European Union
European Structural
and Investment Funds

Lifecycle of a Project

2014-2020 European Structural and Investment Funds Growth Programme

European Regional Development Fund
European Social Fund
Part of European Agricultural Funds for Rural Development

July 2015

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Department for Communities and Local Government

Contents

Introduction

“A single European Structural and Investment Funds Growth Programme for the 2014-2020 funding period has been set up to combine three separate European Funds. These are the European Regional Development Fund (ERDF), the European Social Fund (ESF) and part of the European Agricultural Fund for Rural Development (EAFRD).” Read more here.

1. The details of the purpose and priorities for investment from the three funds is described in the Operational Programme for each fund which can be found through the link above. Readers are encouraged to familiarise themselves with the content of the relevant Operational Programme. The Managing Authority manages each of the funds:

    a. European Regional Development Fund – Department for Communities and Local Government;

    b. European Social Fund – Department for Work and Pensions; and

    c. European Agricultural Fund for Rural Development – Department for Environment Food and Rural Affairs (Rural Payments Agency is the delivery body).

2. The information below describes the standard lifecycle of a project funded through the European Structural and Investments Funds. It focuses principally on projects supported by the European Regional Development Fund or the European Social Fund, but most of the processes and stages described are similar for the European Fund for Agricultural Development (Defra and the Rural Payments Agency will publish documentation describing the detailed processes and arrangements for this programme). [1]

3. All interested parties (applicants, local partners, administrators) should have a broad knowledge of the process, understand what they need to do at each stage and be aware of the expectations and potential pitfalls. Further information will be added over time and greater detail about each aspect is contained in the documents published on the GOV.UK website.

4. It also describes the differences between a Managing Authority call and the process for delivery through European Social Fund co-financing organisations. Other

[1] European Commission regulations refer to an ‘operation’ to describe a funded activity. In this document we use the term ‘project’ even where it is technically accurate to refer to this activity as an ‘operation’ as the term project is generally understood.

differences that will exist for certain initiatives - Financial Instruments; Sustainable Urban Development; and Community Led Local Development - will be added later.

5. The Greater London Authority is the Intermediate Body managing the programmes in London on behalf of the Managing Authority. The Greater London Authority will follow the same business process.

6. There is a standard lifecycle for European Regional Development Fund and European Social Funds projects.

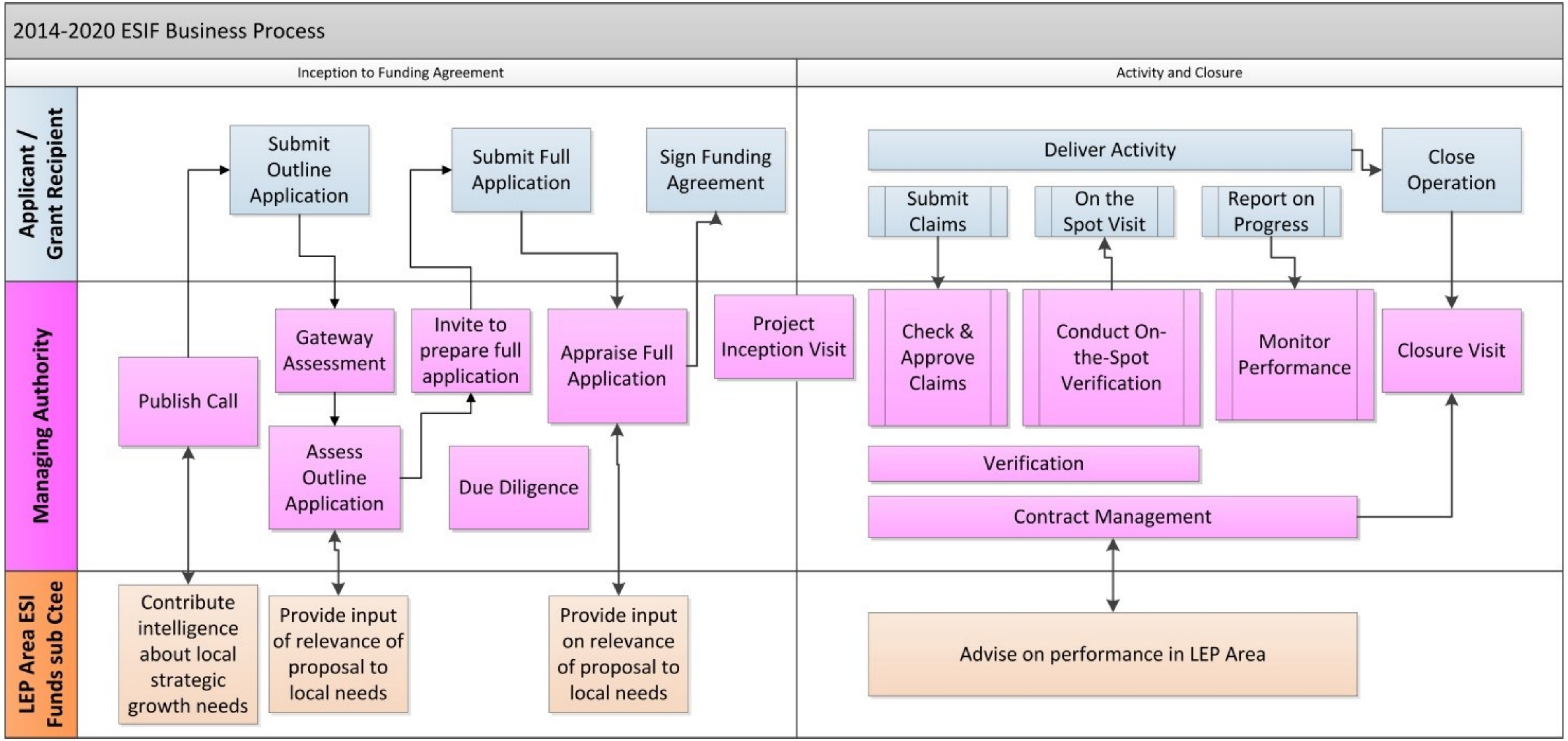
    1. **Routes in to the programme:** The standard route into the programme will be through a Managing Authority open call for applications. For some European Social Fund activity, the route in will be through an application from a co-financing organisation, which will then competitively select delivery organisations;

    2. **Application**: This involves the applicant submitting an Outline Application and then, if that is successful, a Full Application. The Managing Authority carries out an Assessment of the Outline Application and an Appraisal of the Full Application. If the application is successful at both stages, this leads to a Funding Agreement which specifies the terms of the funding;

    3. **Contract management:** This involves the grant beneficiary (the successful applicant) implementing the project activity compliant with ESIF requirements, submitting claims to the Managing Authority for reimbursement, and filing reports on activity and achievements, and ensuring that there is a clear audit trail for all eligible activities. The Managing Authority will monitor the activity through checking claims, and conducting on-the-spot monitoring visits to ensure that all the expenditure is eligible within the rules of the European Structural and Investment Funds; and

    4. **Closure:** The grant beneficiary completes the activity and all financial claims within the agreed period. The Managing Authority conducts checks that the activity has closed and all the records are accurate and in place, as audits can continue to take place for many years.

The diagram below shows the high level process.



Routes into the programme

5. In line with the high level European Structural and Investment Funds business process, there are two main routes into the programmes:

    a. Via a Managing Authority ‘call’ published on the GOV.UK website. A call is an open invitation for applicants to submit project proposals against a published specification; or

    b. Via a Co-financing Organisation (CFOs) (also called ‘Opt-ins’). CFOs are organisations selected by the European Social Fund Managing Authority that contribute match funding and deliver European Social Fund activity through others. Once they have a Funding Agreement with the Managing Authority, they will run an invitation to tender/call process to competitively select providers.

6. In time there may be slightly different routes into the programme for some other initiatives like, Financial Instruments, Community Led Local Development or Sustainable Urban Development.

Open calls

7. Applicants are invited to submit applications in response to a call. Calls are designed to bring forward a range of ideas and innovative solutions, as well as helping to ensure that the process for selecting grant recipients is open, transparent and consistent.

8. Calls for applications will be published at regular intervals through the lifetime of the programme. Calls will often specify the local growth priorities in a geographic area within the context of the Operational Programme. The Local Enterprise Partnership area European Structural and Investment Funds Sub-Committee representing local partners will contribute intelligence about local strategic growth needs and the Managing Authorities will use this information to draft calls that meet both the local needs and the requirements of the Operational Programme.

9. The call might:

- Be quite broad and open or more specific and defined to meet a particular local need or opportunity or define a geographic area in which the project or the beneficiaries should be based;
- Specify a minimum or maximum size of project – in terms of financial value or contribution to outputs or results;
- Define the duration of the project; and
- Describe the timescale for the process – e.g. closing dates.

10. Applicants need to make sure that their application meets the call specification and is written in the context of the Operational Programme. The main potential variables within calls are described below:

Budgets

11. The call may include a defined budget allocation, an indicative range or an unspecified budget. Normally an indicative range will be provided.

12. Running European funded projects involves a certain degree of administration and there are often economies of scale to be gained from larger investments which also

have been shown to have more strategic impact in the local economy. The Managing Authorities may set minimum thresholds for calls.

13. Applicants need to provide match funding, in other words the applicant must supplement the grant from the fund with other public or private money. The percentage of European Structural and Investment Funds contribution is normally 50% (intervention rate) but this depends on various factors like the funding gap, the added value of the funding and the category of region.

Duration and frequency

14. Calls may be open:

- For long periods, with projects assessed as they are submitted (‘rolling’ calls);
- For a long period, but with fixed assessment points and projects assessed in batches; or
- For defined periods, with all projects assessed at the close of the call.

Geography

15. One of the benefits of a national programme is that an activity can provide benefits to a large group of beneficiaries irrespective of their location as long as it is in England. At the same time the programme is designed to have maximum impact at a local level. As a result, the Managing Authority will work with local partners and many calls will specify the geographic location of the activity. A few principles apply:

- Beneficiaries should not be restricted in terms of where they take up provision; and
- Projects should not be restricted geographically in terms of where or to whom they provide support.

Category of Region

16. The European Union has specified categories of region based on indices of deprivation. [2]There are three categories of region based on Gross Domestic Product (GDP) per capita compared with the average GDP of the EU-27:

    a. More developed (GDP per capita is above 90%): This covers most of England. The intervention rate is 50%;

    b. Transition regions (GDP per capita between 75% and 90%): There are nine of these in England: Cumbria, Tees Valley and Durham, Lancashire, Lincolnshire, East Yorkshire and North Lincolnshire, Shropshire and Staffordshire, Merseyside, South Yorkshire and Devon. The intervention rate is 60%; and

    c. Less developed regions (GDP per capita less than 75%): Cornwall and the Isles of Scilly is the only such region in England. This means that the EC will contribute a larger fraction of spend (the "intervention rate"): up to 80%.

17. The map below shows Local Enterprise Partnership areas and the related category of region. More detailed information on Local Enterprise Partnerships can be found on the LEP Network website.

[2] The classification of regions under one of the three categories of regions shall be determined on the basis of how the GDP per capita of each region, measured in purchasing power parities (PPS) and calculated on the basis of Union figures for the period 2007 - 2009, relates to the average GDP of the EU-27 for the same reference period.

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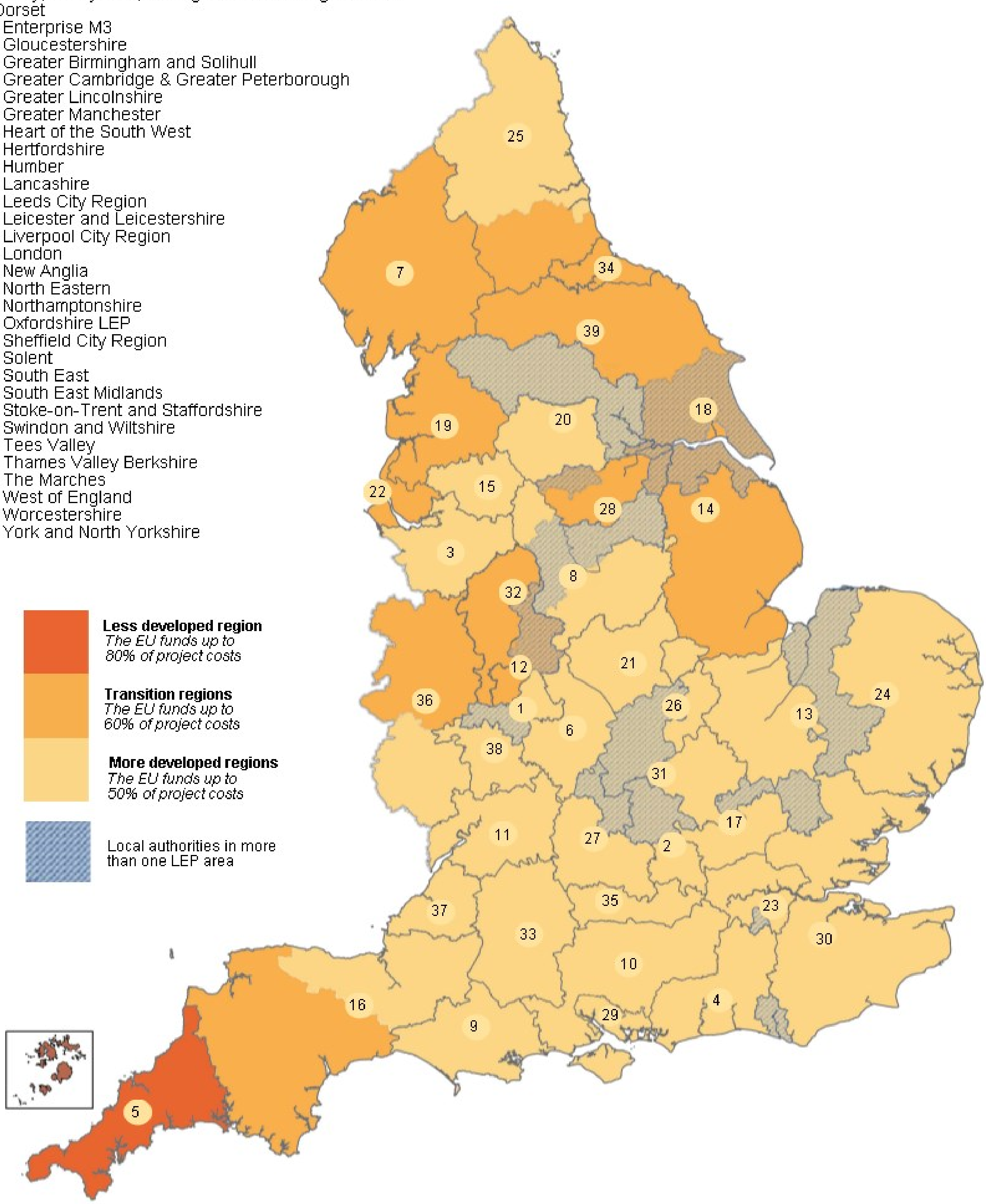
EU categories of region mapped against LEP areas in England 2014-20

1 Black Country
2 Buckinghamshire Thames Valley
3 Cheshire and Warrington
4 Coast to Capital
5 Cornwall and the Isles of Scilly
6 Coventry and Warwickshire
7 Cumbria
8 Derby, Derbyshire, Nottingham and Nottinghamshire
9 Dorset
10 Enterprise M3
11 Gloucestershire
12 Greater Birmingham and Solihull
13 Greater Cambridge & Greater Peterborough
14 Greater Lincolnshire
15 Greater Manchester
16 Heart of the South West
17 Hertfordshire
18 Humber
19 Lancashire
20 Leeds City Region
21 Leicester and Leicestershire
22 Liverpool City Region
23 London
24 New Anglia
25 North Eastern
26 Northamptonshire
27 Oxfordshire LEP
28 Sheffield City Region
29 Solent
30 South East
31 South East Midlands
32 Stoke-on-Trent and Staffordshire
33 Swindon and Wiltshire
34 Tees Valley
35 Thames Valley Berkshire
36 The Marches
37 West of England
38 Worcestershire
39 York and North Yorkshire



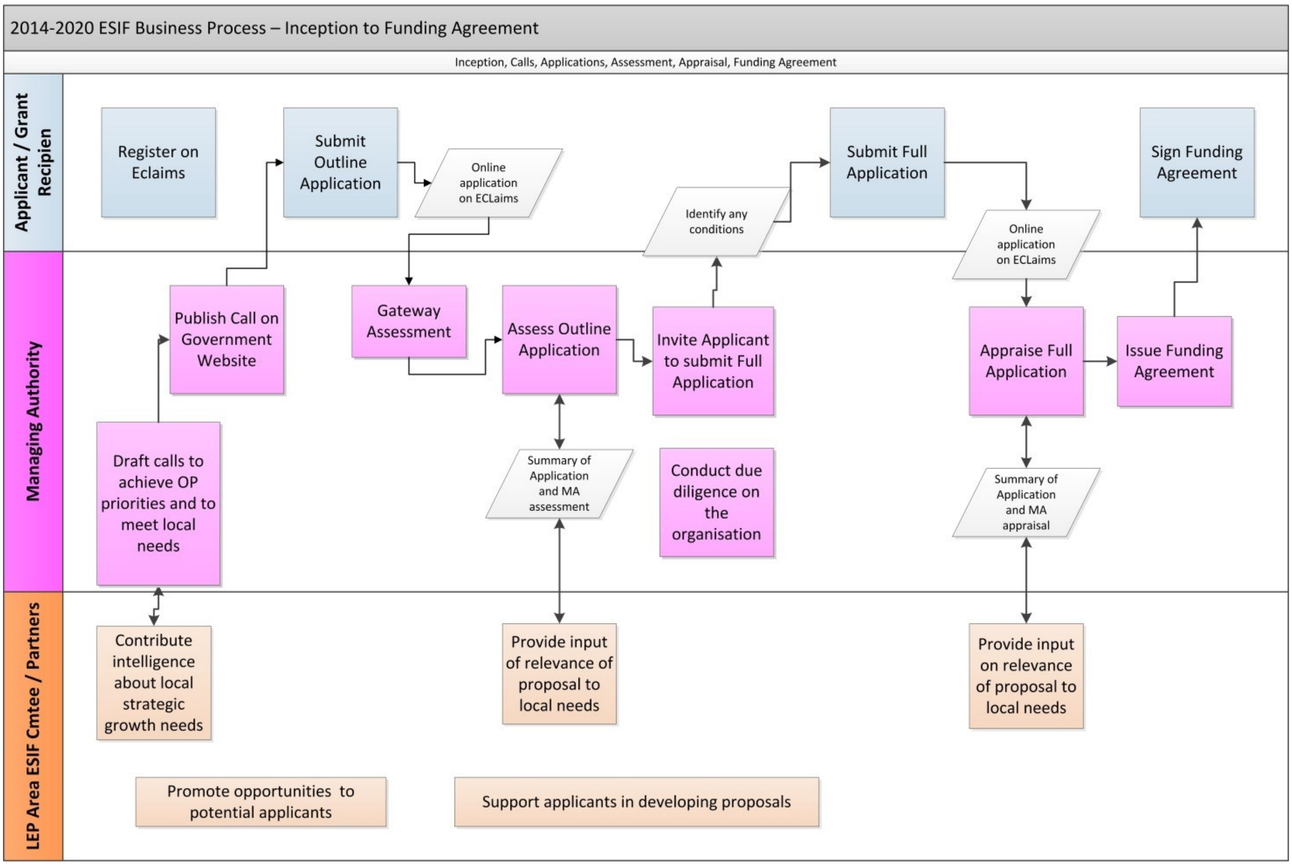
18. The European Commission views each category of region as being a programme area of its own. As a result costs and outputs need to be forecast and then tracked against the relevant category of region. (See guidance in the Eligibility Rules) The defining factor for European Regional Development Fund applications is the location of the end-beneficiary receiving the support. For European Social Fund it is where the training takes place. This has a few implications:

a. The application should anticipate the location of activities in terms of categories of region; and

b. Claims, contract management and verifications should take account of category of region and applicants should use their best efforts to forecast the likely flow across categories of region the project may cover.

Publication of calls

19. Calls will be published on our Funding Finder. The Funding Finder can be located here.



Entry via Co-financing Organisations

20. European Social Fund Co-financing Organisations (CFO), also known as Opt-in Organisations provide the required eligible match funding and use their expertise to procure, or grant fund and contract manage European Social Fund. More information on who they are and how to access funding through them can found on the Partner Information page.

The Application process

21. There is a two stage process for applying for funding following an open call – Outline Application and Full Application.

How do you apply?

22. Applications for grant funding from the European Structural and Investment Funds may only be submitted in response to a published call for proposals issued by the Managing Authorities. (See earlier note on the process and the exceptions)

23. Further details on how to submit an application and links to relevant guidance can be found on each call page published on the Funding Finder.

24. While the process is broadly similar for the European Agricultural Fund for Rural Development Programme, detailed arrangements for submitting applications differ slightly. All necessary information and guidance for applicants is available on the Funding Finder.

25. The main route for securing funding in the 2014 to 2020 European Structural and Investment Funds Growth programme is as follows.

    i. An applicant submits an Outline Application through E-CLAIMS – the on-line management information system that will support the whole programme. The applicant will need to take into account all the relevant rules and guidance in developing their proposal. The application documentation provides detailed guidance to the applicant about what to take into account in developing and application. **Note: E-CLAIMS is still under development. In the interim applicants will submit an application on the Word template available from the GOV.UK website and emailed to the email address on the published call;**

    ii. The Managing Authority will assess the Outline Application to see if it fits the main requirements of the Operational Programme and the relevant call. An initial Gateway Assessment will involve a high-level view about whether it meets the basic requirements as an eligible organisation proposing eligible activity that contributes to the priorities in the Operational Programme. Ineligible applications will be rejected at this stage. The Managing Authority will then assess the Outline Application and take advice from technical specialists where appropriate. The Local Enterprise Partnership area European Structural and Investment Funds Sub-Committee will provide advice on whether or not there is strategic fit with the needs and opportunities at a local level. The committee will understand local economic growth conditions and opportunities, within the context of both the Operational Programmes and the local European Structural Investment Funds Strategy. This means that some of the content of the application form will be shared with committee members. Where a call is over-subscribed, this discussion will also contribute to any prioritisation of applications;

iii. Due Diligence checks will be undertaken on private sector (including voluntary and community sector) organisations which have submitted Outline Applications and have satisfied the Outline Assessment and been selected to go forward to Full Application stage. Due diligence will also include confirmation of the small amend medium enterprises status of applicants where the assessor deems this relevant. Universities, higher and further education institutions which may define themselves as private sector, are exempt;

iv. If the proposal meets the requirements, the Managing Authority may invite the applicant to prepare a Full Application. Where invited to do so, the applicant prepares a Full Application;

v. The applicant will normally be expected to submit a Full Application within three months of being invited to prepare such an application. The Full Application requires more detail about the proposal the outputs, costs and anticipated outcome. It is important to get this detail correct as the Full Application constitutes part of the final funding agreement;

vi. The Managing Authority appraises the Full Application, drawing on advice and expertise as described above;

vii. If the application meets the requirements and offers the best option for the needs of the local area and Operational Programme, the Managing Authority will issue a funding agreement which sets out the terms of the grant; and

viii. Both parties sign the funding agreement and the activity may start. Eligible expenditure incurred can then be reclaimed from the Managing Authority.

Exceptions to this process

26. There are a number of exceptions to this standard call process. The co-financing route mentioned earlier has a number of key differences.

Key delivery differences for European Social Fund ‘Opt-In Process’ compared to the European Structural and Investment Funds ‘calls process’

27. Since the Opt-In organisations are the “operation” in European Social Fund terms, the fundamental principles and the core business process are the same to the ‘calls process’.

28. The key differences in the Opt-in arrangements relate to the fact that Opt-In organisations deliver European Social Fund activity through others. Once they have a Funding Agreement with the Managing Authority, they will run an invitation to tender / call process to appoint providers. Opt-ins are responsible for ensuring that these arrangements are compliant with the regulations and enable them to deliver the commitments in the Funding Agreement.

29. The key differences in governance and delivery through Opt-In organisations are:

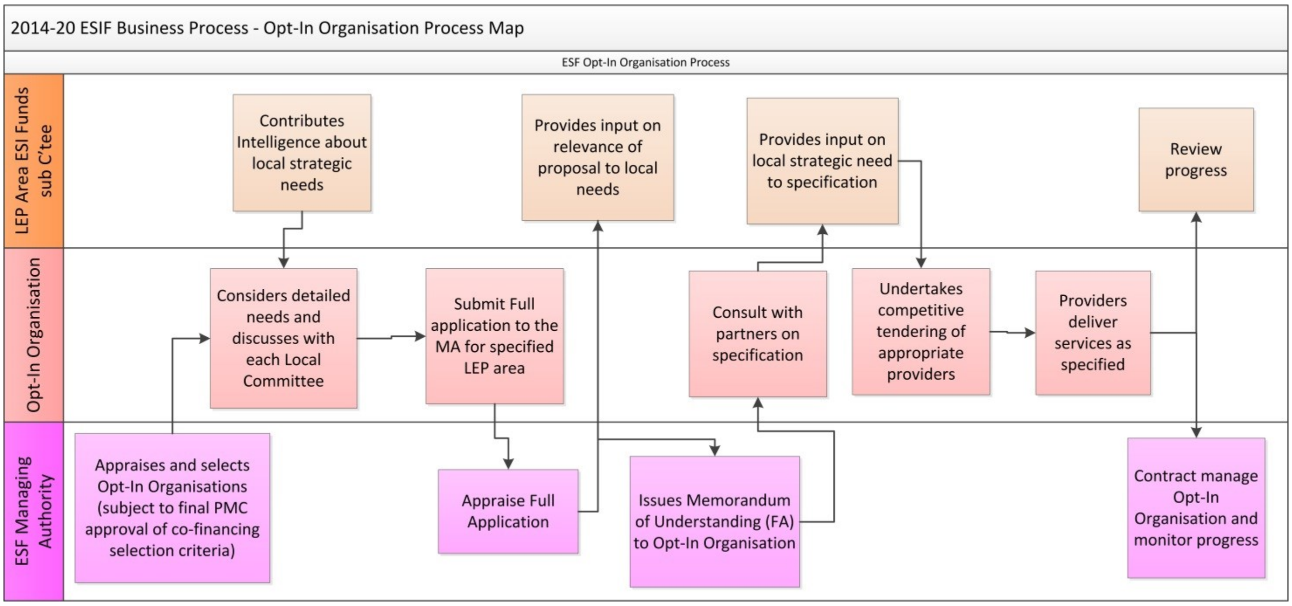
- Opt-In organisations go through a **selection process for Co-financing** first, before their status is approved by the Managing Authority;

- Active engagement between Local Partners and Opt-In organisations to support **development** of local priorities and scale/scope of Opt-In provision;

- Local Enterprise Partnership area partners may have an **agreement** with each Opt-In organisation, which sets out ways of working, including involvement in specification or project outline development;

- To reach Funding Agreement, Opt-In organisations follow a **1-stage Managing Authority grant funding application process**, rather than a 2-stage (no outline test required); and

- The **timetable for implementation** is slightly different as Opt-In organisations only launch their Invitation to Tender/Project Outline post Funding Agreement.



The National Offender Management Service (NOMS) is slightly different in that it will continue to receive a national allocation of European Social Fund funding. As a European Social Fund Co-financing organisation, NOMS uses European Social Fund to fund activities that support the reintegration of prisoners back into the workforce.

Other exceptions to this process

30. In London the Greater London Authority undertakes the functions of the Managing Authority.

31. Some activities (e.g. Community Led Local Development; Financial Instruments; European Social Fund Opt-in projects, and some activities in Core Cities linked to Sustainable Urban Development) will follow the same general process, but will have slight variations due to the nature of these initiatives.

Selection criteria and assessment and appraisal process

Outline Applications

32. The purpose of the Outline Application stage is to prevent an applicant from wasting unnecessary time developing a detailed application when some of the fundamental criteria for selection are not met.

Assessment of Outline Applications against the selection criteria

33. The Managing Authority's assessment of the Outline Application has two elements:

a) An initial gateway criteria assessment; followed by

b) An assessment against the core selection criteria, including a scoring methodology for European Social Fund oversubscribed calls.

Gateway criteria

34. These are the minimum requirements which must be met in order that any application is considered for funding support. They will be used when the Outline Application is first submitted. The applicant/application must demonstrate that:

1. They are eligible to apply;

2. The proposed project involves eligible activity; and

3. It meets the priorities set out in the call and the Operational Programme.

35. As well as meeting national criteria, the applicant must make sure their proposed project is eligible with relevant European regulations and national Eligibility Rules.

36. Once the Managing Authority is satisfied that the application has met the gateway criteria, the application will be assessed against the core selection criteria.

Core selection criteria

37. The European Regional Development Fund and European Social Fund Managing Authorities will use a qualitative approach in assessing against the selection criteria.

38. The European Social Fund Managing Authority will also use a quantitative approach.

39. The criteria are:

- Strategic fit;
- Value for money;
- Management and control;
- Deliverability;
- Compliance; and
    - Procurement
    - State Aid
    - Publicity
- Cross cutting themes
    - Gender equality and non-discrimination
    - Sustainable Development

40. The core selection criteria are the same at both Outline and Full Application stages, but more detail and evidence is required at the Full Application stage. As part of the assessment and appraisal process a score may be awarded for each Core Selection Criteria. Further information on how the Managing authorities will apply the selection criteria and ESF scoring methodology are provided in separate guidance notes.

Moving to Full Application

41. Once an application has been assessed at Outline Application and it is clear that the proposal delivers both the Operational Programme requirements and relevant local development needs and the taking account of the funds available, the applicant may be invited to prepare a Full Application. In this invitation, the Managing Authority will also notify applicants of any conditions or recommendations made at the Outline Assessment stage and the deadline for submitting the Full application, which will normally be in line with the published call criteria.

42. It is anticipated that the Full Application will build on the detail from the Outline Application. As it has already been assessed for the gateway criteria and local strategic fit, the proposal should not normally change materially in its nature or scope between this Outline and Full Application stage. The areas likely to need significant work by the applicant include: details about the delivery approach, activities and outputs, cost assumptions, procurement processes, target methodologies and State Aid treatment.

43. The Managing Authority will also notify applicants whose applications have not been selected to move to the Full Application stage.

44. Full Applications should also be submitted on E-CLAIMS. **Note: E-CLAIMS is still under development. In the interim applicants will submit an application on the Word template available from the GOV.UK website and emailed to the email address specified in the invitation letter.**

Preparing the Full Application

45. Once an applicant has been invited to submit a Full Application, the Managing Authority will appoint an appraiser for the application. This appraiser will be the primary point of contact between the applicant and the Managing Authority and will point them in the direction of any appropriate guidance or support. The Managing Authority appraiser will arrange a debrief discussion with the applicant to explain any conditions for the Full Application and explain any other relevant points from the outline stage informing applicants of areas of weakness and where further clarity is required. This may include technical queries on areas such as eligibility, procurement, state aid or budget.

46. It is the responsibility of the applicant to develop the application. They may wish to take independent advice or bring in technical expertise in developing their application. The Managing Authority will not support the applicant in explaining how

it should structure or prepare their application but will signpost applicants to potential sources of advice as queries arise.

47. The Managing Authority may set a time to receive a draft Full Application in advance of formal submission and provide some feedback to the applicant on this. Applicants will be notified if this is the case..

48. The applicant is responsible for developing the proposal and submitting the Full application by the agreed deadline via E-CLAIMS. **Note: E-CLAIMS is still under development. In the interim applicants will submit an application on the Word template available from the GOV.UK website and emailed to the email address on the published call.**

Timescales for submitting a Full Application

49. Applicants will be set a deadline for the submission of the Full Application by the Managing Authority. If there are exceptional reasons why an applicant is unable to meet the deadline, the Managing Authority may, at its discretion, extend the deadline. If an applicant fails to submit an application by an agreed deadline without justification or is unresponsive, the Managing Authority will inform the applicant that their application has been withdrawn.

The Managing Authorities' appraisal of the Full Application

50. An appraisal is a technical assessment of the Full Application against the selection criteria to ensure that the proposal is deliverable, complies with European Union regulations and other applicable law, complies with the Operational Programme, and is sufficiently well-defined to enter into a funding agreement and meet programme audit requirements within the funds available.

51. After the Full Application has been submitted, the Managing Authority will commence its technical appraisal against the same selection criteria as that of the outline stage. The Managing Authority will not re-appraise applications that are not strong enough and if this is the case, the applicant will have to submit the application under an appropriate future call.

52. The Full Application proposal should not materially change from the successful Outline Application. Should the Managing Authority consider something has changed significantly from the outline stage, the Managing Authority will make an assessment as to whether it is appropriate to allow the application to proceed or whether to inform the applicant that the application is no longer satisfactory. This

includes significant changes in the outputs and results the project will deliver. This becomes particularly important where a proposal has come through a competitive call and been prioritised against other proposals at the Outline Assessment stage. If, in order to get through the Outline Application stage, the Managing Authority suggested conditions that needed to be fulfilled by the applicant, the Full Application and appraisal will reflect how the conditions have been taken into account. In all these circumstances, the Managing Authority will make an assessment about how to proceed as described above.

53. The Local Enterprise Partnership area European Structural and Investment Funds Sub-Committee will provide advice on local economic growth conditions and opportunities within the context of Operational Programmes and the local European Structural Investment Funds Strategy to aid the Managing Authority's assessment at Outline and Full Application stage. The Managing Authority will draw in other expertise and apply a scoring methodology as required. (e.g. Lawyers, procurement practitioners, Quantity Surveyors, Other Government Departments).

54. The applicant will have the opportunity within the application to highlight any commercially sensitive data which it feels should be withheld from partners or other interested parties. The Managing Authority will have regard to the Freedom of Information requirements.

Funding agreement

55. The funding agreement is the formal agreement between the Managing Authority and the applicant. It is a legally binding agreement and it sets out the terms of the grant.

56. The Managing Authority will write to successful applicants notifying them of its decision to accept or reject an application and any proposed conditions of investment. The Managing Authority will work through the terms and any conditions which must be discharged prior to entering into the funding agreement with the applicant. It should be noted that a positive decision at this stage is not a guarantee of funding. It can take time for the conditions to be discharged before the funding agreement can be signed.

57. When the Managing Authority is able to issue the funding agreement, it will send two unsigned copies to the applicant. The applicant will sign and return both copies for counter-signature by the Managing Authority and one copy will be sent back to the applicant. Only when both parties have signed the funding agreement will the project commence and the grant recipient may start to incur expenditure.

Contract management

58. This signing and acceptance of a Funding Agreement marks the start of the Contract Management process. After this point the Applicant is referred to as the Grant Recipient. Once a Full Application has been appraised and been selected by the Managing Authority to move towards a Funding Agreement, the Managing Authority will appoint a contract manager.

59. This contract manager will be responsible for ensuring that the pre-funding agreement conditions are discharged prior to entering into a legally binding Funding Agreement with the Grant Recipient. If this results in a change to any aspect of the Full Application (e.g. financial profile, project activity, agreed targets) the contract manager will maintain an audit trail to explain any discrepancy between the Full Application and the figures in the Funding Agreement. Discharging pre-Funding Agreement conditions should be a relatively quick process with the intention to move towards a live project status as soon as possible. However, there are some instances where there can be lengthy discussions or processes required in order to satisfactorily discharge these conditions. This could result in substantial delays to the start of the project. The Managing Authority will set a deadline for discharging these conditions - normally three months. If the deadline is missed, the Managing Authority reserves the right to withdraw the offer of European Structural and Investment Funds funding; the Local Enterprise Partnership area European Structural and Investment Funds Sub-Committee will be kept informed of any such instances.

60. Once the Funding Agreement is signed the Managing Authority will continue to work with the Grant Recipient. This relationship is critical to the success of the project both for compliance and delivering maximum economic and social impact. The approach to contract management will vary with the frequency and intensity of contact with the grant recipient negotiated depending on the complexity of the activity, the size of the grant and the experience and capacity of the organisation. The Managing Authority will expect to have a progress visit or conversation at most quarterly and at least annually.

61. The Managing Authorities for European Regional Development Fund and European Social Fund will work cooperatively to provide a joined up service to partners and grant recipients. The different funds need a clear audit trail back to the individual fund, with separate Funding Agreements and separate claims and reporting. Where an project is receiving monies from more than one structural fund, the Managing Authorities will agree a lead contract manager who will be the “relationship manager” with the Grant Recipient and who will then liaise with

colleagues across the appropriate managing authorities. In general, unless a particular specialism is needed, the relationship manager will be from the Managing Authority contributing the largest share of the funding to an project.

62. Where the activity covers more than one Local Enterprise Partnership area, or the applicant is the recipient of a number of different grants in different Local Enterprise Partnership areas, the Managing Authority will aim to appoint one contract manager so that there is a single point of contact.

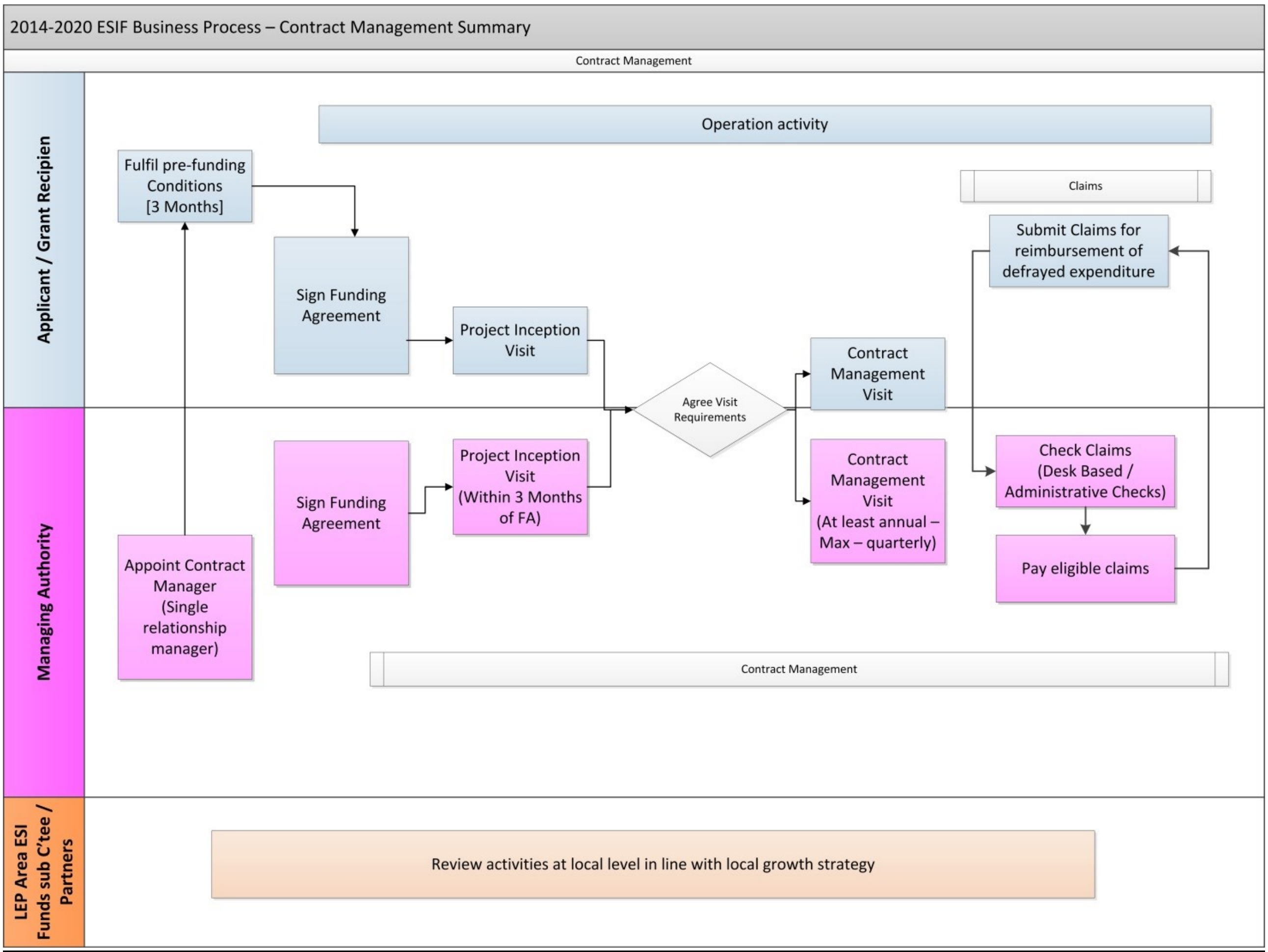
63. Grant Recipients may submit Project Change Requests throughout the life of the project and the Managing Authority will review all such requests prior to deciding whether or not to approve them. Where a change request impacts on; the level of funding, the objectives or the targets that an project is seeking, or looking to achieve, depending on the scale, it may be referred back to the Local Enterprise Partnership area European Structural and Investment Funds Sub-Committee for their advice. There is no automatic right for a Change Request to be approved – the final decision rests with the Managing Authority.

64. The Managing Authority may also instigate a Project Change Request, for example where performance or expenditure falls significantly below forecast profiles.

Contract management process

65. There are a number of different parts of the contract management process – contract management, submission and payment of claims, monitoring and verification, and audit. The purpose is to make sure that the grant recipient is delivering the activity, making claims, achieving outputs and making the required progress to deliver the desired outcome. The Managing Authority will not manage the project but is focussed primarily on compliance, with the aim to identify any problems as early as possible and ensuring the economic outcomes are achieved. The later problems are uncovered the more work it creates for everyone.

66. Every project will be risk rated and this risk rating will influence the frequency and intensity of the compliance checks. The risk rating will be reviewed regularly through the process.



Project Inception Visit

67. The purpose of the Project Inception Visit (PIV) is to test the preparedness of the Grant Recipient to manage the project in a way that is compliant with EUROPEAN Structural and Investment Funds requirements and to give the Grant Recipient an opportunity to seek clarification on any issues. The PIV is for the benefit of both the Managing Authority and the Grant Recipient and should ideally include the operational staff delivering the project. The visit should take place as soon as possible after the Funding Agreement has been signed. This would normally take place within 3 months. Following the PIV meeting, the contract manager will agree the regularity of subsequent progress meetings.

68. Most projects receiving European Agricultural Funds for Rural Development funding will also have a PIV depending on the amount of grant offered and the complexity of the project.

Claims

69. European Structural and Investment Funds is generally paid in arrears, the exception being some investment capital is paid in advance for Financial Instruments. The whole process will be managed electronically through E-CLAIMS.

70. The Managing Authority will specify the claims period. This will normally be quarterly but in some circumstances could be monthly. The Grant Recipient will forecast their claims over the lifetime of the project. It is important that the profile is a reasonably accurate reflection of forecast claims as this will be used to monitor performance of the project.

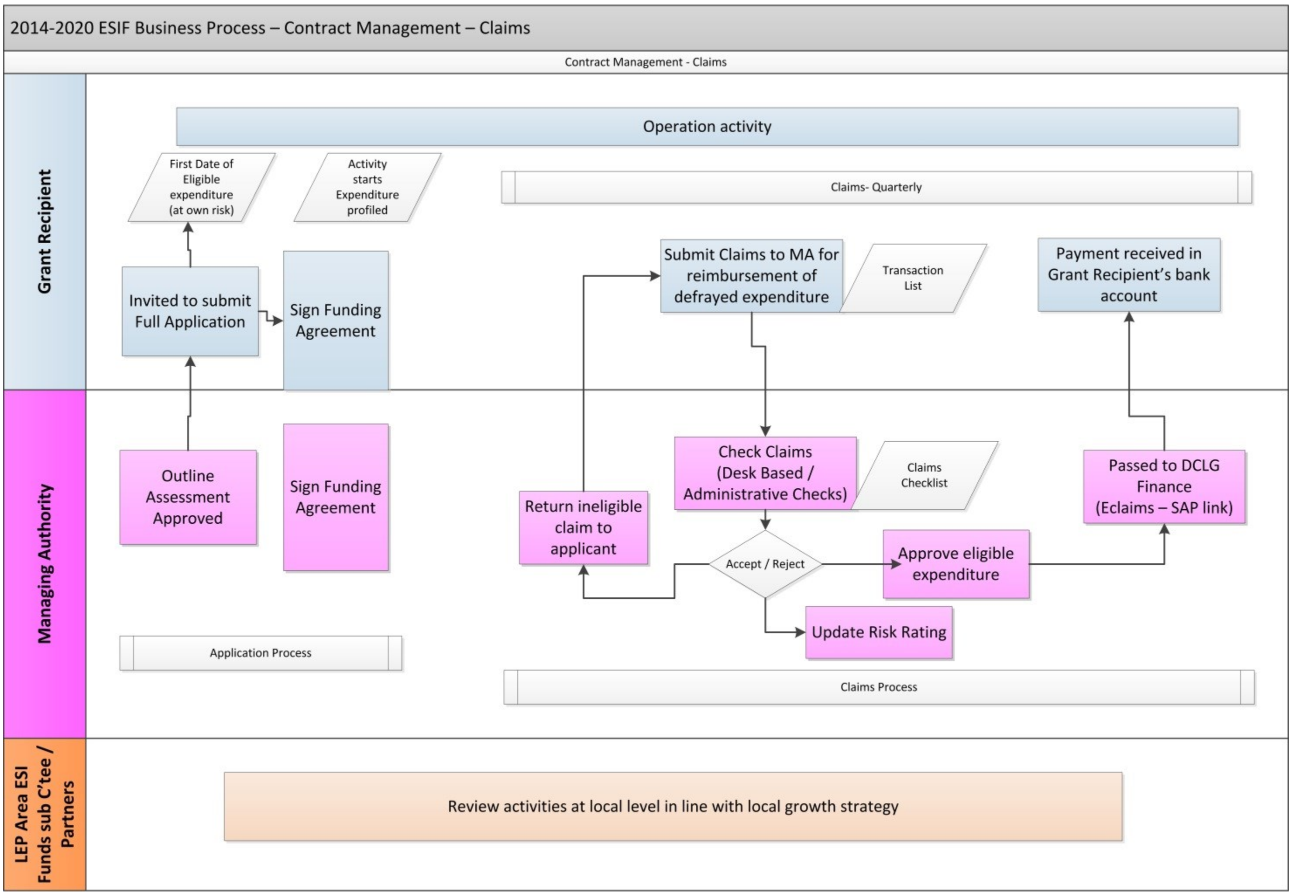
71. The grant recipient will then submit claims to the Managing Authority. This claim will be checked by the Managing Authority. The claims checker will identify a sample of the claim transactions and undertake a more rigorous assessment of these transactions. This will require the grant recipient to provide additional evidence.

72. If problems are identified the Contract Manager will work with the grant recipient to correct the issue. If the claim has to be returned, the grant recipient would amend and resubmit an amended version of the claim.

73. Once cleared, the approved payment will be submitted to the Managing Authority finance team for payment to the Grant Recipient.

74. With each claim, the Grant Recipient will also be required to provide additional information about the progress of the activity, variation from forecast expenditure and outputs, report on outputs and/or results achieved, state aid and any changes to the activity including information on any new procurements. This is part of the progress monitoring of the activity.

75. European Agricultural Funds for Rural Development funding is also paid in arrears. The number of claims to be submitted by the grant recipient will depend on the nature and scale of the project.



On-the-spot verification visit

76. All projects will be randomly sampled for on-the-spot verification visits. A member of the verification team (not the contract manager) will conduct an in-depth on-site visit to check expenditure and compliance with contractual conditions. The sample will be drawn from the forecast claims and then will test some of the most recent claims.

77. For the European Regional Development Fund, all projects will receive an on-the-spot visit at least once on their lifetime and many projects will receive a visit annually. The frequency of on-the-spot visits will be determined by the risk rating of projects.

78. For co-financing organisations the sample of projects to be visited will be drawn from the latest claim.

79. Projects supported through European Agricultural Funds for Rural Development will receive a once in a lifetime on-the-spot inspection normally prior to payment of the final claim. These inspections are conducted by the Rural Payment Agency's Rural Development Team on behalf of the Managing Authority.

Monitoring and audit regime

80. As stated before, all projects are subject to extensive audit. The earlier any problems are detected the better. It is relatively easy to correct and resolve issues early but once these have been detected in the audit process it becomes much more complicated. There are different levels of scrutiny and the impact increases at each level.

    a. The Grant Recipient is required to have strong controls and own up to any financial errors in their projects. The Managing Authority should be notified of any financial or compliance errors identified by the grant recipient through submission of the self-declared adjustment form;

    b. Management Controls (Claims Checks) – The Managing Authority will sample claims and test that the underlying evidence demonstrates that the expenditure is regular;

    c. Management Controls (On-the-Spot verification visits) – The Managing Authority conducts in-depth checks on selected claims;

    d. Assurance Checks – The Certifying Authority conducts a sample of checks on expenditure before submitting claims to the European Commission for reimbursement;

    e. Audit Authority (Project audits) – The Audit Authority (An independent body - Government Internal Audit Agency) conducts audits of projects based on a sampling methodology;

    f. Audit Authority (Systems Audits) – The Audit Authority conducts audits of the functioning of the whole system. Based on these two sets of audits, they report to the European Commission following defined rules. This Annual Control Report states an error rate for the functioning of the whole programme. The European Commission deems an error rate of over 2% to reveal weaknesses in the system which can result in loss of grant to the programme;

    g. European Commission Audit – The European Commission has the right to audit operations and systems (including Audit Authority) at any stage in order to gain assurance about the functioning of the control system; and

    h. European Court of Auditors – The European Court of Auditors auditing the functioning of the system (including EC Audit) across the whole of the European Union. They might select to visit an operation.

81. In all these processes, the verification and audit is independent of the contract manager, but the contract manager plays an important role in preparing the Grant Recipient for these visits, understanding the expectations and following up actions arising. The likelihood of these audits being incident free is significantly increased where the grant recipient has actively engaged with the contract manager, submitted regular detailed claims and worked with the contract manager to identify potential errors before they have occurred rather than trying to minimise the impact after they have occurred. Establishing an environment where the Grant Recipient feels able to share information freely, test ideas and initial thinking, and work collaboratively with the Managing Authority is the fundamental basis for a compliant and effective Programme.

82. Projects supported through European Agricultural Funds for Rural Development will be subject to independent socio-economic inspections from the Rural Payment Agency's Inspectorate. These audits will be selected on a risk and random basis annually covering at least 4% of the eligible expenditure declared to the European Commission each year.

Irregularities

83. The Managing Authority has an obligation to ensure that all of the expenditure it claims from the European Commission is regular and in compliance with the regulations governing European Structural and Investment Funds. In the event that any irregular expenditure is identified within a project claim, either by the contract manager or during any of the compliance checks or audit visits, the contract manager will work with the grant recipient to try and resolve this where possible. If it is not possible to resolve the issue the Managing Authority will instigate clawback of the irregular grant by offsetting this amount against future claims, or by issuing a demand note to the Grant Recipient.

What are irregularities?

84. Irregularities can arise from any expenditure that does not meet Eligibility Criteria, European Union or National Law or Regulations.

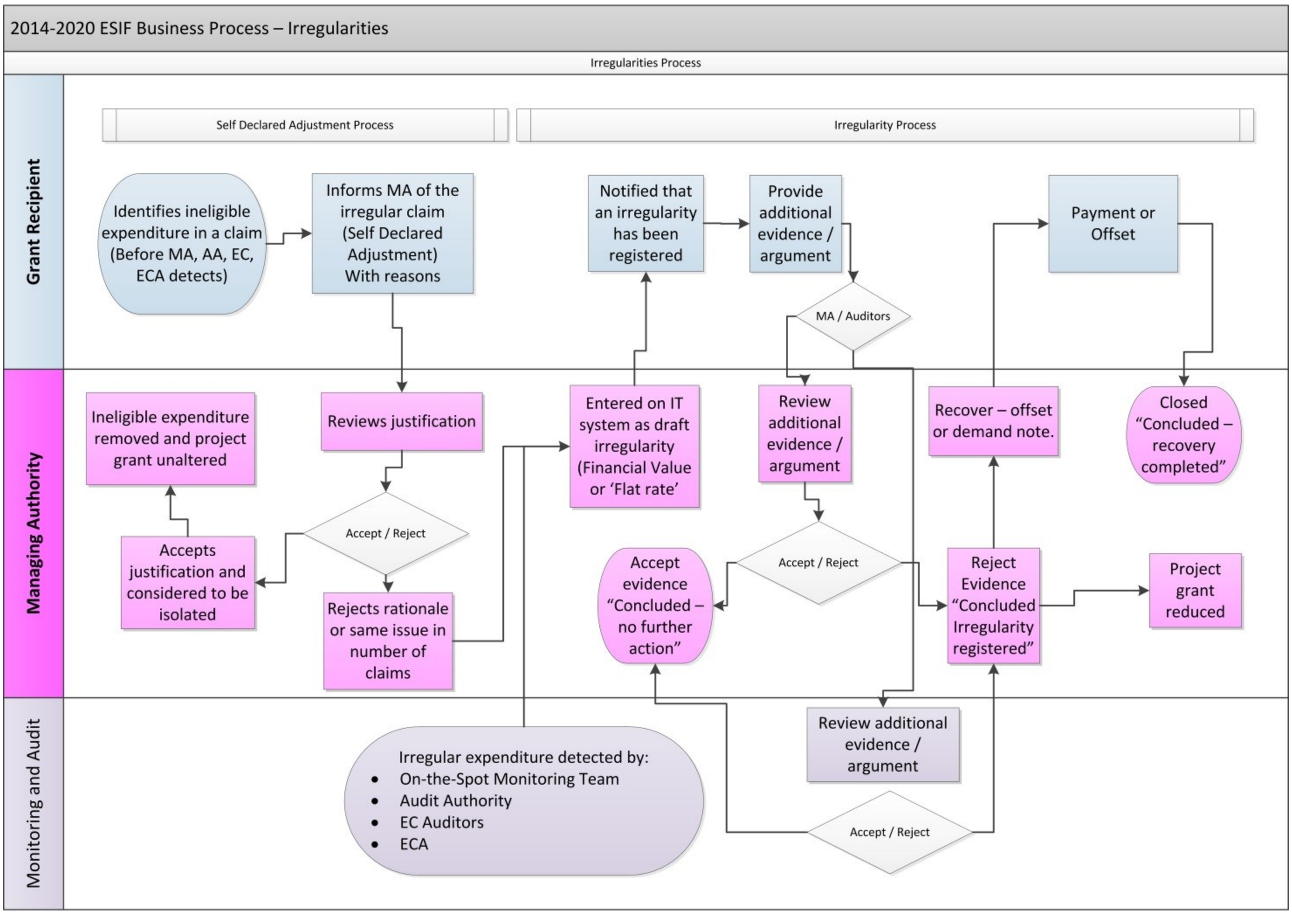
85. They are issues discovered after payment of the claim by the Managing Authority, Certifying Authority, Audit Authority, European Commission Auditors (DG Regio/DG Emploi/DG Agri) or European Court of Auditors.

86. Once an irregularity has been identified it will be recorded – for a fixed financial value or as a flat rate (percentage across all related expenditure – possibly including past and future expenditure). The grant recipient will have an opportunity to provide evidence to show that the expenditure is regular and if the Managing Authority accepts this they will reject the irregularity.

87. If no evidence is provided or the evidence is not sufficient, the Managing Authority will report the irregularity as concluded and start to recover the money from the applicant, either as a deduction from future claims or through issue of a demand note. This money is lost to the project forever.

Self-declared adjustments

88. Any issue detected by the grant recipient and notified to the Managing Authority after payment of the claim but prior to detection or selection within an audit sample by the Managing Authority, Certifying Authority, Audit Authority or European Commission Auditors can be submitted as a self-declared adjustment. The grant recipient should notify the Managing Authority immediately once they are aware of an issue with an explanation about why the mistake has occurred. The Managing Authority will assess this and if satisfied with the explanation, this will be recorded as a self-declared adjustment. Although the ineligible expenditure will need to be repaid, the project does not lose any grant in this circumstance.


2014-2020 ESIF Business Process – Irregularities
Irregularities Process
Grant Recipient
Managing Authority
Monitoring and Audit
Self Declared Adjustment Process
Irregularity Process
Identifies ineligible expenditure in a claim (Before MA, AA, EC, ECA detects)
Informs MA of the irregular claim (Self Declared Adjustment) With reasons
Notified that an irregularity has been registered
Provide additional evidence / argument
MA / Auditors
Payment or Offset
Ineligible expenditure removed and project grant unaltered
Reviews justification
Entered on IT system as draft irregularity (Financial Value or 'Flat rate'
Review additional evidence / argument
Recover – offset or demand note.
Closed "Concluded – recovery completed"
Accept / Reject
Accepts justification and considered to be isolated
Rejects rationale or same issue in number of claims
Accept evidence "Concluded – no further action"
Accept / Reject
Reject Evidence "Concluded Irregularity registered"
Project grant reduced
Review additional evidence / argument
Irregular expenditure detected by:
On-the-Spot Monitoring Team
Audit Authority
EC Auditors
ECA
Accept / Reject

Project closure

89. The final stage in the life cycle of an European Structural and Investment Funds operation is project closure. The detail of this process will be published at a later date but the key lessons learned is that if the project is tightly managed from the beginning closure is relatively easy but if the management of the project is less well managed more closure can be a significant burden and create costs for the grant recipient.

Document retention

90. All projects are required to retain documents for a period after the activity has ended and these should be kept in an acceptable format so that they can be inspected by auditors. The grant recipient will be informed of this retention period at the end of the project. The period is dependent on the date at which the final claim is submitted to the Managing Authority so the retention period will be unique to each project and this period cannot be specified at the outset.

91. The rule is that all documents must be retained for 2 years after the submission of the annual accounts in which the final expenditure for the project is included. The accounts are contained in the Annual Control Report which is submitted to the Commission each year by the Audit Authority. The Audit Authority will be working on a July to June year and will submit the Annual Control Report in the February of the following year. The 2 year retention period will start from the 31 December of the year in which the Annual Control Report is submitted that includes the final payment from the Managing Authority to the grant recipient in respect of the project.

92. Note that documents might have to be retained for longer periods if other conditions apply which dictate a longer retention period, for example State Aid Schemes, revenue generating activities, economic lifetime of an asset or other accounting rules. Further guidance will be published in due course.