

'CO-FINANCING GUIDE (Last Updated February 2007) - Guidance for applicants - Part 1B'

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Capacity building - improving capacity for community development

Capacity building activity is intended to improve the capacity of organisations to provide a route to the labour market for the most disadvantaged groups including the economically inactive.

The prime focus for capacity building in Objective 3 is Policy Field 2 - 'Equal Opportunities and Social Inclusion for All'. The Operational Programme forecasts that Policy Field 2 will support 195 capacity building projects each year. However, capacity building activity can be supported in other Policy Fields, particularly Policy Field 1 'Active Labour Market Policies', where such activity can support eligible disadvantaged groups to access the labour market.

The types of capacity building activity that can be supported in Objective 3 fall into two broad categories:

Type 1 - Actions that assist organisations to apply for and manage prospective ESF projects to assist those at greatest need in the labour market and the economically inactive. You cannot claim consultancy fees for activities such as filling in applications or other ESF forms, management fees or commissions.

Type 2 - Actions that use ESF to develop the capacity of organisations that are targeting disadvantaged groups or communities of the disadvantaged, excluded or economically inactive themselves to tackle and find ways of overcoming the barriers between them and labour market activity.

Experience shows that these capacity building activities are effective when targeted groups or communities are actively engaged in the process. In some regions this will build on experience using Global Grants to involve excluded communities in running ESF projects directly.

It is expected that type 2 actions will operate mainly in Policy Field 2 with type 1 actions being supported in other Policy Fields. Regions may consider building on good practice capacity building work carried out through Policy Field 4 of the last programme and Social Capital development work under current Global Grant programmes.

It is expected that capacity building actions will be delivered largely by Voluntary and Community Sector (VCS) Organisations who are well placed to access and support disadvantaged groups. However delivery should not be restricted to the VCS. Organisations from other sectors can apply to deliver capacity building where they can demonstrate that ESF will add value to their plans to help disadvantaged groups. Capacity building supported through ESF must aim to help disadvantaged individuals and communities back into the labour market.

Capacity building is not intended to provide indefinite support for organisations. So applications for support should:

- be linked to delivering ESF actions within a fixed time period; and
- have an exit strategy for when ESF funding ends. The expectation is that ESF funding will not be renewed for similar organisational capacity building. Organisations seeking continued ESF support after capacity building projects end, should do so through mainstream ESF or seek alternative sources of funding.

Capacity building is intended to support the most disadvantaged groups in the labour market and the economically inactive. Target groups for capacity building support will include:

- disabled people, including those with learning disabilities;
- ethnic minorities;
- 13-17 year olds who are not in education, employment or training ('NEET') or at risk of becoming NEET;
- ex-offenders;
- refugees;
- homeless people;
- lone parents and others with caring responsibilities;
- people experiencing drug and alcohol abuse;
- people from rural areas experiencing exclusion; and
- people who are economically inactive especially those receiving sickness and incapacity benefits.

In addition to need-related activities with specific target communities, a range of activities will be needed to develop organisational capacity to help disadvantaged groups and communities in the labour market. Capacity building projects are likely to include a mix of such activities. Key activities are:

- assisting organisations to apply for ESF money and developing their capacity to manage and deliver ESF projects;
- developing the capacity of organisations and communities to access and support disadvantaged groups;
- developing outreach;
- mentoring activities;

- providing information, advice and signposting services;
 - small-scale research provision to help identify the needs of target groups and how to engage them;
 - supporting the use of specialist staff and functions such as translation services to assist with the provision of English for speakers of other languages;
 - working with employers and teaching organisations to address discrimination and stereotyping;
 - skills training to improve organisational capacity;
 - providing childcare where this is a barrier to participation in the labour market; and
 - helping people with disabilities to access training and jobs.
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Soft outcomes (Last updated April 2006)



[Document showing all changes to this page](#)

Traditionally, monitoring projects has focused on quantitative outcomes (the numbers of beneficiaries getting jobs or qualifications). But you should also look at other ways of measuring the success of projects. For example, it is important to measure beneficiaries' progress in getting closer to employment with improvements in their self-confidence or motivation.

Many projects have developed their own systems for measuring these 'soft' outcomes. We commissioned some work to look at the types of systems already in place and to develop some good practices on measuring 'distance travelled'. This [good practice](#) is now available on the ESF website. Although it is aimed primarily at projects delivering support under Policy Field 2 (Equal opportunities for all and promoting social inclusion), it will also be of interest to other projects. As well as producing a good practice guide, the researchers also produced some recommendations for the Monitoring Committee on how to develop this work. One of the recommendations was to establish a working group to explore the issues in more detail and to consider the possibility of developing a national system to monitor soft outcomes. Updates on progress made on this will be added to the website.

ESF rules responsibilities and claims procedure (Last updated April 2006)



[Document showing all changes to this page](#)

This part of the ESF guidance deals with the rules of ESF. It will provide you with enough information for you to apply for funding. It includes certain topics that you will need to consider when developing and managing your plan and Measure-level application.

The 2000 to 2006 Programmes

The current ESF programmes run from 1 January 2000 to 31 December 2006 although, in some circumstances, activity may be extended until 2008. This means that there are strict time limits for making ESF applications, claiming payment, declaring expenditure and submitting Project Closure Reports. Your Government Office will advise you of these deadlines.

The legal framework

In 1990 the Member States took over the responsibility for administering and managing ESF spending.

In 1993 this responsibility was expanded to include regular checking that projects have been carried out properly, preventing and taking action against irregularities (procedures not being followed) and recovering money lost as a result of irregularity or negligence. These checks take place regularly. In 1997 a regulation set out the minimum level of financial control acceptable for Structural Funds. To help reach this minimum level the European Commission (EC) (or more commonly the European Union (EU)) introduced a series of rules, aimed at coordinating what could be claimed. We have drawn up the rules in this guidance using a combination of:

- EU rules and regulations;
- normal accounting practices;
- standard government accounting practices; and
- general good practices.

Who can apply?

Co-financing Organisations (CFOs)

The criteria for becoming a CFO is set out in section 2 of this guidance. In practice Learning and Skills Councils and Jobcentre Plus are CFOs for the whole of England. Some of the following types of organisations act as Co-financing Organisations as well:

- Connexions partnerships;
- Regional Development Agencies;
- Business Link operators;
- local authorities.

Partnerships, further education colleges, voluntary-sector organisations or umbrella bodies cannot become CFOs. This is because they do not meet the criteria as public or funding bodies.

The deadline for applying for CFO status was 20 December 2002. No further applications will be considered.

You can find a complete list of [CFOs](#) on the ESF website.

How much can CFOs claim?

ESF will pay a proportion of your costs. This proportion is known as the intervention rate. The maximum intervention rate you can receive varies between Objective 1 and Objective 2 Programmes. You should refer to the Government Office guidance to find out the maximum intervention rate for the Measure you are applying under. In the England Objective 3 Programme, the maximum intervention rate in all Measures is 45%.

The balance (for example at least 55% in Objective 3) must be provided by match funding. Match funding can be either public funding or a combination of public and private funding. At least 10% of the costs must come from public sources as match funding.

'Concentration' is a principle of ESF. This requires the ESF element of a Measure-level application to be 'significant'. The amount of ESF must not be less than 25% of the total of ESF and public match funding added together.

You must maintain the intervention rate approved in your Measure-level application as it forms part of the contract. If it looks like the intervention rate may change during the life of the project, you must tell the Government Office. You must tell your Government Office of any other major changes.

Please note that under ESF eligibility rules, the amount of ESF support cannot be more than the total eligible project expenditure excluding 'in kind' contributions.

Added value (Last updated April 2006)



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As the managing authority for ESF DWP is required to make sure that ESF support is used to obtain added value in a cost effective way. This is done by supporting projects that would otherwise not have taken place or would have taken place in a different, less effective way.

You are required to demonstrate that your proposal meets the added-value criteria, on the following lines:

- Does the Measure-level application increase the number of people receiving training?
- If the number of training hours on an existing training course increase, will there be other results such as additional or higher qualifications or more jobs?
- Will ESF support lead to additional, positive outcomes which can be measured and will there be clear links between these and the additional funding?
- Will ESF support help to create new permanent jobs or self-employment, or will it provide other activities eligible for ESF funding that would not have been made available without it?
- Will ESF support allow you to maintain existing activity which would otherwise be cut back or allow you to bring forward activities or not postpone them? Do you intend to invest entirely in new or creative activity that you could not develop using existing resources?

You are responsible for making sure that ESF is providing funding over and above that provided by other sources of funding or contracts. You should clearly define Measure-level application boundaries between ESF supported activity so that ESF added value is clearly demonstrated. You are responsible for repaying overpayments if it is proved that you have received funding you are not entitled to. You should make sure that ESF costs relate only to activity you have not received funding for. You are strongly advised to make it clear who owns the outputs from the project to cut down the risk of double funding or double counting them.

Match funding

Match funding is an essential part of how ESF works. It is the amount organisations (other than ESF) give towards the eligible costs of a Measure-level application. ESF can only meet a part of eligible costs and the balance has to be found from other sources. This balance is known as match funding. The largest amount that ESF can provide (intervention rate) forms part of the agreement between the UK Government and the European Commission.

Match funding may come from the public sector - **public match funding** - or the private sector - **private match funding**. You must have public match funding for at least 10% of the total cost of the Measure-level application. The majority of match funding for CFOs will be public match funding.

Private match funding

Contributions from providers or employers can be used as private match funding. In some circumstances private match funding must be used to meet the State Aid Regulations.

Definition of private match funds

For ESF 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;
- co-operatives;
- self-employed people; and
- individual investors.

What you can claim (Last updated July 2006)



[Document showing all changes to this page \(Updated April 2006\)](#)



[Document showing all changes to this page \(Updated July 2006\)](#)

Co-financing organisations should refer to Part 2 of this guidance for details of the various options for costing Measure-level applications. The guidance below is general guidance which describes the type of expenditure which is eligible for ESF support when using actual costs. Most CFO claims will be based on contract costs - that is, payments made by providers under the terms of their contracts.

ESF and the match funding can support all costs relating to Measure-level application activity as long as they are eligible and you include them in the specification. All costs, including any start up and evaluation costs, must be incurred during the lifetime of the Measure-level application. Your application start and end dates should take account of this type of activity. There are some costs which are not eligible. The list is not exhaustive. These are:

- loan and current account interest;
- other financial charges;
- consultancy fees for activities such as filling in applications, or management fees or commissions;

- staff time spent filling in applications;
- buying equipment or buildings (threshold currently £1,000);
- costs of finance leases (see leasing section);
- charging again for equipment or buildings which have previously attracted EU funding;
- any expenditure that does not clearly relate to the project; and
- any expenditure which is not supported by written sources.

The following gives some examples of eligible expenditure and highlights areas which you need to consider.

Staff costs

- Staff costs can include employer's national insurance and superannuation costs.
- In the application you must include any expected increases in grade or pay scales for the year.
- Where staff are involved with non-ESF work, you must not include the non-ESF elements. Decide how you are going to recognise and record these costs before the project starts as you can only include your actual expenditure in the claim.
- The application must clearly show the number of staff involved in carrying out the project and their individual pay rates where these vary.
- Travel and living expenses must relate only to ESF work.
- You must claim sick or maternity pay if it is in line with your organisation's staff policy or on the individual's contract of employment.
- To work out how much a member of staff earns in an hour:
 - work out how many hours they work in a year. This is 52 weeks multiplied by 5 days, less the number of days of annual and public holidays they are entitled to, multiplied by the number of hours they work each day.
 - Divide their annual salary by the answer to (a) above and this is their hourly rate.

If they work part-time, or leave during the year, work out their reduced number of hours.

External training

- You can claim the costs of training in connection with ESF activity.
- It is expected that all organisations who submit an application are in a position to deliver that Measure-level application. You can only claim staff training costs where you identify that an individual has specific training needs that could not be identified before the project began. This need relates to receiving specialist knowledge.

Beneficiary costs

- For employed beneficiaries, wages and allowances can include employers' National Insurance and superannuation costs.
- Applications should give numbers of beneficiaries and pay rates as accurately as possible. Remember you can only use actual information for the annual reports or final reports when the project ends.
- Daily travel costs for beneficiaries should show the cost for each beneficiary for each day.
- When you are applying for external courses you should show the length of the courses, and the cost of travel, board and lodging. You should show the cost of the courses under 'other costs'.

- Costs for caring for children or other dependants should show the weekly or hourly costs likely to be involved. Remember you should treat any contributions from beneficiaries as project revenue.

Beneficiary allowances

You can claim beneficiary allowances. Although there is no upper limit for the allowances you pay beneficiaries, it is important that you consider the following.

- Government Offices will decide if allowances conform to levels within their region and if the allowance represents value for money.
- Allowances may affect the level of benefits beneficiaries are entitled to.

You should discuss this with your local Jobcentre Plus office. You should be aware that the Inland Revenue may regard some allowances as taxable benefits. You are strongly advised to check with them before setting the allowance levels.

Other costs

Rent and leasing of buildings

- If you use only part of a building for ESF purposes, you should work out the amount you charge to the ESF accordingly.

Depreciation of buildings

Any asset, including a building, must have a fixed useful life. The length of a building's life varies according to its type and purpose. Your accounting policies must set out the period of time and also show the way you calculated the amount of depreciation you are claiming. You should remove costs that are not eligible, including any EU help. It is not possible to say exactly how you should work out building depreciation as this is up to each individual organisation. However, the DWP would expect you to follow the principles set out in Statements of Standard Accounting Practice number 12.

Generally, DWP expect that a permanent building used for training purposes, such as a college or school, would depreciate in the range of 2% to 5% each year on a straight line basis (the same amount each year), reflecting a uniform life of between 20 and 50 years.

Calculating the length of time a building is used for ESF activity depends on whether you calculate the Measure-level application costs on an actual cost basis or by using the organisation or college cost method. If you use the building for 13 weeks in the year for ESF, then DWP expect you to set 25% of the depreciation charge against the project. If you use an organisation or college method, you should include the college's total eligible depreciation charge in the 'Other costs' heading. You should then work out the Measure-level application costs on the basis of training hours delivered in the college on the ESF projects.

You should provide a list of the premises where you are claiming for depreciation.

Bonus costs

Bonuses, or similar payments to staff which are taxable, are eligible costs. However you must include them in the initial application. These may include:

- bonus payments;
- childcare or crèche payments; and

- company cars.

Below are examples of costs which are not eligible:

- bonus payments or any other allowances you give your staff, free of tax;
- golden handshakes; and
- exceptional or extraordinary provision for pension rights.

Hire and lease of equipment

Where equipment is not used only by ESF beneficiaries, you should show how you have identified your costs.

You should show the actual costs of leasing equipment, including VAT where this applies (see notes on VAT), as well as the period of time covered.

Finance leases

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

The costs of leasing equipment under a finance lease are not eligible. You should treat the item you leased as a fixed asset and depreciate it (work out its loss in value) in line with your accounting policy. You should work out the depreciation against market value on the same basis as you would for equipment you own.

Operating leases

Under this type of lease, the equipment remains the property of the lessor (the person who leases the equipment to you).

You can claim the costs of operating leases if you can show that the costs of the lease are competitive and are similar to the rates charged in the market place. However, if a leasing charge for equipment (in any one year) went over, or closely matched, the full cost of buying the item it would be seen as an attempt to introduce capital expenditure as an eligible item under a different heading, and capital expenditure (over £1,000) is not eligible.

Leasing properties

Only the depreciation on the actual cost of the lease can be considered as eligible. Where 'peppercorn' rent is paid, you only include the depreciation on the actual amount you paid for leasing the property in the calculation for the annual reports or final reports when the Measure-level application ends. If your accounting policy does not include depreciation of leased properties, use the accounting standards which apply in Great Britain.

Depreciation of equipment you own

The way you calculate depreciation must be in line with your organisation's accounting policy. You should base claims on the actual costs of equipment you own. You can claim depreciation on second-hand equipment unless it has previously been claimed. You can calculate depreciation in many different ways, the most common being straight line and reducing balance methods (you work out the depreciation each year on the value of the assets in the books at the start of the year). It is normally expected that the smallest

number of years over which you can depreciate an item is three years.

If you receive capital grants towards the costs of fixed assets, you should take these grants from the costs of the fixed asset before you work out depreciation costs for ESF. Where you use deferred credits to offset depreciation costs, you must take the amount of the deferred credit from the depreciation costs for ESF purposes. Your accountant will be able to tell you if you use deferred credits.

You must keep working papers showing how you have worked out depreciation costs. These include the costs and descriptions of the items you bought, when you bought them, how you worked out the depreciation, how long you spent using the items, where they are, and an estimate of their value now.

On the application form it is not enough for you to enter 'depreciation costs' and an amount, unless you are using the organisation or college costing methodology. You should provide a list of items to be depreciated and send details of how you worked out the depreciation costs together with an explanation of how you identified specific costs.

VAT

VAT is an eligible item of expenditure **only if your organisation cannot reclaim it**. The treatment of VAT will vary depending on your status so it is very important for you to decide your VAT status with your local Revenue and Customs Office. You should also be able to provide evidence of your status if you want to reclaim VAT as an item of ESF expenditure.

Buying consumables

You should give a list of consumables you need to buy with the estimated expenditure, on the application form. Treat IT software in line with your usual accounting policy.

Buying small items of equipment

You must give a list of small items you need to buy, with the estimated expenditure, on the application form. No single item can cost £1,000 or more. There is no limit to the number of small items of equipment under £1,000 which you can claim for.

The total expenditure on small items of equipment will be taken into account when assessing your project's value for money.

It is important to remember that when you buy IT equipment you cannot claim separately for each component part, such as the monitor, keyboard, printer and so on. ESF consider a computer to be a complete set-up.

You can claim for the depreciation of equipment you own.

You should not claim for equipment costing under £1,000 unless you can identify the items in your accounts.

Second-hand equipment

You can claim for the purchase costs of second-hand equipment providing:

- the equipment has not been originally purchased using state or Community grants; and
- the price doesn't exceed its market value.

You will need to provide evidence that the second-hand equipment you have bought is at the normal 'going rate'. It is unlikely that commercially available second-hand equipment has been bought using public money. However, if you buy equipment from another organisation, you must get a declaration from them that they did not use grants to purchase the equipment in the first place. If a grant was used to purchase the equipment, you cannot claim any of the costs in the claim.

No single item can cost £1,000 or more. There is no limit to the number of small items under £1,000 which you can claim for. The total expenditure on small items of equipment will be taken into account when assessing your project's value for money.

Bank charges

If you decide that you need to open a separate bank account for ESF, you can claim for costs of opening and administering the account. You cannot claim for debit interest charges or other purely financial expenses.

Adapting premises and minor repairs and maintenance

The costs are eligible providing the adaptations and repairs or maintenance are minor. As a rough guide, any work costing over £750 cannot be considered as 'minor'. For example if you want to adapt your premises for easier access for people with disabilities, the work will not be eligible unless it is classed as minor.

Methods of costing

The European Commission has confirmed that contracting arrangements between CFOs and providers for ESF co-financed activities are covered by the Public Service Directive. Where CFOs use open and competitive tendering for selecting provider contracts, contract costs can be used as the basis of claims for ESF. The arrangements for open and competitive tendering are described in more detail in Section 2 of this guidance.

- Where open and competitive tendering is not used, actual eligible expenditure must be the basis for the ESF claim.

The methodology is straightforward and requires applicants to record eligible expenditure under the three cost categories - staff, beneficiaries and other. You simply add these together and give a total cost.

Costs of caring for children and dependants

Across all Policy Fields and Objectives, projects are encouraged to provide for the care of children and dependants. Costs, such as the provision of a crèche, are items of eligible expenditure.

You are also asked to consider equal opportunities when you design your Measure-level application. Although Policy Field 5 specifically tackles gender-based barriers to employment, equal opportunities is a theme that runs across all ESF. If you provide care for dependants, for example, you are demonstrating your commitment to this.

Verification and record keeping

You must make sure that you and your contractors keep all information on your Measure-level application and claims. You must make this information available for the Department for Work and Pensions (DWP), Government Office auditors, the European Commission and the European Court of Auditors to inspect if they ask to.

For ESF beneficiaries, you must keep the following records:

- all beneficiaries, personal details;
- project attendance details and support measures received;
- qualifications held at the start of the project;
- qualifications obtained; and
- pre- and post-project employment status, including type of employment (that is, within an SME or a large firm). The Guidance for Applicants gives a definition of an SME.

You must keep the following financial records:

- receipts and invoices;
- bank statements;
- working papers to show how you put together the interim claims and the PCR and how you apportioned costs;
- written evidence of match funding and copies of the organisation's audited accounts, as required by UK legislation; and
- ESF audit certificates, where applicable.

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Keeping documents (Last updated October 2006)



[Document showing all changes to this page \(Updated October 2006\)](#)



[Document showing all changes to this page](#)

You must keep your original documents about implementing and financing the project until three years after the European Commission makes the final payment for the programme to the UK. The programme is due to end on 31 December 2008 and the earliest likely date for the Department for Work and Pensions to receive final payment from the European Commission is 2011. This means that you must retain all documentation until at least 31 December 2014. You should continue to keep all documents until your Government Office advises you that you may destroy them.

You can keep documents as either the original paper copies or as an electronic copy of the originals. If you are keeping copies of original documents electronically, they must meet with Commission Regulation (EC) 2355/2002. Documents must be:

- held on a recognised data carrier;
- certified as copies of the original; and
- able to be audited.

Commonly-accepted data carriers include:

- photocopies of original documents;
- microfiches of original documents; and
- electronic versions of original documents on optical data carriers (such as CD-ROM, hard disk or magnetic disk).

You should use the following declaration to certify that the copies you hold on the commonly-accepted data carrier are true copies of the original document.

I certify that this is a true copy of the original document/s.

Signed.....

Date.....

Position in organisation.....

....

You can include the certification on the electronic copy of the documents or keep it as a paper copy. If you certify the documents using a paper copy, it is extremely important that you store it with the electronic copy.

You can certify a single document or a group of documents as being copies of the original. For example, you can certify that all of the documents stored on a CD-ROM are true copies of original documents.

The signature must be original rather than electronic signature.

You must make sure that the electronic copies are reliable for audit purposes.

You must make sure that you can retrieve the electronic copy.

These are the minimum requirements. You can add to the certification declaration and take more steps to protect your documents if you want.

Experience of managing the 1994-1999 ESF programmes has shown it is very important to keep documents to support audit trails. If you do not keep documents about implementing and financing your project, you may have to repay funds to the European Commission. You should keep copies of all documents required for ESF purposes, including original application, scoring, monitoring, paying and related documents, as well as related internal documents such as committee minutes.

Data-protection requirements (Last updated April 2006)



[Document showing all changes to this page](#)

If you are storing data on a computer database, please make sure that any registration under the Data Protection Act allows for data to be disclosed to the DWP and to an

independent research organisation. Please make it clear that the information to be disclosed is non-sensitive (that is names and addresses only). You can find out about the Act from the internet.
