

Building Better Opportunities



Guide to delivering European funding

Section eight: Costs and expenditure

About this guide

This is just one section in a series of fifteen guidance documents that make up the Guide to delivering European funding (the 'Guide'). Taken as a whole, this provides all of the guidelines, tools and templates needed to manage and monitor your project.

The version of the Guide replaces any and all guidance we have previously published in relation to this funding.

For the full contents visit our website [here](#)

How to contact us

- ✓ If you are a **lead organisation** involved in delivering a project, the best way to get in touch is through **your funding officer**.
- ✓ **Other organisations** should email us at esf@biglotteryfund.org.uk

We have a Building Better Opportunities support team in place who can help with understanding European Funding requirements. You should by now have a named contact to contact directly. If you are unsure who this is, please contact your funding officer.

Summary of changes

May 2017 - Lottery logo updated.

March 2017 - Delayed quarterly update, including updated logo, Part 8.1 clarifies record of work carried out to be retained which might be requested as evidence, and that copies of organisation bank statements should be provided as evidence of defrayal, part 8.3 amended to be specific to depreciation of buildings, parts 8.5 - 8.7: payment methods increased from four to seven, and procurement thresholds clarified for type of organisation, eligible direct expenditure for staff costs clarified for consultants and sessional workers with additional comment on 1720 calculation and signposting to section 14:FAQs for detailed clarification, evidence of staff expenses, monitoring spreadsheet updated to match annex layout.

September 2016 - Quarterly update, with use of National Insurance number for participant ID, updated Annex K, new Annex Q and revised annexes in Oct/Nov.

June 2016 - This version of the Guide incorporates appropriate comments gained from the consultation review in April 2016.

Any changes to the Guide will be:

- ✓ communicated on our website and on the inside page of each section
- ✓ emailed to current grant holders and highlighted in our programme e-bulletin.

Contents

Section eight: Costs and expenditure

8.1 Costs	Page 3
8.2 Keeping timesheets	Page 6
8.3 Depreciation	Page 7
8.4 Participant expenses, allowances and incentives	Page 7
8.5 Procurement and contractor costs	Page 8
8.6 Indirect costs	Page 8
8.7 Reporting expenditure	Page 8

Annex N - Participant allowance, incentive and expenses form

Annex O - Financial reporting spreadsheet

8.1 Costs

We can only pay for the actual costs you incur in the delivery of the project.

There are two types of costs you will incur:

Direct costs	Costs that are directly related to a project activity, such as staff salaries. These costs are usually incurred on an item-by-item basis.
Indirect costs	Costs that cannot be connected directly to a specific project activity, such as payroll staff.

During the delivery of the project you'll:

- ✓ track the costs you incur using **your payment schedule** (see **Section four: Payments and monitoring**).
- ✓ report your expenditure using the **financial monitoring spreadsheet (8.7, Annex O)**.
- ✓ keep evidence of **all** expenditure.

We explain the forms of evidence you will need to retain on the next few pages. You must be able to provide this evidence on request, otherwise the expenditure will be classed as ineligible and we may have to recover this money.

What can't we pay for?

We can't pay for:

- ✗ activities that will not contribute to the delivery of the targets we have identified on the project outline
- ✗ activities or staff costs that do not represent good value for money
- ✗ anything that is a statutory obligation or will replace statutory funding

- ✗ anything you start or spend money on before we confirm our funding
- ✗ equipment costing more than £1,000 per item
- ✗ furniture and refurbishment or landscaping work
- ✗ fundraising appeals, endowments and registration fees
- ✗ in-kind contributions of unpaid voluntary work
- ✗ loans, fines, bank charges and interest payments
- ✗ overheads (for example, utility bills, rent, insurance and administrative costs) totalling more than 15 per cent of the direct staff costs of the project
- ✗ projects that generate income or revenue
- ✗ purchase of land or buildings
- ✗ redundancy costs
- ✗ finance leases (for example, where the equipment becomes the property of the lessee at the end of the agreement)
- ✗ second-hand equipment
- ✗ staff training, unless specialist knowledge is required that could not have been identified before the project began
- ✗ VAT you can recover
- ✗ Purchase of vehicles. However we can pay for the operational lease of a vehicle, subject to prior discussion with your funding officer

Eligible direct expenditure	Evidence that must be retained until at least 31 December 2026:
<p>Staff costs (direct and external) including employer's National Insurance and pension contributions, and any taxable incentives linked to pay.</p> <p>Note this category to be used for staff employed directly by leads and delivery partners and staff employed by an external agency. The 15% flat rate will be applied to this category.</p> <p>External means</p> <ol style="list-style-type: none"> There is a contract between the staff member and an employment agency. The staff member is supplied to an employer by the agency. Whilst working the activities / work undertaken by the staff member is controlled by the employer. The staff member is not self-employed. 	<p>For staff that are working fully on the project:</p> <ul style="list-style-type: none"> ✓ A letter of appointment with start and finish dates, confirming that the post is part-funded by ESF with effect from the appropriate date. ✓ A job description stating that the individual will be solely employed on the project. ✓ Payslips and payroll information. ✓ Copies of organisation bank statement as evidence of defrayal. <p>For any staff or managers that are only working some of their time on the project, including senior management:</p> <ul style="list-style-type: none"> ✓ A letter confirming that the post is part-funded by ESF with effect from the appropriate date. ✓ Timesheets describing the instances and tasks associated with their involvement in the project (see 8.2). The descriptions must be clear enough for us to determine how the staff and tasks / activities relate to the project. ✓ Payslips and payroll information. ✓ Copies of organisational bank statements as evidence of defrayal. ✓ We may also request a record of the work that has been carried out (such as diaries, emails, media and materials).
<p>Staff costs (consultant and sessional workers)</p> <p>These are experienced professionals brought into the project to provide expert knowledge or delivering a specific activity or intervention on a temporary basis, often at an hourly or daily rate. Please bear in mind procurement value limits when contracting consultants and sessional workers.</p>	<ul style="list-style-type: none"> ✓ The reason why you needed to bring in experienced professionals to support the project. ✓ Evidence of procurement. ✓ Copy of contract including rates charged and the work to be delivered. ✓ Copies of timesheets detailing times worked and activities delivered. ✓ Invoices detailing hours worked. ✓ Copies of organisational bank statements as evidence of defrayal.

Staff expenses such as travel or allowances	<ul style="list-style-type: none"> ✓ A copy of the organisation’s policy on travel and expenses so we can check that this is fair and reasonable. ✓ Receipts and invoices for every item of expenditure. ✓ An explanation of the need for the activity in relation to the project (why), who for, when, type of expense and alternatives considered to demonstrate that this activity was the best value for money. ✓ Copies of organisational bank statements as evidence of defrayal.
Volunteer costs such as travel and subsistence	<ul style="list-style-type: none"> ✓ Receipts for every item of expenditure. ✓ Dated and signed declarations of re-imburement for volunteers costs, detailing where, when and why they wre incurred.
Consumables such as stationery or essential software	<ul style="list-style-type: none"> ✓ Receipts and invoices for every item of expenditure. ✓ Copies of organisational bank statements as evidence of defrayal.
Venue hire and the lease or rental of buildings where the building is wholly used for the project	<ul style="list-style-type: none"> ✓ A copy of the lease or rental agreement. ✓ Room hire invoices for any temporary premises. ✓ Copies of organisational bank statements as evidence of defrayal.
Hire or operating lease of equipment	<ul style="list-style-type: none"> ✓ A written explanation of how the costs of the hire or lease are similar to market rates, including a minimum of three quotations, and that the cost of hiring or leasing this equipment does not exceed the cost for buying the item outright. ✓ Invoices for every item of expenditure. ✓ Where assets valued up to £1,000 are acquired or disposed, the acquisition or disposal should be noted in your progress report form. ✓ Copies of organisational bank statements as evidence of defrayal.
Depreciation of buildings and equipment	<ul style="list-style-type: none"> ✓ See 8.3.
Small items of equipment costing up to £1,000	<ul style="list-style-type: none"> ✓ Receipts or invoices for every item of expenditure. ✓ Copies of organisational bank statements as evidence of defrayal.
VAT that cannot be reclaimed from HMRC	<ul style="list-style-type: none"> ✓ A copy of the organisation’s VAT eligibility declaration or certificate. <p>If you are able to recover VAT but are choosing not to, the VAT amount must still be deducted from what you report to us.</p> <ul style="list-style-type: none"> ✓ Copies of organisational bank statements as evidence of defrayal.

Participant costs such as expenses and childcare	<ul style="list-style-type: none"> ✓ A record of the activities undertaken which resulted in these expenses (such as dated and signed attendance sheets, course materials and original certificates). ✓ A record of childcare costs, including evidence and a dated receipt for any contributions from participants towards these. ✓ Receipts or invoices for every item of expenditure. ✓ Dated and signed declarations of reimbursement for expenses or other costs that have been met on their behalf (see 8.4). <p>Note that childcare costs are only eligible where the child-minder/childcare provider is appropriately registered.</p>
Participant allowances and incentives	<ul style="list-style-type: none"> ✓ A written explanation of the reasons for offering the allowance and how it represents good value for money. ✓ A record of the advice received from Jobcentre Plus, HM Revenue and Customs and other bodies concerning each individual participant's existing benefits or allowances. ✓ Original financial records showing the participant, date and amount paid, including a signed declaration (see 8.4). ✓ Costs of securing evidence of entitlement to work in the UK. ✓ A record of their participation that fulfils the terms of the allowance or incentive.
Marketing and promotion	<ul style="list-style-type: none"> ✓ Original receipts or invoices for every item of expenditure and a detailed description of the work carried out. ✓ Copies of organisational bank statements as evidence of defrayal.
Monitoring and evaluation	<ul style="list-style-type: none"> ✓ Original receipts or invoices for every item of expenditure and a detailed description of the work carried out. ✓ Copies of organisational bank statements as evidence of defrayal.
Storage of evidence and data	<ul style="list-style-type: none"> ✓ Original receipts or invoices for every item of expenditure and a detailed description of the approach and security. ✓ Copies of organisational bank statements as evidence of defrayal.
Procurement costs	<ul style="list-style-type: none"> ✓ Annotated, dated and signed copies of all contracts, together with a detailed Procurement Register (see Section seven: Partners and procurement). ✓ Receipts or dated invoices for every item of expenditure. ✓ Copies of organisational bank statements as evidence of defrayal.

See section 14 of the Guide -“ Frequently Asked Questions” for examples of acceptable and unacceptable descriptions of costs claimed.

8.2 Keeping timesheets

Staff who are spending only some of their time working on the project must clearly record the instances and tasks associated with their project involvement using their timesheet. The descriptions must be clear enough for us to determine how the staff and tasks / activities relate to the project. This includes members of senior management staff. The timesheet must show their name and role together with a line-by-line description of:

- ✓ each activity or task
- ✓ the date it was carried out, and
- ✓ the start and finish time, rounded to the nearest 15 minutes.

The original timesheet must be kept as evidence along with the payslips and payroll information for these staff.

You also need to keep an up to date list of staff working on the project, including whether full or part time, rates of pay, pay calculations, start date on project and delivery partner (if applicable).

Hourly rate calculation

A new Common Provisions Regulation (CPR) provides simpler methods to calculate an hourly staff rate. The method to be used, shown below, replaces the previous method used in the older version of this Guide. It uses 1720 hours as the standard annual “working time” based on a working week of 33 hours. To work out the hourly rate for each staff member, use the following calculation, irrespective of what the actual working week is:

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

‘On-costs’ include things like National Insurance contributions and pension contributions and taxable incentives that are linked to pay.

For more details concerning the hourly rate calculation and direct staff costs in general, see section 14 - Frequently Asked Questions. If you still have questions then search for the full document on the internet:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/578823/ESF_2014-2020_Programme_Guidance.pdf

8.3 Depreciation

Depreciation can be claimed as a direct cost.

To claim for depreciation, we need to see a copy of your organisation's policy for calculating depreciation and a written explanation of how you arrived at the claimed amount.

- ✓ For buildings, we'd expect this to be on a straight-line basis of between 2 and 5 per cent each year, reflecting a uniform life of between 20 and 50 years. The building must not have received support or a grant via another European programme. For further information see paragraphs 5.47 and 5.48 of the MA's National Eligibility Rules.
- ✓ For new and second-hand equipment, depreciation can be claimed according to the rules detailed in paragraphs 5.2 - 5.4 of the National Eligibility Rules. Note that although second-hand equipment cannot be purchased (paragraph 6.1 of the National Eligibility Rules), it can be depreciated providing it has not previously been depreciated at all. We'd expect depreciation to be on a straight-line or reducing basis over a period of not less than 3 years.
- ✓ Depreciation can be claimed for equipment purchased through a finance lease providing the item will be owned by the end of the project.

Records must be kept to show how depreciation costs have been calculated and include detailed evidence of items purchased, date of purchase, length of usage, where the items are now and their current value.

8.4 Participant expenses, allowances and incentives

Although eligible, we expect these to be limited to costs that are absolutely essential to the delivery of the project. For each individual allowance or incentive, we need to understand how it will:

- ✓ represent value for money
- ✓ be based on comparable, local costs
- ✓ affect the level of benefits the participant may be entitled to, which you'll need to discuss with the local Jobcentre Plus office
- ✓ conform to HM Revenue and Customs rules on taxable income.

You'll need to provide the following forms of evidence:

- ✓ a written explanation of the reasons for offering this allowance and how this represents good value for money
- ✓ a record of the advice received from Jobcentre Plus, HM Revenue and Customs and other bodies concerning each individual participant's existing allowances
- ✓ financial records showing the participant, date and amount paid, including a signed declaration
- ✓ a record of their participation that fulfils the terms of the allowance or incentive.

Each time an expense, allowance or incentive is given, you will need to complete a **participant expense, allowance and incentive form (Annex N)**. This must be kept in their participant file.

8.5 Procurement and contractor costs

If during the course of the project it becomes clear that additional services are needed to fill gaps in delivery, these can be procured by the lead organisation in line with Public Procurement Regulations or the national procurement rules for ESIF, as appropriate (see **Section seven: Partners and procurement**)

This involves procuring goods or services, or a series of related services, using appropriate procedures depending upon the cost of the goods or services. Different thresholds apply to public bodies and private or third sector organisations. You should ensure that your procurement complies with the procurement rules, taking professional advice if necessary. You might find it helpful to discuss your procurement plans with us before proceeding.

8.6 Indirect costs

Indirect costs are calculated as 15% of your direct staff costs. No evidence or other calculation is required.

8.7 Reporting expenditure

Use the **financial monitoring spreadsheet (Annex O)** to report your expenditure.

Each partner must complete and maintain its own spreadsheet **over each quarterly period** (see **Section four: Payments and monitoring**).

Partners must send their spreadsheets to the lead organisation, who will in turn aggregate this information into a full report to us each quarter.

The spreadsheet:

- ✓ collects information for each transaction
- ✓ categorises transactions using the cost headings outlined earlier in this section
- ✓ requests various details about the payments we need to report to the Managing Authority.

In order to support the reporting, you should give each item of expenditure a separate unique invoice / ID number.

Completing the financial monitoring spreadsheet

Bear in mind that:

- ✓ you must retain the correct evidence to prove the expenditure is eligible, otherwise we will be unable to pay for it
- ✓ each transaction must have a clear enough description to enable us to determine its eligibility, without the need to view the original invoice
- ✓ the money must have been paid out from your bank account within that quarterly period
- ✓ expenditure must be paid and claimed in full pence.

On the next two pages, we've summarised the fields you need to complete on the spreadsheet.

What the financial monitoring spreadsheet collects:	
“Summary” Tab	
Project Name	Please enter the name of your project here.
LEP Area Name	Select your LEP area from the drop-down box.
Investment Priority	Most projects should select “1.4 Active Inclusion”. COR/2/1 will select “1.2 Sustainable Integration of Young People”.
Priority Axis	This has been pre-filled as all Building Better Opportunities projects are part of ESF Priority Axis 1 (Inclusive Labour Markets).
MA Operational Identifier	This is the Managing Authority’s LEP-level reference. This field will auto-complete when your LEP area name is entered.
Big Lottery Fund Project ID	Please enter your Big Lottery Funding Project ID in this box. Your funding officer can provide this number to you if you do not know what this is.
Lead Partner Name	Complete with the name of the project lead partner.
Project Quarter	Select the claim quarter from the drop-down box. Quarters refer to calendar years e.g. “2016 - Q1” refers to the period January to March 2016.
Claim Summary Table	This table shows the ESF portion of your grant by cost category and region and will auto-complete based on the information you add into the sheets for each month.
“Month” Tabs	
Line number	The number has been pre-filled. The template has enough space for 1,000 transactions per month; let us know if you need additional space. The first three lines calculate the 15% flat rate of indirect costs and cannot be amended.
Cost category	These are the cost categories listed in your payment schedule and in 8.1 of this section. Select the appropriate category from the drop-down box.
Procurement contract ID	Where a line is related to a procured contract, the Procurement Register reference must be entered here (see Section seven: Partners and procurement).
Supplier name	A free-format field where the supplier name should be entered. Where a line refers to direct staff costs, the partner supplying the staff should be entered here.
Supplier VAT number	If the supplier is VAT-registered, their VAT number must be entered here. If the supplier is VAT-exempt, type “VAT exempt” in this field.
Invoice/ID number	All documents should be given a separate unique reference number (URN) to clearly identify the item of expenditure. You should consider using one of the following methods:

	<ul style="list-style-type: none"> ✓ For invoices - add the month and year (in the format MMY) to the supplier invoice number, separated by a dash, for example: 0216 - 12345. ✓ For salary costs - add the month and year to the staff payroll number. <p>For participant expenses, incentives and allowances - add the month and year to the receipt or expense number.</p>
Supplier invoice date	✓ The date shown on the supplier invoice.
Defrayal date / date paid	Enter the date that the invoice was paid from your bank account. For staff salaries, add the appropriate monthly payroll date.
Payment method	There are seven options: cash, cheque, credit card, CHAP, direct debit, debit card, bank transfer and BACS.
Payment reference	<p>Enter an appropriate reference for the payment method, for example:</p> <ul style="list-style-type: none"> ✓ Cash - a petty cash receipt number. ✓ Cheque - the cheque number. ✓ Credit card - the bank account reference for the relevant monthly statement. ✓ CHAPS / BACS / Bank transfer / Direct debit - the bank account payment reference.

Expenditure details/description	You must enter a clear description of the item being claimed for. It must provide enough information for a reviewer to be able to judge whether or not the cost is eligible, without the need to view the original invoice. See section 14 of the Guide - “ Frequently Asked Questions” for examples of acceptable and unacceptable descriptions of costs claimed.
Apportionment details	<p>Indicate how the eligible value was arrived at. There are three options:</p> <ul style="list-style-type: none"> ✓ N/A - This is used where the entire invoice is eligible. ✓ Whole invoice/receipt value minus ineligible costs - where the ineligible portion has been deducted before reporting. ✓ Split by category of region - If the invoice /receipt cannot be traced back to a specific location within a category of region, then its value should be apportioned by the number of participants in each region. For example: <ul style="list-style-type: none"> <i>Invoice value = £1,000.</i> <i>Two regions = A has 20 participants, B has 30 = 50 participants.</i> <i>Region A portion = (20 ÷ 50) x £1,000 = £400.</i> <i>Region B portion = (30 ÷ 50) x £1,000 = £600.</i>
Invoice value (excluding VAT)	Enter the invoice or receipt value before VAT. Values must be in full pence.
Irrecoverable VAT	If you're unable to recover VAT, or are choosing not to, the VAT amount must still be deducted from what you report to us. In the event that you are

	able to recover VAT and intend to, the VAT amount should be entered as £0. As with the invoice value, amounts must be in full pence.
Category of region	<p>There are four options: less developed, transition, more developed and Split by category of Region.</p> <p>Please select the category of region for each item of expenditure.</p> <p>If you are apportioning costs to more than one Category of Region, please select “Split by Category of Region” and manually enter the appropriate amounts in the next three columns.</p>
Total category of region expenditure	<p>The three final columns provide the ESF grant amount per category of region for each expenditure line.</p> <p>If your transaction relates to one Category of Region the value will automatically pull through.</p> <p>If you are apportioning costs to more than one Category of Region, you must enter the value in each column to show how you have split the costs. The sum of these values must be equal to the Total Eligible value.</p>
Total eligible value	This field will calculate automatically. The total at the bottom of this column is the total grant expenditure (ESF plus Big Lottery match funding).