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1. INTRODUCTION

- 1.1. To attract ERDF support, expenditure by projects must be eligible in terms of the Operational Programme (OP), the relevant EC Regulations and the National Eligibility Rules. In the past, the Commission have set out the eligibility rules but under the Regulations for 2007-2013¹, they “*shall be laid down at national level subject to the exceptions provided for in the specific Regulations for each fund*”. **ERDF eligibility rules apply to all project spend included in the eligible costs, although projects can also include ineligible spend provided this is not used to match fund ERDF.** Particular rules apply to Financial Engineering Instruments (FEIs) such as Venture Capital and Loan Funds and Urban Development Funds, as set out in Section 8 of the Implementing Regulation, (EC) Regulation 1828/2006. Chapter 15 of the User Manual provides detailed guidance on these instruments and where appropriate this chapter highlights where the national rules for FEIs are different from the general national eligibility rules.
- 1.2. Audits on previous programmes by the European Commission and the European Court of Auditors have emphasised the need to strictly comply with eligibility rules. Failure to do so has led to financial penalties of up to a 100% of the grant. If the Commission considers that there has been systemic failure on eligibility issues, they could enforce a flat rate correction to the whole of a Programme.
- 1.3. It is important to ensure therefore that the rules are strictly adhered to both during the project selection process and after approval. If there is any doubt, the Department for Communities and Local Government (DCLG) should be consulted. Eligibility rules applying to other sources of match funding (for example RDA Single Programme) cannot be used to justify departure from ERDF eligibility rules. However, it is important to note that the majority of cases of clawback of ERDF grant from projects (irregularities) have occurred not because of eligibility issues but as a result of failure to adhere to correct procurement (open and competitive) rules, incorrect application of apportionment methodologies, failure to provide a clear audit trail back to original invoices and/or lack of acknowledgment of ERDF support (publicity). Guidance on procurement is contained in Chapter 17 of the User Manual and guidance on audit trail requirements is in Chapters 4 and 8.
- 1.4. In addition to setting out eligible and ineligible expenditure, this chapter highlights eligibility issues which have caused audit problems in the past, particularly on the calculation of overheads. General examples on the calculation of overheads are given in Annex B. Annex C and D concentrate on the HE sector and the use of TRAC (Transparent Approach to Costing) system used by that sector.

2. THE NATIONAL ELIGIBILITY RULES

- 2.1. The national rules cover the eligibility of expenditure for ERDF support. Operations must comply with EC Regulations and satisfy the eligibility criteria and 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 will be imposed. The national rules also give examples of ineligible activities. ERDF Regulation 1080/2006 also describes ineligible activities.

¹ Article 56(4) of Regulation 1083/2006

Applicability

2.2. These rules apply only to English ERDF Convergence and Regional Competitiveness Operational Programmes. The eligibility rules for 2007-13 territorial co-operation programmes will be subject to discussion with the other Member States involved in the programme.

3. LEGISLATIVE BACKGROUND

3.1. The following EC Regulations set out the Commission's legislative rules on programme and project eligibility:

General Regulation 1083/06:

3.2. Article 55 sets out the rules on the eligibility of expenditure on revenue generating projects. This is addressed in detail in Annex G of this guidance.

3.3. Article 56 states that:

- eligibility rules shall be laid down at national level;
- the eligible period for expenditure commences on the date of submission of the OP, or 1 January 2007, whichever is the earlier; and
- contributions in kind, depreciation costs and overheads are eligible if the national rules allow for them.

ERDF Regulation 1080/2006:-

3.4. Article 7 lists the following ineligible expenditure: interest on debt; purchase of land exceeding 10% of eligible expenditure (except for environmental projects); decommissioning of nuclear power stations; recoverable VAT; expenditure on housing, except for those Member States that acceded to the EU on or after 1 May 2004. Article 7 has subsequently been amended by Regulation (EC) No 397/2009 to allow Member States to spend up to 4% of their total allocation on energy efficiency improvements and renewable energy in existing housing.

4. NATIONAL ELIGIBILITY RULES APPLYING TO ALL ERDF EXPENDITURE

Basic principles

4.1. All ERDF funded projects must.

- be located in the eligible area;
- contribute to one or more of the programme objectives;
- identify and provide details of clear and attainable targets;
- demonstrate an additional and sustainable benefit to the socio-economic development of the area;
- have a sound funding package in place, identifying the recipient of the funds and the sources of match funding;
- not duplicate existing activity, but could extend such activity;

- not be a substitute for existing or planned domestic expenditure;
- respect State Aid rules; and
- follow public procurement rules where applicable.

4.2. Project selection criteria will be agreed at an individual programme level by the Programme Monitoring Committee (PMC). The basic principles are explained in more detail below.

Location of project

4.3. As a general rule, activity funded through ERDF must be located within the relevant programme area. Whilst a project delivery organisation could be located outside the programme area, it must be able to demonstrate that all the outputs, results and impacts are delivered in and impact upon on the programme area. Auditors would expect to see evidence that this is the case for example, records of details of businesses including their postcodes that have been assisted.

4.4. 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 must be removed from the next ERDF claim and the costs deducted from the total eligible cost of the project through an offer letter variation. Because of this risk, 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 ([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 PMC agreed selection criteria for the programme. 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.

Contribution to programme objectives

4.5. The project must be in line with the particular objectives of the programme to which it is applying. Departure from these objectives would first have to be agreed by the Programme Monitoring Committee and by the Commission as a formal programme change. Activity and associated costs funded through such as change would be eligible only once the change had been agreed.

Outputs and results

4.6. Core ERDF outputs and results are defined in the “Combined Technical Note on RDA Core Outputs and ERDF Programme 2007-13 Indicators”, contained in Chapter 11 of the User Manual. Where a programme has decided to utilise indicators that are not in the Technical Note, these will be defined locally.

Additionality/Added Value

4.7. This is a fundamental principle of ERDF. Projects should add value to new or existing activity; projects need to demonstrate that the activity would not have taken place without ERDF support. ERDF cannot be used for, or substitute, existing or planned domestic expenditure. If applications do not demonstrate “additionality” they

will not be successful. Adding value does not have to mean additional activity as such. Maybe the project would go ahead but on a smaller scale or to a lower quality or for less time. This should be clearly demonstrated in the project application.

Sustainability

- 4.8. In this context, 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. 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.

Duplication/displacement/ substitution

- 4.9. It is important that projects are able to demonstrate that ERDF is not being used to substitute for other public funding streams, although it is reasonable to use ERDF to augment these funding sources. As well as being additional, ERDF funded activity should never displace or compete with other publicly funded activity in the programme area.

State aid

- 4.10. All projects must be compliant with state aid rules. Further information can be found on the Commission's DG Competition website at http://ec.europa.eu/comm/competition/state_aid/overview/index_en.cfm and information and advice can be sought from the BIS State Aid Branch – www.bis.gov.uk/bbf/state-aid. Further guidance on the procedure for dealing with State Aid issues that arise in connection with the grant of ERDF support is contained in User Manual Chapter 17 on Procurement and State Aids.

Procurement

- 4.11. The rules on public procurement are complex and can be found in more detail in User Manual Chapter 17, on Procurement and State aid. Further guidance on procurement can be found on the OGC website at www.ogc.gov.uk/GPS.asp.

Eligible final beneficiaries

- 4.12. The final beneficiary of the ERDF grant is the organisation that applies for and is subsequently awarded the grant under the conditions set out in the Funding Agreement. Organisations that can apply for funding include local authorities, statutory or non-statutory public funded bodies, voluntary/community organizations and some private sector organisations (subject to state aid compliance). All organisations must be legally constituted.
- 4.13. The final beneficiary can recover defrayed costs which are eligible and have been paid by the final beneficiary to implement the project. These are the actual cost of the works or services plus overheads. ERDF is not paid for an organisation's own benefit. Only actual costs should be included and must not include any profit.
- 4.14. Consortium partners who are responsible for implementing and controlling specific elements of a project are also treated as final beneficiaries.

- 4.15. Private, profit-making organisations can also act as sub-contractors. The final beneficiary would need to follow appropriate procurement procedures and a legal contract agreement would need to be in place between the final beneficiary and the subcontractor.
- 4.16. In some projects, the final beneficiary may 'pass on' the grant to SMEs (end beneficiary) who may use the ERDF grant to procure goods, services or works (e.g. under VCLF schemes). End beneficiaries are not subject to the same eligibility rules as final beneficiaries, eg around procurement, though the final beneficiary will need to be satisfied that the funds have been used for the agreed purposes under which the grant was given.

Match funding

- 4.17. Except in certain circumstances where projects are matched at Priority rather than project level, ERDF will not be the only source of funding for a project. Before an offer of grant can be given, there must be sound evidence that the remainder of the funding package is in place. Evidence for this should be provided in the form of letters of commitment from other funding partners. **All match funding must be spent in accordance with the ERDF eligibility rules.**
- 4.18. Most of the **match funding** will take the form of cash payments that will go through the accounts of the project applicant and deliverer. However some match funding may be made available by partners in the form of cash payments that are included in their accounts - for example, the salary of a member of their staff who is seconded or assigned to the project and for whom evidence of the cost can be provided. In this case, evidence of the cost must be provided on an ongoing basis e.g. timesheets along with salary costs and associated supporting accounting records to show payment transactions. There is no requirement to evidence that a seconded or assigned member of a staff in an organisation has been back-filled, provided they are involved in additional activity.
- 4.19. **Private sector match.** The following advice applies only to those programmes with private sector match funding included in their financial tables. If private sector funding is included in the programme, contributions from companies can be included in the funding package, provided these will contribute towards the total eligible costs of the project and can be audited to the same standards as other funding sources. It is anticipated that private match contributions could be accounted for by either (a) providing evidence that a cash payment has been credited to the project sponsor's account, (b) in the case of private organisations seconding staff to a project by providing appropriate evidence as outlined in 4.18 above; (c) providing evidence that part payment for a service or activity being delivered as part of the project (and which will have been procured in line with procurement requirements) has been paid by an end beneficiary SME. For example, this could be the provision of an invoice from the service or activity provider to the project sponsor, recording:
- the gross amount as the full cost of the service or activity,
 - the contribution by the SME and the net amount payable by the project sponsor (ie the gross amount minus the SME's contribution) and evidence of payment of the SME's contribution.

The requirements for accounting for private sector match funding in Financial Engineering Instruments are different and are referred to in Section 7, but set out more fully in User Manual Chapter 15.

- 4.20. The actual salary costs of professional services, associated with the management and delivery of the project, e.g. legal and accounting services (but not legal and/or accounting costs dealing with litigation), environmental assessment work, publication and publicity activities or independent evaluation could also be captured as match funding as long as there is robust evidence of the actual costs.
- 4.21. The activity supporting the match funding must clearly be part of the activity of the ERDF project. For example, match funding relating to improving open spaces cannot be used to match a project which supports promoting innovation within businesses.
- 4.22. The project is the ERDF grant and match funding combined. Therefore, all aspects of the project must be eligible for ERDF and deliver ERDF outputs. ERDF pays for a proportion of all the project's activities.
- 4.23. **Contributions in kind** are ineligible for ERDF, except for the donation of a building or land, where a clear valuation can be made.
- 4.24. The **freehold or leasehold of land or real estate** is eligible as an in kind contribution to the project as long as:-
- a. the value of the freehold or leasehold at the time of full application has been independently valued and supported by a certificate from an independent qualified valuer or duly authorised official body
 - b. the certificate states the current market value at the time the contribution is claimed
 - c. the value given to in kind match funding provided in the form of land is restricted to a maximum of 10% of the total value of the project, ie its eligible value is capped by the same rule which applies to the purchase of land. 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. **The Commission has ruled that this restriction does not apply in the case of urban development funds utilising JESSICA².**
- 4.25. Discounted sales of equipment, the provision of volunteers' time, the discounted provision of services or advice (eg solicitors', accountants' or SME staff time) **are ineligible**.

Definition of public match funds

- 4.26. A public match funder is 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

² JESSICA is the acronym for the Joint European Support for Sustainable Investment in City Areas initiative. It is focussed on improving access to finance for public/private partnerships and other projects aimed at urban regeneration rather than on access to finance for SMEs.

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.

- 4.27. Non-profit making organisations, whether incorporated or unincorporated, 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.

Definition of private match funds

- 4.28. 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.

Retrospective Projects

- 4.29. All retrospective projects must:

- include only spend from 01 January 2007 at the earliest and have a project completion date beyond the date of approval;
- demonstrate that ERDF investment formed part of funding assumptions (ie does not displace other funding and the project would not have gone ahead if ERDF wasn't assumed);
- have a full audit trail to demonstrate that retrospective activities and associated spend are fully eligible for ERDF;
- meet the selection criteria for the Programme and be subject to a rigorous ERDF Technical Appraisal;
- demonstrate value for money;
- provide evidence to identify the need for the ERDF;;
- provide documented evidence that the project was running 'at its own risk' until the approval of ERDF funding; and
- the project must meet all EC regulatory requirements - in particular, the audit/financial control standards set out in Regulations (EC) 1080/2006 and 1083/ 2006, procurement and state aid rules and EC publicity requirements.

- 4.30. It is also possible to apply the retrospective principle to capital projects which are ongoing and which have incurred certain specific eligible expenditure that predates the Offer of ERDF grant (see paragraph 5.20 on 'Preliminary expenditure').

Project start date

- 4.31. Except in the case of retrospective projects, expenditure on ERDF activity cannot be incurred (i.e. spent by the project) until the 'Start Date' specified in the

ERDF funding agreement. This should be the date of financial approval, not necessarily the date the funding agreement is signed. Financial approval is the date it is endorsed by the relevant PMC, Partnership Board or sub committee or the date it receives financial approval by the RDA as defined in its management and control document. The project must be able to support a full ERDF audit trail from this date. To ensure this, the relevant RDA European team should write to the project sponsor immediately after the project has been endorsed informing them of the start date and that a funding agreement will be issued as soon as possible.

Defrayal of expenditure

- 4.32. ERDF can only be claimed on expenditure that has actually been paid (with the exception of inclusion of flat rate indirect overhead costs. Guidance is contained in Annex A). 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. 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.

5. ELIGIBILITY RULES APPLYING TO CAPITAL EXPENDITURE

- 5.1. There is a wide range of infrastructure provision which can receive grant and individual programmes will have specified the types of capital development permitted in a programme. There must be a clear and demonstrable link between a project and the industrial or economic development of the Programme area. The project must also show that it will lead to a genuine improvement of facilities.
- 5.2. It is important to note that where investments in infrastructure are included in Programmes (such as the creation of sites of strategic importance), that neither the businesses invested in (grant recipients) nor the occupants/users of the infrastructure being funded (end beneficiaries) need be SMEs, as the restriction noted above does not apply to infrastructure schemes. Instead, in infrastructure investments, it need only be shown that the site created benefits the local economy, providing the necessary jobs to improve the area etc.
- 5.3. However, there is a significant change from previous ERDF regulations in how revenue generating investments are treated. The majority of buildings supported through ERDF will generate income. Any net income received from rents or entrance fees (after running costs are taken into account) will have to be deducted from the total eligible cost before the level of ERDF grant is calculated. It is essential that the guidance on this rule (Article 55 of the General Regulation) as set out in Annex G is followed.
- 5.4. Projects must define costs under the capital expenditure categories set out in the text box below for the purposes of grant claims.

Projects must define costs under the following capital expenditure categories for the purposes of grant claims

Land acquisition

The cost of purchasing land which is not built upon may not exceed the limit of 10% of the total eligible project costs. A higher percentage may be permitted by the managing authority for operations concerning environmental conservation.

Building acquisition

The cost of acquiring a building if there is a direct link between the purchase and the objectives of the project.

Site investigation

This should take account of specialist investigations required to identify contamination and recommended particular treatments.

Site preparation

This should include demolition works and the general preparation of sites.

Building & construction

This should include external/internal refurbishment and conversion of existing buildings, new build premises, provision of services, and landscaping.

Plant & machinery

This should include tangible fixed assets used for the purpose of providing a service for the project. If plant and machinery is subject to hire/lease purchase agreements, the capitalised value of leasing and hire purchase can be included. The purchase costs of second-hand equipment are eligible provided they meet the needs of the projects and have not been purchased with the aid of national or community grants.

If there are any mobile or portable items then an apportionment of costs should be provided separately.

Fees

This should include fees and salaries for design and supervision but professional fees should not normally exceed 12.5% of the total eligible works costs. Fees include legal consultancy fees, notarial fees, and the cost of technical and financial experts if they are directly linked to the ERDF operation and are necessary for its preparation or implementation.

Other Capital

Any eligible capital expenditure not covered by the categories above provided it can be clearly demonstrated that these are directly related to the delivery of the project. This may include expenditure through financial engineering instruments.

Eligible capital costs

- 5.5. Listed below are examples of some of the types of capital projects which are **eligible** for support under the 2007-13 round of programmes, although the list is by no means exhaustive:
- 5.6. Small scale transport investment including: major transport infrastructure, such as airports, railways, bridges or major roads will be ineligible in Competitiveness programmes, but can be supported under the Convergence programmes if there is provision in the OP. Promoting clean and sustainable transport, particularly in urban areas is specifically supported in Article 5 2(d) of the ERDF Regulation. Examples of eligible transport improvements are bus priority measures, park and ride, bus/rail interchanges, cycle lanes and pathways, community transport schemes, and publicity and signage. Inclusion of small scale travel improvements with a direct linkage for people/communities to new jobs is also eligible. However, vehicles are not eligible for ERDF in any circumstances. Where they are integral to the project, the provision of access roads to new business and/or R&D facilities supported by ERDF are also eligible.
- 5.7. Infrastructure such as: sewerage, drainage and flood protection works associated with the provision of eligible activities such as business and R&D premises.
- 5.8. Landfill waste disposal sites can receive assistance where all or part of the waste is from industry, provided that the site will ultimately be returned to open space or agricultural use after completion of tipping and remains in public ownership.
- 5.9. Tourist infrastructure projects designed to attract or retain visitors from outside the area and which will sustain or generate local jobs and revenue by, for example, increasing the use and/or provision of hotel bedrooms. **Facilities which primarily serve local people are not to be encouraged and evidence of expected use by visitors from outside the area is essential.**
- 5.10. Workshop units and managed workspace can receive ERDF support where they are to be occupied by eligible companies and/or organisations.
- 5.11. Brownfield land clearance. The land reclamation and associated works are eligible for ERDF grant where they are consistent with the programme. Comprehensive applications covering reclamation, site servicing and preparation for final use are preferred to separate applications covering different aspects of the work. In cases where reclaimed sites are to be sold or leased to the private sector, local authorities must certify that land will be disposed of at a market value rate for unspoiled land.
- 5.12. Environmental capital works, particularly where they are linked to biodiversity and investments in [NATURA 2000](#)³ sites can be assisted if they are part of a project contributing to the economic development of the programme area, such as improvement of town centres and other prominent sites or buildings.

³ Natura 2000 is the European Union-wide network of protected areas, recognised as 'sites of Community importance' under the EC Habitats Directive (Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora). The Natura 2000 network includes two types of designated areas: [Special Areas of Conservation \(SAC\)](#) and [Special Protection Areas \(SPA\)](#). SACs are designated under the EC Habitats Directive and SPAs are classified under the EC Wild Birds Directive (Council Directive 79/409/EEC on the conservation of wild birds).

- 5.13. Infrastructure projects for R&D, training and business development where not covered above, are also eligible for support within the terms of the Programme.
- 5.14. Day nurseries, where they are directly related to an eligible activity under the OP.
- 5.15. The following are **ineligible** for ERDF support:
- a. Provision of local social welfare facilities eg hospitals, nursing homes, fire stations, child-minding facilities, sports facilities, parks, public libraries when these are not directly related to the objectives of the Operational Programme.
 - b. Mobile infrastructure such as buses and boats cannot be funded with ERDF because of the possibility that the asset will be removed from the Programme eligible area and difficulties in ensuring that it will be used solely for the project.
- 5.16. Note also that the following activities are not normally eligible:
- a. Retail facilities. The general principle is that support for retail facilities will not assist economic development and that improved performance for one facility will displace similar activity elsewhere.
 - b. Coastal protection, soil conservation and infrastructures; all with an exclusively agricultural bias, reforestation and prevention of forest fires, insofar as such infrastructures can be financed under EAFRD.
- 5.17. That proportion of public expenditure incurred in land acquisition not directly linked to productive investment or investment in infrastructure.
- 5.18. Building and renovation of housing, except for energy efficiency improvements and renewable energy. Annex E of this Chapter advises on how this will be implemented in accordance with Regulation (EC) No 397/2009.
- 5.19. Major infrastructure in ports, on the grounds that port developments and port operations should not need public subsidy. Furthermore, it could distort competition between ports. Subsidy tends to spread the problems caused by excess capacity and can be damaging to otherwise healthy neighbouring ports.

Preliminary expenditure for capital projects

- 5.20. 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 grant offer.** 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.

Additional rules for supporting premises for enterprises

5.21. The following rules apply to ERDF support for the development of premises for enterprises:

- the rent requested from the tenants must be at the prevailing market rate in the area, unless a lower rate is compatible with State Aid rules.
- the premises should not be constructed to meet the specific requirements of a single user for the economic life time of the investment.
- activities which enable the creation or maintenance of permanent jobs are eligible as tenants.
- demand within the programme area, in terms of size and type of premises, must be demonstrated either by evidence of market failure in the eligible area, full occupancy of similar units in the area or by enquiries from potential occupiers.
- it must be recognised, however, that it may be difficult to judge beforehand the type and size of companies that will move into the site. If the applicant is unable to give clear assurances, such factors as previous usage - if the site is being modernised, the facilities being made available and the type of location will need to be considered. This will need to be judged at the appraisal stage, but in many cases the outcome will need to be checked during monitoring.

Environmental Impact

5.22. 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

5.23. 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.

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

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—

- Biodiversity Audit (using the Regional Biodiversity Audit)
- Long-term environmental management plan
- Local labour strategy
- Employment strategy
- Transport Impact Assessment.

Travel Plans

5.25. 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.

5.26. DCLG Planning Policy Guidance 13: Transport (PPG13) requires that Travel Plans should be submitted alongside planning applications which are likely to have significant transport implications:

- All major developments comprising jobs, shopping, leisure and service (using thresholds defined in Annex D of the document);
- Smaller developments which would generate significant amounts of travel in, or near to, air quality management areas and in other locations where there are local initiatives or targets set out in the development plan or the Local Transport Plan (LTP) for the reduction of road traffic, etc.
- New and expanded school facilities; and
- Where a travel plan would help address a particular local traffic problem associated with a planning application, which might otherwise be refused on local traffic grounds.

5.27. Annex D of PPG13 identifies the threshold development sizes over which a Transport Assessment and travel plan should be developed:

- Food Retail – above 1000m²
- Non Food Retail – above 1000m²
- Cinemas and conference facilities – above 1000m²
- D2 Uses (other than cinemas, conference facilities and stadia) – 100m²
- B1 including offices – 2500m²

(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;”;

- Higher and further education – 2500m2
- Stadia – 1500 seats

5.28. As part of the Government's aim to encourage widespread voluntary take-up of travel plans, we would also want to see Travel Plans produced for reasonably sized projects that are below the statutory thresholds. For smaller projects, demonstrating some of the key principles and elements of travel plans will suffice.

6. ELIGIBILITY RULES APPLYING SPECIFICALLY TO REVENUE PROJECTS

6.1. ERDF Revenue (current) expenditure categories are set out in the text box below.

Projects must define costs under the following expenditure categories for the purposes of grant claims

Salaries

This should include staffing costs for personnel directly engaged on the project. The costs should include National Insurance and Superannuation contributions.

Overheads

This should include general administration costs associated with the direct delivery of the project, office equipment with an asset life of less than a year, expendable supplies, and other costs that are essential to the effective implementation of the project.

Leasing charges should exclude interest and service charges and must not duplicate capital costs.

Premises

This should include rent, rates, heat, light and service charges associated with the premises where it can be clearly demonstrated that these are incurred by the organisation solely for the ERDF project. Where premises are shared the amount charged to the ERDF project should be apportioned accordingly.

Fees

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

Other Revenue

Any eligible revenue expenditure not covered in the categories above provided it can be clearly demonstrated that these are directly related to the delivery of the project. This could include depreciation, amortisation and impairment of assets that have not been purchased with the help of national or Community grant. Documents showing how depreciation costs have been calculated must be kept for audit purposes. Any expenditure related to marketing and publicity should also be included here.

Eligibility of general revenue costs

Overheads

- 6.2. The rules applying to overheads are based on the principle that costs attributed to ERDF projects must be directly related to the delivery of the project. However, following the change in the Regulation a flat rate methodology can be applied for indirect overhead costs which includes premises, service and administration overheads.
- 6.3. To aid with project design, detailed guidance on the calculation of overheads is given in Annex A of this chapter, together with worked examples in Annex B. Annex C gives guidance specific to Higher Education Institutions.

Staff Costs

- 6.4. **Only** those staff related costs detailed below can be included in the eligible costs of a project;
- The full actual pay cost including employer's national insurance and superannuation costs for those engaged exclusively on the delivery of the project or a proportion of it reflecting the time actually expended on the qualifying project. Annual pay (actuals) should be converted to hourly rates to calculate the apportionment.
 - Travel and subsistence costs that relate solely to the ERDF project.
 - Sick leave and/or maternity payments if they are written into an employment contract. The costs of employing a temporary replacement for an employee away on maternity or long term sick leave are also eligible for ERDF. [However, as this may result in an overall increase in staff costs for the project, the applicant would need approval to amend the budget].
 - Costs of staff training necessary to the delivery of the ERDF project. Although note that it is expected that all organisations who submit an application for ERDF grant are in a position to deliver the approved activities. Staff training costs can only therefore be included where it is identified that an individual has specific training needs necessary to the delivery of the ERDF project that could not be identified before the project began.
 - Taxable benefits which form part of the contractual terms and conditions of staff engaged in the delivery of ERDF projects. Examples include - bonus payments, childcare payments and company cars. These should be set out clearly in the initial application for grant, they should be proportionate to the role and responsibilities by an individual in the delivery of the project and should figure in the costings approved in the project approval process.
 - Redundancy payments where the employees' employment contract includes them. The Community Law 2002 abolished the use of fixed term contracts without redundancy.

- 6.5. By way of clarity on benefits that can be included as eligible costs, non-taxable bonus payments or other non-taxable benefits are not eligible, nor are exceptional or extraordinary provision for pension rights.

Depreciation

6.6. The cost of depreciation of assets used in ERDF projects is eligible expenditure provided that:

- the asset was not purchased or improved as part of a previous ERDF funded project;
- the cost of depreciation is not already being met from other sources; and
- depreciation is calculated in accordance with the accounting rules that apply to the sector.

Hire and lease of premises and equipment

6.7. The cost of hire or leasing (including non recoverable VAT) is eligible expenditure but only in respect of the usage that relates directly to the delivery of the ERDF project. Interest or service charges arising on debt incurred including finance leases, hire purchase and credit arrangements cannot however be included in the costs, which are therefore restricted to payments based on the alternative cost of purchasing the asset outright.

Consumables

6.8. The cost of consumables that are used in delivering the project can be included as eligible expenditure. Consumables should be clearly itemised and the cost should be included in the application for grant.

Second-hand equipment

6.9. The purchase cost of second-hand equipment is eligible providing:

- The equipment has not been originally purchased as part of a previous ERDF funded project.
- The price paid does not exceed its market value.
- Whilst it is unlikely that commercially available second-hand equipment has been bought using public money, grant applicants should obtain a declaration from the supplier confirming that they did not receive ERDF grant to purchase the equipment in the first place. If a grant was used to purchase the equipment, none of the cost of purchase is eligible for ERDF.

Value Added Tax

6.10. VAT that derives directly from the project and which is not recoverable is eligible but precise rules are complex and if there is any doubt advice should be sought from HMRC.

Revenue costs ineligible for ERDF support

6.11. The following individual revenue costs are not eligible for ERDF support:

- notional costs, for example, where an item usually retails at £x, but the applicant buys it cheaper but claims the difference between the price paid and £x
- payments for activity of a political nature
- provisions – ie money set aside to pay for future events eg sink funds
- contingencies and contingent liabilities
- dividends
- interest or service charges arising on debt incurred including finance leases, hire purchase and credit arrangements
- costs resulting from the deferral of payments to creditors
- costs involved in winding up a company
- payments for unfair dismissal
- compensation for loss of office
- bad debts arising from loans to employees, proprietors, partners directors, guarantors or shareholders
- payments for gifts and donations
- entertainments apart from food and non alcoholic drink provided as part of a meeting
- statutory fines and penalties
- criminal fines and damages
- legal expenses in respect of litigation
- costs incurred by individuals in setting up and contributing towards private pension schemes, or the setting up of such schemes by organisations in receipt of ERDF
- costs incurred by organisations in relocating personnel displaced by the refurbishment or conversion of a building for ERDF use.

This list is not exclusive and any queries about the eligibility of costs not included in the list above should be addressed to EPP/CLG.

Lost opportunity costs

6.12. Lost opportunity costs are the costs that an organisation notionally incur by using an asset for an ERDF project that could otherwise have been sold or rented for profit. These notional costs are not eligible for ERDF support. For example, many organisations rent or hire out rooms on a commercial basis. Notional rent or hire of the room cannot be included as an eligible cost (as they would constitute in-kind costs). The costs of the room overheads such as electricity or rent actually paid are eligible for ERDF, providing the applicant can show that they have claimed only the costs of the overheads while they were actually using the room. Another example of **ineligible** lost opportunity cost is the income that a university would normally make by charging for use of laboratory facilities or specialised equipment but that they have forgone by offering the facility at reduced or no cost.

Financial Charges and Guarantee Costs

6.13. Under Article 49 of the Implementing Regulation, the following charges and costs are eligible for ERDF:-

- Charges for transnational financial transactions (most likely to arise under Transnational Co-operation programmes);
- bank charges for opening and administering a bank account or accounts, where the implementation of an operation requires a separate account to be opened;
- legal consultancy fees, notary fees, costs of technical and financial experts, and accountancy and audit costs, if they are directly linked to the ERDF operation and are necessary for its preparation or implementation or, in the case of accounting and audit costs, if they relate to requirements imposed by the Managing Authority (MA) or an Independent Body on behalf of the MA; and
- the cost of guarantees provided by a bank or other financial institution to the extent to which the guarantees are required by National or Community legislation.

Eligibility of businesses for ERDF support

6.14. Eligible businesses will primarily be SMEs in line with the Commission definition, although the regulations do allow for large companies to be supported if this is identified in the regional programme. State Aid and other EC regimes must also be respected alongside ERDF rules.

Definition of an SME

6.15. SMEs are defined by Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises not owned or controlled by a non SME. This is a detailed definition, and in cases of doubt the Recommendation should be referred to – it is available on the Europa website at [Enterprise - SME Definition](#). Very briefly, it defines an SME as follows:

- An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.
- The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.
- Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.
- Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

Eligibility of Business Activity

6.16. The aim of the ERDF funded business support is to establish an enterprise culture without distorting competition or trade. In general, support should not be provided where displacement of other businesses within the programme area is likely to take place as a result. There could be cases, for example, where a business could receive ERDF for advising retailers, theatres/cinemas, pubs, banks etc on improving their performance in areas such as environmental sustainability or equal opportunities, where the issue of displacement does not arise. Cases such as this should be considered on a case by case basis and we recommend that the advice of EPP/CLG be sought.

Businesses ineligible for support

6.17. **Sectoral restrictions.** There are a number of sectors in which businesses should not be supported with ERDF due to the existence of particular State Aid and other regimes, or because Aid would distort competition. Companies covered by EC Sectoral restrictions are subject to specific rules, dependant on the State Aid regime under which they are being supported. The demarcation requirements of the ERDF programmes also restrict some sectors which are otherwise supported through the EAFRD or EFF.

6.18. In brief therefore, the following are **sectors ineligible for ERDF support**

- fishery and aquaculture sectors which are supported through EFF
- primary production, processing and marketing of agricultural products, which is supported through EAFRD
- the coal, steel and shipbuilding sectors (excluded by the General Block Exemption EC 800/2008)
- the synthetic fibres sector (excluded by the General Block Exemption EC 800/2008). Further explanation of the meaning of synthetic fibres sector can be found on the European Commission website at <http://ec.europa.eu/enterprise/textile/documents/oj1996c0094en.pdf> - Code on Aid to the Synthetic Fibres Industry (1996, subsequently extended.)

6.19. Banking and insurance companies should not be supported, as their activities are non productive and support to one institution is likely to lead to displacement of jobs, except as a deliverer of services or match funding., for example as members of a VCLF consortium.

6.20. Establishments providing generalised (school age) education should not be supported as this is a statutory duty on local authorities.

Applying the Eligibility Criteria to Businesses

6.21. It is the responsibility of the project sponsor or others administering a Business Support project to ensure that the businesses being offered support are eligible, both within the Structural Funds regulations, and also within the terms of the specific project agreed with the ERDF Offer Letter. Sponsors are encouraged to become familiar with eligibility guidance and, if supporting a business in a grey area, to record a justification for any future Audit, based on these criteria.

7. FINANCIAL ENGINEERING INSTRUMENTS

- 7.1. 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 financial engineering instruments including VCLF, JEREMIE and JESSICA is contained in Chapter 15 of the User Manual.
- 7.2. Eligibility issues are covered in Section 7 of Chapter 15. These cover the need for:
- The funds and the investments to contribute directly to the objectives, priorities and targets of the Operational Programme
 - Compliance with State aid rules
 - Investments to be made in viable firms.
- 7.3. As set out in paragraph 3.4 and Annex E of this chapter, following the amendment to the Article 7 of Regulation, funds could be used to support the provision of energy efficient measures in social housing.
- 7.4. The criteria used to select investments and assess the associated business case must reflect these eligibility requirements.
- 7.5. The grant recipient of the investment is considered to be the end beneficiary and as such the eligibility rules do not apply.
- 7.6. As indicated in 4.19, the accounting requirements for private sector match contained therein are different from those for FEI. These are set out in more detail in User Manual Chapter 15.

8. MAJOR PROJECTS

8.1. Section 2 of the General Regulation 1083/2006 sets out specific requirements for major project applications. The Regulation defines major projects as projects with total costs over €25m in the case of environment and €50m in other fields. Whilst exchange rate fluctuations can affect whether or not a project falls into the major project category, Member States should take a cautious view, as if exchange rates subsequently change the project could become a major one and auditors may question its non-inclusion.

8.2. Annex F to this Chapter contains guidance on the process for gaining EC approval for major projects

Contingencies

Contingency is an allowance of cash or resources to cover unforeseen circumstances. Contingencies should not exceed 10% of total investment cost that is calculated net of contingencies. These contingencies may be included in the total eligible costs used to calculate the planned contribution of the funds as required in the form at **Annex XXI** of Regulation **1828/2006** for major projects. This is not an eligible category for seeking reimbursement of expenditure as overruns should be reported against the appropriate approved expenditure categories.

Price Adjustment

Price adjustment is making allowance to cover expected inflation where the eligible costs values are in constant prices. A price adjustment, where applicable, may be included in the costs of a project as required for the purposes of completing the form at **Annex XXI** of Regulation **1828/2006** for major projects.

Publicity

Cost of implementing publicity measures outlined in Articles 8 and 9 of Commission Regulation 1828/2006.

Supervision

This covers supervision costs during the construction implementation phase of a project.

Technical Assistance

This covers expenditure towards preparatory, monitoring, administrative and technical support, evaluation, audit and inspection measures necessary to implement Commission regulation 1083/2006.

9. ELIGIBILITY RULES APPLYING TO SPECIFIC ACTIONS WITHIN ERDF PROGRAMMES

Eligibility of actions for Environmental Sustainability

9.1. Environmental sustainability is a cross cutting theme for all the English ERDF programmes and can be the key theme for an eligible ERDF project, as long as it also contributes towards the economic development of the area in which it is located. Further guidance on environmental protection can be found on the DEFRA website at www.defra.gov.uk/environment/index.htm. Examples of the types of project which can be supported include:

- working with research centres and further and higher education organisations to design and develop products responding to environmental and energy related opportunities;
- incorporation of exemplar environmental specification into low/zero carbon new and/or refurbished business workspace;
- installation of electricity and heat generating systems and distribution networks to supply low carbon heat and electricity to businesses and employment sites;
- installation of on-site renewable energy systems and distribution networks to supply renewable energy to businesses and employment sites to improve their environmental performance;
- physical environmental improvements in and adjacent to employment sites, to create green and open space that provides environmental, social and economic benefits to the business and wider community by contributing to the creation of accessible sustainable business settings and locations;
- establishment of new capital loan and investment funds targeting sustainable urban regeneration activity to ensure that it incorporates good practice environmental specifications as well as energy, water and waste infrastructure.

Gender equality and equal opportunities

9.2. 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.

9.3. These objectives should have been reflected in the programme strategy and priorities. The programme has been subject to an Equality Impact Screening as required by UK legislation, which are in an Annex to the relevant OP.

9.4. Implementation of the OP must have regard to the objectives of equal opportunities and non-discrimination. This will involve incorporating these objectives into the project selection criteria assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation. Further guidance on equality may be obtained from the Equality and Human Rights Commission at www.equalityhumanrights.com/

Annex A

OVERHEADS

1. Recent DG Regio and ECA audits have highlighted the fact that in many cases, particularly those involving Universities and other FE establishments, ineligible costs have been included in the calculation of overheads for ERDF projects. Recovery of grant has been sought in these cases. The purpose of this section is to provide a framework in which project applicants and ERDF secretariats/executives can determine the eligibility of overhead calculations and acceptable apportionment methods. Section 3 concentrates on the FE and HE apportionment methodologies.

The Regulation and Eligibility Rules

2. Article 7 of EC Regulation 1080/2006 has been amended by Regulation (EC) No 284/2009 to state:-

3.a. The following costs shall be expenditure eligible for a contribution from ERDF as defined in paragraph 1 provided that they are incurred in accordance with national rules, including accountancy rules, and under the specific conditions provided for below.

In the case of grants;

- (i) *indirect costs declared on a flat-rate basis, up to 20% of the direct costs of an operation*
- (ii) *flat-rate costs calculated by application of standard scales of unit costs defined by the Member States;*
- (iii) *lump sums to cover all or part of the costs of an operation*

The options referred to in points (i), (ii) and (iii) may be combined only where each of them covers a different category or eligible costs or where they are used for different projects within the same operation.

Costs referred to in points (i), (ii) and (iii) shall be established in advance on the basis of a fair, equitable and verifiable calculation.

The lump sum referred to in point (iii) shall not exceed EUR 50,000.

3. These variations are optional and the standard (“real cost”) methodology remains potentially applicable. However, where the real cost methodology is applied the EU has confirmed that all indirect costs⁵ will need to demonstrate that these costs are clearly attributable to the project and ensure that they are supported by the necessary evidence (invoices, timesheets etc) throughout the project, proxies or

⁵ The COCOF (COCOF 09/0025/00-EN) definition of an indirect cost is: “a cost which is not or cannot be connected directly to an individual activity of the entity in question. Such costs would include administrative expenses, for which it is difficult to determine precisely the amount attributable to a specific activity (administration/staff expenditure, such as management costs, recruitment expenses, costs for the accountant or the cleaner etc.. telephone, water or electricity expenses, and so on.)”

estimates will not be accepted and a rate cannot be set for use throughout the project, but will need to be adjusted according to actual expenditure throughout. The EU has confirmed that it is not possible to mix real cost methodology and flat rate methodologies for indirect costs within the same project

4. The regulation came into force on 7 April 2009. Where a project has already been contracted using the real cost method, it is not possible to retrospectively be applied to operations already claimed. However, in the case of multiannual projects, it is possible for the RDAs to separate the project into phases with the initial phase using the "real cost" methodology and the accounts settled to that date, and a second phase using the flat rate methodology from that point onwards.
5. Whenever the flat rate option is chosen, a full audit trail of all the expenditure which has been used to establish the flat rate applicable as per (i) above 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 direct costs are included in the indirect costs being apportioned. The different categories of expenditure should be clearly stated in the funding agreement. The rate will be directly applicable to the direct costs of the project and therefore, the value will vary in relation to these direct costs. 20% is the maximum percentage, the percentage will be set at which ever percentage is demonstrated to be relevant up to 20%, ex-ante to the start of the project, or project phase in the case of projects already in delivery at the time of issue of this guidance. This methodology is considered to be appropriate to complex organisations or projects where demonstration of the detailed audit trail for indirect costs would cause a disproportionate administrative burden. Projects where the demonstration of indirect costs can easily be established, should use the real cost methodology.
6. Methodology (ii) is only applicable in a national programme where the deliverers are chosen via open tender and payment is by results instead of expenditure. United Kingdom ERDF programmes are currently not delivered via this methodology and therefore this part of the regulation is not expected to be applicable.
7. Methodology (iii) is only appropriate to very small projects.
8. The national eligibility rules, paragraph 7 states that
"Overheads are eligible expenditure provided that they are based on real costs which relate to the implementation of an ERDF project and are allocated pro rata to the operation according to a duly justified fair and equitable method."
9. Overheads are indirect costs which can include the cost of employing staff not directly engaged on the project and non staff costs e.g. heating, lighting, other accommodation costs and the cost of central services in large or complex organisations, where these are relevant to and can be fairly apportioned to the project:
10. Where the flat rate methodology is used the costs used to establish the rate can be based on historic costs, or market prices. Where the lump sum methodology is used, this should be justified in terms of a pre defined agreement on activities or outputs and dependent on the completion of these activities. Where the standard "real cost" methodology is used, all project costs should be actual and evidenced. Where actual cost is shared with organisational non-project costs, then apportionment is permissible providing:

- a. The source cost is eligible for ERDF support and fully auditable (receipts, bills etc)
- b. The cost is clearly relevant - additionally incurred or shared by the project (heating, lighting, rent, rates administration and other central services etc)
- c. The cost can be realistically apportioned to arrive at a figure that reflects the true cost incurred by the project applicant in carrying out the ERDF project.

Overheads calculation (including apportionment)

11. In order to calculate overheads the applicant will need to identify and list all the overhead cost types that can be specifically related to the ERDF project activity.
12. Ineligible items, if any, should then be removed from this list. This list should then be reviewed by the Secretariat/Executive to ensure that all cost headings are eligible & reasonable. This will be done on an ex-ante basis in the case of the flat rate methodology, or throughout the project where the standard "real cost" methodology is used.

Apportionment of overheads

13. From the above it follows that apportionment will require a method relevant to each cost, so that, for example, the major costs such as heating bills, lighting etc, are calculated against real bills and are apportioned by reference to the actual room space used for the project, and administrative staff costs are based on the hours devoted to the project by the staff concerned:-
 - Telephone bills & rental charges etc. require a methodology based on actual telephone use by the project.
 - Any costs where actual cost and relevance is not evidenced, should be removed from any claim calculation.
 - Any single method of apportionment, unless providing the above, is not acceptable to ERDF requirements, as identified in recent audit findings, especially where such a single method creates an averaging of central costs for every project, i.e. not relevant to each project specifically, or based upon on the level of, say, project salary costs or project budget.
 - The method of calculating the overhead costs in proportion to the salary costs of an organisation by taking the total organisation costs and attributing them to the project per £1 of salary paid **is not an acceptable calculation method**.
 - The applicant therefore needs to apply an apportionment methodology to the list of costs (previously agreed by the RDA or Article 42 body), to the list of acceptable overhead costs so that the ERDF contributes towards these general costs in a fair and equitable way.
 - Basic examples of how to structure the overhead costs and apportion them to a project are included in **Annex B**. **It should be noted that this is not a comprehensive list of apportionment methods. The apportionment method used should relevant to the type of costs being apportioned.**

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In summary therefore it is important to ensure that all overheads are actual, auditable & attributable to the project.

In practice therefore this means:

- a. Not to allocate budget overheads instead of actual costs;
- b. Not to base hourly overhead costs on timetabled hours instead of actual hours worked;
- c. Not to use theoretical charges for certain overheads (e.g. 15% central admin charges);
- d. Not to include items in the overhead calculation that are ineligible; and
- e. Not to use theoretical rent or rates instead of actual payment

14. **Please Note** that ERDF grant can only be paid in relation to eligible expenditure. Applicants are responsible for maintaining adequate records to fully document all expenditure, and to make these records available to the Secretariat and auditors as required. ERDF grant that has been used for ineligible activities will have to be repaid. Applicants should therefore consult the Secretariat/Executive if they are in any doubt about eligible expenditure.

It is also important to note that in order to make a claim on MCIS, projects will need to differentiate between overheads related to premises and overheads related to services or other activities. Where the flat rate methodology has been used, it will be necessary to divide the percentage into that relating to the premises costs and that related to the other indirect costs for the purpose of claiming ERDF.

Annex B

APPORTIONMENT METHODS

1. **Please note** that any apportionment methodologies utilised must be explained in the project application and agreed with the Secretariat/Executive or Action Plan Partnership 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

2. This apportionment technique is necessary for calculating the cost of staff that do 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. 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

N.B. Therefore there is no allocation for any down time or sickness.

Step 2

From this you can calculate the number of hours worked in a year:

Example

Total working hours per year (based on the usual organisation contractual working day) are
226 days x 7 hrs per day = 1582 hrs per year

Step 3

From this if you divide the total cost for the period by the actual hours worked it will give you the hourly rate:

Example

Total salary cost for the year is £19,976 (including employers NI contributions & superannuation or pension costs for the project period)

£19,976 divided by 1582 hours = £12.62 per hour

Step 4

You then multiply this hourly rate by the actual project hours worked (as evidenced by timesheets) to give the individuals total cost for the European project. A calculation to show the apportionment of the actual salary costs for the individual on the project is below:

Example 2

ERDF hours are:

20 hrs per week x 24 weeks (capacity building)	480 hours
Total ERDF hours	480 hours

The individuals cost to the project is

$$480 \times £12.62 = £6,057.60 \text{ can be charged to the project}$$

N.B. The staff time of 480 hours would have to be evidenced by timesheets that cover the agreed full time hours of that staff member for the total period claimed. This is to ensure no over-recovery of staff time as a result of staff working on multiple projects. Should this occur an adjustment each year should occur & be evidenced.

Apportioning costs based on space or area used

3. 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.
4. 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.

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

Example 3

Step 1

European project uses 1000 sq. feet out of a total of 4000 sq. feet in the building.

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

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:

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

Example 4

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

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

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:

$$\text{percentage of space used} \times \text{percentage of time the space is used} = \text{apportionment percentage}$$

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:

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

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 = $\frac{840}{1750} \times 100 = 48\%$

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.

5. 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.
6. 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.

Conclusion

7. 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.
8. The method identified in the example above may not always be suitable, if the project chooses to apply a more complicated apportionment method they should clear this with the Secretariat/Executive first. The Secretariat/Executive will require full information on the method to make an informed decision.

Annex C

Overheads in the Higher Education Sector in England

1. This section explains how the general instruction on the calculation of overheads given in section 2 of this chapter should be applied in the Higher Education sector in England. It includes explanation of how overheads can be calculated using the HE's Transparent Approach to Costing (TRAC).
2. RDA European Programme staff should follow this section when negotiating new ERDF projects with Higher Education Institutions (HEIs). It should also be used to ensure compliance when reviewing project claims and as a basis for monitoring existing and closed projects in this sector. It should be shared with HEIs in England
3. This section has been prepared with the assistance of representatives from the Higher Education sector. The content also draws from guidance in the Department of Work and Pension's Action Note on the European Social Fund reference number 45/03.
4. Applicants for ERDF grant must therefore ensure that only eligible costs are included in the calculation of grant and that any overhead costs claimed relate only to the resources actually consumed by the ERDF projects in question either during the project life in the case of the standard "real cost" methodology or ex-ante in the case of the flat rate methodology. Guidance on what is and is not eligible for ERDF grant is attached at Annex D.
5. The methodology described in this note for handling ERDF projects in the HE sector would, if followed accurately, give confidence that overheads were being calculated correctly and in line with Commission requirements. However the onus is on the HEI receiving or applying for ERDF to demonstrate that its calculations and the records kept satisfy the regulatory requirements and that it is maintaining a satisfactory audit trail.

Calculation of Overheads

6. 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 deliver staff costs should be captured directly wherever possible.
 - Indirect costs (overheads) should normally be calculated by straightforward apportionment based on a suitable proxy for actual consumption by the project as explained in Annex B or alternative where justified by the type of expenditure.
 - 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.

7. 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.
8. The ERDF methodology comprises the following five 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.
 - Following the Amendment of the regulations as per 284/2009, this method should be used to determine a flat rate percentage cost prior to contract and this rate will then be used in the project throughout the project lifetime without further monitoring. A full audit trail of the accounting records, including invoices, used to establish the flat rate percentage must be retained by the project for audit purposes.
9. An illustration of each step in the methodology is given in Annex D to this chapter. The illustration is based on a two year ERDF project that involves HEI staff who work off site. This annex was originally in Excel and comprises three workbooks - Annex D (i) which illustrates step 1 and also includes some guidance notes on using the TRAC system; Annex D (ii) which illustrates steps 2-4 and Annex D (iii) which gives an example of a monitoring sheet for use in step 5.

Step 1 - Identification of Eligible Costs - Annex C and D(i)

10. Eligible expenditure is expenditure defrayed to meet the costs of resources consumed by the ERDF project and in respect of which ERDF grant can be paid. Such costs can be direct or indirect. Not all costs incurred by ERDF projects are necessarily eligible for grant.
11. 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 inception of projects and updated appropriately during the lifetime of ERDF projects for which grant is claimed.
12. The two charts at Step 1 in the attached illustration (Annex D(i)) show how a list of eligible costs should be prepared. The list of account codes held in TRAC indicates which items are potentially eligible for inclusion in project costs and whether these should be treated as direct or indirect (general) costs. However, it is recognised that

different institutions could have different terminology for cost code headings. Therefore, an alternative methodology using types of service centre provided is attached at the end of main text in Annex D

13. The list of cost centres is similarly segregated with entries in the column on the right of this chart indicating whether each of the cost centres listed will generate eligible or ineligible expenditure and whether this will be charged directly or indirectly. Ineligible costs such as Residences and Catering, Research Grants and Trading activities etc should be excluded from any calculation of grant.

Step 2 - Identification of Direct Costs - Annex D(ii)

14. 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;
 - Rents, heating, lighting, telephony etc where these costs are charged discretely to projects.
15. 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.
16. 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.
17. Note that standard full time hours in the HE sector are 37.5 hours per week, 5 days per week, and a full year amounts to 44 weeks or 1650 hours per Full Time Equivalent (FTE) (as mandatory TRAC guidance).
18. Non-pay costs identified as eligible and direct should be attributed to the specific project that has generated the consumption.

Step 3 - Identification of indirect costs (Overheads) - Annex D(ii)

19. Indirect 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:

9.13 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.
20. 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.
21. 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.
22. 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 in Annex D shows items that are most likely to be apportioned using a price per square metre occupied by the project.

Step 4 - Apportionment of overheads using cost pools - Annex D(ii)

23. 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.
24. 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.
 - Any items which cannot be evidenced as relating to the project.
25. 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.

26. 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. 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.
27. 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 1650 (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.
28. This methodology would result in 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.
29. An example check list for this step is included in the illustration at Annex D(iii).

Annex D

Guidance on eligible costs in the HE sector

1. This Annex lists project costs that are commonly considered to be eligible for ERDF grant purposes and are applicable to projects involving the HE sector. This Annex is intended to aid RDAs and Higher Education Institutions in discussions about the handling of project costs and in particular those deriving from overheads.
2. The list reflects guidance given on the European Social Fund, the national eligibility rules (see Annex A of this chapter) and Commission Regulations⁶ but it is not exhaustive nor is it definitive in all cases. Advice should be sought from RDA/CLG staff in the event of any uncertainty in interpretation.
3. Eligibility of costs presupposes that the project to which they relate and the activities being undertaken are themselves eligible for ERDF grant. Guidance is also included in the national eligibility rules on costs that are not eligible.

Staff Costs

4. Staff related costs for those delivering approved projects can include the following;
 - Pay. That is the full actual pay cost for those engaged exclusively on the delivery of the project or a proportion of it reflecting the time actually expended on the qualifying project. Annual pay (actuals) should be converted to hourly rates to calculate the apportionment.
 - Employer's national insurance and superannuation costs.
 - Travel and subsistence costs that relate solely to the ERDF project.
 - Sickness or maternity pay if it is in line with your organisation's staff policy or on the individual's contract of employment.
 - Costs of staff training necessary to the delivery of the ERDF project. Although note that it is expected that all organisations who submit an application for ERDF grant are in a position to deliver the approved activities. **Staff training costs can only therefore be included where you identify that an individual has specific training needs necessary to the delivery of the ERDF project that could not be identified before the project began.**
 - Taxable benefits which form part of the terms and conditions of staff engaged in the delivery of ERDF projects can also be considered as eligible costs. Examples include - bonus payments, childcare payments and company cars. These should be set out clearly in the initial application for grant and should figure in the costings proved in the project approval process.
5. For clarity on benefits that can be included as eligible costs, non-taxable bonus payments or other non-taxable benefits are not eligible. Nor are exceptional or extraordinary provision for pension rights.

⁶ EC Regulation 1080/2006, 1083/2006 and 1828/2006

Depreciation

6. The cost of depreciation of real estate or equipment used in ERDF projects is eligible expenditure provided that:
- the purchase of such real estate or equipment was not part of a previous ERDF funded project;
 - the cost of depreciation is not already being met from other sources;
 - depreciation is calculated in accordance with the accounting rules that apply to the sector.

Overheads - general treatment

7. Overhead costs are eligible provided they derive from actual costs that relate to the implementation of the ERDF project. Further points to consider are:
- Wherever possible overhead costs should be captured through straightforward calculation based on actual useage.
 - Apportionment of indirect overhead costs is acceptable but must be done using methodology that conforms with the requirements of the regulations that govern provision of ERDF.
 - Overhead costs already met through public or private funding of institutions should be excluded.
 - Overheads that relate to revenue generating activities are not eligible.
 - The costs must relate to actual cost and not be a standard internal recharge.

Hire and lease of premises and equipment

8. The cost of hire or leasing (including non recoverable VAT) is eligible expenditure but only in respect of the useage that relates directly to the delivery of the ERDF project and subject to the exceptions set out in the national eligibility rules.

Consumables

9. The cost of consumables that are used in delivering the project can be included as eligible expenditure. Normally the cost of consumables should be included in the application for grant.

Second-hand equipment

10. The purchase cost of second-hand equipment is eligible providing:
- The equipment has not been originally purchased using grants from another ERDF supported project.
 - The price paid does not exceed its market value.
11. Whilst it is unlikely that commercially available second-hand equipment has been bought using public money. Grant applicants should obtain a declaration from the

supplier that they did not use ERDF to purchase the equipment in the first place. If a grant was used to purchase the equipment, none of the cost of purchase is eligible for ERDF.

Financial and other charges

12. Where an ERDF project requires a separate bank account to be opened and maintained the bank charges associated with it are eligible expenditure.
13. Fees for accountancy and audit required by the ERDF conditions of grant are also eligible expenditure as are legal fees and the cost of technical advice of financial expertise required in setting up and running the project.

Purchase of land and property

14. The cost of land or property that is directly necessary to the delivery of the project is eligible subject to the limitations set out in Commission Regulation 1080/2006⁷ and the national rules as set out in this Chapter.

Value Added Tax

15. VAT that derives directly from the project and which is not recoverable is eligible but precise rules are complex and if there is any doubt advice should be sought from HMRC.

Ineligible Expenditure

16. A comprehensive list of ineligible items is contained at paragraph 14 of the national eligibility rules.

Further guidance on the demonstration of relevance of estate (premises operating) costs

17. 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.
18. 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.
19. 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

⁷ Article 7(1)(b) of Regulation 1080/2006

- Internal recharges related to opportunity costs are also ineligible.

The following estate costs are always ineligible:

- Commercial buildings
- Residential buildings.
- Any other costs related to specifically ineligible activities (i.e. debt financing).

20. 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.

21. 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.

Only relevant costs can be included.

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

Estate related to central services.

23. 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.

24. 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.

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

- a. General ledger actual costs
- b. Use EMS or TRAC to identify space
- c. Use TRAC to identify usage weightings
- d. Where it is a standalone location not included in EMS, use actual costs of the relevant building.

26. 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 as per the TRAC weightings and the square meter age of that room as per EMS / TRAC.

27. 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, then the cost of that space should be included, irrespective of the number of HEI staff occupying the space. Where the space is shared this should be apportioned according to usage.
28. 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.
29. The problem arises, where project staff do not have dedicated space or has occasional use of space.
30. 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.
31. 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.
32. 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

33. As this usage cannot be determined in advance, it will not be possible to claim this usage where the flat rate methodology is used.
34. 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.
35. 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.
36. 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.
 - 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 classrooms, 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.

Central Support Services

37. 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 university 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.
38. Therefore, in this case, an apportionment is appropriate as there is no double funding involved.
39. 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.
40. 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.
41. It was identified that the vast majority of University projects fell into the categories of ;
 - Research project
 - Business Support Project
 - Graduate placement project
 - Mixed project where a graduate is placed with a company in order to do research or business support.
42. The relevance of central support services to a project would relate to the nature of the project, the following principles were established.

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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 students)	no	yes (driver graduate students)	If students involved (driver graduate students)
Student Services / Careers	no	no	no only if graduates into employment (driver graduate students)	no only if graduates into employment (driver graduate students)
Chaplaincy	no	no	no	No
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
Pre Contract Development	no	no	no	no

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Alumni Relations	no	no	no	no
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
Students Union	no	no	no	no
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
Equal Ops Diversity	yes	yes	yes	yes
Sports Centre	no	no	no	no

43. These costs are then apportioned according to staff time or the student numbers in the case of the student support services.
44. The staff time apportionment **is** the allocation is 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.
45. 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.
46. 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.
47. For the purposes reporting claims using the MCIS system, it will be necessary to separate the overheads related to premises from other indirect costs.

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Higher Education Sector Overheads – Annex D(i)

ANNEX D (i) - Step 1

Account Code	Account Type	Description	Detail	How cost is consumed by an ERDF Project - O/R Group
2001		VAT INPUTS	On Eligible Items only	General/Direct
2*	Staff Development	STAFF DEVELOPMENT (EXCLUDING OVERSEAS)	Exclude Trading and ineligible project codes - TRAC	General/Direct
3001	Staff Cost	FULL-TIME TEACHING STAFF	Exclude Trading and ineligible project codes - TRAC	Direct only
3002	Staff Cost	PART-TIME TEACHING STAFF	Exclude Trading and ineligible project codes - TRAC	Direct only
3003	Staff Cost	ADHOC TEACHING STAFF	Exclude Trading and ineligible project codes - TRAC	Direct only
3004	Staff Cost	RESEARCH STAFF	Exclude Trading and ineligible project codes - TRAC	General / Direct
3100	Staff Cost	SENIOR STAFF	Exclude Trading and ineligible project codes - TRAC	General / Direct
3101	Staff Cost	ADMIN & CLERICAL	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
3102	Staff Cost	TECHNICIANS	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
3103	Staff Cost	CLEANERS	Exclude Trading and ineligible project codes - TRAC	General
3104	Staff Cost	CARETAKERS	Exclude Trading and ineligible project codes - TRAC	General
3105	Staff Cost	MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
3106	Staff Cost	OTHER MANUAL STAFF	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
3107	Staff Cost	EXAMINERS		Ineligible
3108	Staff Cost	ADVISORS		Ineligible
3109	Staff Cost	INTERVIEWERS		Ineligible
3110	Staff Cost	MEDICAL, CLERGY & CARE ASSISTANTS		Ineligible
3111	Staff Cost	CASUAL WORKERS, MODELS, CRECHE	Exclude Trading and ineligible project codes	Direct Charge / Project Support

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			- TRAC	
3112	Staff Cost	AGENCY STAFF	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
3113	Staff Cost	TRAINEES	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
3114	Staff Cost	SELF EMPLOYED	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
3201	Staff Cost	PENSION COSTS - TEACHING STAFF		Direct Charge / Project Support
3202	Staff Cost	PENSION COSTS - OTHER STAFF		Direct Charge / Project Support
3203	Staff Cost	REDUNDANCY PAYMENTS		Direct only
3204	Staff Cost	GRATUITIES		Ineligible
3301/5	Staff Cost	RECRUITMENT COSTS	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
3306	Staff Cost	RELOCATION EXPENSES		Ineligible
3901	Staff Cost	CONTRIBUTION TO/FROM DEPT/FACULTY		Ineligible
3902	Staff Cost	STAFF RECHARGES	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
3903	Staff Cost	INTER-CO STAFFING		Ineligible
3904	Staff Cost	STAFF RECHARGES - (FM USE ONLY)	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
4001		EMERGENCY MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4002		URGENT MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4003		ROUTINE MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4004		RECHARGED WORK	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4005		BUILDING REPAIR & MAINTENANC	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4006		ADAPTATIONS & MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4007		REFURBISHMENT EXPENSES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4101		ELECTRICITY	Exclude Trading and ineligible project codes	General

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			- TRAC	
4102		GAS	Exclude Trading and ineligible project codes - TRAC	General
4103		MEASURED WATER	Exclude Trading and ineligible project codes - TRAC	General
4104		BUSINESS RATES	Exclude Trading and ineligible project codes - TRAC	General
4105		WATER RATES UNMEASURED	Exclude Trading and ineligible project codes - TRAC	General
4106		ENERGY SAVINGS	Exclude Trading and ineligible project codes - TRAC	General
4201		EXTERNAL RENTS	Exclude Trading and ineligible project codes - TRAC	Ineligible
4202		INTER-COMPANY RENTS	Exclude Trading and ineligible project codes - TRAC	Ineligible
4203		RECHARGE - INTERNAL RENT	Ineligible unless a direct charge	Ineligible
43*		MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	General
4399		BUILDING CAPITALISATION		Ineligible
4401		INTERNAL RECHARGES	Exclude Trading and ineligible project codes - TRAC	Ineligible
4402		WORKS RECHARGES - STAFFING (FM USE ONLY)	Exclude Trading and ineligible project codes - TRAC	Ineligible
4501		FUEL/OIL	Exclude Trading and ineligible project codes - TRAC	General
4502		LCN SITE OVERHEADS		Ineligible
4503		LCN SITE CAPITAL CHARGES		Ineligible
4504		OCCUPATIONAL HEALTH CHARGES		Ineligible
4505		ROOM HIRE	Exclude Trading and ineligible project codes - TRAC	General
4506		MATERIALS	Exclude Trading and ineligible project codes - TRAC	General
4507		WINDOW CLEANING	Exclude Trading and ineligible project codes - TRAC	General
4508		WASTE COLLECTION	Exclude Trading and ineligible project codes - TRAC	General

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4509		GENERAL CLEANING	Exclude Trading and ineligible project codes - TRAC	General
4510		CLOTHING & UNIFORM	Exclude Trading and ineligible project codes - TRAC	General
4511		LAUNDRY	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
4512		ROOM HIRE RECHARGES IN	Exclude Trading and ineligible project codes - TRAC	Ineligible
4513		ROOM HIRE RECHARGES OUT	Exclude Trading and ineligible project codes - TRAC	Ineligible
5001		TRANSPORT - REPAIRS	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5002		TRANSPORT - SERVICING	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5003		TRANSPORT - FUEL	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5004		TRANSPORT - OTHER RUNNING COSTS	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5005		TRANSPORT - HIRED TRANSPORT	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5006		TRANSPORT - LEASED VEHICLES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5007		TRANSPORT - VEHICLE PURCHASE > £5k	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5008		TRANSPORT - VEHICLE PURCHASE < £5K	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
5009		TRANSPORT - REMOVALS	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6001		EQUIPMENT > £5,000 INCL VAT	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support
6002		EQUIPMENT < £5,000 incl.VAT	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6003		COMPUTER HARDWARE>£5000 incl VAT	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6004		COMP HARDWARE < £5,000 incl VAT	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only

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6005		COMPUTER SOFTWARE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6006		CLASSROOM FURNITURE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6007		LEASED EQUIPMENT	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6008		HIRE OF EQUIPMENT	Exclude Trading and ineligible project codes - TRAC	Ineligible
6009		FURNITURE RECHARGES	Exclude Trading and ineligible project codes - TRAC	Ineligible
6010		OFFICE FURNITURE	Exclude Trading and ineligible project codes - TRAC	General
6011		GENERAL FURNITURE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6012		EQUIPMENT COSTS RECHARGES IN	Exclude Trading and ineligible project codes - TRAC	Ineligible
6013		EQUIPMENT COSTS RECHARGES OUT	Exclude Trading and ineligible project codes - TRAC	Ineligible
6051		EQUIPMENT REPAIR/MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6052		GENERAL REPAIR/MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6053		COMPUTER MAINTENANCE	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6101		STATIONERY	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support/General
6102		REPROGRAPHICS	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support/General
6103		STATIONERY RECHARGES IN	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support/General
6104		REPROGRAPHICS RECHARGES IN	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support/General
6105		BOOKS	Exclude Trading and ineligible project codes - TRAC	General
6106		PERIODICALS	Exclude Trading and ineligible project codes - TRAC	General

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6107		BINDING	Exclude Trading and ineligible project codes - TRAC	General
6108		REPROGRAPHICS RECHARGES OUT	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support/General
6109		STATIONERY RECHARGES OUT	Exclude Trading and ineligible project codes - TRAC	General
6151		TRAVEL - MILEAGE	Exclude Trading and ineligible project codes - TRAC	Direct only
6152		TRAVEL - SUBSISTENCE	Exclude Trading and ineligible project codes - TRAC	Direct only
6153		TRAVEL - ACCOMMODATION - NON VATABLE	Exclude Trading and ineligible project codes - TRAC	Direct only
6154		TRAVEL - CAR HIRE	Exclude Trading and ineligible project codes - TRAC	Direct only
6155		TRAVEL - COACH	Exclude Trading and ineligible project codes - TRAC	Direct only
6156		TRAVEL - FERRY	Exclude Trading and ineligible project codes - TRAC	Ineligible
6157		TRAVEL - RAIL	Exclude Trading and ineligible project codes - TRAC	Direct only
6158		TRAVEL - AIR	Exclude Trading and ineligible project codes - TRAC	Ineligible
6159		TRAVEL - TAXI	Exclude Trading and ineligible project codes - TRAC	Direct only
6160		TRAVEL - OTHER	Exclude Trading and ineligible project codes - TRAC	Direct only
6161		TRAVEL - CONFERENCE FEES	Exclude Trading and ineligible project codes - TRAC	Direct only
6162		TRAVEL - ACCOMMODATION - VATABLE	Exclude Trading and ineligible project codes - TRAC	Direct only
6163		TRAVEL RECHARGES	Exclude Trading and ineligible project codes - TRAC	Direct only
6201		SECURITY CARRIERS		Ineligible
6202		INSURANCE	Exclude Trading and ineligible project codes - TRAC	Necessary requirement
6203		INSURANCE CLAIMS/EXCESS		Ineligible

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6204		CONSULTANCY	Exclude Trading and ineligible project codes - TRAC	Direct Charge / Project Support/General
6205		INTERNAL AUDIT	Exclude Trading and ineligible project codes - TRAC	Statutory Requirement
6206		EXTERNAL AUDIT	Exclude Trading and ineligible project codes - TRAC	Statutory Requirement
6207		LEGAL	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6208		PAYROLL BUREAU	Exclude Trading and ineligible project codes - TRAC	Statutory Requirement
6209		LICENCES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6210		BANK CHARGES		Ineligible
6211		SURVEYORS & ESTATE AGENTS		Ineligible
6212		MISCELLANEOUS AGENCY FEES		Ineligible
6213		TAX ADVICE FEES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6214		DEBT RECOVERY DISBURSEMENTS		Ineligible
6215		PORTFOLIO MANAGEMENT FEES		Ineligible
6216		VAT ADVISORS FEES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6217		CORPORATE FINANCE ADVISORS	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6218		PROJECT MANAGEMENT RECHARGES IN	Exclude Trading and ineligible project codes - TRAC	Direct / Project Support
6219		PROJECT MANAGEMENT RECHARGES OUT	Exclude Trading and ineligible project codes - TRAC	Direct / Project Support
6251		TELEPHONE MAIN EXCHANGE	Exclude Trading and ineligible project codes - TRAC	General
6252		TELEPHONE EXCHANGE LINES	Exclude Trading and ineligible project codes - TRAC	General
6253		TELEPHONE PAGERS	Exclude Trading and ineligible project codes - TRAC	General
6254		TELEPHONE PRIVATE WIRES	Exclude Trading and ineligible project codes - TRAC	General
6255		POSTAGE	Exclude Trading and ineligible project codes	General

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			- TRAC	
6256		COMPUTER LINES	Exclude Trading and ineligible project codes - TRAC	General
6257		FREEPHONE LINE CHARGES	Exclude Trading and ineligible project codes - TRAC	General
6259		TELEPHONE RECHARGES	Exclude Trading and ineligible project codes - TRAC	General
6301		STUDENT BURSARY EXPENSES		Ineligible
6302		STUDENT GRANTS		Ineligible
6303		STUDENT EXPENSES		Ineligible
6304		STUDENT EXPENSES VIA PAYOLL		Ineligible
6351		SPEAKERS EXPENSES	Exclude Trading and ineligible project codes - TRAC	Direct only
6352		MEETING EXPENSES	Exclude Trading and ineligible project codes - TRAC	Direct / Project Support
6353		SOCIAL PROGRAMME	Exclude Trading and ineligible project codes - TRAC	Direct only
6354		OTHER CONFERENCE COSTS	Exclude Trading and ineligible project codes - TRAC	Direct only
6355		DELEGATE FEES	Exclude Trading and ineligible project codes - TRAC	Direct only
6356		ORGANISERS FEES	Exclude Trading and ineligible project codes - TRAC	Direct only
6357		SUPPORT WORKERS	Exclude Trading and ineligible project codes - TRAC	General
6401		CATERING RECHARGES IN	Exclude Trading and ineligible project codes - TRAC	Direct only
6402		ACCOMMODATION RECHARGES IN	Exclude Trading and ineligible project codes - TRAC	Direct only
6403		CATERING	Exclude Trading and ineligible project codes - TRAC	Direct only
6404		ALCOHOL	Exclude Trading and ineligible project codes - TRAC	Ineligible
6405		VENDING SUPPLIES	Exclude Trading and ineligible project codes - TRAC	Ineligible
6406		GENERAL FOOD PROVISIONS (ZERO RATED)	Exclude Trading and ineligible project codes	Ineligible

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			- TRAC	
6407		MATERIALS	Exclude Trading and ineligible project codes - TRAC	General
6408		NR STUDENT BOARD RECHARGES	Exclude Trading and ineligible project codes - TRAC	Ineligible
6409		CATERING RECHARGES OUT	Exclude Trading and ineligible project codes - TRAC	Ineligible
6410		DISPOSABLE GOODS	Exclude Trading and ineligible project codes - TRAC	Ineligible
6411		GENERAL FOOD PROVISIONS (VARIABLE)	Exclude Trading and ineligible project codes - TRAC	Ineligible
6412		ACCOMMODATION RECHARGES OUT	Exclude Trading and ineligible project codes - TRAC	Ineligible
6413		ALCOHOL RECHARGES IN		Ineligible
6414		ALCOHOL RECHARGES OUT		Ineligible
6451		RECHARGE CODE - INTERNAL CONSUMABLES		Ineligible
6452		CONTRIBUTION TO DEPT/FACULTY		Ineligible
6453		CONTRIBUTION TO OVERHEADS		Ineligible
6454		CONTRIBUTION FROM BSL PROJECTS		Ineligible
6455		CONTRIBUTION FROM M PROJECTS		Ineligible
6456		TRANSFERS RE RESEARCH OVERHEADS		Ineligible
6457		INTER-COMPANY ADMIN CHARGE		Ineligible
6458		COVENANTED PROFIT - UNIVERSITY		Ineligible
6459		BSL OVERHEADS		Ineligible
6460		10% CONTRIBUTION TO BSL OVERHEADS		Ineligible
6461		COVENANTED PROFIT - DEPT		Ineligible
6462		MISC INTER-CO EXPENDITURE		Ineligible
6470		CONTRIBUTION FROM T PROJECTS		Ineligible
6471		CONTRIBUTION FROM TCS/KTP PROJECTS		Ineligible
6472		CONTRIBUTION FROM X PROJECTS		Ineligible
6473		CONTRIBUTION FROM EUROPEAN PROJECTS		Ineligible
6474		CONTRIBUTION FROM OVERSEAS VALIDATION PROJECTS		Ineligible
6475		CONTRIBUTION TO CENTRAL OVERHEADS		Ineligible
6476		TRANSFERS TO/FROM HOLDING ACCOUNTS		Ineligible

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6501		MISCELLANEOUS RECHARGES IN		Ineligible
6502		FRANCHISED COURSES		Ineligible
6503		ADVERTISING & PUBLICITY		General
6504		PURCHASING CARD		Ineligible
6505		SU GRANT		Ineligible
6506		TENDER EXPENSES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6507		SETTLEMENT EXPENSES		Ineligible
6508		COMMISSION		Ineligible
6509		EDUCATIONAL VISITS		Ineligible
6510		DONATIONS		Ineligible
6511		GRANTS & SUBSCRIPTIONS	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6512		VOLUNTEER EXPENSES	i	General
6513		MERCHANDISING PRODUCTS		Ineligible
6514		MISCELLANEOUS EXPENSES		Ineligible
6515		ADMINISTRATIVE SERVICES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6516		CORPORATE CARD		Ineligible
6518		MISCELLANEOUS RECHARGES OUT		Ineligible
6601		EXTERNAL LIBRARY LOAN		Ineligible
6602		ON LINE SEARCHES	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6603		ABSTRACT	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6604		LIBRARY STANDING ORDERS	Exclude Trading and ineligible project codes - TRAC	Ensure Relative to eligible areas only
6651		WAIVED COURSE FEE		Ineligible
6652		COURSE/EXAM FEE		Ineligible
6653		EXAMINERS EXPENSES		Ineligible
6654		ASSESSORS EXPENSES		Ineligible
6701		UCL FOUNDATION BURSARY PAYMENTS		Ineligible
6702		UCL FOUNDATION PRIZES		Ineligible
6703		UCL FOUNDATION GRANTS		Ineligible
6801		LINE RENTAL CHARGES	Exclude Trading and ineligible project codes	General

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			- TRAC	
6901		ANIMAL FEED		Ineligible
6902		VET EXPENSES		Ineligible
6903		CROP EXPENSES		Ineligible
6904		STOCK ADJUSTMENT		Ineligible
6905		FERTILISER & SEEDS		Ineligible
6906		MILK QUOTA LEASE		Ineligible
6907		LEASED SHEEP QUOTA		Ineligible
6908		CONTRACTORS		Ineligible
6909		AI FEES		Ineligible
6910		NMR		Ineligible
6911		MARKETING		Ineligible
6912		BEDDING		Ineligible
6913		CHEMICALS & SPRAYS		Ineligible
6914		LIVESTOCK PURCHASES		Ineligible
6915		LIVESTOCK SUNDRIES		Ineligible
6916		COW HIRE CHARGE		Ineligible
6917		JOINT VENTURE CONTRACT FEE		Ineligible
6918		CASHIERS TAKINGS SHORTFALL/SURPLUS		Ineligible
6919		JV PROFIT SHARE DUE TO PARTNER		Ineligible
6920		MILK SERVICES AND OTHER PAYMENTS		Ineligible
7001		LOAN/LEASE INTEREST		Ineligible
7002		LCC FINANCING CHARGES		Ineligible
7003		CAPITAL REPAYMENT		Ineligible
7004		PROFIT/LOSS ON FOREIGN EXCHANGE		Ineligible
7005		LCC DEBT CHARGES		Ineligible
7006		SPECIFIC BAD DEBTS		Ineligible
7007		GENERAL BAD DEBTS		Ineligible
7008		INTER-CO INTEREST PAYABLE		Ineligible
7009		SURPLUS/DEFICIT ON DISPOSALS - LAND		Ineligible
7010		SURPLUS/DEFICIT ON DISPOSALS - BUILDINGS		Ineligible
7011		SURPLUS/DEFICIT ON DISPOSALS - GENERAL EQUIPMENT		Ineligible
7012		SURPLUS/DEFICIT ON DISPOSALS - COMPUTER EQUIPMENT		Ineligible

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7013		SURPLUS/DEFICIT ON DISPOSALS - VEHICLES		Ineligible
7014		SURPLUS/DEFICIT ON DISPOSALS - QUOTA		Ineligible
7015		INTERNAL INTEREST		Ineligible
7016		MANAGEMENT CHARGE		Ineligible
7017		WRITE-OFF OF INTERCOMPANY BALANCES		Ineligible
7101		VAT PROVISION		Ineligible
7201		DEPRECIATION - BUILDINGS	Exclude Trading and ineligible project codes - TRAC	Exclude any funded by Capital Grants
7202		DEPRECIATION - GENERAL EQUIPMENT	Exclude Trading and ineligible project codes - TRAC	Exclude any funded by Capital Grants
7203		DEPRECIATION - COMPUTERS	Exclude Trading and ineligible project codes - TRAC	Exclude any funded by Capital Grants
7204		DEPRECIATION - VEHICLES	Exclude Trading and ineligible project codes - TRAC	Exclude any funded by Capital Grants
7205		DEPRECIATION - QUOTA		Ineligible
7401		LOSS ON INVESTMENTS		Ineligible

INELIGIBLE

ELIGIBLE

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Note: items of expenditure should relate to eligible areas only

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ANNEX D(i) Step 1

Cost Centre	Description	How cost is consumed by the ERDF project - outreach group
AB	Business School Office	Department – Direct
AE	Centre For Employability Through The Humanities	Department – Direct
AH	Faculty Of Health	Department – Direct
AL	Faculty Of C.I. & S.s. Office	Department – Direct
AP	Centre For Astrophysics	Department – Direct
AS	Faculty Of Science Office	Department – Direct
AT	Faculty Of Design & Technology Office	Department – Direct
AU	Agriculture	Department – Direct
BH	Business Development Unit (health)	Department – Direct
BL	Biological Sciences	Department – Direct
BM	Business School	Department – Direct
BR	Biomedical Research Unit	Department – Direct
BT	Built Environment	Department – Direct
BY	Business School	Department – Direct
CA	Faculty Of Cultural, Legal & Social Studies	Department – Direct
CY	Department Of Social Work	Department – Direct
DC	Computing	Department – Direct
DT	Faculty Of Design & Technology	Department – Direct
DU	Commercial Development Unit (lbs)	Department – Direct
EG	Technology	Department – Direct
EH	Centre For Ethnicity And Health	Department – Direct
ET	Education & Social Science	Department – Direct
EV	Environmental Management	Department – Direct
EY	Centre For Employability	Department – Direct
FA	Art And Fashion	Department – Direct
FE	Dept Of Professional & Vocational Skills	Department – Direct
FY	Forestry	Department – Direct
FZ	Department Of Forensic And Investigative Science	Department – Direct
HE	Faculty Of Health	Department – Direct
HM	Tourism & Leisure Mgt	Department – Direct
HP	Department Of Allied Health Professions	Department – Direct
HU	Combined Honours Unit	Department – Direct
HZ	Department Of Humanities	Department – Direct
IQ	Dept Of Information And Finance	Department – Direct
JN	Journalism	Department – Direct
LC	Languages And International Studies	Department – Direct
LN	Business & Extended Education Unit	Department – Direct
LP	Dept Of Business & Management (postgraduate)	Department – Direct
LU	Dept Of Business & Management (undergraduate)	Department – Direct
LW	Law School	Department – Direct
ML	Centre For Materials Science	Department – Direct
MW	Department Of Midwifery Studies	Department – Direct
NA	School Of Natural Resources	Department – Direct
NU	Nursing	Department – Direct
PS	Psychology	Department – Direct
PY	Physics Astronomy & Maths	Department – Direct
SC	Faculty Of Science	Department – Direct

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SH	Lancashire School Of Health & Pg Medicine	Department – Direct
SI	Dept Of Strategy & Innovation	Department – Direct
VC	Design	Department – Direct
VE	Centre For Professional Ethics	Department – Direct
AX	Advancement Service	Ineligible
AY	Deputy Director Of Advancement	Ineligible
BA	Banner Support Office	Ineligible
MX	Marketing Merchandise	Ineligible
NT	NTI	Ineligible
PE	Sports Facilities	Ineligible
PU	Partnership Development	Ineligible
PX	Promotions	Ineligible
RC	Exams And Awards Office	Ineligible
RV	Academic Quality And Standards Unit (aqasu)	Ineligible
RZ	Resource Management	Ineligible
SM	External Liaison	Ineligible
SQ	Student Affairs Service (including Simu And The I)	Ineligible
SU	Student Union	Ineligible
VU	Volunteer Unit	Ineligible
XH	Pro Vice Chancellor (quality And International)	Ineligible
AN	Admissions Unit	Where relevant – indirect
AZ	Academic Registry	Where relevant – indirect
CQ	Student Advisory & Counselling Centre	Where relevant – indirect
IZ	International Development	Where relevant – indirect
RU	Student Information Management Service (sims)	Where relevant – indirect
SS	Student Services	Where relevant – indirect
CI	Committees,complaints & Conduct	Indirect
CP	Multi-faith Centre	Indirect
CV	Clerk To The Board	Indirect
FM	Facilities Management	Indirect
FO	Financial Services	Indirect
HH	Health Centre	Indirect
IS	Information Systems Services	Indirect
KT	Knowledge Transfer Service	Indirect
LL	Library & Learning Resource Service	Indirect
LR	Learning Development Unit	Indirect
PR	Human Resources	Indirect
RO	Research Support Office	Indirect
RP	Resources & Services	Indirect
SX	Strategic Development Service	Indirect
TC	Telecommunications	Indirect
XA	Directorate	Indirect
XB	Central Expenditure	Indirect
AC	Arts Centre	Trading Ineligible
BC	Business Services	Trading Ineligible
BV	Business Services Office	Trading Ineligible
CR	Pre-school Centre	Trading Ineligible
HK	Knowledge Park	Trading Ineligible
SA	Student Accommodation Services	Trading Ineligible
CF	Conferences And Events Management	Trading/ Direct cost on each project
PB	Printing Services	Trading/ Direct cost on each

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RF	Catering Services	project
CAA	Ineligible Companies	Trading/ Direct cost on each project
CBA	Ineligible Companies	Company Ineligible
CPA	Ineligible Companies	Company Ineligible
CRA	Ineligible Companies	Company Ineligible
CTA	Ineligible Companies	Company Ineligible
ELA	Ineligible Companies	Company Ineligible
ENA	Ineligible Companies	Company Ineligible
FOA	Ineligible Companies	Company Ineligible
HLA	Ineligible Companies	Company Ineligible
NRA	Ineligible Companies	Company Ineligible
NWA	Ineligible Companies	Company Ineligible

INELIGIBLE

ELIGIBLE

DIRECT TO PROJECT

Annex D(i) ERDF HEI Overheads - Methodology Notes

- 1 First export TRAC data to Excel as follows:

Open ABC database (Already saved 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 were given expenditure type 'Academics pay'
- 3 Identify cost and account codes for academic departments given the expenditure type 'Acad depts suppt pay'
- 4 Identify library cost centre codes were given the expenditure type 'Library'
- 5 All I.S.S. cost centre codes were 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).
- 8 Ensure that all other cost centres/account combinations had appropriate exp type (including "Unallowable").
- 9 All changes were made and then the data re imported (from sheet - amended import to ERDF - 2)
- 10 Cut out all expenditure using OH 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 apportion table for overheads
- 14 Created apportionment sub form table from the above export called it Oheads table 1, set up app type and main form
- 15 Imported subform data
- 16 changed the app type of the expenditure records being treated as overheads, from OH 1 to Oheads 1, reimported exp records
- 17 Ran the validation routines and checked control total for all expenditure input
- 18 Reprocessed in the costing model
- 19 Ran the management report Summary expenditure report, consolidated, excluding Trading activities, by original fin code
- 20 Exported this to excel and applied the factor for Academic departments non payroll being eligible as indirect (balance becomes excluded)

ANNEX D(ii) Summary

Working example

Summary of costs over the project life

	FT	£	£	
	E			
1. Directly Incurred Costs				
Staff costs			862,120	
Consumables for which records of actual consumption can be maintained			90,500	
2. Indirect apportioned costs			68,820	5% } 33%
3. Pooled Indirect costs	17.	23,93		28
	0	7	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			%

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Annex D(II) - Step 2 Direct Costs

Project starts on 1 April 2006

	Grade	Annual Gross Salary £	FTE per annum	Hours per annum (based on 1650 hrs)	Year 1 - 1/4/06 - 31/03/07 £	Year 2 - 1/4/07 - 31/03/08 £	TOTAL COST PER PROJECT £
<u>Directly Incurred Costs</u> (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	9,075	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
			<u>17</u>	<u>20,625</u>	<u>431,060</u>	<u>431,060</u>	<u>862,120</u>
<u>Consumables for which records of actual consumption can be maintained</u>							
Consumables							
Travel							
Equipment					3,000	1,500	4,500
Adv/promotional					3,000	1,500	4,500
Fees					10,000	5,000	15,000
Audit					9,000	3,000	12,000
					34,000	16,000	50,000
					1,500	3,000	4,500
Total direct costs for project					<u>60,500</u>	<u>30,000</u>	<u>90,500</u>
Total costs							<u>952,620</u>

ANNEX D(ii) - Step 3 Apportionment of overheads using proxies

Apportionment will require a method relevant to each cost. 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
	<u>51,820</u>

Apportioned consumables

	£
IT communications	2,000
Vehicle expenses	5,000
Equipment rentals	<u>10,000</u>
	17,000
	<u> </u>
Total	<u>68,820</u>

ANNEX D(ii) - Step 4 Apportionment of overheads using cost pools

CALCULATIONS BELOW ARE BASED ON ACTUAL TRAC DATA

CALCULATION OF UNIVERSITY DIRECT FTEs/LABOUR HOURS	
Academic Departments	Staff Nos
Academic Staff	518
Support Staff	55
Research Grants & Contracts, and Other	
Academic Staff	51
Support Staff	24
	<hr/>
	648
Add:	
Support Staff charged direct to ERDF funded Projects	12.37
	<hr/>
TOTAL University Direct FTE	660.37
	<hr/>
TRAC Standard Hours	1,650
	<hr/>
TOTAL University Direct Labour Hours	1,089,611
	<hr/>

THIS IS AN EXAMPLE

ANNEX D(ii) - Apportionment of overheads using cost pools

ERDF project Overhead Costing - pooled costs over the life of the project

Indirect Overhead Expenditure

	£		
Academic Departments non-pay	2631	2	
Academic Division	622	3	
Library	3,128		
Other	1,771	4	
I.S.S.	2,500		
Premises and related	3,005	5, 6	
Resources Division (not Estates)	2,150	7	
Overhead expenditure allowable for ERDF	15,807		= Overhead Cost Pool

Project period pooled costs	£000
Overhead Cost Pool	15,807
FTE's:	Overhead per FTE £
Academic, Research Staff, and Outreach Direct Delivery staff	660.37 23,937

2. 17.5% of Academic Departments non-pay treated as indirect based on printing, stationery, and telephone budget as proportion of total non-pay.
3. Academic Division includes University Secretary's office, and the Safety office.
4. "Other" includes, Postage, Training Unit, Research Committee, VC's Office, Planning Office, and Internal Audit.
5. Premises and Related excludes TRAC Cost Adjustments and Depreciation relating to publicly funded buildings.
6. Premises and Related includes Depreciation, Estates Costs (utilities, etc), Equipment, cleaning and grounds, Porters and Security.
7. Resources Division includes Finance, Personnel, and Strategic Purchasing.

ANNEX D(iii) - Step 5

Monitoring actual consumption

Project name and reference:

Overhead Cost Pool Elements	Activity Description	Likely to be Consumed by project? Y/N
Academic Departments Support Staff		<input type="text"/>
Indirect Non-Pay		<input type="text"/>
Library		<input type="text"/>
Other Postage, Training Unit, Research Committee, VC's Office		<input type="text"/>
ISS		<input type="text"/>
Premises and related Estates costs including maintenance (excluding Long Term Maintenance), and Utility Costs		<input type="text"/>
Equipment		<input type="text"/>
Cleaning & Portering		<input type="text"/>
Resources Division (not Estates) Finance		<input type="text"/>

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Personnel

Annex D(iii) – Step 5 continued

Other central support staff (Enterprise &
Commercialisation, Strategic Purchasing,
Project Management)

Checklist completed by (signature & date):

Review date & initials

Review date & initials

Annex E

ENERGY EFFICIENCY IMPROVEMENTS AND RENEWABLE ENERGY IN EXISTING HOUSING

PROCESS FOR IMPLEMENTING PROPOSED CHANGES TO EC REGULATION 1080/2006, ARTICLE 7.

Background

1. As part of its response to the economic crisis, the European Commission has amended Article 7 of EC Regulation 1080/2006 to allow expenditure on energy efficiency improvements and on the use of renewable energy in existing housing to be eligible for support from the ERDF.
2. Under the amendment, 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.
3. The amendment allows Member States to spend up to 4% of their total ERDF allocation on these measures. It is part of a package of amendments to the 2007-13 Structural Funds Regulations have been agreed at official level in the European Council's Structural Actions Working Group. It was referred to the European Parliament in January and adopted in Council on 5 May. The amended Regulation will come into effect on the 20th day after its publication in the Official Journal.
4. 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. Appendix 1 to this paper sets out the definition of 'social housing' under the Act. 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.
5. 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.

Monitoring in the UK

6. As the 4% threshold will operate at the UK level, BERR 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.
7. BERR 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 EPP/CLG and adjustments at OP level may be considered as the measure is implemented.

Implementation in England

8. Although CLG is the Managing Authority for ERDF OPs in England, it will be for the relevant Regional Development Agency, following consultation with regional partners on the Programme Monitoring Committee, to decide whether to allow energy efficiency and renewable energy measures in existing housing to be supported through the OP.
9. As part of this process, the RDA 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.
10. 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.

EPP/CLG

May 2009

Appendix 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.
 - (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.

Annex F

EPPD/CLG Managing Authority Guidance Note 1

Major project approval

Introduction

1. This paper sets out the process to be followed for appraising and approving a major project, in particular, the respective roles of CLG as the MA, RDAs and the European Commission (EC).

Background

2. 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 25 million in the case of the environment and EUR 50 million in other fields'.
3. Where a major project includes an RDA Single Programme contribution of over £10 million, or if the RDA is the final beneficiary of the ERDF funds of a value of over £10 million, both EC Major Project and Central Policy Review Group (CPRG) approval are required.

CLG functions

4. In accordance with Art 60(k) of EU Regulation 1083/2006, the Managing Authority is required to provide the EC with information to allow it to appraise major projects. In the Implementing Provisions for each OP, this is included among the functions delegated to the RDAs.
5. Nevertheless, the Schedule of MA functions sets out some responsibilities for CLG, as the MA. These are:-
 - (a) Informing the RDA about indicative guidance provided by the EC on the methodology to be used in carrying out the cost-benefit analysis required by Art 40(e).
 - (b) Participating in discussions with the EC and the RDA about the consistence of a major project with the priorities of the OP, its contribution to achieving the goals of those priorities, and its consistency with other Community policies.
 - (c) Participating in discussions with the EC, the RDA and any outside expert consulted by the EC about the appraisal of a major project.
 - (d) Notifying the RDA of the EC's decision, which will have been notified to the Secretary of State, whether a financial contribution from the ERDF to a major project

6. As regards (a), CLG will, in practice, pass on guidance issued by the EC on wider issues related to the appraisal of major projects. This has comprised the EC's Working Paper No 4: *Guidance on the Methodology for carrying out Cost Benefit Analysis*, issued in August 2006; draft Information Note to COCOF: *Major Projects in the programming period 2007-13; Thresholds and contents of EC Decisions*, issued in March 2008; and Annexes XXI and XXII of EC Regulation 1828/2006, *Major Project Requests for Confirmation (i) Infrastructure Investment and (ii) Productive Investment*, and *Guide to Cost benefit Analysis of investment projects Structural Funds, Cohesion Fund and Instrument for Pre-Accession Final Report Submitted by TRT Trasporti e Territorio and CSIL Centre for Industrial Studies 16/06/2008*
7. http://ec.europa.eu/regional_policy/sources/docgener/guides/cost/guide2008_en.pdf
8. Prior to stage (c), CLG will have formally submitted the major project application and supporting material electronically to the EC, via SFC 2007.
9. At present, the SFC 2007 system is set up for the manual input of data. However, we are considering, with colleagues in the MCIS team, the methodology for submitting the material and processing major project applications on line. To ensure all data on ERDF operations is captured electronically, the MCIS team is considering devising a method to capture and validate the major project details for onward transmission from CLG to the SFC 2007 via an automated interface.

Role of RDA

10. Each RDA should follow the project development, appraisal and approval process in line with its ERDF management and control system, engaging appropriate external expert input if required.
11. It is strongly recommended that, as part of its appraisal of the project, the RDA ensures the following:-
 - It engages and consults the relevant EC DG Regio Desk Officer at an early stage in the process, even before the formal application has been submitted to the RDA
 - In accordance with Article 2 of EC Regulation 1083/2006, the project does not cover more than one Priority Axis (although we have asked the Commission if there could be some flexibility around this.)
 - In accordance with Article 41(2), the intervention rate for the project is precisely the same as for the Priority Axis it comes under in the relevant OP financial tables
 - The financial tables in the major project application should not contain 'rounded' figures. The SFC 2007 system requires figures down to the nearest Euro to be entered.
12. CLG will be kept informed of the major project's development through the quarterly review meetings.

13. Although not required under the Regulations, we recommend that the PMC should endorse all major projects before information is submitted to the Commission (and CPRG).
14. When developing a major project the RDA should be mindful of the need and timing of any CPRG approval process. The Commission does not require CPRG approval to have been achieved before the major project application is submitted to them. Whilst the two independent appraisals can happen simultaneously, it is probably pertinent to ensure that all the information that is required by one body is also made available to the other. These are as follows:

CPRG requires:

- full evaluation plan
- cost benefit analysis
- market analysis
- scenario mapping and options assessment

EC Major Project approval 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, and:

- full project description
- results of feasibility studies
- project timetable
- cost benefit analysis
- market analysis
- scenario mapping and options assessment
- financing plan showing total resources
- an analysis of the environmental impact (to indicate if a full environmental impact analysis is required)
- communications plan

The submission process

15. Following endorsement by the PMC and any RDA approval process, the RDA will send electronic versions of the documentation as set out above to their regional lead at the CLG.
16. CLG will submit the information to the Commission via SFC 2007 and provide confirmation of the date of submission to the RDA.
17. The Commission is required to provide a decision within three months after the date of submission, in accordance with Article 41. However, if they refer the application back to CLG for correction or further information, the clock stops, so the full process may take longer than three months.

EPPD/CLG
December 2008

Annex G

Version 27 March 2009
EUROPEAN REGIONAL DEVELOPMENT FUND
FINANCE GUIDANCE NOTE 2007-13 Round
ERDF REVENUE GENERATING PROJECTS

1. Introduction

- 1.1. Article 55 of Regulation 1083/2006 (the General Regulation) defines what a revenue generating project is, sets out how revenues from revenue generating projects should be taken into account in calculating eligible expenditure, when to monitor revenues, and how to deal with differences in the forecast and actual revenues at the end of the project. The aim of Article 55 is to ensure sound and efficient use of the EU budget and to avoid grant funding more than is necessary in respect of such projects, when a loan might have been more appropriate.
- 1.2. The Council Regulation 1083/2006 is currently being amended. This guidance note is being issued in advance of the proposed amendments being adopted and will be subject to further revision once the changes to the Regulations and any corresponding guidance is issued.
- 1.3. This paper provides guidance on the treatment of revenue generating projects seeking ERDF support in the context of England and sets out a methodology that must be adopted by all RDAs and project applicants. The guidance also sets out additional project monitoring requirements that need to be included in the ERDF Funding Agreement Project Specific Conditions. A Glossary of terms can be found at **Annex E**.
- 1.4. This guidance should be read in conjunction with Chapter 2 Eligibility, Chapter 3 Funding Agreements and Chapter 4 Monitoring Assurance Framework of the ERDF User Manual provided by CLG. The guidance has been based on information notes provided by the Committee for the Co-ordination of Funds (COCOF) listed under Reference Material at **Annex F**. Please note that COCOF papers are working documents. The aim of a working document is to provide Commission's services explanations and interpretations of the said rules in order to facilitate the implementation of operational programmes and to encourage good practice(s). However COCOF guidance is without prejudice to the interpretation of the Court of Justice and the Court of First Instance or evolving Commission decision making practice. This disclaimer is now included in new COCOF papers.

2. Initial Assessment of the Application of Article 55 to a Project

Part 1 – The Initial Assessment of the Project

- 2.1. Article 55(1) of Regulation 1083/2006 defines a revenue generating project as:
 - any operation involving an investment in infrastructure the use of which is subject to charges borne directly by users or
 - any operation involving the sale or rent of land or buildings, or
 - any other provision of services against payment.
- 2.2. Article 55 applies to both capital and revenue projects. It is of fundamental importance to understand what is actually meant by “revenue” in the context of Article 55. Revenues are cash in-flows in a project directly paid by users for the goods and/or services provided by the project. Revenues would not therefore include, for example, private sector leverage generated by a project.
- 2.3. Once revenue generation within the meaning of Article 55(1) has been identified in relation to a project, the next step is to assess whether or not Article 55 requires the

revenue to be accounted for and hence whether a 'funding-gap' calculation (where the revenue can be calculated in advance) or a 'post contract evaluation' (where it is not possible to objectively estimate the revenue in advance of the project being undertaken) is required.

Part 2 – Projects of less than €1,000,000 total value

- 2.4. Article 55 (5) provides the threshold for compliance with the provisions of Article 55(2) to 55(4). The Commission has amended the original Article 55(5) (which previously provided that the procedures for monitoring revenues generated by 'small operations' (total cost below €200 000) could be '*proportionate to the amounts concerned*') so that Article 55 now does not apply at all to any project where the total cost is less than €1 000 000 – ie either for the purpose of calculating maximum eligible expenditure or for monitoring.
- 2.5. The amendment was adopted by the European Parliament on 2 December 2008 and is retrospective clause, applying the new Article 55 from August 2006 onwards. For the purpose of determining the Euro value of a project the monthly exchange rate provided by the Commission should be used at the time the project is approved. Any future fluctuations in the exchange rates will not have any impact on the decision made at the time a project is approved.

Part 3 – Projects subject to the State Aid Regime

- 2.6. Article 55(6) excludes "*projects subject to the rules on State aid within the meaning of Article 87 of the Treaty*" from the application of the rules set out within the Article. Nothing in Article 55 makes a payment lawful which would otherwise be unlawful as state aid incompatible with the treaty. Although the risk of compliance with State Aid rules is borne by the grant recipient in the ERDF template offer letters, the RDAs should take all necessary advice to assure itself that the grant is state aid compliant. The reason for this exclusion is that the rules on State aid for setting the public contribution to the financing of a project or a group of projects (aid amount) have a different and specific purpose from those set out in Article 55. Where a revenue-generating project is subject to the rules on State aid, it is not subject to paragraphs 1 to 5 of Article 55. Where a revenue-generating project is not subject to State aid rules, it is subject to Article 55(1) to (5). This is not a matter of choice of the Member State. Further details are provided in COCOF 08/0012/01-EN "*Information note on Article 55(6) of Regulation (EC) No 1083/2006*"
- 2.7. The rationale behind the drafting of Article 55(6) is that State aid schemes and ad hoc aids normally incorporate tests for market failure and restrictions on eligible costs, and/or allow lower levels of total public sector intervention. It would therefore appear inequitable to require a project to comply with the additional administrative burden imposed by Article 55.
- 2.8. Examples of schemes and ad hoc aids which are/are not "*subject to the rules on State aid within the meaning of Article 87 of the Treaty*" and are/are not thereby exempted from the requirements of Article 55 by the application of Article 55(6) are as follows:

Exempt from the requirements of Article 55

- **Land regeneration schemes:** For example speculative and bespoke gap funding scheme, historic environment regeneration scheme, and land remediation scheme
- **Notified schemes:** For example SFIE, GRAND, Collaborative R&D

- **De minimis** (even though regarded as ‘no aid’)
- **Block Exemptions e.g. GBER, SGEI**
- **Cases where the delivery body is treated as a ‘wash through entity’ within Art 3 RDI guidelines** (research organization or innovation centre) or within the clawback provisions of the German Incubation Centre decision (which would include most of the delivery body contracts entered into by the RDAs eg knowledge transfer clusters and university contracts). This is because although these are ‘no aid’ decisions, they are subject, like the de minimis rules, to a separate regime for ring fencing and clawback.

Not Exempt from the requirements of Article 55

- **Infrastructure** whose benefits are **open and available to all** on a non-discriminatory basis
- **Market economy investor principle (MEIP) schemes:** For instance where there is a pari passu joint venture or the state support is benchmarked against independently assessed market values
- **Activities which are not regarded as distorting competition** or affecting intra EU trade: For example, social enterprise activity and very localised tourism activity
- **No Selective Advantage:** For example compensation on a cost basis where it is argued the recipient does not receive an advantage eg grants to delivery bodies like clusters, business links etc and procured contracts.

3. Summary of Exemptions from Article 55, Complex Projects and inter-relationship with Article 57:

3.1. The assessment of revenue does not need to be undertaken in the following cases:

- Where projects do not generate revenues (ie do not fall within Article 55.1); or
- Where the total value of the project is below €1,000,000; or
- Where the project activities are 100% State-aid within the meaning of Article 87 and approved under a notified State Aid scheme or block exemption; or
- Where, for example, the operation already generates revenue and the investment will not generate any extra net revenue. For such projects which expand upon an existing revenue-generating infrastructure it is only any additional revenue generated as a result of the ERDF investment which has to be taken into account under Article 55.

3.2. In the case of complex projects the Commission’s Cost Benefit Analysis Guide 2008 (page 28, section 2.2.1) provides guidance upon how to evaluate whether a scheme should be looked at as one large project or several self-standing smaller projects. It advises: “***if [the] benefits and costs of each component are independent, then the components are separable and can be treated as independent projects***”. However, notwithstanding the Guide, for the purposes of Article 55, even if following the Guide a Project’s several components are treated as part of one whole project, the different parts should be considered separately. This means that the related costs and incomes appropriate to each component must be segregated and treated separately. For example, a major project may have different components generating different income streams, which would have to be accounted for separately.

3.3. Complex projects could incorporate components which may fall within the State aid exemptions and some which may not. For example, where a project includes aspects which will generate revenue, but has aspects which will and will not fulfil the four tests of Art 87.1, the project will need to be divided. An assessment of the revenue generated will need to be undertaken in relation to those aspects not

exempted by Article 55(6). This calculation will either have to be undertaken in accordance with Article 55(2) or 55(3).

- 3.4. Another important consideration is the need to assess the sustainability and durability of a project and/or its component activities in order to comply with Art 57 (1083/2006). This states that a project should only be allowed to retain the contribution from the ERDF if within five years from its completion the project does not undergo any substantial modification:
 - affecting its nature or its implementation conditions or giving to a firm or a public body an undue advantage; and
 - resulting either from a change in the nature of ownership of an item of infrastructure or the cessation of a productive activity.
- 3.5. Article 57 complements the objectives of Article 55. Both Articles seek to prevent a grant recipient from receiving undue advantage from the intervention and ensure that investments which benefit from assistance under ERDF can be written off over a sufficiently long period.
- 3.6. Article 57 is being amended to confirm that it only applies to investments in infrastructure or productive investment. It will not apply to financial engineering instruments or revenue projects.
- 3.7. In the light of the above, applicants and RDAs should take care to identify whether a given project or any constituent part is included within Article 55(1), and to assess how any revenue should be treated. Article 55(4) provides that the Commission may require the refunding of revenue to the budget of the EU after closure of an operational programme in cases where a project has generated revenue that was not, or was not correctly taken into account under Article 55(2) or (3). Such refunds may be required at the latest three years after the closure of an operational programme. For the effect of this Article 55(4) and how to manage the risks, please see Section 7 below.
- 3.8. The Flowchart at **Annex A** summarises the steps which are to be followed in assessing the application of Article 55, as set out above.

4. Calculating the ERDF funding-gap pursuant to Article 55(2): Introduction and Relevant Considerations

- 4.1. Article 55 (2) applies to projects where the identification of revenue can be objectively estimated in advance. This requires that the contribution from ERDF is determined by the “funding gap” method. This takes into consideration the estimated net revenue from an investment over a specific time horizon also known as the reference period details of which are set out in paragraph 4.5 below. The maximum eligible costs (the funding gap) must not therefore exceed the discounted investment costs less the discounted net revenue. ***This applies regardless of the way the revenue will be managed, such as, where the net revenue will be re-invested in the project.***
- 4.2. The embedded excel worksheet at section 5 below must be used to calculate the funding gap to which the ERDF contribution rate can be applied unless the project is a major project. For major projects, applicants should not use the embedded funding gap calculation worksheet RDAs should follow the process outlined in EU Working Paper 4.
- 4.3. As stated at paragraph 4.1 above, Article 55 (2) should be used wherever the identification of revenue can be objectively estimated in advance. COCOF 07/007

4/03-EN, “*Information note to the COCOF Guidance Note on Article 55 of Council Regulation (EC) No 1083/2006: Revenue Generating Projects*” (hereinafter referred to as “the COCOF Guidance Note on Article 55”) emphasises that the possibility of estimating revenue in advance will depend on the feasibility of forecasting tariffs and demand. In terms of the feasibility of making forecasts, the availability of consistent data and previous experience with similar projects will be the most important factors. If the data is lacking or the project is not based on previously tested models then it would not be appropriate to attempt to undertake a funding gap calculation and Article 55(3) should be used instead.

- 4.4. As a part of the relevant matters to consider when applying Article 55.2, a linked and important consideration is whether the project should receive a grant from ERDF at all. To calculate the funding gap and assess whether the project should receive grant funding from ERDF (as opposed to a loan), account must be taken of:
- ***the reference period (also called the project time horizon) appropriate to the category of investment concerned*** – see paragraph 4.5 below
 - ***the profitability normally expected of the category of investment concerned*** –see paragraph 4.16 below.
 - ***application of the polluter-pays principle*** - those costs generated by pollution must be paid by the polluter and should therefore not usually form part of the funding gap calculation (ie should not be taken into account as revenue).
 - ***equity and affordability*** – this relates to the ability of users to pay for using the facility/service. In this regard, the fee, rent etc charged should be set at a level which takes account of users' income within the area/region concerned.

The Reference Period

- 4.5. The first step for any funding gap calculation is to decide the correct reference period, since this will be the period over which the revenue must be tracked.
- 4.6. The reference period is a set number of years for which forecasts must be provided in order to conduct a financial analysis. The COCOF Guidance Note on Article 55 defines the reference period as the “*number of years of the profit economic life that is the time period beyond which the investment needs to be replaced.*” Project forecasts should cover the reference period which should be long enough to encompass its likely mid to long term impact. The projects economic life is not the same thing as the expected useful economic life of individual assets within a project since this could be greater or lesser than the appropriate reference period. It is therefore not appropriate to simply base the reference period on the average service life of fixed capital assets set for accounting purposes.
- 4.7. It is normal practice when determining a reference period to refer to a standard benchmark differentiated by sector and based on internationally accepted practices. **Table 1** below sets out the reference periods recommended by the European Commission for different categories of investment for the period 2007-13.

EU suggested reference period ERDF 2007-13		Table 1
Sector of Investment	Time Horizon	
Railways	30	
Roads	25	

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Water	30
Energy	25
Telecommunication	15
Industry	10
Other services	15

- 4.8. CLG recommends that reference period set out in Table 1 is applied consistently for all similar projects. Any deviation from Table 1 should be considered on a case by case basis and must be justified on the uniqueness of the project-specific features. In this context it is important to bear in mind the requirements of Article 57 “Durability of operations”.
- 4.9. **Annex C** to this guidance sets out what kind of projects would be normally expected in each of the sector of investment. This is an indicative and not an exhaustive list of projects.
- 4.10. Most projects under the Competitiveness Programmes would fall within the ‘Industry’ or ‘Other services’ sectors in Table 1 above. Please refer to **Annex C** to determine which sector is applicable to a particular project. The choice of reference period may have an extremely important effect on the results of the appraisal process and may also affect the amount of ERDF payable. The longer the reference period, potentially the higher the net revenues to be taken into account in the calculation of the funding gap.
- 4.11. CLG recommends that the reference period should start from the date specified in the offer letter. Revenues may come on stream at the start of a project or later on.
- 4.12. For a capital project the investment period to be used for monitoring purposes is generally clearly defined and incremental revenues would be expected to come on stream when the investment phase is complete.
- 4.13. However, for a revenue project, the situation is less clear cut as the generation of revenue could occur in parallel with the investment phase of the project. For projects where no capital investment is involved, such as provision of a service from an existing facility, it should be easy to establish the starting point when the users start paying, and in many cases it could be at the start of the project or at some point during the investment phase of the project prior to completion.

Profitability

- 4.14. ‘Normally expected profitability’ means the ability of the project to generate additional financial resources (i.e. profits) as compared to those resources invested, independently of how the project is going to be financed (such as loans, private equity, or government contribution).
- 4.15. The Commission has recommended that an assessment of the normally expected profitability of a project is made in order to verify if the appropriate financing route has been selected. Whilst this is not a part of the funding gap calculation, CLG nevertheless supports the Commission’s recommendation and it is advised that this assessment is undertaken as part of the appraisal of a project when the funding gap is being assessed. The simplest way to assess profitability is to measure the internal rate of return of the investment, that is the discount rate that makes the discounted flow of the project’s costs and revenues add up to zero. In other words, the internal

rate of return is the discount rate at which a stream of costs and revenues has a net present value (NPV) of zero.

- 4.16. For the purpose of Article 55 projects the financial rate of return for the beneficiary should, in principle, be aligned with the EC standard financial discount rate of 5% real as it reflects opportunity cost of capital. Any higher rate or return would indicate that the grant from EU would bring above normal profits to the beneficiaries. Also projects with high financial rate of return would not need EU grant as they should be able to attract private finance
- 4.17. For reference and further information see **Annex B** setting out the profitability for each sector for projects in the previous ERDF rounds in the EU.

5. Calculating the ERDF funding gap pursuant to Article 55(2) Methodology

- 5.1. The estimated costs and the estimated revenues (which must not be adjusted for inflation) must be forecast on an annual basis for the reference period appropriate to the sector of investment in which the project is involved. See the section entitled "The Reference Period" above. If, as set out at paragraph 4.3 above, the forecast of revenues over the reference period can be made with reasonable confidence then the revenues should be dealt with under Article 55(2). If there is insufficient data available or the project involves innovation which will create an unquantifiable level of demand so that it is not possible to predict future revenues with reasonable accuracy Article 55(3) should be applied. It is important that this analysis is done carefully at the beginning of the project.
- 5.2. Details of ineligible costs are contained in section 5 of Chapter 2 of the ERDF Manual. Please note that the Commission has confirmed that developer/ operator profit is not allowed as an eligible cost, nor should it be taken into account in the overall funding-gap calculation.
- 5.3. The discounted net revenue can then be calculated using discounted cash flow techniques. Using a discount rate has the effect of reducing the value of future costs and benefits to present day terms. For example a discount rate of 5% per annum implies that society values £1 today equally with the certainty of £1.050 in a year's time. Another way to express this is to say that £1 in a year's time is worth only 95.24 pence now because $1/1.050$ equals 0.9524. The 95.24p figure is the present value (PV) of the £1 and the 0.9524 figure is the relevant discount factor.
- 5.4. The discount rate should reflect the opportunity cost of capital. High discount rates tend to favour the acceptance of projects with lower investment and/or a concentration of benefits in the short term, whilst lower rates are associated with longer-term returns. In principle, the Commission recommends that a 5% financial discount rate in real terms is used as an indicative benchmark for public investment projects co-financed by the Funds in the programme period 2007-13. RDAs should use the 5% discount rate for co-financed projects.
- 5.5. For a majority of projects, the process to be followed by all RDAs should be based on the process set out in the COCOF Guidance Note on Article 55. The process consists of four steps and is explained below. The embedded funding gap calculation worksheet in Section 5.16 can provide discounted cash flows using the Commission's recommended discount rate of 5% for all projects.
- 5.6. For major projects, however, applicants should not use the embedded funding gap calculation worksheet RDAs should follow the process outlined in EU Working Paper

4. Article 39 of regulation 1083/2006 defines major projects as those whose total cost exceeds €25m in the case of environmental and €50m in other fields. Major projects need prior approval from the Commission. It is important to remember that the EU grant is finally calculated in non-discounted values. If the calculations show that there are no net revenues generated then Article 55 does not apply to the project. However, it is important to establish whether the project would be financially sustainable over the reference period.

Step 1

Establishing the funding gap:

If:

DIC is the discounted investment cost

DNR is the discounted net revenue

FG is the funding gap

Then **FG = DIC - DNR**

The funding gap (**FG**) is the difference between the discounted investment costs (**DIC**) and discounted net revenue (**DNR**)

5.7. Only the cash in-flows directly paid by users (eg rents, fees, tolls etc) have to be taken into account in determining the gap. Public and private contributions that do not stem from charges to the users of the service (eg. subsidies, grants or investments) are not taken into account.

Step 2

Finding the discounted eligible Expenditure

If:

DEE is the discounted eligible expenditure

DEC is the discounted eligible costs

P is the percentage consistent with the ratio of discounted eligible cost (DEC) over discounted investment cost (DIC)

DEE = FG * P where **P=DEC/DIC X 100**

5.8. Where not all the investment costs are eligible for ERDF support, the net revenue must be allocated pro rata to the eligible and non-eligible parts of the investment cost. In order to determine the proportion of the net revenue that is to be taken into consideration, the discounted investment costs need to be compared with discounted eligible costs (i.e. discounted eligible costs divided by DIC and multiplied by 100).

Step 3

Calculating contribution from the Funds

If:

DG_{eu} is the discounted contribution from the Funds

CR_{eu} is the EU co-financing rate

Then **DG_{eu} = DEE X CR_{eu}**

Step 4

- 5.9. In order to derive the contribution from the Funds in non-discounted values, each discounted eligible expenditure (DEE) or FG from “Step 1” where “Step2” does not apply should be multiplied by $(1+r)^t$ where ‘r’ stands for the discount rate (recommended value is 5%) shown as a percentage and ‘t’ for the year in which the related eligible expenditure occurs, and added together as shown below:

Year	Discounted Eligible Exp DEE £	Calculation	non-discounted eligible Exp UDEE £
0	10.25	$10.25 \times (1+(5/100))^0$	10.25
1	7.62	$7.62 \times (1+(5/100))^1$	8.01
2	8.71	$8.71 \times (1+(5/100))^2$	9.61
3	6.92	$6.92 \times (1+(5/100))^3$	8.01
Total	33.50		35.86

- 5.10. A worked example is shown at **Annex G**. The example is taken from COCOF Guidance note on Article 55 and includes detailed calculations. The example assumes investment over a four year period. The result is slightly different (lower) as the Commission’s calculations are based on starting with year ‘1’ whereas accepted practice for calculating discounted cash flows is to start with year ‘0’.

Residual value of assets

- 5.11. The Commission has not recommended any particular method for calculating the residual value of an asset but refers to the Cost Benefit Analysis Guide 2008 and Working Document No 4. The residual value will be zero or negligible if a sufficiently long time horizon has been used whereby there is no remaining service potential left in the project. However, for practical reasons this is not always the case. The residual value reflects the ‘salvage’ value of fixed assets or any remaining capacity to generate net revenues. In other words, the residual value can be defined as the virtual liquidation value. The assets in a project would be depreciated using the applicant organization’s stated accounting policies for specific groups of asset categories. The residual value of such assets would be the remaining life of these assets. In case of assets with a very long life, such as a building, a residual value would reflect their potential resale value or continuing use value. Residual value should also include an appraisal of the net revenues the project can generate beyond the reference period, before any substantial revamping or replacement of the old investment. In cases where public utility buildings (e.g. hospitals, museums, universities which provide public service and are regulated by central or local government) will be used for the same purpose (ie public services) after the end of the reference period provided in the financial analysis, so that there is no theoretical possibility to receive income from selling them (liquidation value) RDAs can in general assume that the residual value is equal to zero.
- 5.12. For the purpose of determining whether or not an operation is a revenue-generating project within the meaning of Article 55(1) and whether or not it is necessary to apply the funding gap method, the simple fact that a piece of infrastructure will have a residual value does not always mean that the funding-gap calculation has to be

undertaken. For example, an investment in a new road, which is not subject to tolls or other user charge revenue, would not become revenue-generating solely due to the residual value of the road at the end of the reference period. However, where it is determined that a project does generate incremental net revenue, and the funding gap method must therefore be applied, the residual value must be taken into account in the calculation (subject to the exception in relation to public utility buildings as set out above). Also, the replacement costs of project short-life equipment are taken into account as operating costs in the calculation of the funding gap (see footnote 13 on page nine of COCOF guidance note on Article 55).

- 5.13. Should it prove impossible to estimate a residual value at the end of the reference period, the DG Regio Technical Branch has advised that perpetuity should be calculated. This is done by taking the discounted net operating income in the last year of the reference period and dividing it by the appropriate discount rate.
- 5.14. Whilst there may be projects where it is known/suspected at the outset that any revenues generated will not fully cover the operating costs so that there is no net revenue position, a calculation will still need to be undertaken (to comply with Article 55(2), notwithstanding that the result of the calculation would demonstrate that the funding gap would equal 100%. Even if the calculation shows that there will be no net revenue position at the end of the reference period, the project's revenue will still need to be monitored throughout the reference period to ensure that the projected revenue and operating costs were correct.
- 5.15. In addition to the above, whilst applicants may, in providing the information for the funding-gap calculation, try to minimize the potential for a project to show a net revenue position, they risk presenting an application that is financially unsustainable because the operating costs are shown to be greater than the income generated. A project must be able to demonstrate how, over the project's reference period, sources of financing (including revenues and any kind of cash transfers) will consistently match disbursements year-by-year. Sustainability occurs if the net flow of cumulated generated cash flow is positive for all the years covered by the appropriate reference period (or the project breaks even). If the operating costs are shown to be greater than the income generated the applicant may provide a financial guarantee (e.g by a Local Authority) stating that subsidies would be provided to meet any annual operating shortfall. They may also provide evidence of access to bank loans or overdraft facilities. These guarantees would need to be captured in any funding agreement (See Chapter 3 of ERDF Manual).

5.16. Funding Gap Calculation Spreadsheet

The 'formula cells' are password protected; the password is A55.



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GOVERNANCE\10. Na

6. Calculating the Net Revenue Based on Article 55(3)

- 6.1. Pursuant to Article 55(3), for projects where it is objectively not possible to estimate in advance the revenue which will be generated with a reasonable degree of confidence, there is an option to leave the calculation on net revenue until after the

completion of the project (but before programme closure) at which point any necessary deduction should be made. Article 55(3) requires that “*the actual (net) revenue generated within five years of the completion of an operation shall be deducted*”.

6.2. The maximum amount to be deducted in accordance with Article 55(3) is to be based on the relevant co-financing rate applied to the project and should not in total exceed the ERDF contribution received by the project in question.

6.3. The drafting of Article 55(3) has led to the following questions:

- At what point should the five year period commence, given the differences between capital and revenue projects; and
- How should RDAs deal with recovering any revenue generated?

6.4. Addressing the point raised at paragraph 6.3 above, as discussed at section 4 above, for capital projects the incremental revenues would be expected to come on stream when the investment is complete. This would fit with the drafting of Article 55(3). The five year monitoring period would start from completion, i.e. the point when incremental revenues are generated, and the grant recipient would be required to repay an amount equal to the net revenue generated over that five year period, adjusted by applying the co-financing rate. The example in the COCOF Guidance Note on Article 55 (at paragraph 4.3) clearly envisages a situation such as this.

6.5. However, for revenue projects the generation of revenue could occur in parallel with the investment phase of the project. Since the publication of COCOF Guidance Note on Article 55 in response to queries from Member States the Commission has clarified that the five year period for monitoring revenue could start from the point where the revenue is being generated by the project. In other words the five year period for monitoring of the revenue would occur in parallel with the investment phase of the project.

6.6. Further to the second question raised at paragraph 6.3.2 above, RDAs should take care to ensure that a project's net revenue is captured accurately. In the event of default the Commission could require re-imburement (see further below). An annual audited declaration from a person with a suitable level of authority within the grant's recipient's organisation (for example the finance director) supplying details of the net revenue (gross operating revenues less gross operating costs) generated by the project should be included as an obligation in the funding agreement. To ensure that audit certificates are reliable it is important that RDAs provide guidance for use by the beneficiaries' auditors on the scope of the work to be done and the report/certificate to be presented. Audited accounts are not an acceptable substitute for this purpose as these are intended to cover an operation's entire financial position and not simply the position in relation to net revenue.

6.7. The RDA will need to ensure measures are in place in the funding agreement to cover this potential debt. In the case of a 3 year revenue project which will be wound up at completion, the deduction could be made at the end date as this 3 years' worth of revenue would be the only revenue generated. However, it would not be possible in all cases to make the relevant deduction from the final payment of the grant at completion of the project activities. Furthermore, to comply with Article 55(3), projects would still need to carry on monitoring the revenue position for a period up to five years after completion. For a capital project where the actual revenue

generation will not start until after completion, the amount of net revenue to be deducted with the final payment of grant on practical completion would be nil.

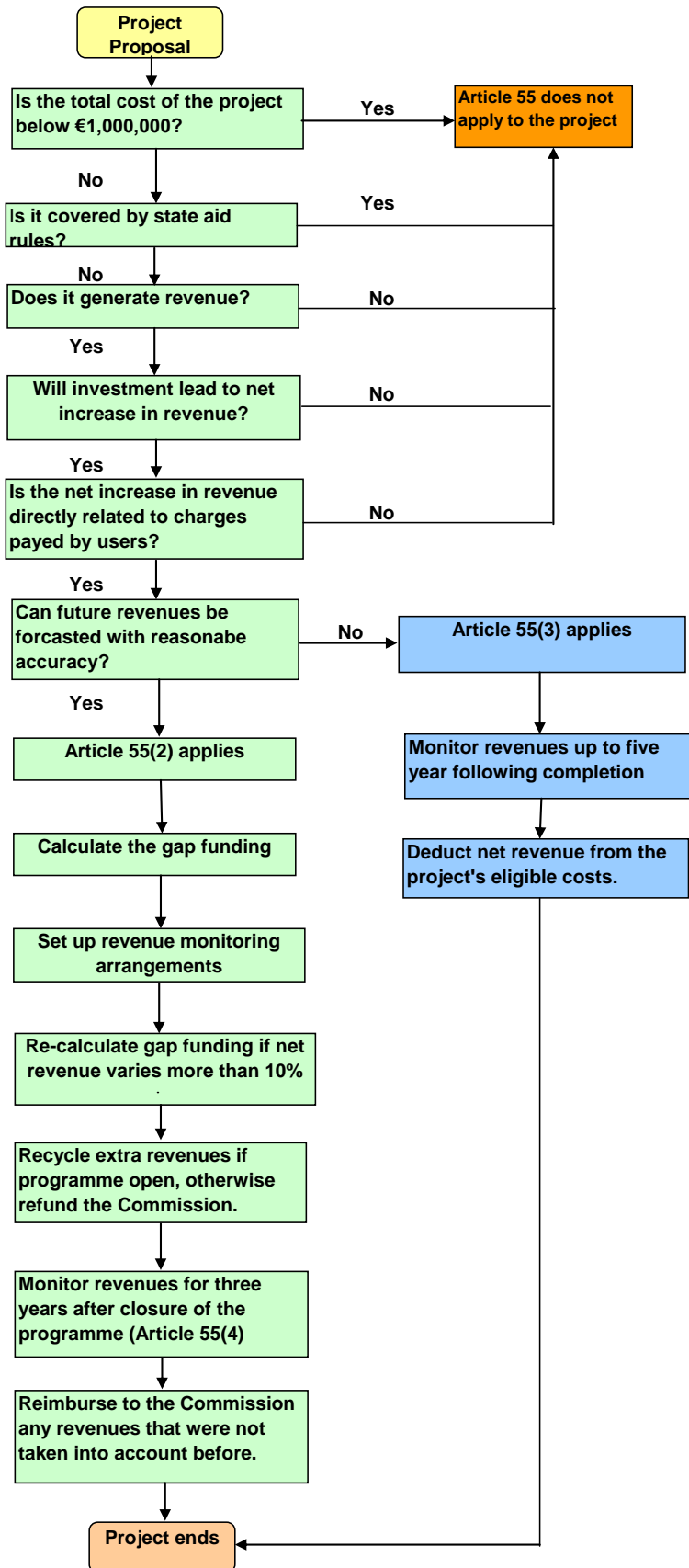
- 6.8. RDAs will have to wait for five years until after completion of a project to obtain a complete picture as to the net revenue generated. CLG recommends that in order to comply with Article 55(3) RDAs should not close projects at the end of the project activities (project completion) but should pay the 90% final grant claim at completion and retain the remaining 10% until the final audit certificate (as referred to at paragraph 6.8) is submitted by the grant recipient five years after completion. At this point, the RDA should review the net revenue generated and either release the remaining 10% or a portion thereof if there has been little to no net revenue generated, or retain the money and require additional re-imburement by the grant recipient. Please refer to the specimen Project Specific Conditions included at Chapter 3 of the User Manual.
- 6.9. There is of course always the risk that the original grant recipient may not be in existence five years after completion of the project. To manage such a risk, RDAs are encouraged to take guarantees from grant recipient's parent companies or its members where possible, and to ensure that any revenues generated are paid into a separate ring-fenced account by the grant recipient.
- 6.10. Finally, according to Article 55(3) any deduction must be made at the latest at the partial or final closure of the operational programme. If a project is undertaken towards the end of the programme, so that, for example, only 3 years' worth of net revenue can be tracked and accounted for before closure of the programme, the remaining net revenue generated will fall to be dealt with under 55(4) and, subject to the 10% tolerance (see further below in section 7) the Commission could require the revenue generated after closure of the programme to be refunded.

7. Monitoring, Refunding and Irregularities

- 7.1. The suggested methodology for monitoring revenue with projects subject to Article 55(3) is set out in section 6 above. As will be seen at paragraph 7.6 below, there is no margin of error when undertaking calculations pursuant to Article 55(3), as a project is dealing with concrete evidence rather than projected figures. Hence the importance of a proper audit trail.
- 7.2. For projects which have undertaken an Article 55(2) funding-gap calculation, the actual revenue should be compared with the original projections. If monitoring reveals important discrepancies between the revenue initially estimated and the revenue which will be actually realised, RDAs should have in place mechanisms that would allow them to readjust the grant calculation (if such a situation is discovered before the end of the project) or to recover any overpaid grant (if such a situation is discovered during the monitoring period post completion of the project).
- 7.3. It may not be practical to suggest an applicant submits annual audit reports for the full reference period or up to 3 years post closure of the whole programme (whichever occurs first). We have to bear in mind that there is a margin of error allowed by the Commission. We may decide to monitor funding-gap calculations in the same way as Art. 55(3) up to five years post completion (ie full reports), and then at that stage to take stock of what is going on. If the monitoring reveals that the revenue and operating costs are as anticipated, or they are actually making less net revenue, then an RDA may feel comfortable simply going back to check at the end of the full reference period (or just before closure of the programme).

- 7.4. Irregularities could occur where it is established, upon monitoring and review of the revenue assessed pursuant to the funding-gap method, that the revenue generated is greater than anticipated because the calculation was voluntarily underestimated. In such a case this would be dealt with in accordance with Articles 98 and 99 of Regulations 1083/2006.
- 7.5. Article 55(4) requires revenue to be refunded to the budget of the EU after closure of the operational programme where it has not been properly accounted for. Such a situation might occur because, for example, a project which anticipated a neutral position under Article 55(2) in fact returned a profit or because net revenue was not captured accurately (or not captured at all) pursuant to Article 55(3). Any refunds will be required at the latest three years after the closure of the operational programme, which is currently predicted to be 2020. In this context the Commission has confirmed that 'closure' means final closure. The Commission rejected a suggestion from the Czech Republic that the 3 year period would run from different dates where an operational programme has partial and final closure.
- 7.6. The Commission recognises that the funding-gap calculation is not a precise science and has indicated in the COCOF Guidance Note on Article 55 that if the funding-gap varies less than 10%, no compulsory refund is required pursuant to Article 55(4). No similar margin of error exists for projects subject to Article 55(3).
- 7.7. If a project has ended but the operational programme has not ended then any surplus revenue can be recycled within the programme. This is the case for projects subject to Article 55(2) or 55(3). Modalities will have to be decided between the Commission and CLG in the context of the preparation of the closure for the 2007-13 period on the most practical solution to implement these provisions with the necessity to ensure the smooth closure of the programmes.
- 7.8. RDAs should ensure an efficient yet proportionate monitoring system for revenue generating projects is put in place as soon as possible. Proportionate arrangements should not be introduced on an arbitrary basis but must be based on objective considerations, and principally on the total cost of the revenue-generating projects, the risks involved, and the track record of the beneficiary. The key requirement is the ability to detect variations in revenues in a timely manner, be able to take corrective action, and thus prevent any adverse effect on the funding of the operational programme. There should be proper contractual requirements for beneficiaries to report to RDAs up to programme closure or for a further period of three years after programme closure. The data for reporting could be on an annual basis or from short term surveys depending on the nature and size of the project. It is expected that the Audit Authority will include a sample of revenue generating projects in the annual audit of the operational programme.

Application of Article 55 - Flow Chart



Normally expected profitability observed in EU funded projects in previous rounds:

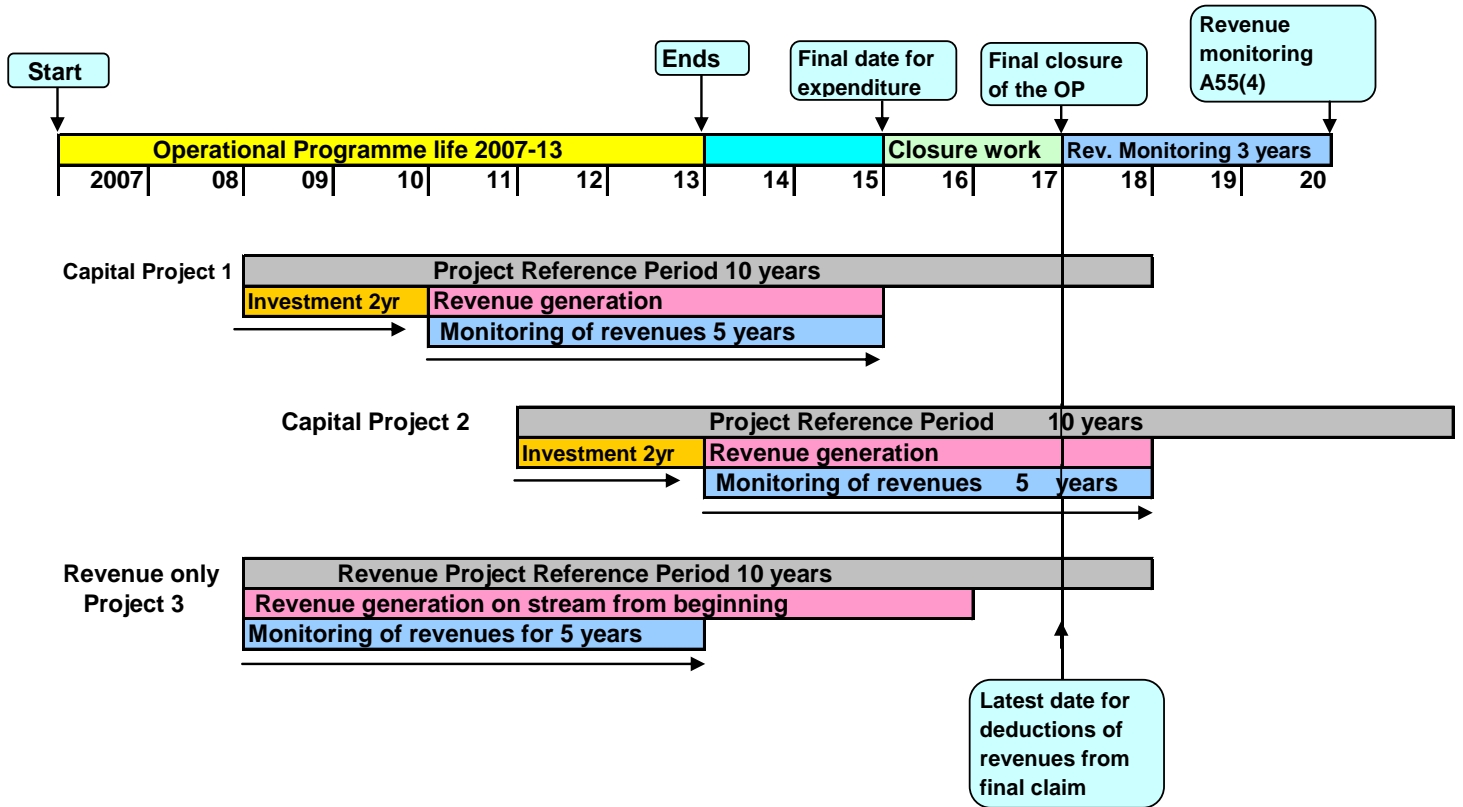
FOCUS: NORMALLY EXPECTED PROFITABILITY				
<p>Normally expected profitability of an investment is that rate of return which provides enough income to cover the inputs' opportunity cost. EU regulations designing the Funds interventions consider the profitability normally expected in order not to provide over-financing.</p> <p>For a project to require the contribution of the Funds, the net present value of the investment should usually be negative (and the financial rate of return lower than the applied discount rate). A very low or even negative financial rate of return does not necessarily mean that the project is not in keeping with the objectives of the Funds, but only that it is not viable in the financial market. For productive sector products (i.e. industry or telecom) the FNPV(C) is, however, usually positive, and specific rules apply under the State-aid regulations. High variations in profitability occur among sectors, with some sectors more profitable than others. In particular, industry projects tend to be the most profitable, while water supply and environmental protection projects have usually low profitability.</p> <p>The following table provides an example of observed FRR(C) of a (unbalanced) sample of investment projects sponsored by the European Union in the previous programming periods.</p>				
	N. of projects	FRR(C)% average	FRR(C)% Std. Dev.	Sector average / total average
Energy production ^a	2	5.10	6.20	1.6
Energy transport and distribution ^b	5	3.08	3.86	1.0
Roads and highway ^b	16	-0.75	5.13	-0.2
Railways and underground ^b	19	0.33	3.73	0.1
Ports, airports ^b	19	1.79	6.21	0.6
Water supply and waste water treatment ^b	90	0.77	6.03	0.2
Solid waste treatment ^b	31	-3.36	4.65	-1.1
Industries, other productive investments ^a	64	19.60	14.60	6.2
Other ^b	7	1.83	7.12	0.6
TOTAL	253	3.15	6.39	1.0
<p>a: 1994-1999 programming period; b: 2000-2006 programming period. For returns of ISPA projects see Florio and Vignetti (2006).</p>				

Source: Authors' calculations on available DG Regio data

Project Reference Period

Sector	Reference period (yrs)	Coverage of projects
Railways	30	Investment for the development of new or existing infrastructures. These may include new transport lines or links, or the completion of existing networks, as well as investments intended to upgrade existing infrastructures.
Roads	25	
Water	30	This covers projects dealing with supply and delivery of water as well as the collection, removal, purification and elimination of sewage, and re-utilisation of waste water.
Energy	25	<p>Projects in this sector may include:</p> <ul style="list-style-type: none"> • Construction of plants to produce electricity from renewal energy sources; • Investment directed at energy savings by improving energy efficiency; • Construction of plants to produce electricity from other sources; • Prospecting and drilling for natural gas or oil; • Energy storage transport and distribution.
Telecom.	15	<p>This sector covers communications infrastructure broadly in two categories:</p> <p>Local scale projects:</p> <ul style="list-style-type: none"> • local cabling or relay systems to extend services to areas not covered; • cabling a city, metropolitan or industrial area to provide faster, more powerful networks; • construction or modernisation of units for band switching with wider networks; • the laying of cables and construction of relay or satellite stations to link isolated areas. <p>Broader scale projects:</p> <ul style="list-style-type: none"> • the development of international communications systems, to increase the capacity, power and speed; • increasing the capacity, power and speed of inter-regional communications networks; • the technological updating of the network to enable connection with new services (eg multi-media services, portable telephones, cable television etc)
Industry	10	<p>This sector covers industries and other productive investments usually with the following objectives:</p> <ul style="list-style-type: none"> • encouraging the industrialisation of specific sectors in areas that are relatively backward; • developing new technologies in specific sectors or applying more promising technologies which require a high initial investment; • creating alternative employment in areas where there has been a decline in the existing productive structure.
Other services	15	<p>Education and training infrastructures with focus on one or more of the following:</p> <ul style="list-style-type: none"> • Basic education and vocational needs • Higher education(universities, business schools etc • Particular needs for specialisation in productive areas • Improvement of the positioning of young people in the labour market • Elimination of discrimination between social classes, genders • Better opportunities for the disabled
		Museum and cultural sites to support tourist industry or simply improve quality of life.
		Hospitals and other health infrastructures for increasing life expectancy and life quality.
		<p>Industrial zones and technological parks where the main objectives are:</p> <ul style="list-style-type: none"> • The establishment of the infrastructure for industrial zones, commercial and service areas; • The relocation of productive plants from excessive congested or polluted areas; • The setting up of new companies and supporting existing ones in a technological park.
		<p>Forest and parks projects with different objectives such as:</p> <ul style="list-style-type: none"> • Increasing the production of wood or cork for commercial or energy purposes; • Safeguarding the environment (prevention of social erosion, control of water, environmental protection) • Promotion of tourist recreational activities.

Monitoring of Revenues under Article 55(3) and 55(4)



Glossary of Terms

Current value

It is a synonym of discounted value.

Discount rate

The rate at which future values are discounted to the present. The financial discount rate may differ from economic discount rate.

Discounted value

The present value of cash expected at some time in future. To calculate the present value of a single cash flow, it is divided by one plus the interest rate for each period of time that will pass. This is expressed mathematically as raising the divisor to the power of the number of units of time.

As an example, suppose an individual wants to find the present value of £100 that will be received in five years time. There is a question of how much is it worth presently, and what amount of money, if one lets it grow at the discount rate, would equal £100 in five years.

Let one assume a 12% per year discount rate.

PV = £100 divided by 1 plus 12% (0.12) to the power 5

Since 1.12^5 is about 1.762, the present value is about £56.74.

Internal Rate of Return (IRR)

The discount rate at which a stream of costs and benefits has a net present value of zero. The internal rate of return is compared with a benchmark in order to evaluate the performance of the proposed project. Financial rate of return is calculated using financial values, economic rate of return is calculated using economic values.

Incremental Net Revenue

The net revenue arising directly as a result of the new investment.

Net Present Value (NPV)

The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected revenues.

National capital

Public and private contributions and or financial gains that do not stem from tariffs, tolls, fees, rents or any other form of charge directly borne by the users.

National Capital Profitability

It is the financial rate of return (FRRC) normally expected from the investment of national capital by sector.

Net revenue

It is the difference between total revenues and the operating costs.

Operating costs

For the purpose of calculating funding-gap these include running costs(e.g. labour, raw material, electricity), maintenance expenses and costs for the replacement of project short-life equipment. Financing costs (e.g. interest payments) and depreciation are excluded. Taxes are also ignored.

Reference Period

The reference period is the maximum number of years for which forecasts are provided. Forecasts regarding the future of the project should be formulated for a period appropriate to its economically useful life and long enough to encompass its likely mid to long term impact. The number of year usually reflects the lifetime of the investment and project cycle.

Time Horizon

This is another term for reference period.

Reference Material

Source	Available from
Chapters 2 to 4 of the ERDF User Manual	http://www.mcisproject.co.uk/documents.php
COCOF 08/0012/01-EN <i>“Information note on Article 55(6) of Regulation (EC) No 1083/2006</i>	[DCLG?]
COCOF 07/007 4/03-EN <i>“Information note to the COCOF Guidance Note on Article 55 of Council Regulation (EC) No 1083/2006: Revenue Generating Projects</i>	
EU Working Paper 4– Guidance on the Methodology for Carrying Out Cost-Benefit Analysis (the New Programming Period 2007-2013)	http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd4_cost_en.pdf
Commission’s Cost Benefit Analysis Guide 2008 - Guide to cost-benefit analysis of investment projects. Published by DG Regional Policy in 2008	http://ec.europa.eu/regional_policy/sources/docgener/guides/cost/guide2008_en.pdf

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Calculation of the contribution from the Fund

Project cash flow profile

(based on example in COCOF 07/007/4/03 -EN Guidance Note on Article 55 of 1083/2006)

Discount rate 5%	Year	Investment costs	Discounted value	Running costs	Discounted value	Revenues	Discounted value	Residual value	Discounted value	Net cash flow	Eligible cost (80%)	DEE		UDEE
												Discounted Eligible costs	DEE x (1+r) ^t (1+5/100) ^t	Undiscounted eligible costs
1.0000	0	32.00	32.0000							32.00	25.60	10.25	10.25	10.25
0.9524	1	25.00	23.8100							25.00	20.00	7.62	8.01	8.01
0.9070	2	30.00	27.2100							30.00	24.00	8.71	9.61	9.61
0.8638	3	25.00	21.5950							25.00	20.00	6.92	8.01	8.01
0.8227	4			2.00	1.65	8.50	6.9930			6.50				
0.7835	5			2.00	1.57	8.50	6.6598			6.50				
0.7462	6			2.00	1.49	8.50	6.3427			6.50				
0.7107	7			2.00	1.42	8.50	6.0410			6.50				
0.6768	8			2.00	1.35	8.50	5.7528			6.50				
0.6446	9			2.00	1.29	8.50	5.4791			6.50				
0.6139	10			2.00	1.23	8.50	5.2182			6.50				
0.5847	11			2.00	1.17	8.50	4.9700			6.50				
0.5568	12			2.00	1.11	8.50	4.7328			6.50				
0.5303	13			2.00	1.06	8.50	4.5076			6.50				
0.5051	14			2.00	1.01	8.50	4.2934			6.50				
0.4810	15			2.00	0.96	8.50	4.0885			6.50				
0.4581	16			2.00	0.92	8.50	3.8939			6.50				
0.4363	17			2.00	0.87	8.50	3.7086			6.50				
0.4155	18			2.00	0.83	8.50	3.5318			6.50				
0.3957	19			2.00	0.79	8.50	3.3635	5.00	1.9785	11.50				
		112.00	104.62	32.00	18.72	136.00	79.58	5.00	1.98		89.60	33.50		35.86
		1	2	3	4	5	6	7	8	9	10	11	12	13

Discounted investment cost (2) **DIC** 104.62
Discounted net revenue (6)+(8)-(4) **DNR** 62.83
Maximum discounted eligible expenditure **41.78**

Land needed to realise the project is equal to £24 which is more than 10% of the eligible expenditure
Therefore 10% of discounted eligible expenditure £41.78 is eligible for land costs $41.78 \times 10/100$
 $41.78 \times 10/100$ **4.18**

£19.82 of £24 is not eligible expenditure which is 19.8% of the total discounted investment costs
Therefore proportionally only 80.18% of the net revenue is eligible

Therefore Discounted eligible cost DEE = funding gap x 80.18%
 $DEE = (104.62 - 62.83) \times 80.18\%$

DEE = 33.50

Therefore discounted contribution from the Fund DG eu
 $DGeu = DEE \times Creu$ (EU co-financing rate)
 $DGeu = 33.50 \times 75/100$

DGeu = 25.13

Contribution from the Fund in non-discounted value UGeu:
 $UGeu = UDEE(13) \times 75/100$
 $UGeu = 35.86 \times 75/100$

UGeu = 26.90

Project description: The discounted investment cost of a project is equal to £100 (rounded 99.63(2)) and discounted net revenue equal to £60 (rounded 59.84) so that the maximum discounted eligible expenditure is equal to £40 (rounded 39.79). In addition purchase of land is needed to realise the project which is equal to £24. Since pursuant to Article 7(1)(b) of Regulation 1080/2006 the cost of land cannot ordinarily exceed 10% of the eligible expenditure. Pursuant to Article 55(2), because non-eligible costs are 20% of the discounted investment cost, then 20% of the net revenue should be allocated to non-eligible costs and 80% of the net revenue to the eligible cost. The EU co-financing rate is 75%.

