomes from these tasks should be clearly reflected in the design of the project – they should be summarised in the outline ERDF application and fully articulated in the full ERDF application.

Stage	Action	Details	Outcome
Stage 1: Identifying the Problem/ Opportunity	Clearly identify and describe the prob/opp the project seeks to address	<ul style="list-style-type: none"> • Why is it a prob/opp? • What is the scale of the prob/opp? • Why is it our responsibility? 	A clearly defined project specification
Stage 2: Develop Initial Market Failure Proposition	Based on understanding of the prob/opp develop an initial proposition that describes the market failure rationale	This should be based on the proposers own experience and general evidence from other similar projects	An initial proposition for market testing
Stage 3: Develop the Evidence Base	Need to develop beyond a general theory – it needs an evidence based approach	Source of evidence could include: <ul style="list-style-type: none"> • evaluation evidence; • market research; • published research; • partners input; • similar projects; and • own experience. 	A suite of research and other evidence that can be used to test the market failure theory
Stage 4: Review Proposition	Review initial proposition based on the data and information from the	<ul style="list-style-type: none"> • Does the evidence support proposition? • How robust is the 	A conformed proposition against which the

Stage	Action	Details	Outcome
	available evidence. Revise if appropriate	evidence? <ul style="list-style-type: none"> • What does the evidence tell us? • How does it support our proposition? 	project will seek to deliver
Stage 5: Inform Project Design	Need to show how understanding of market failure has been addressed through project design	How should we intervene? How will the project specifically address the identified failure? What changes would we expect to see as a result?	A project specification that clearly shows how it will address the identified market failure
Stage 6: Monitoring and Evaluation	Develop a M&E framework that is able to test the proposition from an ex-post perspective	How will we know if market correction has occurred? What indicators/measures will be used to track progress? What are the key questions an evaluation will be asked to confirm? How will it show progress to market correction?	An effective M&E framework with feedback and communication

What will the project appraiser be looking for?

In undertaking the project appraisal, there are a number of key issues which an appraiser will consider. These would tend to follow some but not all of the previous processes set out above.

Stage	Key Issues
Stage 1: The Problem/ Opportunity	<ul style="list-style-type: none"> • Has the problem/opportunity been clearly identified and articulated by the proposer? • Is it clear why it is the proposer's organisation's responsibility to address it? • Is it clear how addressing this problem will contribute to the Operating Programme objectives and targets?

Stage	Key Issues
Stage 2: The Evidence Base	<ul style="list-style-type: none"> • Is it clear that the identification of market failure is based on an evidential approach or is it simply an assertion or statement of 'fact'? • Is there any evidence at all – if not is there a minimum required? • If evidence has been used is it presented in the Business Case and does it seem a robust analysis? • Are there any obvious gaps in the information base (e.g. why not use results of evaluation of previous or similar projects)?
Stage 3: Market Failure Proposition	<ul style="list-style-type: none"> • Overall, and based on the appraiser's experience, does the market failure proposition seem appropriate? • Does the market failure proposition clearly reflect the evidence analysis? • Is it an appropriate description of market failure?
Stage 4: Project Design	<ul style="list-style-type: none"> • Is it clear how the market failure analysis has influenced the project design? • Is the project clearly addressing the defined market failure?
Stage 6: Monitoring and Evaluation	<ul style="list-style-type: none"> • Is it clear how the monitoring will progress in addressing the identified market failure; • Are there appropriate indicators being monitored to provide a good insight; and • Have the key evaluation questions been identified that will provide the ex-post review.

While a clear identification and analysis of market failure is necessary for all project appraisals, the extent of things like evidence gathering, commissioning bespoke market research, etc, needs to be appropriate to the project context. In the end it comes down to the professional judgement of the appraiser as to whether the proposer has made sufficient efforts to address the issue.

Other sources of guidance which include treatment of market failure.

UK National Strategic Reference Framework: EU Structural Funds Programmes: 2007–2013:

HM Treasury Green Book: http://www.hm-treasury.gov.uk/data_greenbook_index.htm

EU Guidance on Cost Benefit Analysis of Major Projects
http://www.ndp.gov.mt/pdf/reference_02.pdf

DCLG Appraisal and Evaluation Guidance:

The National ERDF Handbook

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ERDF-GN-1-001

Version 2

Date last Published 24th September 2012

<http://www.communities.gov.uk/corporate/researchandstatistics/appraisalevaluation/>

Annex 3: Value for Money

What is VFM?

Put simply, it relates to whether or not a project will generate sufficient benefits to justify the costs of implementation, and helps to identify whether it may be possible to do better with available resources.

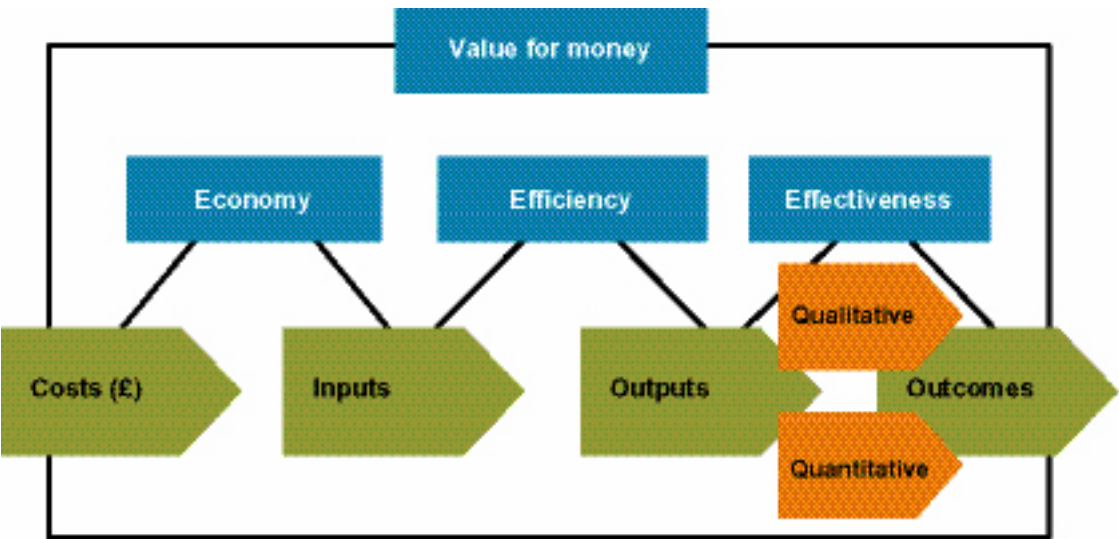
e.g.

“Value for Money is about obtaining the maximum benefit over time with the resources available. It is about achieving the right local balance between economy, efficiency and effectiveness or, spending less, spending well and spending wisely to achieve local priorities for services. VFM is high when there is an optimum balance between all three elements – when costs are relatively low, productivity is high and successful outcomes have been achieved.” The Audit Commission

There are a number of important dimensions to VFM, and these are normally summarised under the three main headings of:

- economy;
- efficiency;
- effectiveness; and

This is illustrated in the VFM chain, below.



Economy

Better economy is achieved when a project is delivered at lower cost, having secured the necessary scale and quality of service provision. It is important to bear in mind that achieving 'economy' is not simply about finding the cheapest way of delivering a project. Instead, proper account needs to be taken of the range, type and quality of services being provided.

Efficiency

Efficiency relates to the costs of achieving benefits and is commonly measured in terms of the ratio of outputs generated to inputs expended. In other words, a relatively more efficient project will use less resource generating each unit of output.

Effectiveness

Effectiveness relates to the extent to which objectives are, or will be achieved. Unlike economy and efficiency, effectiveness need not make any reference to the costs involved in delivering benefits.

Why is VFM important?

It should be obvious that better VFM is always preferred to poorer VFM. In effect, by selecting projects which are, on average, targeted to achieve better VFM, then the Operational Programme 2007–13 would either:

- use less ERDF resources to generate the same level of benefits;
- use the same level of resources to generate higher levels of benefits; and/or
- combination of the two, less resources used to generate more benefits.

VFM is therefore an important component in assessing whether or not a project is worthy of ERDF support: generally the presumption is that ERDF resources should be invested in projects which offer 'acceptable' levels of VFM.

What should ERDF Applicants look at?

Applicants should bear in mind that there are two fundamental influences on the VFM that their project is expected to achieve.

The first is the level of project costs: VFM will be improved if costs are reduced, assuming that any cost reductions do not harm the project's prospects of generating

benefit for target beneficiaries and the wider economy.

e.g.

Take, for example, the construction of new specialist property designed for SMEs in the biosciences sector. Here there is a need to balance the costs of providing the space, while ensuring that it will meet the specialist needs of tenant companies. Any cost economies could impact on the range of services available to tenants and might actually reduce the appropriateness of the space to SMEs in that sector, harming the project's efficiency and effectiveness.

e.g.

A project to encourage innovative behaviour among SMEs might include intensive one-to-one support alongside an extensive programme of group-based 'learning journeys' to illustrate the benefits of innovation. Unless it can be shown that these 'learning journeys' are essential to encouraging positive attitudes to innovation then they may be adding to costs with little substantive influence on the project's performance. Their inclusion may simply be at the expense of project economy and efficiency.

Before an application is made for ERDF, the Applicant should:

- examine alternative design options which might offer better economy. This extends to features such as:
 - the broad range of services to target beneficiaries;
 - the quality of service provision; and
 - the detailed service components;
- make sure that the delivery mechanism is the most appropriate in terms of cost, and where a cheaper option is rejected, the reason for doing so should be made explicit; and
- make sure all other sources of project funding have been considered, especially private sector contributions to project costs. Remember, the Operational Programme will generally be assessing VFM in the use of ERDF resources (and to an extent in terms of all public sector contributions) so alternative private and public sector contributions are relevant.

The results of these investigations should be described fully in the ERDF Application.

The second influence on VFM is the scale of benefits that a project is expected to achieve. The project applicant must articulate and justify a:

- set of relevant output and impact targets using indicators which enable the project's overall contribution to, and VFM in achieving, the Operational Programme's targets to be assessed; and
- target levels that are consistent with achieving relatively good VFM. Here the applicant needs to take into account what similar activities have achieved in the past, making best use of benchmarks available from evaluation evidence and other performance reviews. If the applicant genuinely does not think similar or better VFM is possible, they must offer an explanation for why this is the case and why the project is still worthy of support. This might be because of other issues it will address, or benefits it might produce, which are difficult to quantify.

Again, the applicant is required to provide an assessment of their project's expected VFM in Section 2.3 the Options Analysis of the Full Application, and in so doing they should make explicit how the project will perform on key indicators and how this performance compares with other projects and with the Programme's overall VFM targets.

What will the project appraiser look for?

Project appraisers need to be satisfied that all applications for ERDF support have given sufficient treatment to VFM issues. This will include:

- examining the project description and being satisfied that the range of services envisaged is appropriate and necessary to achieving the types of outputs, results and impacts targeted. Particular attention will be paid to the different activities for which ERDF is being requested and whether a good enough case has been made for their inclusion;
- assessing project costs and being satisfied that these are reasonable, especially relative to benchmark data for other projects which have either been approved previously or for which there exists evaluation evidence or other information;
- ensuring that all alternative sources of project funding have been investigated fully, from both private and public sector sources;
- assessing the range and scale of performance targets set and being satisfied that these are appropriate and are derived using acceptable methods; and
- examining the Options Analysis in the Full Application and being satisfied that this presents a good case for why the preferred option is worthy of approval.

Links to other sources of guidance which include treatment of VFM.

UK National Strategic Reference Framework: EU Structural Funds Programmes: 2007–2013:

HM Treasury Green Book: http://www.hm-treasury.gov.uk/data_greenbook_index.htm

DCLG Appraisal and Evaluation Guidance:
<http://www.communities.gov.uk/corporate/researchandstatistics/appraisalevaluation/>

Annex 4: Economic Lifetime of Assets

Background

1. Where ERDF is awarded in connection with capital projects involving 'Fixed Assets' (property, land, plant, fixtures) or is used to purchase a substantial piece of equipment whose value at the time of purchase is at least £5,000 (a 'Major Asset'), ERDF grant funding agreements contain certain conditions to ensure that value for money for the public purse, and the grant objectives are achieved. Articles 55 and 57 of EC Regulation 1083/2006 (the 'ERDF General Regulation') and state aid are also factors, as set out below.
2. Such conditions, particularly in relation to Fixed Assets being created or refurbished, apply long-term, and the risk of clawback of grant has to be managed by the Grant Recipient for a long period following physical completion of the actual project. This could make the asset more difficult to manage and to market, and could be said to provide a dis-incentive to commercial property developers/social landlords etc to applying for ERDF grants.
3. Prior to April 2011 Funding Agreements included a requirement for the economic lifetime of assets to be set at 20 years. The history behind the 20 year 'rule' has recently been investigated in the context of a particular case where a college had been awarded an ERDF grant of £139k in 1996. In February 2009 the college had approached the relevant Government Office to advise them of their plans to demolish the college. Despite being advised by the Government Office (GO) that they risked clawback of the grant, the college proceeded with the demolition and sold the site for £14 million. Following consultation with lawyers and Internal Audit we advised the GO that they should claw back all of the grant.
4. The 2007–13 ERDF funding agreements require the Grant Recipient to warrant that any Fixed Assets and Major Assets funded with ERDF will be used for their 'Approved Use' throughout their Useful Economic Life, and include an obligation on the Grant Recipient to secure consent to any change of use, which may be given subject to conditions, including the requirement to repay all or part of the grant.
5. The 'Useful Economic Life' of a Fixed Asset or Major Asset is defined as:
"the period that any Asset shall be used for the purpose stated in the Application as specified in the Project Specific Conditions and the 'Approved Use' of the Asset (so that the public purse can be satisfied it has received the benefit) is either set out in the definitions section or is set out in the Project Specific Conditions."

6. Failure to ensure that an Asset is used for its Approved Use throughout its Useful Economic Life is a breach of contract.

History

7. The concept of ensuring that a capital asset is used for its 'approved use' throughout a 'useful economic life', and the 20 year condition in relation to land ('Fixed Assets') has appeared in ERDF offer letters at least since the start of the 994-99 programmes. It is not set out in any EC Regulations covering the 1994–99, 2000–06 or 2007–13 periods.
8. We have also checked with colleagues in HM Treasury, and also checked current and earlier versions of the HMT Green Book, and there is no reference to the 20 year rule therein. HMT colleagues advise that it is probably a decision that the ERDF programme management Division in our Department would have taken some years ago, presumably following legal advice. DCLG lawyers are also unable to identify the source of the rule.

Consideration of the Legislative Context

9. Pursuant to Article 57 of the ERDF General Regulation (Durability of Operations), capital projects are entitled to retain the investment from ERDF provided that within 5 years following completion it has not undergone a substantial modification as a result of a 'change in the nature of ownership of an item of infrastructure' which either 1) results in the project's nature or its implementation conditions being affected; or 2) allows a firm or a public body to receive an 'undue advantage'.
10. The phrase 'undue advantage' alludes to the state aid rules and throughout the General Regulation it is made clear that all grants must comply with state aid legislation.
11. Where a capital project is being delivered under cover of a notified state aid scheme, the scheme covers how long the Commission expects to see a public benefit to be maintained. Under the General Block Exemption and regional aid guidelines, the grant must be conditional upon the investment remaining 'in place' for 5 years (3 years for SMEs).
12. Where there is no specific block exemption or scheme, in case law, when considering the risk of aid being present, the Commission has tended to look at a longer risk period. For example, in the German Managed Workspace decision, in order to become comfortable that any aid was 'washed through' to SME tenants, the Commission expected to see the social use for the publicly funded workspace being maintained for 15 years and its residual value to be taken into account, to demonstrate that no aid accrued to the owner/developer of the facility.

13. In addition, Article 55 of the ERDF General Regulation on income generation must also be considered. This applies to all projects which are classified as ‘no aid’ (i.e. not subject to Article 107 of TFEU). Project income must either be pre-estimated based on the ‘useful economic life’ of the asset (interpreted as 15 years for fixed assets) and deducted ex-ante from the grant awarded, or where this is not possible, actual income must be tracked for 5 years post completion and any net income must be deducted from the grant post project completion. DCLG has to account to the Commission for net income in submission of the closure documents for the operational programme concerned. Therefore it has to pass the risk down to the projects and ensure that the income position is monitored.

Balancing Risk

14. Including a requirement for Fixed Assets to be used for their ‘Approved Use’ for 20 years allows DCLG to manage and investigate any potential clawback risks if an owner subsequently wishes to change the use. For example, if a managed workspaces was funded and the social landlord sold the asset to a private hotelier to create a boutique hotel seven years following completion, whilst the landlord would not be in breach of the five year period in Article 57, it would be operating outside of the German Managed Workspace decision and it would be in receipt of net income which, if the operational programme had not been closed, could be captured by Article 55. In addition, it could be argued that the public purse had not received sufficient benefit and the overall objectives had not been achieved.
15. However, as set out above, owing to the inter-play between state aid and the structural funds legislation, the length of time over which the Commission would expect any approved use of a Fixed Asset to be maintained to ensure the benefit to the public purse, and hence the length of time over which the use of a capital asset may be restricted, will differ according to the nature of the project. Therefore a ‘one size fits all’ approach is inappropriate and unnecessarily onerous for some projects, and could stifle economic regeneration initiatives.

New projects

16. Capital projects tend to be fall within three main types: Managed workspaces for SME occupants, speculative and bespoke developments, and pure public infrastructure.
17. The ‘Useful Economic Life’ of an Asset should be more flexible and take account of depreciation, the purpose of the grant (the ‘Output Targets’) state aid concerns and structural funds legislation
18. As a guide we suggest as follows:

- a. for Fixed Assets in capital projects covered by the 'speculative and bespoke gap funding' scheme: If the Output Target is brownfield land regeneration/floorspace created to stimulate the economy, once the Fixed Asset is completed and ready to put to the market this Output Target has been achieved. Article 57 would prohibit any undue advantage accruing to the developer and would require the Fixed Asset's approved use ('its nature or implementation conditions') to be maintained for 5 years. This accords with the state aid scheme which expects to see the benefit to the grant recipient being measured after 5 years. Therefore in the grant funding agreement conditions, the 'Useful Economic Life' should be defined as **5 years**;
- b. for capital projects based on the German Managed Workspace decision: – If the purpose of the grant is to provide an SME incubator facility and to see jobs created and safeguarded for SMEs, this Output Target would need to be monitored post completion of the facility. Article 57 is as stated above. However, in terms of state aid, owing to case law, the Commission would expect to see this benefit provided for 15 years. Therefore, in the grant funding agreement conditions, the 'Useful Economic Life' should be defined as **15 years**; and
- c. for Fixed Assets in capital projects involving 'no aid' arguments, e.g. public museums or infrastructure, then notwithstanding Article 57 a longer-term view may be required and the potential for Article 55 (income generation) being applicable should be assessed. In such instances it may be prudent in the grant funding agreement conditions, to define the 'Useful Economic Life' as **15 years**.

However, care should be taken where projects do not appear to 'fit' any of the above categories and DCLG legal will discuss this with the PDT when drafting the Funding Agreement.

Historic projects prior to April 2011

We consider that the change in the rule should be retrospective to cover all capital projects approved under this programme period to which the 20 year rule currently applies.

Annex 5: Project Expenditure

Some basic principles

- accurate planning at the development stage of a project is important as only expenditure included in your approved application and Funding Agreement (FA) can attract ERDF. If you want to add new items of expenditure to your approved application/FA, you must obtain the written approval of the Department before you incur any new costs.
- all expenditure must be both incurred and defrayed between the project start and end dates as identified in the FA.
- ERDF can be claimed only against expenditure included within your project budget that can be evidenced by a clear and transparent audit trail, including invoices, receipts and banks statements (see 'What evidence do I need to keep' section).
- ERDF can fund a proportion of the eligible project costs. The remainder of a project's eligible costs must be met from other match funding.
- in planning your cash-flow, bear in mind that ERDF grant is always paid in arrears, against expenditure that has actually left your bank account (i.e. 'defrayed' expenditure).

How to develop a project budget

- base your project budget on actual costs recently incurred in purchasing the same/similar items, where possible, or on quotes/estimates from potential suppliers. Keep a record of the calculations used to arrive at expenditure projections.

e.g.

Project Manager's salary based on £35k per annum plus National Insurance contributions at 6% (of salary) and pension contributions at 7%.

- ensure expenditure items are grouped in the correct broad cost categories for capital and revenue expenditure, as required by the financial tables of the ERDF Application. A supplementary detailed breakdown of expenditure into more specific cost sub-categories must be provided on a separate spreadsheet.
- check all items of expenditure are eligible for ERDF (see the National Eligibility Rules for further guidance on eligible expenditure).
- use an IT-based spreadsheet to forecast expenditure (revenue and capital) and

match funding on a monthly or quarterly basis, for the full duration of the project.

Tip

Build formulae into the spreadsheet to calculate costs accurately.

- The budget included in an ERDF Application can be an estimate however all claims must be made on the basis of actual defrayed expenditure.



The following revenue checklist can be used to check that your budget complies with ERDF requirements.

Revenue Cost Category	Cost Item	Question	Yes/ No
Salaries	Salary/ wage costs	<p>Do salaries in this category relate only to direct staff costs? (Indirect costs should be included in the 'overheads' category.)</p> <p>If you will incur pension and National Insurance costs, have they been included in this category of your budget?</p> <p>If you will incur project-specific recruitment costs, have they been built in to the budget?</p> <p>Has there been an allowance for inflation/annual pay rises?</p> <p>If direct staff costs include staff who will spend only a proportion of their time working on the project, will they be able to keep timesheets to verify the proportion of their costs attributable to it? (If their time can't be directly attributed to the project, their costs should be included within the 'overheads' category.)</p>	
	Staff travel & expenses	<p>If staff are to be paid car mileage or travel costs, have these costs been included in this category?</p> <p>Does the budget specify the mileage rate (e.g. 40p per mile)?</p> <p>Does the budget specify how mileage has been estimated for each staff member?</p> <p>If staff expenses will be incurred, does the budget</p>	

Revenue Cost Category	Cost Item	Question	Yes/No
		specify the type of expenses and how they have been calculated?	
	Staff training	If project-specific training will be undertaken by project staff, have such costs been built into the budget?	
Overheads	Direct overheads	<p>Are cost items directly attributable to the project? (Those that are attributable to the project only indirectly should be listed separately.)</p> <p>Are the overheads in the project budget based on the actual cost recently incurred in purchasing the same/similar items, or on quotes/estimates from potential suppliers?</p> <p>Does the budget specify which costs are included within the 'direct overheads' cost item e.g. office equipment (below £2,500 per item), expendable supplies (e.g. stationery, postage), general administration costs etc?</p> <p>If direct overheads include staff costs, is it the case that these staff will be able to keep timesheets to verify time spent working directly on the project? (If not, they should be classified as 'indirect overheads'.)</p>	
	Indirect overheads/flat rates*	<p>Do the costs included in the 'indirect overheads' sub-category relate to indirect costs that will be incurred indirectly as a result of the ERDF but that also relate to non-project activity and that would be carried even if the ERDF project does not go ahead? (If not, they should be categorised as 'direct overheads'.)</p> <p>Does the budget specify which costs are included within the 'indirect overheads' cost item e.g. indirect staff?</p> <p>Have indirect overhead costs been apportioned using a fair and equitable methodology?</p>	

- See Appendix 5A for further information on methodologies to be used to calculate

indirect and flat rate overhead costs.

Revenue Cost Category	Cost Item	Question	Yes/ No
Premises	Rent	<p>Does the budget specify the rental charge per square metre/foot, per annum and the total space occupied by the project?</p> <p>If the project occupies only a proportion of the building for which rent is paid, has the rental charge been apportioned using a fair and equitable apportionment methodology?</p> <p>If the project occupies space that will also be used for non-project activity, has the rental charge been apportioned using a fair and equitable apportionment methodology?</p>	
	Rates	<p>Does the cost of rates charges relate only to space that will be occupied by the project?</p> <p>If the project occupies space that will also be used for non-project activity, has the cost of rates charges been apportioned using a fair and equitable apportionment methodology?</p>	
	Heat & light	<p>Does the cost of heat & light relate only to space that will be occupied by the project?</p> <p>If the project occupies space that will also be used for non-project activity, has the cost of heat & light been apportioned using a fair and equitable apportionment methodology?</p>	
Fees	Consultants' fees	Do consultants' fees relate only to work that is essential for the effective implementation of the project?	
	Evaluation	Do evaluation costs relate to the evaluation of ERDF project activity only?	
	Accounting & audit	Do accounting & audit fees relate specifically to requirements imposed by the Managing Authority?	

Revenue Cost Category	Cost Item	Question	Yes/No
Other revenue	Depreciation	If the project will incur costs relating to depreciation and/or impairment of assets that have not been purchased using UK government or European Community grant, are they included within this category?	
	Marketing & publicity	Will all marketing & publicity costs be incurred and defrayed after the agreed project start date and before the agreed completion date? Do they relate only to the marketing & publicity of the ERDF project?	
	Irrecoverable VAT	Does the budget include only VAT applicable to eligible ERDF project costs? Does the budget include only VAT that cannot be reclaimed from HMRC?	
	Other costs	Is it the case that costs included in this category are inappropriate for other cost categories?	

If the answer to any of the above questions about your revenue budget is 'no', you may wish to revisit the budget or contact your PDT for advice.



The following capital checklist can be used to check that your budget complies with ERDF requirements.

Capital Cost Category	Question	Yes/No
Land acquisition	Is it the case that land acquisition costs do not exceed 10% of the total eligible project cost? (If not, such costs over and above 10% of the total eligible project cost cannot ordinarily attract ERDF.)	
Building acquisition	Have the purchase costs of all buildings required for the successful implementation of the project been included within the budget? Is there an accurate basis for their calculation (e.g. costs based on average price per square foot of similar premises)?	

Capital Cost Category	Question	Yes/ No
Site investigation	Have the costs of specialist investigations required to identify contamination and recommended particular treatments been costed into the project?	
Site preparation	If the project involves demolition works and/or the general preparation of sites, have these costs been identified separately?	
Building & construction	Where applicable, have costs relating to the external/internal refurbishment and conversion of existing buildings; the construction of new premises; the provision of services to sites; and landscaping been included in your budget? Are such costs based on detailed quotes/estimates from potential contractors?	
Plant & machinery	<p>If the project involves the purchase of tangible fixed assets used to provide a service to the project, have such costs been included in the budget?</p> <p>If plant & machinery are acquired by means of a hire purchase/finance lease agreement, has the capitalised value of leasing/hire purchase been included? – Interest or service charges arising on debt including finance leases/hire purchase and credit arrangements cannot be included as eligible costs.</p> <p>Example:</p> <p>Project A will last 24 months</p> <p>Equipment B is purchased under an HP agreement</p> <p>Monthly payments are £1,000 including service charges and interest</p> <p>Service charges and interest totals £200 per month</p> <p>Eligible cost is therefore 24 (months in the project) x £800 (eligible monthly payment) = £19,200</p> <p>Therefore a cost of £19,200 can be included as a capital cost.</p> <p>If the cost of purchasing second-hand equipment has been included, is it the case that the equipment wasn't originally purchased using national or European funding?</p> <p>Have costs relating to mobile or portable assets that will be used for the delivery of project and non-project activity been apportioned using a fair and equitable method?</p>	

Capital Cost Category	Question	Yes/No
Fees	<p>Have the fees and salaries of all staff and contractors providing a service to the project, including legal, technical and financial consultancy fees, been included in the budget?</p> <p>Is the cost of professional fees less than 12.5% of the total eligible works costs?</p>	
Other capital	Is it the case that costs included in this category are inappropriate for other capital cost categories?	

If the answer to any of the above questions about your capital budget is 'no', you may wish to revisit the budget or contact the ERDF Secretariat for advice.

What are project overheads?

Overheads may include:

- the cost of employing staff who provide a support function to the project but who do not work directly on the project and cannot, therefore, keep timesheets to record direct project time e.g. central Finance, HR and IT staff providing a support function across the whole of your organisation, including the ERDF project;
- a proportion of non staff costs e.g. office equipment (below £2,500 per item), expendable supplies (e.g. stationery, postage etc.), general administration costs, premises etc.
- all costs must be relevant to and able to be fairly apportioned to the project. They must also be actual, auditable and attributable to the project. A clear audit trail will need to be kept at the project implementation stage to evidence overhead costs including:
 - invoices or bills;
 - apportionment methods and calculations.

Annexes 5A, 5B and 5C provide further information on overhead and indirect cost methodologies.

Annex 5D provides further information on apportionment methodologies.

Project start date

Expenditure will not be eligible prior to the agreed 'Start Date'. The start date will be specified in the Funding Agreement. Expenditure incurred prior to this agreed date will be ineligible.

Preliminary expenditure for capital projects

Capital projects can include preliminary expenditure to cover the costs of site investigation works, site surveys, environmental appraisals and/or feasibility studies. These must be identified in the full application and form part of the original Funding Agreement. Appropriate milestones and outputs should be identified to enable any subsequent re-assessment of the application to establish if the project remains viable. Costs for preliminary expenditure must be included in the first claim for grant.

When can expenditure be defined as ‘defrayed’

ERDF can only be claimed on expenditure that has actually been paid (with the exception of flat rate indirect overhead costs).

For the purposes of ERDF ‘paid’ is interpreted as actually having left the bank account of the final beneficiary, and evidence of this can be required by an auditor (in the form of bank statements). Receipt of an invoice is not sufficient evidence that it has been paid. However, where the final beneficiary makes BACS payments and can demonstrate that its accounting system is sufficiently robust, the BACS posting date can be used as the ‘paid’ date for the purpose of claiming ERDF grant subject to the following conditions:

- the final beneficiary should have a bank reconciliation process in place to ensure that all BACS payments are ultimately ‘paid’ (i.e. leaves the bank account).
- the final beneficiary is responsible for the repayment of ERDF grant where expenditure has been claimed based on the BACS date but the BACS transaction remains unpaid for whatever reason.
- in the case of consortia bids for funding with one lead partner, expenditure that has actually been paid by any of the named partners in the bid can be included in the ERDF claim from the lead partner, provided the partners are named in the offer letter.
- where the final beneficiary is claiming salary costs it is accepted that the date of payment of the employee’s salary can be used to claim related employee costs, such as NI and pension contributions. The date of defrayal should be recorded as the date the employee’s salary is ‘paid’ even though it is accepted that in some cases NI and pension contributions can be paid the month after the employee salary is paid.

There is a risk of NI and pension contributions being included in the ERDF claim and then not actually paid by the final beneficiary, so the final beneficiary must demonstrate that its payroll systems are robust and there have been no previous instances of non payment of PAYE (such as NI or tax to HMRC) or pension contributions.

This method of claiming salary costs should only be used where the final beneficiary incurs the PAYE associated costs and pension contributions in the month following

payment to the employee. Where the final beneficiary incurs these costs on a quarterly, six monthly or annual basis then they should only include them in the claim at the point of incurring the cost (the date actually paid out of the bank account).

Some larger organisations such as universities and local authorities often operate on an **internal journal transfer** basis for certain direct services and costs which are delivered at an organisational level to ensure value for money. This involves transferring the actual costs of the provision of the service from one cost centre within the organisation, the one delivering or purchasing the service to another cost centre (the project) the recipient of the service.

Journal transfers for such direct costs should only be accepted as evidence of expenditure if they can be traced back to the original cost incurred by the final beneficiary. This involves transferring the actual costs from one part of the organisation incurring or purchase the cost to the delivery part of the organisation. The transfer should be supported by documentation indicating that the service/goods have been requested, supplied and delivered and that the cost has transferred from the cost centre of the project (department delivering the activity) and can be traced back to the relevant expenditure incurred by the final beneficiary (which will need to be evidenced through bank statements, receipted invoices or probative accounting records). This does not apply to indirect costs, such as overheads. It should be noted that the costs must be actual costs only without any element of profit included and must also not include any lost opportunity costs, for example Organisation A is the applicant and would normally charge out the hire of a room at £200 per day. The project has use of this room for a meeting. Organisation A cannot recharge the £200 fee to the project as this would be a lost opportunity cost which is ineligible for ERDF.

In accordance with COMMISSION REGULATION (EC) No 16/2003 of 6 January 2003 laying down special detailed rules for implementing Council Regulation (EC) No 1164/94 as regards eligibility of expenditure in the context of measures part-financed by the Cohesion Fund.

Accounting document of equivalent probative value' means any document submitted by the body responsible for implementation to prove that the book entry gives a true and fair view of the transactions actually made, in accordance with standard accounting practice.

In the case of concessions, the certification by the responsible authority of the value of the work carried out in terms of the progress indicators for the work in the concession contract shall constitute an accounting document of equivalent probative value.

What evidence do I need to keep?

All ERDF expenditure is claimed in arrears, on the basis of actual evidenced eligible defrayed expenditure. Acceptable evidence includes:

- original paid invoices (including those for overhead costs);
- bank statements identifying defrayed expenditure;
- timesheets showing actual staff time spent on the project;
- staff daily/hourly wage rate calculations;
- overheads and other apportionment methods;
- car mileage claims, signed by the member of staff and their manager;
- expenses claims supported by receipts and signed by the member of staff and their manager;
- original contracts with suppliers e.g. accountants, lawyers, project evaluators; and
- if a grant scheme, copies of all grant offers/agreements.

Annex 5A: Indirect Overhead Costs

1 Background

Recent DG Regio and ECA audits over the last couple of years, particularly of complex organisations (i.e. those organisations that are multi-sited and/or multi-functional such as local authorities and higher education institutions) have highlighted the fact that in many cases, ineligible costs have been included in the calculation of overheads for ERDF projects. The inability of the organisations concerned to provide an audit trail for overheads tested through to defrayal, or use of apportionment methods not acceptable to the EU resulted in significant percentage of allocated funds being clawed back. Due to the complexity of calculating and accurately recording and reporting overhead costs, Grant Recipients are strongly advised to consider whether their inclusion will add value to the ERDF project. Grant Recipients and any delivery partners will likely spend a disproportionate amount of time reconciling figures which, regrettably, does often not warrant their inclusion.

As a consequence of the high level of error, the Commission has created a new flat rate approach.⁵ Indirect costs must now either be declared as a real cost with a full audit trail, or by using one of the agreed flat rate methodologies.

This section provides further information on the flat rate methodologies and the approach to be used to calculate indirect costs via a modified TRAC system. The detailed guidance and examples in Annex 5a and b for modified TRAC and related classification guidance relate to projects in the Higher Education Institution (HEI) and consequently the contrasting flat rate example uses the same example. However, the flat rate can be used for other complex organisations. For non-HEI projects, please ensure you seek PDT agreement on the eligibility of the overhead costs. Grant Recipients will also need to be able to justify a link to the ERDF project.

2 Definition

Overheads or indirect costs are those costs essential to the operation of the project, for which it is not possible to attribute and demonstrate the cost directly. These costs may include the cost of supporting staff, not directly engaged in the project, premises costs such as heat, light and other accommodation costs, central services or other costs such as insurance.

Anything which can be directly attributed in an auditable way to the project should be

⁵ In 2009, regulations 284/2009 and 397/2009 modifying the ERDF regulation 1080/2009 came into force. This allowed for the first time the possibility of a flat rate indirect cost which is accepted to be an estimate.

declared as a direct cost. This may include costs which the organisation may normally include in its overheads. It is therefore essential to ensure that there is no duplication of costs being directly claimed and those costs included as part of the calculation of the indirect cost.

3 The Principles

Indirect costs, except those determined on a flat rate basis, must be actual real costs (ie not estimated), ERDF eligible and relevant to the project, ie not simply relevant to the organisation delivering the project. Estimated, notional, out of period, or opportunity costs are not eligible.

All costs must have been paid for (i.e. there must be evidence to show that the relevant cost has been paid down to BACs or bank statement) and the activity must take place within the agreed project period. Therefore, even if a service is used during the project period, if it was paid for prior to the start of the project, it will not be eligible. Similarly, if an expenditure takes place during the project period, but includes elements which will continue after the project period (e.g the cost of a relevant insurance policy), the relevant proportion would not be eligible.

Importantly, in common with all other types of expenditure, a full audit trail, all the way back to the payment to external bodies is required and is potentially auditable for all indirect costs claimed. **An internal departmental transfer is not sufficient to fulfil this requirement.**

Any apportionment method used must be agreed as part of the appraisal process and will be incorporated in the Funding Agreement. All methods must relate to the level of actual ERDF activity, therefore standard apportionment methods such as by numbers of academics in the organisation, or by the proportion of the organisation budget, or by proportion of expected income are not acceptable. It is recommended that where possible a common apportionment method be used by Grant Recipient and delivery partners where possible. Any exceptions should be discussed with the PDT.

For Local Authorities or other large bodies, all costs, including the apportioned central costs relating to the delivery of statutory services, or relating to income generating services will need to be removed from the potential cost pool. Treasury management costs are also not eligible.

The approach is set out under point 5 below.

4 Indirect costs determined on a flat rate basis

Three methodologies are possible:

1. indirect costs declared on a flat-rate basis, up to 20% of the direct costs of an operation;
2. flat-rate costs calculated by application of standard scales of unit costs (standard rate method) defined by the Member States (not currently available for the English Convergence of Competitiveness programmes); and
3. lump sums to cover all or part of the costs of an operation not exceeding €50,000.

The costs must be established in advance on the basis of a fair, equitable and verifiable calculation. Full details of each methodology are contained in COCOF 09/0025/04-EN Indirect costs declared on a flat rate basis.

It is not possible to apply these methodologies to costs already claimed. However, in the case of multiannual projects, it is possible for a project to be separated into phases with the initial phase using the actual 'real' cost methodology after being audited with any errors corrected and a second phase using the flat rate methodology from that point onwards. In practice, this has proved very difficult, therefore this is not recommended.

4.1 Indirect costs declared on a flat-rate basis, up to 20% of the direct costs of an operation

Where the **flat rate** option is chosen, a full audit trail of the expenditure used to establish the flat rate, will need to be retained for the full record retention period of the programme, currently estimated to be 2025. When establishing the rate it will be necessary to demonstrate that no ineligible costs and no expenditure which can be attributed as a direct cost are included in the category of expenditure or cost pool to be apportioned. If a central cost can be directly attributed to a project, then the entire cost should be removed from the cost pool. It should be noted that once established the actual indirect costs claimed are not monitored, only the work done to establish the methodology and that the rate established has been applied at the correct rate and only to the direct costs of the project.

The different cost pools or categories of expenditure should be clearly stated in the funding agreement.

The rate established will normally be determined to be a rate per full time equivalent person directly involved in the project and a separate rate per square metre of premise space dedicated to the project. Once established, these rates remain the same for the organisation concerned for the remainder of the programme, unless there are significant changes in the underlying costs of the organisation.

The rate can be used on multiple projects, but it should be noted that the rate may need

minor modifications in terms of eligible cost pools for projects which are of a substantially different nature than that used for the original test. The actual percentage rate of overhead/indirect cost will relate to the budgeted full time equivalent staff/level of premises used by the project and therefore may vary as a percentage from project to project.

The overhead/indirect cost percentage is not applicable to procured or outsourced project costs such as equipment purchases, capital building costs, or external consultants to deliver project activity. In any case the rate cannot exceed 20% of the direct project costs.

The agreed rate per project, is applied to the actual direct non outsourced project costs, therefore, the actual value recovered may differ from the estimate in the funding agreement.

To calculate the flat rate the 4 steps set out in 5 below should be followed.

4.2 Flat-rate costs calculated by application of standard scales of unit costs (standard rate method) defined by the Member States

Standard Unit costs can be agreed either on the basis of a cost per defined unit of activity i.e. cost per business assist, or can be agreed on the basis of specific inputs for standard activity. The unit cost methodologies must be based on significant benchmark research to determine that rate does not produce over compensation. Once established the audit trail only relates to evidence of the agreed units of activity having taken place or achievements have been reached, rather than the actual expenditure. These rates must be agreed in advance with the European Commission. At the date of writing of this guidance, no standard unit costs have been agreed, and therefore this option is not currently available.

4.3 Lump sums to cover all or part of the costs of an operation not exceeding €50,000

Lump sums can be used for the delivery of a specific discrete outcome. The estimated cost of this and the evidence required to confirm delivery must be established in advance. In any case the value cannot exceed €50,000. It is possible to break the expected outcome into milestones with proportionate payments per milestone. If the milestone/outcomes are not achieved, no payment can be made, even if expenditure has been incurred by the delivery organisation concerned.

5 ERDF methodology for calculating modified TRAC

For Higher Education (HE) projects, negotiations with EU auditors has determined that the standard TRAC system used in HE is not eligible for ERDF however, a modified TRAC model where all ineligible items have been removed and where any directly

attributable costs have also been removed can be accepted.

Audit requirements will need to demonstrate that the components of the modified TRAC model are based on actual costs with a full audit trail to defrayal, when inspected. The methodology must be revised each year in line with changes in the underlying costs.

The methodology described below reflects the same principles as those set out in ESF Action Note 45/03. These are:

- all academic costs are captured directly. Non-academic delivery staff costs should be captured directly wherever possible.
- indirect/overhead costs should normally be calculated by straightforward apportionment based on a suitable proxy for actual consumption by the project as explained in Annex 5D or alternative where agreed with DCLG.
- only where overheads cannot be calculated in this manner a formula based approach using the HEI's Transparent Approach to Costing (TRAC) can be used.
- only overhead costs that relate to the project can be included.
- any overhead costs already met from public or private funding of institutions or those arising from trading activities must be excluded.

However the methodology used to calculate overheads for ERDF projects differs to an extent from that used for ESF because of the likelihood of ERDF projects having different resource consumption characteristics. This does not prevent a pooling of overhead costs but it does mean that a single overhead cost pool in an HEI is unlikely to be acceptable. It is for the HEI concerned to demonstrate that the cost pooling it is using properly reflects the actual consumption of the ERDF projects for which it is claiming grant.

The ERDF methodology comprises the following four steps:

- step 1. Identification by the HEI of a 'menu' of eligible cost headings.
- step 2. Identification of those eligible costs that can be charged directly to the project.
- step 3. Identification of eligible indirect costs and apportionment using simple proxies for actual consumption (e.g. cost per square metre etc).
- step 4. Identification of those remaining eligible indirect costs that cannot be captured as in Step 3, the pooling of such costs and the apportionment of these to projects using hours spent on the project as a proportion of the HEI's total academic, support staff and direct staff hours, or alternative where appropriate. Note this approach is in line with that used in calculating ESF grant.

An illustration of each step is given in Annex 5B for both real cost and flat rate methodologies.

Annex 5B: ERDF Methodology for calculating HE Overheads

Two examples are provided.

Example A illustrates a real cost methodology for calculating HE overheads, Example B illustrates the Flat Rate basis for calculating HE overheads.

Both illustrations are based on a two year ERDF project that involves HEI staff who work off site.

Example A: Summary of a real cost methodology for calculating overheads/indirect costs

Summary of costs over the project life			
	FTE	£	£
1. Directly Incurred Costs			862,120
Staff Costs			90,500
Consumables for which records of actual consumption can be maintained			
2. Indirect Apportioned Costs			5%
		68,820	} 33%
3. Pooled Indirect Costs			28%
	17	23,937	406,922
Total costs charged to project			1,428,362
Overheads represent xx% of staff costs		55%	
Overheads represent xx% of the project's costs		33%	

Step 1 – Identification of Eligible Costs

The cost centre and account code structure within the HE sector's TRAC costing system is an appropriate way of identifying eligible costs, by type and function, provided that a suitably detailed audit trail for project costs is also prepared and made clear. This needs to be done at the full application stage and updated appropriately during the lifetime of ERDF projects for which grant is claimed.

Only relevant costs can be included. The example below illustrates how to strip out

ineligible activity and identify the net eligible indirect costs.

ERDF HEI Overheads – Methodology Notes

1. First export TRAC data to Excel as follows:
Open a database (save as ERDF) and Import, Full Expenditure Details, Show All Records. Highlight and cut and copy to Excel
2. Identify cost and account codes for academic departments given expenditure type 'Academics pay' these will be excluded costs
3. Identify cost and account codes for academic departments given the expenditure type 'Academic department support pay'
4. Identify library cost centre codes given the expenditure type 'Library' these costs will largely be ineligible
5. All I.S.S. cost centre codes given the expenditure type 'I.S.S.'
6. Identify cost codes for academic departments given expenditure type 'Acad Non-pay'
7. Split Dep charge on land & buildings into allowable and unallowable (charge relating to publicly funded buildings). Costs associated with publicly funded buildings will be ineligible
8. Ensure that all other cost centres/account combinations had appropriate exp type (including 'Unallowable')
9. Once all changes are made the data of the eligible indirect costs are re imported (from sheet – amended import to ERDF – 2)
10. Cut out all expenditure using the appropriate overhead driver and pasted into spreadsheet
11. Ran data validation routines in costing model
12. Reprocessed in the costing model
13. Ran management report, At faculty/department/activity level and exported to Word then copied to excel, to create an apportionment table for overheads
14. Created apportionment sub form table from the above export called it Overheads table 1, set up app type and main form
15. Imported sub form data
16. change the app type of the expenditure records being treated as overheads, re-import expenditure records
17. Ran the validation routines and check control total for all expenditure input
18. Reprocess in the costing model
19. Ran the management report Summary expenditure report, consolidate, excluding Trading activities, by original fin code
20. Export this to excel and applied the factor for Academic departments non payroll

being eligible as indirect (balance becomes excluded)

Step 2 – Identification of Direct Costs

Direct costs are the costs that arise from the delivery of an ERDF project and which are eligible for ERDF support, which are captured directly. Examples include:

- staff costs for those academic and non-academic staff directly engaged in the delivery of the project;
- consumables for which records of actual consumption by the project can be maintained; and
- rents, heating, lighting, telephony etc where these costs are charged discretely to projects.

All direct costs must be actual not estimates or forecasts. Staff costs must be supported by evidence of the hours worked by the individuals concerned. It is for the HEI to ensure appropriate records are maintained to substantiate these costs.

Individual timesheets are not necessary for those staff who are wholly engaged on ERDF projects but some form of alternative summary record must be available for scrutiny. The cost of those spending less than full time on the project should be evidenced by time sheets or similar records. Ideally all staff engaged in the delivery of ERDF projects will be costed directly. HEIs vary in their capacity to determine direct costs, but as a minimum all academic staff engaged in project delivery must be costed directly.

Note that standard full time hours in the former polytechnic HE sector are 37.5 hours per week, 5 days per week, and a full year amounts to 44 weeks or 1,650 hours per Full Time Equivalent (FTE) (as mandatory TRAC guidance). This may vary in former traditional university sector.

Non-pay costs identified as eligible and direct should be attributed to the specific project that has generated the consumption.

Example A: Step 2 Directly Incurred Costs

	Grade	Annual Gross Salary	FTE per annum	Hours per annum (based on 1650 hrs)	Year 1 – 1/4/08 – 31/03/09	Year 2 – 1/4/09 – 31/03/10	TOTAL COST PER PROJECT
(Time sheet required)		£			£	£	£
Project Director							
Project Co-ordinator							
Commercial Manager	PL 9	54,344	1.6	2,640	86,950	86,950	173,901
Commercial Assistant	APTC 35	36,786	1	1,650	36,786	36,786	73,572
Graduate Assistants	APTC 35	36,786	1	1,650	36,786	36,786	73,572
Clerical Assistant	APTC 27	29,516	1	1,650	29,516	29,516	59,032
Academic Staff	APTC 7	16,374	10	16,500	163,740	163,740	327,480
KTP Co-ordinator	APTC 7	16,374	0.6	990	9,824	9,824	19,649
KTS staff	SL 5	41,626	1	1,650	41,626	41,626	83,252
Total FTEs per annum on project	APTC 30	32,289	0.8	1,320	25,831	25,831	51,662
			17	28,050	431,060	431,060	862,120
Consumables (for which records of actual consumption can be maintained)							

Consumables					3,000	1,500	4,500
Travel					3,000	1,500	4,500
Equipment					10,000	5,000	15,000
Adv/promotional					9,000	3,000	12,000
Fees					34,000	16,000	50,000
Audit					1,500	3,000	4,500
Total direct costs for project					60,500	30,000	90,500
Total Costs							952,620

Step 3 – Identification of indirect overhead costs

Indirect overhead costs are actual costs that are eligible for ERDF support, that arise from the delivery of an ERDF project but which cannot be captured directly. This will be because although the nature of the resource consumed by the project is clear the exact amount cannot be distinguished and must be derived by apportionment. For the purposes of this note such indirect costs are referred to as 'overheads'. Examples, across account codes and cost centres used in HEIs include:

- cleaning, security and personnel services where these are relevant to the project.
- facilities such as finance departments, library and IT support services that are similarly relevant to the project or provide the project with services.
- rent, heating, lighting and other accommodation costs not charged directly to the project or recovered elsewhere.

Where costs have been treated and accounted for as direct costs they must be excluded from any apportionment of overheads. Any overheads already specifically covered through public or private funding of the institution must be excluded. Any overheads that derive from trading activities must also be excluded.

It is expected that overheads will normally be calculated by straightforward apportionment based on a suitable proxy for actual consumption by the project – for

example a share of the heating bill derived from the proportion of floor space occupied by the project.

In this third step the HEI should distinguish between those overheads that can be apportioned using suitable proxies and those that need to be handled using a formula based approach. The illustration of this step shows items that are most likely to be apportioned using a price per square metre occupied by the project.

Example A: Step 3 Apportionment of Indirect costs using proxies

Apportionment will require a method relevant to each costs. All costs charged to projects are calculated against real costs.

Premises and related:

	£
Heating	5,000
Lighting	5,000
Rent	15,000
Rates	25,220
Cleaning	1,600
	51,820

Apportioned consumables:

	£
IT communications	2,000
Vehicle expenses	5,000
Equipment rentals	10,000
	17,000
TOTAL	68,820

Step 4 – Apportionment of overheads using cost pools

Once direct costs and those overheads that can be apportioned simply to specific projects have been identified (steps 2 and 3 above) any remaining overheads arising from project eligible activity can be apportioned on the basis of overhead cost pools. These pools are used to calculate an overhead rate per hour/Full Time Equivalent (FTE) which is then applied to the project and multiplied by the actual number of Academic and hours/FTEs in the project.

The calculation of such overhead pools should exclude:

- staff costs and any non-pay that have already been charged directly to ERDF or ESF projects;
- the charge for buildings depreciation funded from the release of deferred capital grants to income;
- amounts that have been apportioned to ineligible cost centres through the TRAC model;
- the Cost of Capital and Infrastructure adjustments (TRAC adjustments)
- any items that are ineligible for ERDF grant support;
- any items that have been apportioned using the straightforward proxies described above in step 3 above; and
- any items which cannot be evidenced as relating to the project.

In pooling indirect costs, care must be taken to ensure that costs relate to actual consumption of resources by the projects concerned. It is acceptable to pool the indirect costs of a number of projects but the projects must share the same resource consumption characteristics.

HEIs must ensure that, for example, if a project was to be delivered off site then the costs related to the HEI estate would not be included in the costs pool. Further guidance on demonstrating the relevance of costs is covered in Annex 5B – Relevance of central support services to ERDF projects.

The illustration of this step shows how the overhead expenditure is pooled and then converted into an overhead rate per FTE/hour. A key advantage of this approach is that there will be an audit trail for all the staff hours data used in the calculation. This greatly strengthens the acceptability of this apportionment method and brings it into line with EC recommended practice.

The approach used in the illustration:

- for the HEI as a whole, take the TRAC data for the relevant project period and exclude both ineligible costs and ineligible activities (cost centres).
- the directly incurred costs for the project were identified.

- the identification of those indirect costs that could be apportioned using a straightforward proxy for actual consumption (in this case arriving at a price per metre of space occupied by the project).
- once all these items had been removed TRAC was then run to calculate an indirect (overheads) cost pool. Care was taken to ensure that items apportioned through the TRAC model to ineligible areas (e.g. premises charges to ineligible cost centres) were also removed.
- the resulting overheads costs pool was then divided by the total academic staff FTEs in the HEI plus support staff direct delivery staff FTEs to give an 'indirect cost rate' per FTE.
- to arrive at an overhead cost rate per hour (the preferred approach) the staff FTE can be multiplied by 1,650 (as per TRAC, 1 FTE =7.5 hrs (per day) x 5 (days per week) x 44 (weeks)) to give the total hours of Academic Staff, support staff and Direct Delivery Staff, then divide the pooled amount by the number of total hours.
- the total cost of the project would then comprise the sum of the direct cost, the apportioned indirect costs plus the overheads generated by the hours actually spent on the project delivery.

This methodology provides an eligible indirect cost percentage. Once established, the detailed audit trail of records used must be retained for audit. The percentage will then be used throughout the project life.

	Staff Numbers
Academic Departments	
Academic Staff	518
Support Staff	55
Research Grants & Contracts, and Other	
Academic Staff	51
Support Staff	24
Sub total	648
Support Staff charged direct to ERDF funded Projects	12.37
TOTAL University Direct FTE	660.37

Standard Hours	1,650
TOTAL University Direct Labour Hours	1,089,611

Note on calculating the hours used for the denominator:

Contracted hours 37.5 hours per week

52 weeks x 37.5 hours = 1,950 hours per annum

University opens 42 weeks per year. 42 x 37.5 = **1,650**, remainder of time is annual leave

To translate to net hours, you must also remove the bank holiday.

9 bank holidays in the year

9 x 7.5 hours = 67.5 hours.

1,650 – 67.50 = **1,582 hours** rounded

Therefore rounded 660.37 fte x 1,582 = 1,044,705 total hours

Apportionment of indirect costs using cost pools

ERDF project indirect costing – pooled costs over the life of the project

Indirect Costs Example cost pools	£	
Cost pool A Finance	X	
Cost pool B Human Resources	X	
Cost pool C Information Technology	X	
Cost pool D General Administration	X	
Indirect Expenditure	15,807,000	= Indirect Cost Pool

Project period pooled costs related to central services which are apportioned according to staff use		
		£

Indirect Cost Pool		15,807,000	
Total hours on project	17 FTEs x	1,582 hours	= 26,894 hours
FTEs on Project	26,894 x	15,807,000	
	1,044,705		
Total Pooled Indirect Costs	£406,922		

Example B: Flat Rate Indirect Costs

Summary of costs over project life

	£
Directly Incurred Costs	
Staff Costs	1,031,640
Consumables for which records of actual consumption can be maintained	90,500
Apportioned Direct Costs Premises and services –	52,220
Total Direct Costs	1,174,362
Indirect Costs using flat rate of 14.86% of Direct Costs –	174,552
Total costs charged to project	1,348,914

Example B: Step 2: Directly Incurred Costs

Project starts on 1 April 2008

	Grade	Annual Gross Salary	FTE per annum	Hours per annum (based on 1,650 hrs)	Year 1 – 1/4/08 – 31/03/09	Year 2 – 1/4/09 – 31/03/10	TOTAL COST PER PROJECT
(Time sheet required)		£			£	£	£
Project Director	PL 15	80,450	0.5	825	40,225	40,225	80,450
Project Co-ordinator	PL 12	60,970	0.5	825	30,485	30,485	60,970
Commercial Manager	PL 9	54,344	1.6	2,640	86,950	86,950	173,900
Commercial Assistant	APTC 32	30,535	1	1,650	30,535	30,535	61,070
Finance Manager	APTC 35	36,786	1	1,650	36,786	36,786	73,572
Finance Assistant	APTC 23	19,516	1	1,650	19,516	19,516	39,032
Academic Staff	APTC 7	16,374	10	16,500	163,740	163,740	327,480-
Senior Administrator	ASPTC7	29,516	1	1,650	29,516	29,516	59,032
KTP Co-ordinator	APTC 7	16,374	0.6	990	9,824	9,824	19,648
Graduate Assistant	APTC35	36,786	1	1,650	36,786	36,786	73,572
KTS staff	SL 5	21,626	1	1,650	21,626	21,626	43,252
Clerical Assistant	APTC 5	12,289	0.8	1,320	9,831	9,831	19,662

Project starts on 1 April 2008							
	Grade	Annual Gross Salary	FTE per annum	Hours per annum (based on 1,650 hrs)	Year 1 – 1/4/08 – 31/03/09	Year 2 – 1/4/09 – 31/03/10	TOTAL COST PER PROJECT
			20	33,000	515,820	515,820	1,031,640
Consumables for which records of actual consumption can be maintained							
Consumables					3,000	1,500	4,500
Travel					3,000	1,500	4,500
Equipment					10,000	5,000	15,000
Adv/promotional					9,000	3,000	12,000
Fees					34,000	16,000	50,000
Audit					1,500	3,000	4,500
Total Direct Costs					60,500	30,000	90,500
Total Costs							1,122,140

Example B: Step 3 Apportionment of Indirect costs using proxies

Apportionment will require a method relevant to each costs. All costs charged to projects are calculated against real costs.

Premises and related:

	£
Heating	5,000
Lighting	5,000

Cleaning	1,600
	11,600

Apportioned consumables:

	£
Vehicle expenses	5,000
Total Apportioned Indirect Costs (to be claimed as Direct Costs)	16,600

Cost now being treated as Direct Cost based on actual cost apportioned

	£
Rent	15,000
Rates	25,220
IT communications have been able to isolate direct broadband line to project office	2,000
IT Equipment rentals, have identified the actual machines being used by the project and now charge directly	10,000
	52,220

Example B: Step 4 Apportionment of indirect costs using cost pools

	Staff Numbers
Academic Departments	
Academic Staff	817
Support Staff	55

Research Grants & Contracts, and Other	
Academic Staff	150
Support Staff	24
Support Staff charged direct to ERDF funded Projects	12.37
TOTAL University Direct FTE	1058.37
Standard Hours	1,650
TOTAL University Direct Labour Hours	1,746,310

Note on calculating the hours used for the denominator:

Contracted hours 37.5 hours per week

52 weeks x 37.5 hours = 1,950 hours per annum

University opens 42 weeks per year. 42 x 37.5 = **1,650**, remainder of time is annual leave

To translate to net hours, you must also remove the bank holiday.

9 bank holidays in the year

x 7.5 hours = 67.5 hours.

1,650 – 67.50 = **1,582 hours** rounded

Therefore rounded 1,058.37 fte x 1,582 = 1,673,341 total hours

Example B: Apportionment of indirect costs using cost pools to derive at a Flat Rate Percentage.

ERDF project indirect costing – pooled costs over the life of the project – estimate based on most recent audited statutory account figures.

Indirect Costs	£
Finance Department	3,585,200

Human Resources Department	2,600,207	
Information Technology	5,400,740	
Administration (staff)	1,100,203	
Total eligible Indirect Cost pool	12,686,350	
Less costs already charged as Direct Costs; Finance Department IT Communications IT Rentals	(3,585,200) (124,514) (622,570)	Note all attributable finance function now being charged directly to the project
Total to remove from Cost Pool	(4,332,284)	
Eligible Indirect Cost Pool	8,354,066	

Calculating Indirect Cost Flat Rate Percentage

		£	
Indirect Cost Pool		8,354,066	
Total hours on project (for 1 year)	20 FTEs x	1,582 hours	= 31,640 hours
FTE's on project/Total University Staff Time	31,640 1,673,341	X 8,354,066	
Pooled Indirect Costs	= £157,952		
Flat rate Percentage;	= £157,952 + £16,600 Premises Divided by	X 100	
Indirect costs Direct Costs	£1,174,362 Direct = 14.86%		

Annex 5C: Relevance of HE Central Support Services and Premises costs to ERDF projects in calculating indirect and overhead costs

Central Support Services

A wide variety of central support services may be relevant to the project and some will be automatic shared costs, such as the use of the HR function where staff are involved in the project. It has been established that although such central services might normally be expected to be supported via core funding, Higher Education Funding Council funding does not allow full cost recovery of such functions where the university has some activities not supported by the council. Therefore, in this case, an apportionment is appropriate as there is no double funding involved.

The majority of the functions are included in their entirety. However, as general staff training is not an eligible cost, the cost of training staff is considered ineligible and therefore removed. This should ideally be done by the identification of the cost of the individuals concerned. If directly related additional training is delivered by University training staff, this should be treated as a direct cost.

The following guidance has been developed with the help of 11 universities for to establish the relevance of services, in the case of different types of project.

It was identified that the vast majority of University projects fell into the categories of;

- research project;
- business Support Project;
- graduate placement project; and
- mixed project where a graduate is placed with a company in order to do research or business support.

The relevance of central support services to a project would relate to the nature of the project, the following principles were established.

The following costs must always be excluded from the indirect cost pools.

- all costs related to student support including grants, bursaries, examination fees, examiner costs, assessor costs and prizes, expenses (with the exception of direct support to graduate students as part of a placement project)
- staff development costs
- staff not involved in the project
- medical, clergy and care assistants
- gratuities
- relocation expenses
- inter departmental recharges (the original costs will need to be identified instead)
- any costs associated with commercial activities including purchased supplies
- leisure facilities
- general ground/garden maintenance support
- adaptations and refurbishments
- room hire recharges
- hire of equipment
- furniture recharges
- equipment costs
- international travel
- housing accommodation costs
- security carriers
- insurance claims excess
- bank charges
- surveyors and estate agents
- agency fees
- tax advice
- debt recovery services
- portfolio management fees
- VAT advisor fees
- alcohol
- vending supplies
- general Food provision
- covenanted profit
- inter departmental uplifts or contributions to central pools
- library books and periodical subscriptions
- anything to do with agricultural costs
- joint venture contract fees
- debt charges and the writing off of bad debts
- loan interest
- surplus/Deficits on capital disposals
- inter company or internal recharge interest
- inter company brand royalties
- capital repayments
- losses on investments
- cost of volunteers
- catering recharges
- chaplaincy
- pre-contract development
- Alumni Relations
- Students Union
- sports centre

Some may be eligible as direct costs but will need to be specifically agreed.
The following table illustrates the likely acceptability of some support services according to the type of project.

Support Service	(i) Research	(ii) Business Support	(iii) Training/Student	(iv) Mixed (inc KTPs)
General Rule Where there is a discrete facility team or facility support team for a central service. Only where that facility is involved in the project, should they be included?	Only where faculty is involved in project	Only where faculty is involved in project	Only where faculty is involved in project	Only where faculty is involved in project
Human Resources except below:	yes	yes	yes	yes
Training	Direct where applicable	Direct where applicable	Direct where applicable	Direct where applicable
Finance:	yes	yes	yes	yes
IT Services	yes	yes	yes	yes
VC Office/Chief Officers Timesheet only	Relevant Pro-VC Direct charge	Relevant Pro-VC Direct charge	Relevant Pro-VC Direct charge	Relevant Pro-VC Direct charge
Library (not books/journal purchase/debts/fines and offset income) The cost of running the library If separate libraries only if relevant	yes	no	yes	yes where relevant
Academic Services/Registry	yes if students involved (driver graduate	no	yes (driver graduate	If students involved (driver graduate

Support Service	(i) Research	(ii) Business Support	(iii) Training/Student	(iv) Mixed (inc KTPs)
	students)		students)	students)
Student Services/Careers	no	no	no only if graduates into employment (driver graduate students)	no only if graduates into employment (driver graduate students)
Marketing/School Liaison/Communications	no – directly charge	no – directly charge	no – directly charge	no – directly charge
Research/Business Project contract compliance If tracked as directly attributable this should be direct otherwise	yes	yes	yes	yes
Print Services	no – directly charge	no – directly charge	no -directly charge	no – directly charge
International Office	only on international projects	only on international projects	only on international projects	only on international projects
Internal Audit	yes	yes	yes	yes
Postal Services (people and estate costs only)	yes (actual postal cost charged directly)	yes (actual postal cost charged directly)	yes (actual postal cost charged directly)	yes (actual postal cost charged directly)
Health & Safety	yes	yes	yes	yes

Support Service	(i) Research	(ii) Business Support	(iii) Training/Student	(iv) Mixed (inc KTPs)
Equal Ops Diversity	yes	yes	yes	yes

These costs are then apportioned according to staff time or the student numbers in the case of the student support services.

The staff time apportionment is the allocation by time of staff on the project over full time equivalent staff time. For the purposes of this exercise, full time equivalent staff are defined as Academic Staff plus Research Staff plus Outreach Direct Delivery Staff. The staff time of the people involved in the provision of the service involved are not included in the denominator of the equation.

Where the apportionment is on the basis of graduate students, the service is first apportioned between graduate and under graduate students. The graduate student proportion of the service is then apportioned on the basis of graduate students involved in the project over total graduate students.

For the purpose of the one time, ex ante establishment of the indirect cost flat rate, a full audit trail demonstrating that all ineligible costs had been removed will be required, and will need to be retained for future audit purposes until the end of the programme period, currently estimated to be 2025.

For the purposes reporting claims using the MCIS system, it will be necessary to separate the overheads related to premises from other indirect costs.

Demonstrating the relevance of estate (premises operating) costs

The level of estate costs included in the project will be dependent on the delivery nature of the project. A project which is largely delivered off site could not expect the same level of estate costs as a project which largely takes place on the campus. Similarly, projects which take place in specialist units should have their costs relating to the costs of that building and not general estate costs. EU auditors have refused to accept flat rate apportionment of such costs.

A simple generic cost per square meter is also not considered to be appropriate because it is recognised that the running costs of certain types of rooms, such as laboratories are considerably greater than the costs of offices. A flat average would introduce an element of this weighting into the average cost which would not be accepted by EU auditors.

Additionally specifically excluded costs must be removed from the general estate costs before apportionment. i.e.:

- depreciation of assets previously purchased via ERDF funding;
- rental fees including internal recharges of previously ERDF funded buildings;

- internal recharges related to opportunity costs are also ineligible;
- the following Premises/estate costs are always ineligible;
- commercial buildings;
- residential buildings; and
- any other costs related to specifically ineligible activities (i.e. debt financing).

Income related to commercial buildings is assumed to be allocated to those buildings and thus netted off due to the above, and any other actual external income which reduces the cost of a relevant eligible building will need to be netted off before the apportionment.

It was recognised that it was better to use information available from reports which were already used and audited. The Estate Manage Systems (EMS) are audited and used for the HESA returns can be used by Universities.

There are two different estate issues. Premises/Estate related to central services and Premises/Estate costs related to project delivery locations.

Premises/Estate costs related to central services

Where estate costs are related to central services, they should be added to the cost of those services which are then to be apportioned on the basis of staff time methodology.

Project Estate Costs

Where possible to isolate specific site costs, this should be done.

Running costs of the relevant buildings will be real not notional. The costs are related to heat, light, water, rates, cleaning, security, specific maintenance and repairs to the building concerned. If rent and services charges for the relevant building are paid to an external, unrelated third party, this can also be included.

The principles of where the costing came from to be based on:

- general ledger actual costs;
- identify space;
- universities may use TRAC to identify usage weightings; and
- where it is a standalone location use actual costs of the relevant building.

If an organisation is able to identify cost per actual room used, this should be used. If their system does not allow specific room cost identification, then the costs should be based on the type of room used.

Where the project itself is situated in a particular space for the lifetime of the project, it is the cost per square metre of the space occupied for that period. If the entire space is

occupied by the project, than the cost of that space should be included, irrespective of the number of staff occupying the space. Where the space is shared this should be apportioned according to usage.

Where project staff have dedicated space, i.e. offices, these will be charged at cost per square metre of space occupied. If the space is shared, this should be apportioned by the number of occupiers. If the staff member does not work 100% on the project, this should be apportioned by staff time.

The problem arises, where project staff do not have dedicated space or has occasional use of space.

The EU auditors will not accept equations which allow for the possibility that more than the relevant costs are charged. Therefore, it should be considered whether the cost of ascertaining the true cost of the following exceeds the marginal benefit of including them in the apportionment costing.

Where this is a hot-desking situation, the national health and safety guidelines should be used. Under the Workplace (Health, Safety and Welfare) Regulation 1992, every person must have 11 cubic meters of space as a minimum allocation. In the 11 cubic meter allocation, a minimum room height of 3 meters is assumed. Where the actual height is above this, the other dimensions cannot be reduced, therefore in 3.66 square meters of space must be provided to any employee whilst working on the premises.

Where the employee is working from home, only in the instances where the organisation actually pays the employee a contribution to the costs of their home can it be included and then it must be pro-rated to their time on the project.

Occasional Room Use

As this usage cannot be determined in advance, it will not be possible to claim this usage where the flat rate methodology is used.

Where a room is not dedicated to the project, but may be occasionally used for project delivery, timesheets of the project staff using the space indicating how much time used, and which room in which building should be kept.

Then the space should be charged as an hourly rate. If the space was shared by non project staff during usage this would have to be recorded and taken into account in the apportionment.

Reference the above, the cost of tracking the room usage and the individual cost calculations should be taken into account when deciding whether to include this cost. Again, where actual costs per room were possible, this would be preferred. However, where this is not possible, it would be necessary to:

- first identify the total estate costs per type of room i.e. office, classroom, lab;

- divide the costs by square meter;
- divide by hours' use of the building over total hours of availability of room use;
and
- multiply by sq meter of the room concerned and then by hours used.

If during room use, the room was used by people not working on the project as well as the people working on the project, this final step would have to be further apportioned by numbers of people.

For offices it was agreed that the official staff working contract should be the denominator.

In the case of publicly used buildings the official opening hours of the building would be used as the denominator for the apportionment equation.

In the case of laboratories, the official opening hours could be used unless the building was the type of laboratory where experiments had to be run 24 hours and therefore electricity and possibly water would have to continue to be supplied to the building 24 hours throughout the year. This would have to be demonstrated on a case by case basis.

Annex 5D: Apportionment Methods

These are example methodologies other methodologies may be agreed after examination by the PDT. Other methodologies may previously have been agreed by current or previous implementing bodies and will be considered valid at the time of the agreement.

Please note that any apportionment methodologies utilised must be explained in the project application and agreed with the Programme Delivery Team (PDT) before the project is approved. In the case where the flat rate or lump sum methodology is adopted part way through the project, the revised funding agreement will need to clearly differentiate the periods to which each methodology applies.

Apportioning project delivery staff salary costs

This apportionment technique is necessary for calculating the cost of staff that does not spend all their time on one project. It can be used for all staff, but it is shown here only for those staff that deliver the project. Where staff spend 100% of their time on the project, their costs should simply be charged directly.

The following are two example methodologies. Whichever methodology is chosen must be clear in the application and funding agreement and will be used as the basis of audit of staff costs.

Method 1: Staff Costs

The following formula should be used to calculate the actual hourly rate for each individual involved with the project.

STEP 1

Calculate the number of days a full time (or part time proportionally) member of staff will work in a whole year.

Example 1

Working days are 5 days per week x 52 weeks per year	260
less public holidays	-9
less annual leave	-25
Total working days =	226

holiday allocation may result in a claim in excess of the value actually paid for the person by the organisation in that period. In that case, the value of the claim must be capped at the amount actually paid. At the end of the year, an overall reconciliation may be done and any unclaimed expenditure based on the cumulative hours worked on the project in that year, may be claimed at that point.

Sickness and maternity pay are eligible costs for ERDF in this programming period. However, in the case of a person who does not work solely on the ERDF project, the test of relevance must still be applied. Therefore, sickness or parental leave may only be claimed via the hourly rate method where a pattern of work can be established which indicate that they would have been working on ERDF on the days they were absent. This may be done either by formal assigned days via their job description or work programme i.e. the person had been assigned to work on the project Monday, Tuesday and Wednesday, and on a different activity Thursday and Friday. Or by demonstration of a pattern of work which indicate that ERDF work is normally done on the days they were absent

No amendment is required for holidays, as that factor is taken into account in the hourly rate calculation. The claimed sickness or paternal leave hours should be reflected on the timesheet, with a code to indicate that they were sickness or parental leave.

Method 2: Proportionate Costs

This methodology was developed for situations where an hourly rate methodology could create anomalies or potential over compensation, such as university academics whose contracts are written in relation to terms instead of conditioned hours, or organisations which do not operate flexi-time, but frequently have uneven patterns of work with long days exceeding the theoretical contract. The organisations, contractual terms and patterns of working should be discussed with the project during the development phase.

STEP 1

Full timesheets must be kept by the person working on the project clearly showing the time spent on the project and all other time work. If the person works on more than one project, the hours on the respective projects must be clearly differentiated from each other. No hours should be claimed for holiday.

STEP 2

At the end of the month, the total hours worked on the project should be calculated as a percentage of the total hours worked by the person in that month:

Equation a) $\text{Time on project} / \text{Total time} = \text{percentage}$

STEP 3

Unless they are directly related to work on the European programme, any bonuses, or back pay, together with the associated national insurance and pension payments must first be removed from the expenditure paid by the organisation for the person concerned. If a person is on holiday for the entire month, no claim should be made.

STEP 4

Where a pattern of work can be established via job descriptions, work instruction or timesheets showing via an established pattern of work that a person would normally work certain days i.e. Monday, Tuesday, Wednesday on ERDF, then holiday, sickness or parental leave absence can be claimed for those days. Where a person has contracted hours, the hours claimed should be on the basis of that contract. Where no contracted hours exist, the average number of hours per day over the previous 3 months should be used. The equation at Step 2 is altered:

Equation b) $\text{Time spent on project} + \text{justified absence hours} / \text{Total time worked that month} + \text{total absence time} = \text{percentage}$.

Where the person is absent on days which cannot be justified to be relevant to ERDF the equation is modified to:

Equation c) $\text{Time worked on project} / \text{Total time worked} + \text{absence hours} = \text{Percentage}$

STEP 5

The percentage should then be applied to the actual defrayed staff cost for the person for that month. The net figure is the figure eligible cost.

If no pattern of working can be established equation c should be used.

Apportioning costs based on space or area used

Premises costs should be apportioned, by area usage, as part of a flat rate overhead, or as part of a general pool of costs via the staff usage methodology.

This apportionment technique is based upon costing a space for a period of time. There are many overheads that are best apportioned on the basis of space used. These include rent, rates, heating, power etc. This methodology is appropriate for space which will largely be devoted to the project. Occasional premises use, should use the staff time methodology.

If a space is used only by the project all year, the apportionment can be based on Step 1 only. If a space is used only by the project for part of the year, apportionment should be based on Step 1 & 2. If a space is shared by the project and other activity during the life of the project, apportionment should be based on Steps 1 & 3.

STEP 1

Calculate the percentage of available space used by the project. When working out a building's total available space exclude general spaces such as corridors, toilets, canteens, general admin space, etc. The costs for these spaces will be split automatically by the apportionment technique.

$$\frac{\text{The formula is: project space}}{\text{Total space}} \times 100 = \% \text{ used}$$

Example 3

STEP 1

European project uses 1,000 sq. feet out of a total of 4,000 sq. feet in the building.

$$\frac{1000}{4000} \times 100 = 25\%$$

4000

A project that has sole use of this space all year would pay 25% of rent, heating etc.

STEP 2

For projects that don't run for a full year you must also calculate the percentage of time this space is used by the project. If the space is used solely by the project this percentage can be worked out using weeks.

The formula is:

$$\frac{\text{Time the space is used} \times 100}{\text{Total time available}} = \text{percentage of time the space is used}$$

Total time available

Example 4

A European project runs for 40 weeks out of the 50 weeks the building is open in a year.

$$\frac{40}{50} \times 100 = 80\%$$

50

Using the two percentage figures the apportionment figure can be worked out for projects that have sole use of a space for a part of the year.

The formula is:

Percentage of space used x percentage of time the space is used = apportionment percentage

Example 5

The above project uses 25% of the space available (Step 1) for 80% of the time available (Step 2). Therefore the apportionment figure is:

$$25\% \times 80\% = 20\%$$

So the project would pay 20% of rent, heating etc.

STEP 3

Some projects do not have sole use of the space. They may use it for a number of hours per week and for the rest of the time it is used for other activities. The formula is the same as the formula explained in Step 2 but it needs to be worked out in hours not weeks.

The formula is:

Time the space is used x 100 = percentage of time the space is used

Total time available

Example 6

European project runs in a room for 21 hours a week out of a possible 35 hours (the rest of the week the room is used for other activity). The project runs for 40 weeks out of the 50 weeks the building is open a year.

The hours the room is available: 35 hrs per week x 50 weeks per year = 1750

The hours the room is used by the project: 21 hrs x 40 weeks = 840 hours.

The percentage of available time the room is used =

$$840 \times 100 = 48\%$$

1750

Using the two percentage figures (the one from Step 1 and the one above) the apportionment figure can be worked out for projects that do not have sole use of a space.

The formula is:

Percentage of space used x percentage of time the space is used = apportionment percentage

Example 7

The above project uses 25% of the space available (Step 1) for 48% of the time available (Step 2) therefore the apportionment figure is:

$$25\% \times 48\% = 12\%$$

So this project would pay 12% of rent, heating etc.

A project can use budget figures to estimate the total project cost of the above items to be included in their ERDF application.

Where the flat rate methodology is used, these equations are only used to establish the rate ex-ante to the project. No further audit or monitoring is required once the rate has been established. Where the standard 'real cost' methodology is used, it is required to check that the percentage claimed remains correct. Therefore on a quarterly or annual basis as actual bills and invoices for these services are received & paid (i.e. the actual overhead costs incurred during the period that have been agreed by the Executive as eligible) an adjustment should be made to ensure an accurate & fair share of the costs have been contributed by the ERDF project. This should be backed up for audit purposes by the original invoices.

Similarly if extra users (or fewer) were accommodated in the premises used by the ERDF project, these calculations would need to be adjusted accordingly to ensure ERDF only contributes a fair & equitable proportion to the total actual costs incurred.

General Apportionment

General costs which cannot be directly attributed

The basic principle is that costs should be apportioned according to activity. The principle methodologies are the staff time methodology and the flat rate.

Staff time methodology

STEP 1

Identify all the costs which are relevant to the project, but which cannot be apportioned.

STEP 2

Identify the cumulative number of hours of direct project staff working on the project. Identify the cumulative number of hours worked of all staff in the organisation in that period. Where the project operates within an identifiable department or work unit of the organisation and costs are charged per work unit, this basis can be used for the apportionment.

Staff time on project/Total staff time = Percentage

STEP 3

Apply this percentage to the pool of costs identified in Step 1.

Flat Rate Methodology

Considerable time is required in auditing the organisation's systems and establishing unit rates ex ante; therefore, this methodology is only appropriate to complex organisations, where real costs are unlikely to fully attributable or auditable to point of defrayal as required by European audit.

STEP 1

Identify cost pools of shared costs which cannot be directly charged, using the relevant guidelines within the table on page 90-91, for determining whether central services are appropriate to be included in the pool.

STEP 2

Remove all ineligible costs from the pool.

STEP 3

Audit the cost codes to prove the audit trail.

STEP 4

Separate the pooled costs into those which are dependent of numbers of staff and that dependant on space.

STEP 5

Divide the pooled costs which are dependent on numbers of staff by the numbers of full time equivalent staff, excluding staff involved in the pooled service. This will be the organisations per person rate.

STEP 6

Divide the pooled premise related cost by the square metre of premises in the organisation less shared areas, to produce a per square metre rate.

STEP 7

Once the rates have been established apply the rates to the project budget dependent on the expected numbers of full time equivalent direct delivery staff used by the project

per year and the amount of expected square metre age of premises used per year.

STEP 8

Exclude any outsourced project delivery costs.

STEP 9

Divide the resulting value at Step 7, by the total non outsource direct project costs to produce a percentage.

Budgeted Indirect cost pool/Budgeted direct project costs (net of out sourcing) = Flat rate percentage. Where this exceeds 20%, it must be capped at 20% of direct project costs. This may further have to be reduced if the resulting figure would exceed the budgeted overheads in the project application. A certificate should be included in the funding agreement setting the agreed areas of expenditure and the resulting rate. This will not now need to be changed during the lifetime of the project unless the organisation substantially changes its cost base.

STEP 10

This percentage is then applied to the actual direct project non outsourced costs during the life of the project.

STEP 11

Where the proposed project is of entirely different type of activity from the original proposition, the original cost pool may need to be amended to adjust for slightly different relevant costs. The remaining Steps 4 through 10 are as above. Please see the work instruction for auditing indirect costs for more detail.

Other apportionment methodologies

Where a charge is specific to a type of expenditure i.e. IT maintenance contract charged per machine, it is possible to use a pro rate. i.e.:

Total charge/number of machines covered x number of machines fully used by the project = eligible cost.

Conclusion

Where costs are shared across a number of projects, projects should adopt a reasonable method for apportioning costs, keeping clear evidence to show how the costs for the project have been apportioned.

The above methods identified in the examples may not always be suitable, if the project

chooses to apply a more complicated apportionment method they should clear this with the Local Delivery Unit in advance The Local Delivery Unit will require full information on the method to make an informed decision.

Annex 6: Equality of Opportunity

Benefits and summary business case

Incorporating equality principles, by for example motivating employees with fair and inclusive recruitment and employment policies and practices, can improve motivation, morale and loyalty, as well as increase productivity, creativity and new ideas through a wider pool of talent with a broader base of skills and expertise. Additionally it can impact further financially by reducing costly and unpredictable employee turnover – the average recruitment cost of filling a vacancy per employee is £4,000, increasing to £6,125 when organisations are also calculating the associated labour turnover costs (CIPD Annual Survey Report 2009 – Recruitment, Retention and Turnover).

Flexible working enables staff to balance work and personal commitments can help them achieve their full potential at work and will help increase job satisfaction and commitment while reducing absenteeism and stress (30% of sickness absence may be related to stress – stress-related sick leave is estimated to cost UK businesses over £7 million each week (European Foundation for the Improvement of Living and Working Conditions, 2007 – Foundation Findings: Work–life balance – Solving the dilemma)).

Ensuring that recruitment advertising targets under-represented groups can open a project up to talented recruits – by embracing diverse perspectives and understanding the needs of different groups, new ways which challenge the ‘one-size-fits-all’ approach can be developed.

Embracing equality means that better, more tailored services which meet individual needs are designed and greater flexibility demanded by the customers is offered. Employee bases which reflect the local and national demographics can put customers at their ease if they see people within a project who resemble themselves or their communities – enabling them to identify with what the project is trying to achieve. This in turn leads to a positive public image for your project in the community and a stronger likelihood of being sustainable over the long-term because it better meets the needs of all sections of the local community.

Not taking into account the principles of equality results in the opposite of the above positive impacts – i.e. demotivated staff, financial cost to the organisation, a narrow pool of staff, lower project performance, and a worse perception of your project in the public domain.

Equality in capital builds and infrastructure projects

There are legal obligations for employers and service providers to make reasonable adjustments to improve access for disabled people. All capital builds or infrastructure

projects must be compliant with the legislative requirements such as the Disability Discrimination Act and Part M of Building Regulations 2000. However even those buildings complying are not always fully accessible. ERDF capital developments should be as accessible as possible, incorporating best practice standards of inclusive design, irrespective of what will be delivered from the capital build (e.g. business support, office accommodation, industrial workspace etc).

Inclusive environments are a more sustainable investment suitable for everyone, not just disabled people, and are more likely to have an enhanced market value when tenants/purchasers are aware of the economic disadvantage of excluding proportions of the population. Embedding inclusive design rather than make retrospective adjustments is more cost-effective and ensures a smoother path through the planning process. Non-physical disability issues must also be considered to ensure a safe and welcoming environment for all groups – appropriate safety and lighting considerations can positively impact this.

Expectations for capital build/infrastructure projects

Lifts – lifts are generally required when a building is developed above ground floor level. Usually in office buildings, a lift is an absolute requirement; however, lifts may not be practical or cost-effective in some smaller workspace developments. Local planning departments will be able to provide advice on whether lifts are required for planning permission

Hearing loops – it is best practice to install permanent hearing or induction loops within receptions and meeting rooms as standard – however, where a reception or meeting room is likely to be divided into a smaller area or merged into a bigger area, a portable hearing loop which can be moved into any area would be suitable. Projects should ensure they consider what forms of loops would be appropriate.

Access audits – capital build/infrastructure projects will be expected to evidence adequate consideration of accessibility at initial plans stage (pre-build) for appraisal purposes. As a minimum, this should be a statement highlighting the accessibility features of the project. However, best practice would be to evidence this with a pre-build access audit report (possibly involving local disability groups and/or access auditors – these are eligible costs). In order to verify that the eventual building/infrastructure functions as it should in terms of access projects are advised, after the construction period, to have a post-build access audit carried out. Undertaking pre- and post- build access audits is an excellent way to future-proof projects and ensure that everyone can benefit from them. It can also be a tool to publicise and promote the accessibility of the project through, for example, local disability newsletters.

A factual narrative paragraph about the accessibility features of the premises and capital build/infrastructure commitments must be provided in the Full Application Form.

The appraisal will look favourably upon projects where it has been demonstrated that proposals go above and beyond the minimum required for planning approval, within the context of value for money.

Applicants should speak to their local PDT if they wish to discuss the details of capital build and infrastructure accessibility requirements.

Please note the South West is piloting an ERDF Social Sustainability Toolkit for capital build and infrastructure projects – this comprises more stringent locally agreed inclusive design requirements and means that in the South West only the completed Toolkit be submitted for appraisal with the Full Application.

Information to be supplied at application

All applicants must supply a copy of their **Equality Policy** as part of the Full Application. Equality and diversity principles for projects should be included in an applicant's fully functioning and monitored equality policy. An equality and diversity policy is an important statement of a project's attitude to equality in the services offered and commitment to ensuring that all service users receive fair and equal treatment. An appropriate equality policy must reflect the Equality Act 2010, clearly state equal pay principles, and reference not only employment issues but also the way the organisation will treat clients/customers and appropriate standards of behaviour expected by partner/sub contracted organisations. The applicant's equality policy should be submitted as part of the supporting information to the Full Application.

In some Programmes, projects will need to submit a **Equality Impact Assessment (EqIA)**. **The requirement will be contained in the relevant Prospectus**. It is at this point that projects can be proportionate in what they commit to. There are no set boundaries, however it is important for projects to demonstrate they will deliver more than the minimum legal requirements, and projects are advised to think of a "basket" of good practice actions, that they should select a proportion of to implement within their project.

Additional area-specific requirements

Some areas will have additional specific requirements around equality for example:

- an Equality Impact Assessment (EqIA);
- specific equality indicators; and
- additional information to provide around capital build.

Applicants should therefore refer to the equality and diversity section of the relevant Operational Programme and Prospectus for specific guidance, and check with the local PDT to see what applies in the area.

Annex 7: Irregularities

What is an ‘irregularity’?

An irregularity occurs when an unjustified⁶ item or amount of expenditure is charged to, and paid from, the ERDF Programme as a result of EC law being broken. In simple terms, an irregularity is:

“Any action or deviation, financial and/or non financial, which breaches the terms of the Funding Agreement”.

An irregularity need not necessarily involve an inaccurate claim or any deliberate act by the claimant.



Tip

Do not include expenditure or performance indicators in grant claims until you have confirmed that they are eligible for ERDF support and that the expenditure can be verified.

Irregularities can also occur whether or not ERDF and match funding is spent on the items of expenditure specified in the project’s Funding Agreement (FA). They can occur as a result of something the project does incorrectly (e.g. defray expenditure on items that are ineligible for ERDF) or something it fails to do (e.g. failure to publicise the contribution of ERDF).

Financial Irregularities

A financial irregularity occurs when expenditure claimed is ineligible for ERDF support and/or is greater than the amount approved, as set out in the FA. In other words, a financial error in the claim causes ERDF grant to be paid for expenditure that is not allowable under the terms of the FA.



e.g.

A claim is submitted for a project which has an eligible start date of 01/04/2009. The claim includes transactions which identify the date of the invoice (i.e. the date expenditure was incurred) as 02/03/2009. The expenditure is therefore ineligible as it was incurred before the agreed project start date. This constitutes a financial irregularity and the ERDF grant will be clawed back.

Financial irregularities tend to relate to the accuracy of grant claims or to the eligibility of

⁶ Unjustified expenditure relates to ineligible expenditure and expenditure that is ordinarily eligible for ERDF support but which cannot be fully justified because the terms of the FA have not been met.

expenditure claimed, for example:

Reason for Irregularity	Examples of how financial irregularities may arise
Ineligibility	Claims for expenditure that is ineligible for ERDF support
	There is a lack of adequate financial documentation to evidence grant claims (e.g. invoices are missing so expenditure cannot be classed as eligible)
	Project funding (ERDF and/or match funding) has been used for purposes other than those covered by the FA
	Duplicate ERDF claims (i.e. where the same expenditure is claimed from the ERDF Programme more than once) and claims for the same expenditure made under another grant scheme that is not part of the match funding (i.e. double counting/claiming of expenditure)
	Claims for the same expenditure made under the ERDF Programme and another funding programme that is not part of the match funding package (i.e. double counting/claiming of expenditure). N.B. Multiple claims in respect of the same expenditure can be made to the ERDF Programme as well as to programmes providing match funding, provided that all programmes from which you claim expenditure form part of the match funding package, as set out in the FA
	Claims for expenditure in excess of the amounts specified in the FA and claims for expenditure on items not included in the FA
	Claims relating to expenditure incurred and/or defrayed before the agreed project start date or after the agreed project end date
	Claims relating to expenditure that has not been defrayed (i.e. has not left the claimant's bank account)
	Claims relating to expenditure on activity that is ineligible for ERDF support (thus making the expenditure ineligible for support)
	The claimant maintains that claimed expenditure relates directly to supporting beneficiaries that are eligible for ERDF support but does not have evidence to substantiate this (e.g. no evidence of the SME status of the beneficiary)
Inaccuracy	An incorrectly calculated grant claim



Tip

NB: Total eligible projects costs are shared between ERDF and the other identified and agreed match funders. It is therefore appropriate for an organisation to claim for the same items of expenditure from ERDF and the match funders – at the appropriate intervention rate. For example, if the ERDF intervention rate is 40%, the project should claim 40% of eligible costs from ERDF and should claim the remaining 60% from the project’s match funders. N.B. ERDF eligibility rules apply to the full 100% expenditure.

Non-financial Irregularities

A non-financial irregularity is an irregularity that does not have a readily quantifiable impact on the amount of ERDF that is payable by the programme. In other words, the irregularity does not involve specific items of expenditure but involves non-financial errors. Examples include but are not limited to, failure to comply with ERDF rules on: publicity requirements; equality of opportunity; and public procurement.



Tip

The project submits a claim against expenditure, all of which is eligible for ERDF support. However, the project has failed to comply with ERDF publicity rules. Because the project has failed to comply with the non-financial terms of the FA (i.e. ERDF publicity requirements), the ERDF being claimed cannot be fully justified, even though it is being claimed against expenditure that would otherwise be eligible for support.

Examples of non-financial irregularities include:

Reason for Irregularity	Examples of how non-financial irregularities may arise
Process	Failure to comply with ERDF procurement requirements (e.g. contracts let without following the EC rules)
Evidence	Lack of evidence of compliance with ERDF publicity requirements (e.g. lack of evidence of the publicity activities that were carried out)
	The claimant maintains that ERDF requirements for the equality of opportunity have been adhered to but does not have the evidence to

	substantiate this
	There is a lack of adequate non-financial documentation to support claims (e.g. no evidence of compliance with procurement requirements)

The above lists, for financial and non-financial irregularities, are not exhaustive!

Who is responsible for irregularities?

The grant recipient (i.e. the Applicant for ERDF funding) is responsible for all irregularities. This is the case for single-Applicant projects as well as partnership projects. The financial risk, therefore, resides with the project Applicant, irrespective of which partner's declared expenditure has given rise to the irregularity. However, the financial liabilities arising from an irregularity in the expenditure defrayed by a delivery partner can be transferred to that partner by entering into a partnership agreement. It is advisable to take legal advice on any partnership agreements you enter into.

How are irregularities identified?

Irregularities may be identified as a result of project/programme monitoring activity. For example, they may be identified:

- where claims are found to include ineligible or unjustifiable expenditure;
- during Management/Monitoring and Verification visits carried out by the Department and its contractors in order to verify the information included in ERDF claims;
- during audit visits carried out in order to verify claimed expenditure, the achievement of deliverables and compliance with procurement and publicity rules;
- as a result of the grant recipient notifying the Department of an over-claim or over-payment; and
- as a result of information received by the Department from a third party.

How are irregularities dealt with?

All irregularities are recorded by the Department on the Management & Control Information System (MCIS). The following types of remedial action may be taken to recover the funding over-paid as a result of an irregularity:

- grant payments are withheld;
- funding is deducted from the next claim payment; and
- a request for repayment of grant is made.

If repayment is not forthcoming, the Department will explore the option of legal proceedings for the recovery of the grant. In such cases, the Department is likely to suspend payments for other projects being managed by the same organisation and the funding could be recovered by offsetting payments on one project against irregularities on another.

Where the Department has evidence, or merely suspects, that the irregularity involves fraud, theft or corruption, it is required to refer the issue for further investigation.

Where irregularities arise repeatedly within an organisation as a direct result of the inadequacy (for ERDF) of the organisation’s control systems (i.e. systemic irregularities), this is likely to result in further investigation into all ERDF projects operated by the organisation.

When irregularities are identified and confirmed they will also result in a reduction of the irregular sum from the project budget, reducing overall the eligible expenditure that can be claimed and therefore the net grant that can be received.

How can irregularities be prevented?

A number of practical steps can be taken in order to develop robust record keeping and project management systems to help prevent an irregularity from arising in your project.



By answering each of the questions in the ‘record keeping’ and ‘project management’ checklists below, you will be able to determine whether your record keeping systems could be strengthened to prevent irregularities from arising.

Record keeping

Does your record keeping system:

Record Keeping Checklist	
Functions of your record keeping system	Yes/No
Demonstrate that agreed apportionment methodologies have been used to apportion indirect costs to the ERDF project?	
Maintain and make available all source documentation and evidence that supports claimed project expenditure and claimed outputs and results?	
Include a policy for the retention of all project documents until at least	

31 December 2025	
Provide documentation to evidence adherence to EC publicity, procurement and State Aid regulations?	
Verify that an appropriate equality of opportunity policy has been implemented in all aspects of the project?	



Your project documentation must evidence the 'project story' from start to finish and must be retained until at least 31 December 2025.

Good practice in project management

Do your project management systems and procedures allow you to:

Project Management Checklist	
Good practice in project management	Yes/No
Check the eligibility of all expenditure before incurring the cost and defraying the expenditure?	
Check the eligibility of activity, beneficiaries and outputs before providing assistance and defraying expenditure?	
Plan spending so that no expenditure is incurred or defrayed either before the agreed project start date or after the agreed end date?	
Check that expenditure fits within expenditure headings specified in the FA/ERDF Application and does not exceed the level of expenditure approved for each expenditure heading?	
Reconcile all invoices (i.e. costs incurred) to bank statement entries (i.e. expenditure defrayed) before including expenditure in ERDF grant claims?	
Procure goods and services in compliance with ERDF procurement rules?	
Develop and implement a publicity plan for the project and an equality of opportunity policy/plan?	
Gain formal approval from your PDT for minor or major changes to your project	

Project Management Checklist

Good practice in project management	Yes/No
before incurring costs not covered by the original FA?	
Enter into partnership agreements with partners to transfer liabilities of delivering projects.	
Ensure project staff are fully informed of, and understand the implications of, ERDF requirements. This might include staff reading and using as reference documents the ERDF Guides and Eligibility guides. It might also include attending ERDF workshops organised by the Department.	

Annex 8: Contributions In Kind

The National ERDF Eligibility Rules state that Contributions in Kind are ineligible as match funding except for the donation of a building or land.

The amount of in kind match funding provided in the form of **land** is restricted to a maximum of 10% of the total eligible costs of the project. Note, the 10% cap does not apply in the case of building valuations as contributions in kind, but the value of the building must be the present value, not the value after completion of the project.

A donation of this kind can be made by a third party to the final beneficiary or the final beneficiary may make a donation to the project. All donations must be evidenced in writing and supported by independent valuations appropriate to the nature and timescale of the donation.

The value of the land or building donated must have been recently certified by an independent, appropriately qualified person/body on the basis of current open market value (*recognising any applicable restrictions, encumbrances or outgoings*). The level of funding to be included in the project will be proportionate to the timescale for which the land/building is donated. It will be necessary to demonstrate that the land or building (or relevant part) will be dedicated exclusively for use for the delivery of the project either:

- for the project lifetime;
- for the economic life of the building; or
- another appropriate period.

The value of the building or land will need to be apportioned if for example, the building or land has been donated for project use for a limited period of time which could be the project lifetime, for example 5 years and will then be taken back by the owner. In such cases only the value of the asset for that period of time could be included as an eligible cost. The value included would be the rental/lease figure which would be attributed for the relevant period of time. If the land/building is donated on a permanent basis or for the useful economic lifetime of the asset then the full value can be included as match funding, subject to the 10% restriction on donations of land.

In projects where such donations are agreed as part of the project costs it will be necessary to reflect the nature of the donation in the funding agreement. In some cases where the asset is donated for its useful economic lifetime it may be necessary to place a restriction on the title of the asset being donated.

Annex 9: ERDF and Housing

Process for implementing changes to EC Regulation 1080/2006, Article 7

Background

1. As part of its response to the economic crisis, the European Commission amended Article 7 of EC Regulation 1080/2006 during 2009 and 2010 to allow expenditure on (i) energy efficiency improvements and on the use of renewable energy in existing housing and on (ii) housing within the framework of an integrated approach for marginalising communities to be eligible for support from the ERDF.
2. Under amendment (i), Member States will define categories of eligible housing in national rules on eligible expenditure, in conformity with Article 56 of Regulation (EC) No 1083/2006, in order to support social cohesion. See paragraph 7 for advice about the implementation of amendment (ii). Amendments (i) and (ii) allow Member States to spend up to 4% and 2% respectively of their total ERDF allocation on these measures.
3. In order to comply with the Commission's requirement that energy efficiency improvements and renewable energy measures should be allowed 'in order to support social cohesion', in England the measures will be directed at social housing, as defined in Articles 68–70 of the Housing and Regeneration Act 2008. A definition of 'social housing' under the Act is provided in Table 1. The measures will also be directed at vulnerable households. Vulnerable households are defined for these purposes as those in receipt of at least one of the principal means tested or disability related benefits.
4. These include income support; housing benefit; council tax benefit; disabled persons tax credit; income based job seekers allowance; working families tax credit; attendance allowance; disability living allowance; industrial injuries disablement benefit; war disablement pension; child tax credit; working tax credit; pension credit. The detailed definition of qualifying benefits used to define vulnerable will be subject to change.

Table 1

Eligible Housing

1.

Article 68 of the Housing and Regeneration Act 2008 defines social housing as (a) low cost rental accommodation and (b) low cost home ownership accommodation. In the case of (a), accommodation is low cost rental if:

- a. it is made available for rent;
- b. the rent is below the market rate; and
- c. the accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.

2.

In the case of (b), accommodation is low cost home ownership accommodation if two conditions are satisfied:

- a. The accommodation is occupied, or made available for occupation, in accordance with shared ownership arrangements, equity percentage arrangements, or shared ownership trusts; and
- b. The accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.

Monitoring in the UK

- 5. As the 4% threshold will operate at the UK level, BIS will be responsible for monitoring the implementation of the amendment to Article 7 to ensure that the threshold will not be exceeded. This will be on the basis of progress reports by the national Managing Authorities. They will specifically ask for spend reports on housing.
- 6. BIS propose that initially the 4% threshold will operate at national level, in England, Scotland, Wales and Northern Ireland, but they will review the operation on the basis of reports on spend by the MAs. It will be for the MAs to implement the amendment at the individual OP level. In England, the 4% threshold will initially be imposed on all programmes, but this will be monitored by DCLG/PSC and adjustments at OP level may be considered as the measure is implemented.

Implementation in England

7. Although DCLG is the Managing Authority for ERDF OPs in England, it will be for the relevant PDTs, following consultation with regional partners on the LMCS, to decide whether to allow energy efficiency and renewable energy measures in existing housing and/or support for housing within an integrated approach for marginalised communities to be supported through the OP.
8. As part of this process, the PDT should also contact the relevant DG Regio desk officer for confirmation whether or not a revised Decision on the OP will be needed before these measures can be implemented.
9. A further issue to be borne in mind is that the Commission has indicated that it will be looking for ERDF to support good quality, innovative schemes for implementing energy efficiency improvements and renewable energy, rather than the provision of basic measures, such as loft insulation or double glazing in individual properties.

Annex 10: Glossary

Standard Term to be used from 1 April 2012	Meaning	Terms in use across the Programmes pre 1 April 2012
Call for proposals	An invitation for organisations to submit outline applications for ERDF grant to support activity which meet the objectives of the Programme	Bidding Round Call (EE); Call for Expressions of Interest (EE) Call for proposals (YH) (WM); Commissioning round; Call for projects (NW); Bidding Call (SE); Expression of Interest (SW); Bidding Round (WM)
Claim	A request for payment submitted by an approved project providing details of eligible defrayed expenditure against which ERDF reimbursement is sought at the agreed contribution rate; together with a progress report, and details of deliverables achieved in the given period	
Contractual partners	Organisations procured by the Grant Recipient to deliver elements of the approved ERDF project under a subcontract for goods or service. Contractual partners must be procured within public procurement rules	
Contribution Rate	the percentage rate of Eligible Expenditure at which Grant is paid as contained in the funding agreement and may be Capital Contribution Rate and/or Revenue Contribution Rate	Intervention Rate
Delivery partners	Organisations with responsibility for delivering aspects of the project's activity and associated outputs/results and which receive ERDF funding via the Grant Recipient. Delivery partners provide match funding	

Standard Term to be used from 1 April 2012	Meaning	Terms in use across the Programmes pre 1 April 2012
End Beneficiary	The people or SMEs which benefit directly from the project activity	Target beneficiary
Endorsement	Where a full application is reviewed by the LMC, its sub-group or the PDT and is recommended for approval by DCLG with delegated authority to approve the project	
Error	An error is where a discovery of incorrectly claimed grant has been either volunteered by the applicant or has been discovered by DCLG before the claim has been authorised and paid	
Financial Appraisal	An assessment of the financial capability of a private sector or voluntary or community organisation applicant to ensure it has the financial capacity to cashflow the project, and cover the level of grant requested in the event of clawback. This involves a check of the last three years of accounts and the latest set of management accounts	
Financial Irregularity	Any incorrectly claimed grant which has an obvious attributable financial value.	
Full Application Form	A document used by the grant applicant to sets out the activity for which they are seeking ERDF grant in sufficient detail to answer the tests set out in the appraisal and complete enough to make an investment decision	Full Business Case (NE), Full business plan (SW); Full application (YH) (WM)
Full Appraisal	A thorough assessment of the project to determine If it is: eligible; Technically and legally sound; offers appropriate Value for money; Meets a clearly identified market failure; meets evidenced need and demand. The outcome of the appraisal will be a recommendation as to whether approve the project, approve with	

Standard Term to be used from 1 April 2012	Meaning	Terms in use across the Programmes pre 1 April 2012
	conditions, or reject the project	
Funding Agreement	The legal agreement between DCLG and the grant recipient including schedules which set out what is being delivered, when it is being delivered, the funding that DCLG will be providing and on what terms the funding is provided	Offer Letter (SW) (EE), contract
Grant Applicant	The organisation applying for grant award, with which DCLG will contract in the event that the application is approved	Project sponsor, Final Beneficiary, The proposer (NW)
Grant Recipient	The organisation that receives the award of ERDF grant and takes responsibility for delivering the project and making payments on the project. The grant recipient is responsible for the coordination of the project, and legally responsible for the management of finance, performance and monitoring of any partners	Fund recipient; final beneficiary; lead partner, approved beneficiary (EE)
Investment Decision	The decision to approve, reject, or approve a project with conditions, can only be made by DCLG with the appropriate level of delegated authority	
Investment Framework	A public document which sits below the operational programme and provides further detail on proposed activities, timescales, identifying the applicant bodies or routes to initiate the desired project activity. This document should be approved by the LMC – it may cover the whole programme, a priority axis, a geography or parts of a priority axis	Programme prospectus (EE); Investment Framework (WM) (EM) (NW)

Standard Term to be used from 1 April 2012	Meaning	Terms in use across the Programmes pre 1 April 2012
Irregularity	where evidence or lack of evidence demonstrates incorrectly claimed grant. Any infringement of a provision of Community Law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities by charging an unjustified item of expenditure to the general budget	
Limited Bidding	A selection route whereby a limited number of potential grant applicants are identified and invited to submit an outline application for the support of activity which meets an objective of the operational programme. This route will be agreed by the LMC/LMC sub-group and described in the Prospectus	
LMC Sub group	Any sub-committee or working group set up by the LMC to enable it to fulfil its responsibilities. The LMC can delegate any of its tasks to the LMC sub group	
Local Management Committee (LMC)	A stakeholder group which oversees the delivery of the Programme and is responsible for setting the strategic direction, agreeing the selection criteria of the programme and redirecting the work of the Programme as and when necessary over its lifetime. Previously known as the PMC	
Major Project	(defined in article 39) An operation: Which comprises a series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature; Which has clearly identified goals; and Whose total cost exceeds Å25 million in the case of the environment and Å50 million in other fields	

Standard Term to be used from 1 April 2012	Meaning	Terms in use across the Programmes pre 1 April 2012
Material Change	A change to the Standard Conditions of the ERDF Funding Agreement where the Change which involves a variance of 10% or more, or in the opinion of the PDT, the Change is deemed to be material	Contract Variation
Non competitive selection	A selection route whereby a single project applicant is either selected as appearing to be the only suitable and capable vehicle for delivering a specific activity which meets an objective of the operational programme and invited to submit an application; or submits an application on its own initiative for a support of a specific activity which meets an objective of the operational programme. This route will be agreed by the LMC/LMC sub-group and described in the Prospectus	
Non financial irregularity	Any breach of the regulation to which a penalty must be applied	
Open Bidding	A selection route whereby an open invitation is published for applications for the support of activity that meets an objective of the Operational Programme. This route will be agreed by the LMC/LMC sub-group and described in the Bidding Documentation	
Outline Application	A document used by the grant applicant to present their project for consideration for ERDF funding by the LMC, the LMC sub group or the PDT. The document provides sufficient information for an assessment to be made against gateway project selection criteria and this forms the basis of a selection decision to enter the programme pipeline and be developed to the full stage	Project Concept (NE) Project Concept Form (EE), Expression of Interest (NE) (EE) (EM); concept Form (EE) outline proposal (WM); Concept Proposal Form (NW); response to expression of interest (SW); outline application (YH); outline business plan (YH)

Standard Term to be used from 1 April 2012	Meaning	Terms in use across the Programmes pre 1 April 2012
Outline Assessment	An assessment of the outline application against gateway project selection criteria. The outcome of the assessment will be a recommendation to consider for selection or rejection	
Potential Irregularity	where lack of evidence would suggest grant has been incorrectly claimed. These may go on to become irregularities if within a suitable timescale no evidence can be found OR if the evidence is found there is no irregularity	
Project Engagement Visit (PEV)	A visit which takes place prior to payment of the first claim to ensure that the Grant Recipient understands the requirements of the funding agreement and has put in place the required systems to meet the monitoring and audit requirements	
Progress And Verification (PAV)	A monitoring visit carried out in accordance with the requirements set out in Article 13 of regulation of Commission Regulation 1828/2006. During the visit, the project will be assessed in terms of delivery, spend and compliance with national and European requirements, including procurement and publicity. Expenditure and outputs declared in a claim will be verified by making checks back to original invoices, bank statements and other project records	Article 13
Prospectus	A document accompanying a call for proposals which informs potential grant applicants of the opportunity to submit an outline application; the details of the activity sought; the value of funding available; the outputs/results sought; and the timetable and process by which projects will come forward and be assessed and selected	Commissioning document, Call, bidding Call Specification (EE), Commissioning Instruction Form (SW); Prospectus (YH, London)

Standard Term to be used from 1 April 2012	Meaning	Terms in use across the Programmes pre 1 April 2012
Selection	Where an outline application is reviewed by the LMC, its sub-group, or the PDT and selected to go forward to the full application stage	
Selection Criteria	Criteria agreed by the LMC to select projects to be financed under the Operational Programme	
Selection Route	Method by which projects are invited to be selected to enter the programme	Commissioning route (NW)
Strategic Partners	Organisations involved in overseeing the project but which do not get paid to deliver any part of the agreed activity. They may be members of the project steering group for example	