

# Withdrawn

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## **2014-2020 ESF Programme**

### **Action Note**

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## **ESF 2014-2020 Programme - Delegated Grant Schemes – Defrayal Clarification Note**

### **Who**

All new applicants for ESF funding, existing ESF Beneficiary Organisations, the Greater London Authority and the ESF Managing Authority.

### **What**

This action note is to clarify the ESF 2014-2020 Programme position on the two defrayal models available to new applicants and existing Beneficiary Organisations who are operating Delegated Grant Schemes in the ESF 2014-2020 Programme.

# Cleared

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## **Background**

Following a number of queries from existing Grant Recipients, local partners and potential applicants for ESF funding, clarification is needed on the operation of Delegated Grant Schemes in the ESF 2014-2020 Programme.

Annex 1 of this Action Note sets out the ESF Managing Authority position around defrayal of expenditure for Delegated Grant Scheme projects, as well as a number of other related aspects. This is to ensure consistency and transparency for existing ESF Grant Recipients and potential, future ESF applicants.

## **Action**

New applicants to ESF funding are asked to ensure they take account of the defrayal model options, processes and mandatory requirements described in Annex 1 when submitting any future ESF applications to operate a Delegated Grant Scheme.

Existing Grant Recipients are asked to ensure they fully comply with the requirements set out in Annex 1 for any existing Delegated Grant Schemes they are delivering as part of the ESF 2014-2020 Programme.

## **Contact**

For questions please contact: [ESF.2014-2020@DWP.GSI.GOV.UK](mailto:ESF.2014-2020@DWP.GSI.GOV.UK)

## Annex 1

### ESF 2014-2020 Programme - Delegated Grant Schemes – Defrayal Clarification Note

This clarification note explains the two defrayal models available to new or existing ESF Projects who are operating Delegated Grant Schemes in the ESF 2014-2020 Programme.

Future applicants and existing Grant Recipients, including Co-Financing Organisations (CFOs), should note that these are the only two defrayal options eligible for use in the ESF Programme for Delegated Grant Scheme projects:-

- Model 1 – Defrayal at the Lowest Level
- Model 2 – Defrayal at the Accountable Body Level

#### Model 1 - Defrayal at the Lowest Level

The published [Community Led Local Development Accountable Body Guidance](#) on GOV.UK confirms that, for this specific type of Delegated Grant Scheme, the Accountable Body may only claim costs from the ESF Managing Authority when they have evidence that “the local grant recipient has defrayed the expenditure”. If evidence of defrayal cannot be secured the costs will be ineligible for European Social Fund support.

This model is a mandatory model for all Community Led Local Development projects.

Under this model, 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 Social Fund to the local grant recipient prior to including costs in its claim to the Managing Authority.

This model is also available for use by non-CLLD ESF Projects, including both Direct Bid and Co-Financing Organisation Delegated Grant Scheme projects.

Where a non-CLLD ESF Project chooses to use this defrayal model, this methodology should be used across the whole of the ESF Project covered by the relevant Funding Agreement/MOU and should be made clear in the project application. Any proposed changes from Model 1 to Model 2 for an ESF Project must be discussed with the ESF Managing Authority in advance, as a formal Project Change Request may be required.

### **Model 2 - Defrayal at the Accountable Body Level**

This model is not available to ESF Community Led Local Development projects, but can be adopted by other non-CLLD ESF Delegated Grant Scheme projects, including those operated by ESF Co-Financing Organisations.

Applicants and existing Grant Recipients should note that, as this is a higher risk model, the Accountable Body is responsible for ensuring they have sufficient, robust and effective control measures in place as described below.

The Accountable Body will be required to provide a detailed description of the management and compliance regime they undertake with all of their local grant recipients at the application stage. This will be checked and tested by the ESF Managing Authority as part of the subsequent Project Inception Visit and Article 125 checks on the ESF project. As a minimum, the Accountable Body regime must include the following elements:-

- a clear mechanism for local grant recipients to report their actual, detailed expenditure to the Accountable Body on a regular basis;
- confirmation of the person(s) in the Accountable Body who will be responsible for reviewing and checking the accuracy, completeness and eligibility of the local grant recipient expenditure detailed in each report;
- a fair, open and random methodology for sampling items of reported expenditure from the local grant recipient, for more detailed evidence checks;
- a robust and effective checking process, to obtain relevant and compliant defrayal evidence from the local grant recipient for all sampled expenditure, including who in the Accountable Body will be responsible for undertaking the sample checks – including the frequency of visits to be undertaken to verify local grant recipient delivery;
- a clear description of the evidence to be requested from local grant recipients to support expenditure checks, including defrayal;

- where errors are discovered in the eligibility of expenditure or the compliance of defrayal evidence, a clear mechanism for the Accountable Body to recover the affected funds from the local grant recipient;
- clear mechanisms for reporting errors identified and resulting recovery actions to the ESF Managing Authority, particularly where the Accountable Body has already claimed the relevant funding from the ESF Programme and a Self-Declared Adjustment may be needed;
- Full explanation of the reconciliation process to be used at the end of each individual local grant project to ensure a full suite of claims and defrayal evidence is in place, including details of any retention model to be used;
- clear mechanisms for recovery of grant funding if a local grant recipient underperforms or withdraws from the ESF Project before defraying the full grant funds;
- A description of how the Accountable Body will ensure they will only submit their final claim to the ESF Managing Authority once they have evidence that all expenditure has been defrayed to the lowest level.

Accountable Bodies should note that, under this model, they are wholly responsible for the recovery of funds from their local grant recipients. If errors or omissions are found by the Accountable Body or ESF Managing Authority as a result of the respective checking regimes, then any affected ESF funds paid to the Accountable Body will be subject to recovery by the Self-Declared Adjustment process or via the Irregularities process. Any shortfall in funding encountered by the Accountable Body as a result will be at their own risk, if they cannot in turn recover the funding from the local grant recipient.

Again, where a non-CLLD ESF Project chooses to use this defrayal model, this methodology should be used across the whole of the ESF Project covered by the relevant Funding Agreement/MOU and should be made clear in the project application. Any proposed changes from Model 2 to Model 1 for an ESF Project must be discussed with the ESF Managing Authority in advance, as a formal Project Change Request may be required.

### **Delegated Grant Schemes – ESF Full Application Requirements**

From the date of this note onwards, applicants for ESF funding who are proposing to operate a Delegated Grant Scheme should note that they will need to provide the following minimum documentation at the Full Application stage in addition to the standard documents required at this stage for all applicants.

Draft versions can be submitted at the Full Application stage, however the final version of each document must be available for review by the ESF Managing Authority at the Project Inception Visit.

- Call document/grant specification or similar to be used to invite local grant applications
- Grant Application forms to be used with local grant recipients

- Grant Assessment forms and guidance to be used by the Accountable Body, including the assessment and approval methodology and criteria for approval;
- Due Diligence guidance to be used by the Accountable Body prior to awarding funding to local grant recipients
- Service Level Agreement/Grant Agreement to be used with local grant recipient;
- Local grant recipient claims guidance, including templates to be used by local grant recipients, confirmation of the defrayal model to be used and claim authorisation/approval processes;
- Accountable Body management and compliance regime guidance, including contract management of local grant recipients.

### **Delegated Grant Schemes – ESF Contract Management**

From the date of this note onwards, new ESF Delegated Grant Scheme projects will be subject to a more robust Contract Management regime.

From the date of their Project Inception Visit, ESF Delegated Grant Scheme projects will be subject to 4 additional Contract Manager meetings/reviews in the following 12 months, over and above the standard volumes for ESF Projects.

Each Contract Management meeting/review will be used to test that the assurances given in the Funding Agreement and subsequent Project Inception Visit about the operation of the Delegated Grant Scheme are being implemented in delivery, again this is in addition to any standard considerations around performance, management and compliance of the ESF Project usually covered in such meetings/reviews.

During the 12 month period, if the ESF Contract Manager determines that they and/or the A125 Team have undertaken sufficient interventions to be fully assured that the Accountable Body reconciliation/checking regime is robust and working effectively, they may recommend a reduction in the volume of additional Contract Management meetings/reviews. However, this is wholly an ESF Managing Authority decision which can only be agreed in consultation with a Senior ESF Contract Manager or Head of the relevant ESF Delivery Team.

Desk-Based Checks will also be undertaken on ESF Delegated Grant Scheme projects, as with other ESF Projects. However, requests for evidence from the Accountable Body may include:-

- Requests for the application and assessment documents for one or more local grant recipients;
- Requests for a copy of the signed service level agreement/funding agreement between the Accountable Body and one or more local grant recipients;
- Defrayal evidence at the Accountable Body and/or the local grant recipient level.



## **Delegated Grant Schemes – Desk-Based Evidence Checks**

Given the nature of ESF Delegated Grant Scheme financial claims, it is possible that a single line on the ESF Transaction List for any given financial claim to the Managing Authority, may be as a result of a significant number of actual financial transactions at the local grant recipient level. For this reason, clarification is also needed on the sampling approach for the ESF Managing Authority Desk-Based Evidence Checks for Delegated Grant Scheme projects. These are the checks undertaken as part of the ESF quarterly claims cycle.

Where a single line in the Accountable Body Transaction List is made up of a number of individual, lower level transactions, the Accountable Body must ensure they have a list of the individual transactions available on request should the ESF Managing Authority need this to undertake the necessary Desk-Based Checks.

The Accountable Body must also ensure that, where a single line of expenditure in their Transaction List is a cumulative, local grant project figure representing a number of more granular local grant project transactions, the description of that expenditure in their Transaction List makes this clear.

From the date of this note onwards, the Desk-Based Evidence Checks sampling approach used for ESF Delegated Grant Schemes will be as follows:-

### Transaction List is wholly 'ESF Other Direct Costs' i.e. local grant payments

1. The ESF Contract Manager will use the standard random.org sampling tool to select one random line from the Transaction List submitted by the Accountable Body as part of their quarterly financial claim to the Managing Authority;
2. The ESF Contract Manager will request a list of granular expenditure from the Accountable Body for that line;
3. The Contract Manager will then use the standard random.org sampling tool again, against the Accountable Body list of granular expenditure, to determine the actual, granular transactions where expenditure evidence will be requested from the Accountable Body for the Desk-Based Checks.

### Transaction List is a mixture of ESF Staff Costs and "ESF Other Direct Costs"

1. The ESF Contract Manager will use the standard random.org sampling tool to select the usual number of lines from the Transaction List, as per any other ESF Project;
2. The ESF Contract Manager will carry out the usual Desk-Based Checks for any selected lines which are ESF Staff Costs or other costs which are individual transactions per line;
3. If one or more of the sampled lines is identified as a local grant payment line, which represents more than one actual transaction, the ESF Contract

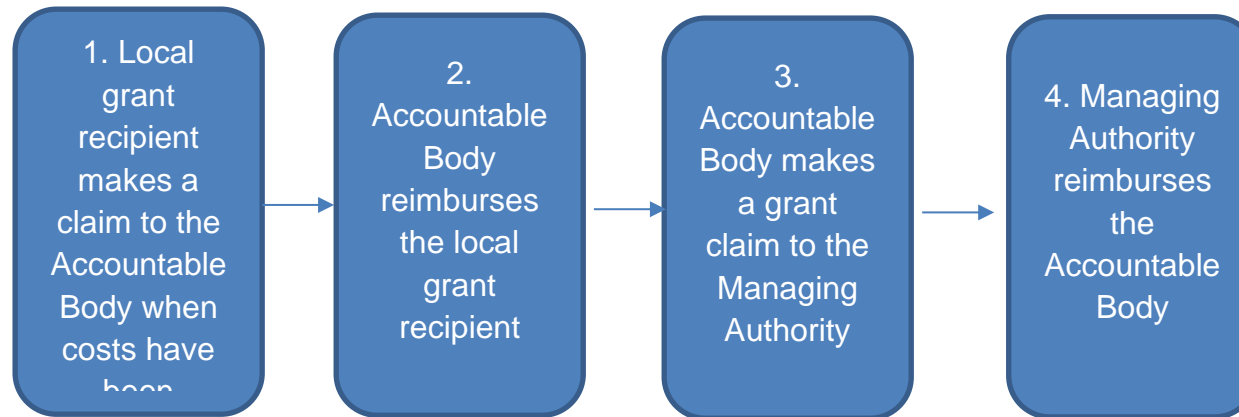
Manager will request a list of granular expenditure from the Accountable Body for that line;

4. The ESF Contract Manager will then use the standard random.org sampling tool against the list of granular expenditure provided by the Accountable Body, to determine the remaining granular transactions where expenditure evidence will be requested from the Accountable Body for the Desk-Based Checks.

If an ESF Delegated Grant Scheme project has any questions about the content of this note, they should contact their ESF Contract Manager.

## Annex 2 – Process Flows

### Model 1 – Defrayal at the ‘Lowest Level’



### Model 2 – Defrayal at the Accountable Body Level

