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Action Note

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Introduction of additional ESF Direct Staff Costs Methodology for ESF Projects

Who

ESF Applicants, ESF Grant Recipients, including Co-Financing Organisations, ESF Managing Authority, Greater London Authority, IBs.

What

The current ESF Programme Guidance and ESF National Eligibility Rules set out the existing methodologies that can be used by ESF Projects when calculating and claiming ESF Direct Staff Costs.

With effect from 1st July 2019, the ESF Managing Authority is introducing a new, additional ESF Direct Staff Costs Simplified Cost Option methodology for individuals who work part of their time on an ESF Project and who work a fixed percentage of time on that ESF Project per month.

This Action Note sets out details of the new methodology.

For completeness this Action Note also confirms the other, existing ESF Direct Staff Cost methodologies which will remain in place alongside the new option.

The ESF Managing Authority are working to update the full suite of existing ESF guidance products and forms impacted by this change.

In the meantime, this Action Note can be used as formal guidance by ESF Applicants, Grant Recipients, Managing Authority and Intermediate Bodies.

Cleared

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Background

Regulatory basis for the new Simplified Cost Option staff costs methodology

1. Article 68a (para 5) of the EU Omnibus Regulations (PE-CONS 13/18) explains that staff costs for those members of staff who work part of their assigned hours on an ESF operation may have their staff costs calculated as a fixed percentage of their annual gross employment costs where they work a fixed percentage of time on the operation per month. Under this arrangement the employer has no obligation to establish a separate working time registration system (timesheet). However, the employer is required to issue appropriate documentation setting out the percentage of time that the individual will work each month. In light of the above regulation, the ESF MA for England has decided to adopt this additional methodology with effect from Monday 1st July 2019.

2. It should be noted that use of the new, additional methodology is not mandatory.

3. Existing ESF Project Grant Recipients may request adoption of the new methodology for relevant staff at any time from 1st July 2019 onwards. Requests to adopt the new methodology should be made in advance of any claims being submitted based on the new Simplified Cost Option as per the 'Project Change Request' section of this Action Note.

4. Existing and new ESF Applicants may include this new option as part of their granular budget and ESF Project financial forecasts for brand new applications. If their Full Application is already in appraisal, any request should be discussed and agreed with the appraiser before amendments are made to any financial documentation.

ESF Direct Staff Cost Methodologies

5. Listed below are the current, acceptable ESF methodologies which can be used to calculate ESF Direct Staff Costs.

Existing ESF Direct Staff Cost Methodology 1: Staff working 100% of their contracted time on the ESF Project.

6. For staff working full time or part-time and who spend 100% of their contracted / assigned hours on the ESF operation then costs will be claimed based on annual gross employment costs.

Examples:

- College A employs Ms Smith on a part time basis (40 hours per month) and she spends 100% of her assigned time (all 40 hours) on ESF Operation A.

The college claims actual salary costs (see ESF Programme Guidance)

- Local Authority B employs Ms Hussain on a full time basis (144 hours per month) and she spends 100% of her assigned time on ESF (i.e. all 144 hours per month / 1872 hours per year). The local authority claims actual salary costs (see ESF Programme Guidance)

Existing ESF Direct Staff Cost Methodology 2: Staff working part of their time on an ESF Project but for variable hours each month and where the applicant responded to an ESF open call published on or after 17 March 2016 or where:

- The applicant submitted their ESF Technical Assistance (TA) application as part of a joint ESF/ERDF TA operation and the ESF Managing Authority agreed the applicant could adopt the new 1720 hourly rate calculation;
- The applicant submitted an ESF (stage 2) Community Led Local Development (CLLD) application as part of an ESF and ERDF multi-fund operation or where a mono-fund application was submitted.

7. Under this methodology, staff who are required to work less than 100% of their contracted hours on an ESF operation - **but whose hours of work on ESF will vary each month** should have their hourly wage rate calculated based on a set annual gross employment costs figure, using the 1720 calculation method set out in the ESF Programme Guidance and ESF National Eligibility Rules published on GOV.UK. For example:

- Local Authority E employs Mr Jones on a full time basis. His contract of employment requires him to spend time on an ESF project and an ERDF project run by the council. He will be required to work for different periods of time each month for each project. A timesheet will be required to record how long he spends working for each project and to ensure that the local authority can check to ensure that Mr Jones does not exceed more than 100% of his total contracted hours on the two ESIF projects. The staff costs are calculated using 1720 hourly wage rate calculation and timesheet.
- College F employs Ms Smith on a part-time basis (1040 hours per year). She will be required to work for the college delivering education classes as well as help-out on the College's ESF project as and when required. This means she will be spending less than 100% of her contracted hours on ESF. Her hours working on the project will vary from month to month. The College will require her to keep a timesheet and her ESF staff costs will be calculated using an hourly rate (1720 staff costs calculation) along with the staff timesheet.

8. It is likely that the 'unit costs' (hourly rate) for staff employed under staff cost 'method 2' will appear to be higher than for staff paid under method 4 arrangements. However, it should be borne in mind that method 2 already factors in annual leave and also involves the completion and retention of additional documentary evidence such as timesheets.

Existing ESF Direct Staff Cost Methodology 3: Staff working part of their time on an ESF Project but for variable hours each month and where the applicant applied for their original ESF Funding under Versions 1 and 2 of the ESF National Eligibility Rules.

This includes ESF Projects who responded to open calls published up to 16 March 2016 where they do not meet the criteria for using the newer 1720 hourly rate methodology.

9. Under this methodology, if a staff member is working full-time but only working part of their time on ESF the following calculations should be used:

- work out how many hours they work in a year. This is 52 weeks multiplied by 5 days, less the number of days of annual and public holidays they are entitled to, multiplied by the number of hours they work each day; and
- Divide their **actual** annual salary by the number of hours worked as above to establish their hourly rate.
- Claims for ESF should then be based on the number of hours worked on ESF multiplied by the hourly rate.

New ESF Direct Staff Cost Methodology 4: Staff working less than 100% of their total contracted time on ESF with a fixed percentage of time worked on the ESF Project per month

10. For staff who fall into this category, a flat rate percentage of their **actual** gross employment costs per month can be claimed. This percentage has to be in-line / consistent with the percentage of time spent each month on that ESF Project. For example:

- ESF Provider C employs Mr Jordan on a full-time basis but he works a fixed 50% of his time each month on the ESF Project. This means that Provider C can claim 50% of Mr Jordan's monthly gross employment costs as ESF Direct Staff Costs. His payslip shows that his monthly gross employment costs are £1,500.
 - 50% (fixed percentage of contracted hours/time spent on ESF Project) x £1,500 (total actual monthly gross employment costs) = £750 (total ESF Direct Staff Costs that can be claimed per month).
- ESF Provider D employs Ms Singh on a part-time basis of 30 hours per week. Of this she works a fixed percentage of 40% of her time on the ESF Project. This means that Provider D can claim 40% of Ms Singh's monthly gross employment costs as ESF Direct Staff Costs. Her payslip shows that her monthly gross employment costs are £1,000.
 - 40% (fixed percentage of contracted hours/time spent on ESF Project) x £1,000 (total actual monthly gross employment costs) = £400 (total ESF Direct Staff Costs that can be claimed per month).

11. Under this methodology, timesheets do not need to be completed or submitted as evidence when making claims under this staff cost method.

12. However, projects must put in place the following documentation and be able to produce this as supporting documentary evidence against any ESF Direct Staff Costs claimed under this methodology as and when requested by the Managing Authority or other audit body.

13. A contractual document from the employer to the employee confirming the fixed percentage of time they will work on the ESF Project each month. This could be a document such as:

- an HR letter;
- a Job Description; or
- a contract of employment; or
- another contractual document issued by the employer to the employee.

The contractual document must clearly explain the fixed percentage of time the staff member will spend on the ESF project per month (see Annex 1).

If a staff member will be working for more than one ESF Project a single contractual document can be used to set out the fixed percentage of time the individual will spend on each ESF Project per month, ensuring the combined total does not exceed 100% of their total overall contracted hours.

14. Evidence of the actual gross employment costs used to calculate the monthly ESF Direct Staff Costs for that individual.

15. This will need to be provided to the ESF Managing Authority and/or Auditors on request in each case.

New 'Fixed Percentage' Staff Costs methodology - action to be taken at key stages of the ESF project lifecycle.

16. The new 'Fixed Percentage' staff cost methodology has implications for key stages of the ESF programme. This Action Note explains what action needs to be taken to implement the new staff cost methodology at each key stage.

Project Application / Appraisal

17. In addition to the evidence and explanations needed for other existing staff cost methodologies, at the project application / appraisal stage the Managing Authority will need to understand:

- how any proposed 'fixed percentage' staff costs have been calculated for job roles where that methodology applies;
- the financial controls that the project has put in place to prevent any 'over-claiming' of staff costs for individuals working across more than one ESF Project; and
- sample evidence of the contractual document that has been/will be put in place as supporting evidence for individuals where the Fixed Percentage rate methodology is to be used, ensuring this is compliant with the requirements in this Action Note.

18. All ESF project applicants are required to prepare and submit **a granular budget** for their ESF project as part of their ESF Full Application. This document must list all job roles applicable to the ESF Project, including the specific ESF Direct Staff Costs methodology being applied to each individual job role for the ESF Project – across the lead Grant Recipient organisation and any delivery partners.

19. A sample granular budget template is available on GOV.UK – although projects can design their own. If using their own granular budget template, applicants must ensure it contains at least the same level of information and detail as the GOV.UK sample template.

20. If a project is successful in obtaining ESF funding, the staff/job roles list and associated staff costs information per job role will act as a 'Master List' against which any financial claims for ESF Direct Staff Costs will be checked.

21. Any changes to the staff costs for one or more roles in the 'Master List' should be reported by the Applicant/Grant Recipient to the Managing Authority before any costs are incurred against any amended staff cost calculations/rates.

22. Applicant projects will need to provide a sample of the contractual document to be used for any staff who will be subject to the new 'Fixed Percentage' methodology, as part of their 'supporting documentation' for their application. Applicants will need to make sure that their HR letter and Job Description etc. meets requirements set out in Annex 1 so that it will meet the new requirements that will apply to staff cost method 2 method 2 - as well as the staff cost methods 1 and 3. Annex 1 of this action note lists key information that needs to be covered in the HR documentation.

Project Inception Visit (PIV) Stage

23. In addition to the current checks undertaken at the PIV stage of the project lifecycle, with the introduction of the new 'Fixed Percentage' methodology the Managing Authority will also:

- check if a new project is expecting to retain or change any of the staff costs methodologies set out in their granular budget at the application/funding agreement stage;

- If so, the MA will request a new 'Master List' of all job roles for the ESF Project with the relevant, up-to-date staff costs methodologies reflected.
- double-check that appropriate paperwork is in place that is likely to meet requirements under future audit.

24. Where the new 'Fixed Percentage' methodology is being used for one or more job roles in that ESF Project, undertake a sample check of at least one case to ensure the fixed rate calculation is being applied correctly and is understood by the Grant Recipient.

25. Any findings relating to the use of the new 'Fixed Percentage' methodology should be documented in the PIV report and any issues identified addressed as part of the usual PIV action points resolution processes.

Claims Stage

26. As per current ESF Programme processes for financial claims, the Managing Authority will conduct DBEC checks based on the existing sampling processes.

27. Where the Managing Authority Desk-Based Evidence Check includes ESF Direct Staff Costs which relate to an individual where the new 'Fixed Percentage' methodology has been applied, the Grant Recipient will need to provide:

- a) a copy of the contractual document which confirms the fixed percentage of time per month the employee is working on the ESF Project;
- b) a copy of the payslip and any other documents where necessary which show the actual gross employment costs which have been used to calculate the ESF Direct Staff Costs for the selected transaction line.

28. As the 'Fixed Percentage' methodology is a Simplified Cost Option, there is no requirement for defrayal evidence or timesheets for these specific cases.

Article 125 On The Spot Visit (OTSV) Checks

29. As per current ESF Programme processes, the Managing Authority will conduct On-The-Spot Visits based on existing processes and checklists.

30. Where the Managing Authority On-The-Spot Visit checks include ESF Direct Staff Costs which relate to an individual where the new 'Fixed Percentage' methodology has been applied, the Grant Recipient will need to provide:

a) a copy of the contractual document which confirms the fixed percentage of time per month the employee is working on the ESF Project;

b) a copy of the payslip and any other documents where necessary which show the actual gross employment costs which have been used to calculate the ESF Direct Staff Costs for the selected transaction line.

31. Again, as the 'Fixed Percentage' methodology is a Simplified Cost Option, there is no requirement for defrayal evidence or timesheets for these specific cases.

Project Change Requests

32. If an existing Grant Recipient wishes to adopt the new 'Fixed Percentage' methodology for one or more of their current employees, the Grant Recipient will first need to email their ESF Contract Manager explaining which job roles they would like to switch over to the new calculation and from which date. The Grant Recipient should provide a full, updated 'Master List' of all job roles for their ESF Project as part of their email request – again, this document must list all job roles applicable to the ESF Project, including the specific ESF Direct Staff Costs methodology being applied to each individual job role for the ESF Project – across the lead Grant Recipient organisation and any delivery partners.

33. The Grant Recipient should also provide confirmation in the same email of the overall expected impact on their ESF Project costs – for example, will their overall total project costs increase as a result of the change and, if so, by how much.

34. The Contract Manager will then consider whether a formal Project Change Request (PCR) form needs to be completed by the Grant Recipient – for example, if the impact on total ESF Project costs is likely to exceed tolerances which will then trigger the need for a formal PCR or whether, if the proposed change is within tolerances, they can agree the changes via email.

35. In all cases the Contract Manager must ensure the staff cost details in the new, proposed 'Master List' are correct and based on eligible and acceptable ESF Direct Staff Cost methodologies set out in this Action Note, the ESF National Eligibility Rules and the ESF Programme Guidance.

36. Once all relevant change action has been taken, the Contract Manager must notify the Grant Recipient of the outcome of their request – either via the Funding Agreement/MOU Variation process if the change has been managed via a formal PCR or via an email if it is below PCR tolerances.

37. A copy of any revised 'Master List' should be stored in the Contract Manager files to support future claims and OTSV checks.

Action

38. New or existing ESF Applicants to consider whether use of the new 'Fixed Percentage' methodology could be applicable to their current and/or future applications for ESF funding.

39. Existing Grant Recipients to consider whether they want to request a switch to the new 'Fixed Percentage' methodology for any of their current ESF Project staff who fulfil the eligibility criteria.

40. ESF Managing Authority staff, including Intermediate Bodies, to take action as per this Action Note for any new or existing ESF Projects requesting use of the new 'Fixed Percentage' methodology.

Contact

41. If you have any questions about this Action Note please contact ESF.2014-2020@DWP.GOV.UK

Annex 1

HR Letter / Job Description / Contractual Documentation Requirements

- All staff must have a HR letter / job description / or other contractual documentation.
- Either singularly, or as a combination, the documentation **MUST** state that:
 - The post is ESF – funded.
 - Include the date that the post is funded from.
 - Explain whether or not the person will be spending all or part of their time on the ESF project.
- If the staff member is only spending part of their time on the ESF project, explain whether or not they will be working for:
 - a set % of time each month (and state the percentage and number of hours this will be per month) or
 - variable % of time each month (also see ESF Programme guidance on 1720 hourly rate calculations and timesheet requirements).
- The documentation must clearly state what other ESIF / EU-funded projects the person may be working on (if he/she is only working for part of their time on ESF) – projects and explain the total number of hours they will be expected to work on ESIF / EU programme funded projects.
- The documentation must have the ESF or ESIF logo.
- The Job Title in the documentation must match the job title in the latest organogram provided to the ESF Managing Authority for your project.
- If your project is a YEI Project, the documentation must include a YEI specific strapline, as detailed in the Branding and publicity requirements for the 2014 to 2020 European Regional Development Fund and the European Social Fund published on GOV.UK.