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Community-led Local Development Strategies: Additional Guidance for Accountable Bodies

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Guidance for the Development of Community-Led Local Development Strategies
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Contents

1. Background
2. Accountable Body Responsibilities
 - 2.1. Supporting the Local Action Group
 - 2.2. Facilitating project applications
 - 2.3. Project assessment and approval
 - 2.4. Dispersal of grant funding
 - 2.5. Audit and verification

1. Background

The Department for Communities and Local Government, in its capacity as the Managing Authority for the European Regional Development Fund and the Department for Work and Pensions, in its capacity as the Managing Authority for the European Social Fund, have jointly invited the submission of Community-led Local Development Strategies.

Each Community-led Local Development Strategy must identify a Local Action Group and an Accountable Body. This guidance provides additional information on the responsibilities of an Accountable Body.

The Local Development Strategy must include confirmation that the Accountable Body has agreed to undertake this role. The Managing Authorities acknowledge that the timetable for the production of the Local Development Strategy may not align with the governance arrangements of potential accountable bodies. For example it may not be possible for the presumptive accountable body to review the strategy and fully consider its role in the short period between drafting the Local Development Strategy and its submission to the Managing Authorities. In such circumstances the Managing Authorities will accept evidence that the presumptive accountable body is prepared to undertake the role in principle. In such circumstances any approval of the Local Development Strategy will be conditional upon formal confirmation of the Accountable Body.

You may also wish to refer to the Managing Authorities' guidance on Community-led Local¹ Development on gov.uk and the European Commission's guidance on Community-led Local Development².

2. Accountable Body Responsibilities

The Accountable Body is responsible for ensuring the effective operation of the Local Action Group and investing European Regional Development Fund and or European Social Fund monies in a programme of activity to deliver the Local Development Strategy.

¹<https://www.gov.uk/government/publications/european-structural-and-investment-funds-community-led-local-development>

²http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_community_local_development.pdf

The Accountable Body is responsible for the submission of the stage 2 funding applications for European Regional Development Fund and or European Social Fund support. A separate application will be required for each fund if both funds are to be used to implement the Local Development Strategy. The stage 2 funding applications must set out in detail how the Accountable Body will discharge its responsibilities.

The Accountable Body must ensure that European Regional Development Fund and or European Social Fund monies are spent in accordance with the relevant funding agreement and national eligibility rules. The National Eligibility Rules³ for each fund and examples of the funding agreement template⁴ (to which the Managing Authority may add further project specific conditions) can be viewed on the .GOV.UK website.

The Accountable Body is responsible for ensuring that the European Regional Development Fund outputs and or European Social Fund outputs and results agreed in the funding agreement are achieved.

The Accountable Body's primary responsibilities are in the following areas:

- supporting the Local Action Group
- facilitating project applications
- project assessment and approval
- dispersal of grant funding
- monitoring and verification

2.1 Supporting the Local Action Group

The Accountable Body must ensure that the Local Action Group has the necessary skills, capacity and information it needs to operate effectively. The Accountable Body will normally employ staff appointed to work directly and indirectly with the Local Action Group. For example:

- a local development manager or project manager to ensure the strategy is taken forward
- local development workers supporting local partners to bring forward and implement local projects
- staff providing a secretariat function to the Local Action Group

³ <https://www.gov.uk/government/publications/european-structural-and-investment-funds-eligibility-documents>

⁴ <https://www.gov.uk/government/publications/european-structural-and-investment-funds-funding-agreements>

- staff undertaking the financial and administrative functions necessary to effectively and compliantly manage the dispersal of the European Regional Development Fund and or European Social Fund investment

The Accountable Body is responsible for ensuring the Local Action Group operates in accordance with the funding agreement(s) with the Managing Authorities and its terms of reference.

There may be instances where the Accountable Body and local partners feel it is appropriate for another organisation to employ staff and or deliver certain functions. Delivery partner or sub-contracting arrangements are permissible providing that they are compliant with public procurement and state aid regulations. The Accountable Body remains accountable to the Managing Authorities and bears the financial liability.

The costs incurred by the Accountable Body in managing the Local Action Group and implementing the investment needed to deliver the Local Development Strategy are an eligible cost for European Regional Development Fund or European Social Fund support. These **costs may not exceed 25% of the total amount of public expenditure** incurred in delivering the Local Development Strategy. These costs must be based on the actual costs incurred, it is not a flat rate 'management fee'. These costs will be claimed from one of the managing authorities and should only be included in one of the Stage 2 applications i.e. the application to either the European Regional Development Fund or European Social Fund.

European Regional Development Fund or European Social Fund expenditure is classed as public sector expenditure for the purposes of establishing the total amount of public expenditure incurred in delivering the Local Development Strategy. The **total amount of Public Expenditure** equals the value of the **European Regional Development Fund and or European Social Fund expenditure plus any other public sector expenditure** incurred in delivering the Local Development Strategy, this includes any funding from public sector sources that is used to deliver local projects and provide management and administration support to the Local Action Group.

Example of the calculation of management and administration costs	
Total ERDF & ESF Spend (a)	£2,000,000
Total other Public Expenditure (b)	£1,500,000
Total Public Sector Expenditure (c)	£3,500,000
Total private Sector Expenditure (d)	£500,000

Total Expenditure (e)	£4,000,000
Maximum spend on Management and Administration (c X 0.25)	<u>£875,000</u>

Funding from private sector sources is eligible to be used as match funding to deliver any aspect of the strategy. But this does not count towards the figure which the allowance for management and administration costs will be based.

The 25% allowance will be based on the total eligible public expenditure claimed in the European Regional Development Fund and European Social Fund grant claims to the Managing Authorities. If at the end of the delivery period the Accountable Body's management and administration costs exceed 25% of the total public expenditure the total eligible management and administration costs will be reduced to bring them in line with the 25% threshold. This may require the Accountable Body to reimburse grant paid to it by the Managing Authority.

2.2 The Accountable Body's role in facilitating project applications

The Accountable Body is responsible for ensuring that all sections of the community can participate in the delivery of the Local Development Strategy. This includes activities that raise awareness, stimulate local interest and generate ideas and projects. Effective animation is vital in ensuring that under-represented groups can engage with and benefit from the Local Development Strategy.

The Managing Authorities expect that the Local Development Strategy will be pursued through the creation of local grant schemes managed by the Accountable Body. The Accountable Body is therefore responsible for:

- implementing an application, approval and payment process agreed by the Local Action Group
- operating that process in an open and transparent way
- ensuring the process is proportionate to the level of funding and risk involved
- creating appropriate materials (e.g. application forms and guidance, assessment materials, funding agreements and grant claims) to implement the process
- publicising the availability of funding
- undertaking animation activities to enable all sections of the community to access funding

It is for the Local Action Group and Accountable Body to establish any minimum or maximum thresholds for local projects. The Managing Authorities do not intend to establish thresholds, but would advise Local Action Groups and Accountable Bodies to consider the potential management and administration costs associated with high volumes of small projects.

The application, approval and grant claim process must be outlined in the Local Development Strategy and detailed in the European Regional Development Fund and or European Social Fund stage 2 full applications. The Managing Authorities do not intend to prescribe the process or the materials that should be used, but would advise Local Action Groups and Accountable Bodies of the need to balance rigour in approach with the community led nature of the activities and the value of the funds involved.

If appropriate the Accountable Body may develop materials that allow the applicant to apply for funding for a project from both the European Regional Development Fund and or European Social Fund. In such cases the Accountable Body must ensure that appropriate controls are in place to ensure expenditure from each fund is only used to meet costs that are eligible for support from that fund and that both funds can be accounted for separately and in line with the respective funding agreement.

If appropriate the Accountable Body may develop materials that allow the applicant to apply for funding from the European Regional Development Fund and or European Social Fund and another local funding stream that would provide the match funding. For example the applicant would apply at the same time and on the same materials as they use to apply for a local community development fund.

If the Accountable Body employs staff who are directly supporting local organisations to develop or deliver project proposals these staff should not be involved in the assessment and approval of related projects or in the approval of grant claims (see also fig. 1 below).

2.3 The Accountable Body's role in project assessment

The Accountable Body, on behalf of the Local Action Group and in line with its agreed processes, is responsible for the assessment and formal approval of projects and for establishing a funding agreement with the recipient of the funding. The Local Action Group will decide which projects it wishes to support; these will be considered

to be formally approved when a funding agreement is agreed between the Accountable Body and the local grant recipient.

The European Regional Development Fund and or European Social Fund Managing Authorities will have no involvement in the assessment and approval of local projects.

The Local Action Group must establish project selection criteria and these should be applied to all projects funded by the European Regional Development Fund and or European Social Fund. Only projects that meet the selection criteria may be approved.

The selection criteria must be applied by the Accountable Body and ensure that:

1. the activity and associated expenditure is eligible for European Regional Development Fund or European Social Fund support as set out in:
 - a. the relevant European Regional Development Fund or European Social Fund Regulations and National Eligibility Rules
 - b. The relevant Operational Programme
 - i. European Social Fund activity must be in line with Investment Priority 1.5 of Priority Axis 1 of the European Social Fund Operational Programme⁵
 - ii. European Regional Development Fund activity must be in line with Investment Priority 9d of Priority Axis 8 of the European Regional Development Fund Operational Programme⁶
2. the activity would support the delivery of the objectives of the Local Development Strategy
3. the activity represents value for money in the context of the Local Development Strategy
4. the project proposer has the capacity to deliver the proposal

⁵ <https://www.gov.uk/government/publications/european-social-fund-operational-programme-2014-to-2020>

⁶ <https://www.gov.uk/government/publications/draft-european-regional-development-fund-operational-programme-2014-to-2020>

5. the project proposer has appropriate management and control systems in place to manage the grant funding in a compliant way
6. the project is compliant with:
 - a. European Regional Development Fund and European Social Fund regulations and national rules
 - b. **State aid and public procurement regulations. N.B** the accountable body must ensure that **procurements undertaken by the grant recipients are compliant** with the Managing Authorities' procurement requirements⁷
 - c. European Regional Development Fund or European Social Fund publicity requirements⁸
7. the activity makes a positive contribution to the European Regional Development Fund or European Social Fund cross cutting themes of
 - a. Gender Equality and Non-discrimination and
 - b. Sustainable Development

These are the minimum that the Managing Authorities require. It is for Local Action Groups and Accountable Bodies to agree the local selection criteria and they are responsible for ensuring they are applied in a rigorous manner that is proportionate to the scale, complexity and risk associated with local projects.

The Accountable Body must ensure that there is openness and transparency in the design of project selection criteria, the assessment of project proposals and the selection of projects.

The Accountable Body must retain documentary evidence (see section 2.5) demonstrating that all projects have been assessed against the selection criteria.

This selection criteria and associated processes must be outlined in the Local Development Strategy and detailed in the European Regional Development Fund and or European Social Fund stage 2 full applications.

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/514119/ESIF-GN-1-001_Procurement_Law_ESIF_Guidance_Note_V3.pdf

⁸ <https://www.gov.uk/government/publications/european-structural-and-investment-funds-programme-guidance>

In order to maintain financial probity and mitigate the risk of fraud the Accountable Body must separate key functions at a project level. This separation must ensure that:

- the person that assesses a project does not approve it⁹
- the person who has checked a grant claim does not authorise payment of the claim
- the person who has approved a project does not also authorise payment of associated grant claims

The person that assesses a project may review grant claims in respect of that project however, they cannot approve the project or authorise the claim. Similarly someone may approve one project and authorise the payment of claims on another. This basic separation of functions requires a minimum of three people to be involved in the process.

Fig 1. Project level separation of functions

Role	Project Assessment	Project Approval	Review Grant Claims	Authorise Payment
Project Assessment		No	Yes	No
Project Approval	No		Yes	No
Review Grant Claims	Yes	Yes		No
Authorise Payment	No	No	No	

The Accountable Body is responsible for establishing a funding agreement with each local project. It is for the Accountable Body to determine the format and terms of the agreement and to ensure it allows the Accountable Body to discharge its responsibilities under the funding agreement agreed between it and the Managing Authority.

2.4 The Accountable Body's role in dispersing grant funding

⁹ In this context 'approve' means authorise the formal agreement between the Accountable Body and the local grant recipient.

The Accountable Body is responsible for paying European Regional Development Fund and or European Social Fund directly to the local grant recipients. The amount paid must be based upon the actual costs incurred by the grant recipients in delivering the approved project.

The Accountable Body will be liable for any expenditure it cannot evidence and justify and for any costs that are found to be ineligible for European Regional Development Fund or European Social Fund support. This means that if the Managing Authority determines that any costs incurred by local projects are not eligible for European Regional Development Fund or European Social Fund support the Managing Authority will recover the relevant amount from the Accountable Body. It is then for the Accountable Body to determine whether it wishes to pursue the local grant recipient. The Managing Authority has no direct relationship with the local grant recipients and will not seek to recover funds directly from them.

The amount paid by the Accountable Body should be supported by a grant claim from the grant recipient that sets out the amount of total expenditure incurred and the amount being claimed from the Accountable Body. The grant claim must be accompanied by evidence that costs have been incurred (copies of invoices/pay roll) and evidence that the grant recipient has defrayed the costs (copies of bank statements).

Evidence must be collected covering 100% of the total costs included in the grant claim to the Accountable Body. This evidence may be in the form of certified copies, however as part of routine monitoring the Accountable Body should test a sample of costs against original paper work; it is for the Accountable Body to establish an appropriate sample. Any costs that are not evidenced will be ineligible for European Regional Development Fund or European Social Fund support.

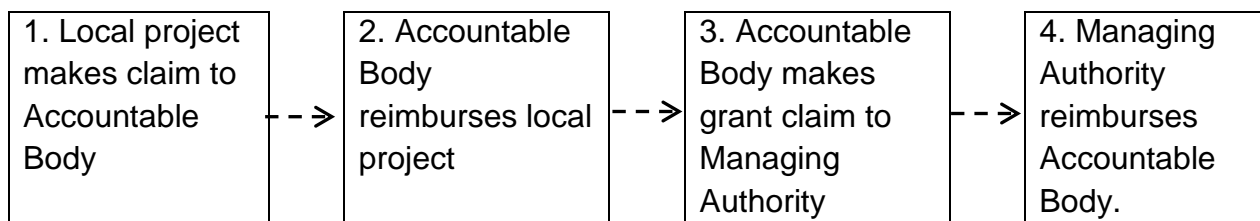
The Accountable Body's grant claims to the Managing Authority must only include:

- costs that have been defrayed by the local grant recipients and for which the accountable body has evidence
- costs defrayed by the local grant recipients against which the Accountable Body has reimbursed European Regional Development Fund and or European Social Fund monies

The Accountable Body must have paid European Regional Development Fund and or European Social Fund to the local grant recipient prior to including costs in its claim to the Managing Authority, see fig.2:

Fig 2. Sequence of grant claims

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The Accountable Body may pay European Regional Development Fund and or European Social Fund to local grant recipients in advance. These costs may only be claimed from the Managing Authority when the Accountable Body has evidence that the local grant recipient has defrayed the expenditure. If evidence of defrayal cannot be secured the costs will be ineligible for European Regional Development Fund or European Social Fund support.

It is for the Accountable Body to determine the cycle and frequency of local grant claims and payments. The process should be commensurate with the scale, complexity and community led nature of the projects and reimburse projects in a timely manner.

The Managing Authorities expect to receive a quarterly claim from the Accountable Body and these will form the basis of monitoring and performance management. Within its grant claim to the Managing Authority the Accountable Body must report the breakdown of match funding between public and private sector sources. This will be used to monitor the value of public expenditure incurred in delivering the strategy, against which the 25% ceiling on management and administration costs will be calculated.

In determining whether an organisation's match funding is public or private:

- non-profit making voluntary and community organisations, whether incorporated or unincorporated, that are registered with the Charity Commission can supply public match funding; the registration must be maintained throughout the period of the project.
- for an organisation, and its match funding, to be classified as public sector, the organisation should either directly or indirectly receive over 50% of its main funding from central or local government - this does not include payment for work carried out under contracts
- the Accountable Body should establish a process to verify whether an organisation is considered public or private, this may be through self-declaration with sample verification or by reviewing the organisation's financial accounts

This definition of 'public sector' should also be used when considering whether the requirement that at least 50% of the votes in selection decisions made by the Local Action Group are cast by partners which are not public authorities.

2.5 The Accountable Body's role in monitoring and verification

The Accountable Body must establish a monitoring process to identify possible weaknesses or risks in the operation of projects and provide for corrective action to be taken. This may include checking claims and progress reports, undertaking routine and targeted inspections and monitoring the projects' progress by any other means. These costs are an eligible cost of the stage 2 full application and would contribute to the 25% limit on management and administration costs.

The Accountable Body must ensure that the correct procedures are being carried out by all the parties involved in the programme. These checks will include the operation of the Local Action Group, appraisal and approval of projects, the processing of grant claims and the management of conflicts of interest within the Accountable Body and the Local Action Group. These costs are an eligible cost of the stage 2 full application and would contribute to the 25% limit on management and administration costs.

It is for the Accountable Body to establish monitoring and verification regimes that are proportionate to and reflect the scale and complexity of and risk attached to local projects.

The Accountable Body will be subject to audit and verification visits over the life of the project, these are usually conducted by the Managing Authority and Audit Authority but may also be undertaken by the European Commission and the European Court Of Auditors. The Accountable Body must ensure that it retains and can produce evidence in accordance with the Managing Authorities' document retention requirements¹⁰. The Accountable Body should also ensure that local grant recipients retain original evidence in line with these requirements. If a local grant recipient organisation is wound-up during the document retention period original evidence should be passed to and retained by the Accountable Body.

¹⁰ <https://www.gov.uk/government/publications/european-structural-and-investment-funds-document-retention>