

# Building Better Opportunities



**Guide to delivering European funding**  
**Section eight: Costs and expenditure**

## About this guide

This is just one section in a series of guidance documents that make up the Guide to Delivering European Funding (the ‘Guide’). These documents are designed to support you to manage your Building Better Opportunities grant and should be used in conjunction with guidance produced by the Managing Authority and European Commission and does not replace it. This is guidance only and cannot cover all scenarios that grant holders will encounter.

This version of section eight replaces all those we have previously published. [For the full contents of the Guide visit our website.](#)

The Guide remains under review and is subject to change. It should be read alongside the **Essential Updates** published on our website and emailed to the lead partner. Essential Updates contain details of any guidance changes, updates, clarifications and reminders. Information will often appear within Essential Updates some time before being incorporated into the Guide.

## Summary of changes

October 2021 - for section eight v10 the following changes have been made:

- ✓ **About this Guide** has been updated to align with recent changes elsewhere in the Guide and an additional paragraph has been added to remind readers to use it alongside our Essential Updates.
- ✓ **8.1 Costs** has had the links to Managing Authority guidance updated and additional information added to the direct and indirect cost definitions. The list of ineligible costs has been updated in line with the latest Managing Authority guidance. Minor updates have been made to the evidence table, with the most significant change relating to the fixed percentage SCO and increased emphasis on procurement.

- ✓ **8.2** is now **Staff who work some of their hours on BBO**. This has been amended to consider both hourly rates and fixed percentage Simplified Cost Options. ‘Keeping timesheets’ is no longer its own section and has been integrated into 8.2.
- ✓ **8.3** is now **Employees working on more than one BBO project or other ESF Programmes**. New section added to explain various scenarios and how costs should be attributed.
- ✓ **8.4 Employer NI allowance** has been updated to reflect the increase in the allowance since original publication.
- ✓ **8.5 Participant expenses, allowances and incentives** has been updated in line with recent MA guidance, a sub-section on participant housing costs has been added.
- ✓ **8.6 Petty cash** has had an additional line added for clarity on evidencing expenditure.
- ✓ **8.7 Procurement and contractor costs** has been updated to be more explicit regarding the consequences of failing to procure and the requirement to identify if your organisation is a Contracting Authority.
- ✓ **8.8 Irrecoverable VAT** no change.
- ✓ **8.9 Venue hire and the lease and rental of buildings**, reference to procurement has been removed and additional COVID-19 related changes added.
- ✓ **8.10** is now **Indirect costs**. Links to the MA guidance have been updated and additional detail added. Note, the section on depreciation has been removed.
- ✓ **8.11** is now **Reporting expenditure**. Tables have been reformatted to improve accessibility. Minor updates to wording have been made without any change to the meaning.

January 2019 - for section eight v9.2 the branding has been updated to reflect our name change from the Big Lottery Fund to The National Lottery Community Fund. Links to our website have also been updated.

January 2019 - for section eight v9.0 the following changes have been made:

- ✓ **About this Guide** has been updated to reflect recent changes in section one and reference to the hourly rate guidance documents added.
- ✓ **8.1 Costs** has had links added to the MA guidance, the table considering eligible costs and evidence has been updated along with information on data retention and certification. The evidence retention date has been updated to reflect extension to the BBO programme and updated MA guidance released in August 2018.
- ✓ **8.2** is now **Hourly rates**. The old hourly rate guidance has been removed, an overview has been provided along with signposting to the standalone BBO hourly rate, ESF and MA guidance has been added.
- ✓ **8.3** is now **Keeping timesheets**. Timesheet information has been updated with the latest guidance following Article 125 verification feedback. Information for the use of timesheets for staff working full time on ESF but across different projects has also been added.
- ✓ **8.4** is now **Employer NI allowance**. This section has been added to highlight that if this allowance is claimed it needs to be accounted for in your claim.
- ✓ **8.5** is now **Participant expenses, allowances and incentives**. This section has been updated to reflect the requirement for participants to declare that items will only be used for ESF related activity. More information on the use of incentives has been added.
- ✓ **8.6** is now **Petty cash** with guidance on this subject added.
- ✓ **8.7** is now **Procurement and contractor costs**. A link has been added to ESIF procurement guidance.
- ✓ **8.8** is now **Irrecoverable VAT** with guidance on this subject added with information previously in 8.1 Costs removed.
- ✓ **8.9** is now **Venue hire and the lease and rental of buildings**. Guidance on this subject has been added.

- ✓ **8.10** is now **Depreciation**. Links have been added and out of date paragraph references removed.
- ✓ **8.11** is now **Indirect costs**. Links to additional guidance documents have been added and further information regarding simplified cost options has been provided.
- ✓ **8.12** is now **Reporting expenditure**. This section has been updated to include information previously in the FAQs on split categories of region, acceptable descriptions, direct costs and claiming salary on-costs. Acceptable descriptions have been updated to remove reference to the names of individuals. The financial monitoring spreadsheet descriptions table has been updated to reflect annex O v8.0.

May 2017 - Lottery logo updated.

March 2017 - Delayed quarterly update, including updated logo, clarification of result targets linking them to actual result references in 5.3, with emphasis to track and report on additional target for London IP4.

September 2016 - Quarterly update, with use of National Insurance number for participant ID, updated Annex K, new Annex Q and revised annexes in Oct/Nov.

June 2016 - This version of the Guide incorporates appropriate comments gained from the consultation review in April 2016.

Any changes to the Guide will be:

- ✓ communicated on our website and on the inside page of each section
- ✓ emailed to current grant holders and highlighted in our programme e-bulletin.

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**Annex N - Participant allowance, incentive and expenses form**

**Annex O - Financial reporting spreadsheet**

**Hourly rate guidance**

**Annex T - Calculator for new staff**

## 8.1 Costs

**We can only pay for the actual costs you incur in the delivery of the project.**

There are two types of costs you will incur:

### Direct costs:

Costs that are directly related to a project activity, such as staff salaries. These costs are incurred on an item-by-item basis. A direct link between the cost and agreed activities must be demonstrated and easily quantified without the need to consider arbitrary apportionment methodologies.

### Indirect costs:

Costs that cannot be connected directly to a specific project activity, such as payroll staff. They are, by default, all other eligible costs that do not meet the above definition of a direct cost. Indirect costs are shared organisational costs, which cannot be directly linked to project activity because it is difficult, or impossible, to quantify a precise amount attributable solely to a single operation/project.

Indirect costs will be paid at a flat rate of 15 per cent of your direct staff costs. This is a set Simplified Cost Option Methodology, more details of which can be found in the Managing Authority's [Simplified Cost Options Guidance](#).

During the delivery of the project you'll:

- ✓ track the costs you incur using your payment schedule (see Section four: Payments, claims and monitoring).
- ✓ report your expenditure using the financial monitoring spreadsheet (8.11, Annex O).
- ✓ keep evidence of all expenditure including defrayal.

We explain examples of the forms of evidence you will need to retain on the next few pages. You must be able to provide this on request

showing eligible expenditure and defrayal, otherwise the expenditure will be classed as ineligible, and money will be recovered or deducted from a future payment.

Please see [European Social Fund National Eligibility Rules and Programme Guidance](#) for further information on eligible costs for the ESF 2014-2020 operational programme.

### What can't we pay for?

- ✗ activities that will not contribute to the delivery of the targets we have identified on the project outline
- ✗ activities or staff costs that do not represent good value for money
- ✗ anything that is a statutory obligation or will replace statutory funding
- ✗ anything you start or spend money on before we confirm our funding
- ✗ preparation of annual accounts, year-end auditing
- ✗ payments to HMRC for the Apprenticeship Levy
- ✗ bad debts
- ✗ bank charges
- ✗ costs involved in winding up a company
- ✗ debit interest, charges for financial transactions, foreign exchange commissions and losses and other purely financial expenses
- ✗ fines, financial penalties and expenses of litigation
- ✗ gifts
- ✗ interest on debt
- ✗ loan charges
- ✗ legal fees
- ✗ payments that support activity intended to influence or attempt to influence the UK Parliament, Government, political parties, European Union Institutions, or attempting to influence the awarding or renewal of contracts and grants, or attempting to influence legislative or regulatory action in the United Kingdom or the European Union

- ✘ purchase of furniture and vehicles
- ✘ purchase of equipment (other than small items of equipment under £1,000)
- ✘ purchase of second-hand equipment
- ✘ purchase of infrastructure
- ✘ purchase of land
- ✘ purchase of real estate
- ✘ redundancy costs if people leave the employment of the organisation at the end of or during the life of the project
- ✘ service charges
- ✘ Value Added Tax (VAT) you can recover
- ✘ Working from home allowance
- ✘ Bankruptcy fees.

Please note, this list is not exhaustive.

### Evidencing expenditure

The Building Better Opportunities programme requires you to individually record and hold evidence for all financial transactions for all direct costs. This includes not only the receipt, invoice or payslip but also the full defrayal evidence that links costs back to a bank account. You will also need to supply evidence demonstrating that activity took place, why this cost was necessary and how it represented good value for money.

Where copies are provided as evidence of expenditure they must be certified as a true copy of the original by an appropriate member of staff. Certification must include the following:

I certify that this is a true copy of the original document

Signed

Print Name

Date

Position in organisation

Name of organisation

It is the lead organisation's (the grant recipient) responsibility to ensure that all delivery partners and sub-contractors keep adequate records. To fulfil this responsibility, the lead will need to show that the systems are in place to verify the information provided and held by partners. The lead organisation must retain all documentation associated with the project, including participant data, until at least 31 March 2034, after then please check with us before destroying any BBO related documentation.

Please see [Guidance on document retention, including electronic data exchange](#) for more details on certification and document retention.

The table below sets out examples of the evidence that must be retained until at least 31 March 2034. This list is not exclusive and cannot account for every situation. Additional or alternative evidence may be needed depending on the circumstances. Your Funding Officer may not ask for all items in the quarterly claim sample, however, all evidence will still need to be retained. Whenever copies of evidence are held in place of the originals, these must be certified.

Eligible direct expenditure	Evidence (list not exclusive)
<p><b>Staff costs</b> (direct and external) including employer’s National Insurance and pension contributions, and any taxable incentives linked to pay.</p> <p>Note this category to be used for staff employed directly by leads and delivery partners and staff employed by an external agency. The 15% flat rate will be applied to this category.</p> <p>External means:</p> <ul style="list-style-type: none"> <li>a) there is a contract between the staff member and an employment agency</li> <li>b) the staff member is supplied to an employer by the agency</li> <li>c) whilst working the activities / work undertaken by the staff member is controlled by the employer; and</li> <li>d) the staff member is not self-employed.</li> </ul>	<p><b>For all direct staff:</b></p> <p>You need to keep an up-to-date list of staff working on the project. You should use <b>Annex U: Staff list</b> to do this. Within Annex U you should specify whether an individual works all or some of their working hours on the project and, where applicable, which Simplified Cost Methodology is used.</p> <p><b>For staff that are working fully on the project:</b></p> <ul style="list-style-type: none"> <li>✓ A letter of appointment with start and finish dates for involvement with BBO, confirming that the post is funded by the European Social Fund and The National Lottery Community Fund. Letters produced before 29 January 2019 will confirm the post is funded by the European Social Fund and the National Lottery through the Big Lottery Fund. The letter should be signed and dated, include the salary and feature the BBO logo.</li> <li>✓ A job description stating that the individual will be solely employed on the project.</li> <li>✓ Payslips and payroll information showing salary, employer’s national insurance and employer’s pension contributions.</li> <li>✓ Copies of organisation’s bank statement as evidence of defrayal.</li> <li>✓ Where applicable, BACS and/or payroll reports to connect the bank statement to the pay of the individual.</li> <li>✓ Payroll listings should be redacted to show only the staff involved in the project, but must include the total amount so that it can be linked to the BACS run.</li> <li>✓ Full defrayal evidence for the payment of employer pension and national insurance contributions which clearly links to the payroll evidence.</li> </ul> <p><b>For any staff or managers that are only working some of their time on the project, including senior management</b></p>

Eligible direct expenditure	Evidence (list not exclusive)
	<p><b>When the 1720 hourly rate simplified cost methodology is used (See 8.2):</b></p> <ul style="list-style-type: none"> <li>✓ A letter confirming that the post is part-funded by the European Social Fund and The National Lottery Community Fund. Letters produced before 29 January 2019 will confirm the post is funded by the European Social Fund and The National Lottery through the Big Lottery Fund. The letter should contain the start and finish dates for involvement on BBO and be signed, dated, include the salary and feature the BBO logo.</li> <li>✓ Timesheets describing the instances and tasks associated with their involvement in the project (see 8.2). The descriptions must be clear enough for us to determine how the staff and tasks / activities relate to the project.</li> <li>✓ An hourly rate calculation and the evidence used to establish this (see hourly rate guidance).</li> <li>✓ We may also request a record of the work that has been carried out (such as diaries, emails, media and materials).</li> <li>✓ You may also be asked for a Job description and other supporting contractual documentation where applicable.</li> <li>✓ As a simplified cost methodology, defrayal evidence is not required as standard for hourly rate staff costs. However, it must still be accessible should it be requested in future audits.</li> </ul> <p><b>When the fixed percentage simplified cost methodology is used (See 8.2):</b></p> <ul style="list-style-type: none"> <li>✓ A letter confirming that the post is part-funded by the European Social Fund and The National Lottery Community Fund. The letter should contain the start and finish dates for involvement on BBO and be signed, dated, include the salary and feature the BBO logo.</li> <li>✓ The letter (or other contractual documentation provided) must <b>clearly state the percentage of the employees working hours</b> that are on the BBO project.</li> <li>✓ Payroll information showing actual gross employment costs.</li> <li>✓ You may also be asked for a Job description and other supporting contractual documentation where applicable.</li> </ul>



Eligible direct expenditure	Evidence (list not exclusive)
	<ul style="list-style-type: none"> <li>✓ As a simplified cost methodology, defrayal evidence is not required as standard. However, this information must still be accessible should it be requested in future audits.</li> </ul>
<p><b>Staff costs</b> (consultant and sessional workers)</p> <p>These are experienced professionals brought into the project to provide expert knowledge or to deliver a specific activity or intervention on a temporary basis, often at an hourly or daily rate. Please bear in mind procurement value limits when contracting consultants and sessional workers.</p>	<ul style="list-style-type: none"> <li>✓ The reason why you needed to bring in experienced professionals to support the project.</li> <li>✓ Evidence of procurement (if required).</li> <li>✓ Copy of contract including rates charged and the work to be delivered.</li> <li>✓ Copies of timesheets detailing times worked and activities delivered.</li> <li>✓ Invoices detailing hours worked (where applicable).</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> <li>✓ Procurement documents if applicable.</li> </ul>
<p><b>Staff expenses</b> such as travel or allowances</p>	<ul style="list-style-type: none"> <li>✓ A copy of the organisation’s policy on travel and expenses so we can check that this is fair and reasonable.</li> <li>✓ Receipts and invoices for every item of expenditure.</li> <li>✓ An explanation (where not self-evident) of the need for the activity in relation to the project (why), who for, when, type of expense and alternatives considered to demonstrate that this activity was the best value for money.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal. If expenses were paid via payroll or BACS, reports should also be provided to link costs to defrayal.</li> <li>✓ Approval of the cost in line with the organisation’s policy on travel and expenses.</li> <li>✓ Evidence that the payee works on BBO, for example a letter of appointment.</li> </ul>
<p><b>Volunteer costs</b> such as travel and subsistence</p>	<ul style="list-style-type: none"> <li>✓ Receipts for every item of expenditure.</li> </ul>

Eligible direct expenditure	Evidence (list not exclusive)
	<ul style="list-style-type: none"> <li>✓ Dated and signed declarations of re-imbursement for volunteer's costs, detailing where, when and why they were incurred, and demonstrating that the costs were incurred exclusively for BBO purposes.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> <li>✓ Evidence of eligibility to receive expenses - if this relates to a participant, using their participant file eligibility documents; or as an external volunteer 'working' on the BBO programme, documentation confirming their role.</li> <li>✓ Please see section <b>8.6 Petty Cash</b> if applicable.</li> </ul>
<b>Consumables</b> such as stationery or essential software	<ul style="list-style-type: none"> <li>✓ Receipts and invoices for every item of expenditure.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal.</li> <li>✓ Procurement documents and contracts if applicable. Please note, that items or services bought as part of an organisation wide contract will be subject to procurement using the total value of the contract.</li> </ul>
<b>Venue hire and the lease or rental of buildings</b> where the building is wholly used for the project	<ul style="list-style-type: none"> <li>✓ Evidence to demonstrate that the venue/rental building is solely used for BBO (see 8.9).</li> <li>✓ A copy of the lease or rental agreement.</li> <li>✓ Room hire invoices for any temporary premises.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports, if required.</li> <li>✓ Secondary evidence demonstrating activity took place in the venue such as a sign-in sheet, agenda or staff calendars.</li> </ul>
<b>Hire or operating lease of equipment</b>	<ul style="list-style-type: none"> <li>✓ A written explanation of how the costs of the hire or lease are similar to market rates, including a minimum of three quotations, and that the cost of hiring or leasing this equipment does not exceed the cost for buying the item outright. Note, the leasing charge (in any one year) must be under £1,000.</li> </ul>

Eligible direct expenditure	Evidence (list not exclusive)
	<ul style="list-style-type: none"> <li>✓ Invoices for every item of expenditure.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> </ul>
<b>Small items of equipment costing up to £1,000</b>	<ul style="list-style-type: none"> <li>✓ Receipts or invoices for every item of expenditure.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal.</li> <li>✓ Supporting documentation which, for example, could show details of the employee that equipment has been allocated to.</li> <li>✓ Procurement documents and contracts if applicable. Please note, that items bought as part of an organisation wide contract will be subject to procurement using the total value of the contract.</li> </ul>
<b>Participant costs such as expenses and childcare</b>	<ul style="list-style-type: none"> <li>✓ A record of the activities undertaken which resulted in these expenses (such as dated and signed attendance sheets, course materials and original certificates).</li> <li>✓ A record of childcare costs, including evidence and a dated receipt for any contributions from participants.</li> <li>✓ Receipts or invoices for every item of expenditure.</li> <li>✓ Dated and signed declarations of reimbursement for expenses or other costs that have been met on their behalf; and that all items are to be used exclusively for ESF purposes and represent good value for money (see 8.5).</li> <li>✓ Copies of organisational bank statements as evidence of defrayal (if applicable see petty cash 8.6).</li> <li>✓ Please note costs of securing evidence of participant eligibility can only be claimed if the participant proves to be eligible for BBO.</li> <li>✓ Note that childcare costs are only eligible where the child-minder/childcare provider is appropriately registered.</li> </ul>

Eligible direct expenditure	Evidence (list not exclusive)
<b>Participant allowances and incentives</b>	<ul style="list-style-type: none"> <li>✓ A written explanation of the reasons for offering the allowance and how it represents good value for money.</li> <li>✓ A record of the advice received from Jobcentre Plus, HM Revenue and Customs and other bodies concerning each individual participant’s existing benefits or allowances. (Where applicable. HMRC regard some allowances as taxable benefits, therefore it must be checked before allowance levels are set.)</li> <li>✓ Financial records showing the participant, date and amount paid, including a signed declaration that confirms that the allowance or incentive will be used exclusively for ESF purposes (see 8.5).</li> <li>✓ A record of their participation that fulfils the terms of the allowance or incentive (where applicable).</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> </ul>
<b>Marketing and promotion</b>	<ul style="list-style-type: none"> <li>✓ Receipts or invoices for every item of expenditure and a detailed description of the work carried out.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> <li>✓ Procurement documents and contracts if applicable.</li> </ul>
<b>Monitoring and evaluation</b>	<ul style="list-style-type: none"> <li>✓ Receipts or invoices for every item of expenditure and a detailed description of the work carried out.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> <li>✓ Procurement documents and contracts if applicable.</li> </ul>
<b>Storage of evidence and data</b>	<ul style="list-style-type: none"> <li>✓ Receipts or invoices for every item of expenditure and a detailed description of the approach and security.</li> </ul>

Eligible direct expenditure	Evidence (list not exclusive)
	<ul style="list-style-type: none"> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> <li>✓ Procurement documents and contracts if applicable. Please note, that items or services bought as part of an organisation wide contract will be subject to procurement using the total value of the contract.</li> </ul>
<b>Procurement costs</b>	<ul style="list-style-type: none"> <li>✓ Annotated, dated and signed copies of all contracts, together with a detailed Procurement Register (see Section seven: Partners and procurement).</li> <li>✓ Receipts or dated invoices for every item of expenditure.</li> <li>✓ Copies of organisational bank statements as evidence of defrayal and any intermediate documents such as BACS reports if required.</li> <li>✓ Please note, that items or services bought as part of an organisation wide contract will be subject to procurement using the total value of the contract.</li> </ul>

## 8.2 Staff who work some of their hours on BBO

When staff spend some of their time working on an ESF project the organisation they work for will be compensated using one of two Simplified Cost Options (SCOs). These are ESF Direct Staff Cost Methodology 2 (1720 calculation) and for salaries from October 2019 onwards ESF Direct Staff Cost Methodology 4 (fixed percentage). More information can be found in the Managing Authority's [Simplified Cost Options Guidance](#) and below. Both methodologies should be applied in line with the EU Common Provisions Regulations and associated guidance.

No alternatives to the 1720 calculation or fixed percentage methodology are allowed.

An **Annex U: Staff list** should be provided. This must specify which methodology is being used, providing the hourly rate or fixed percentage where applicable.

To move staff between different SCOs, authorisation from your Funding Officer must be sought using an **Annex D**.

### 1720 Hourly rates

We have produced standalone **guidance on applying the 1720 calculation**. This can be found under the **Section eight** heading on the [Guide to Delivering European Funding pages of our website](#).

### Keeping timesheets

Where the 1720 calculation is used staff must clearly record their time and activities working on a BBO project using a timesheet.

The descriptions must be clear enough for us to determine how the staff and tasks/activities relate to the project. This includes members of senior management staff.

The timesheet should show the following:

- ✓ the staff members name and role
- ✓ the date of each activity
- ✓ a description of each BBO activity or task
- ✓ non-ESF time (although description of activity is not required)
- ✓ ESF time which is non-BBO
- ✓ the time spent on each task (start and finish times are not required) recorded to the nearest 15 minutes
- ✓ lunch breaks should not be included in the hours recorded
- ✓ it must be signed by the staff member and approved by their line manager

The original timesheet must be kept as evidence. Please note, if an electronic system is used to authorise timesheets, there must still be evidence of the approval.

You must keep records of how you calculated the hourly rate and retain the evidence used to make it. If you are changing an hourly rate, you must request permission from your Funding Officer. They will approve a change being made, but not the calculation itself.

### Fixed percentage methodology

The '**ESF Direct Staff Cost Methodology 4 (fixed percentage)**' provides an alternative to 1720 calculations for staff who work part of their time on BBO. However, it can only be used when an employee works a **fixed proportion of their time per month on BBO**. For staff that fall into this category, it allows a **percentage of their actual gross employment cost** for the month to be claimed. A timesheet is not required.

For example, if an individual works 50 per cent of their time every month on a BBO project, and their actual gross employment costs for a month are £1,500 then 50 per cent of this, £750, can be claimed.

Please note that **employees whose hours per month on BBO vary, must use the 1720 hourly rate.**

We have allowed the use of the fixed rate methodology to be included in claims from **Q4 2019** onwards, for salaries from October 2019. Your Funding Officer must have approved the use of the fixed percentage methodology for individual roles. You must discuss converting any role to fixed percentage with your Funding Officer and then complete an **Annex D: Project change form** detailing:

- ✓ The staff members/roles involved
- ✓ Any budgetary implications (increased/decreased staff costs)

In line with our current approach to hourly rates, your Funding Officer will authorise/reject the change, but will not examine the calculations or letters as standard.

As set out in **section 8.1**, contractual documentation must be retained that clearly show that the employee works part of their time on a BBO project funded by the European Social Fund and The National Lottery Community Fund; and **set out the percentage of time each month they work on it.**

### **Fixed percentage claims**

The percentage of the gross employment costs claimed will be the **same every month and be based on the information provided in the contractual documentation.** To change this percentage, you would need to submit a change request to your Funding Officer explaining the reasoning. **It is not permitted for the percentage to vary month by month.**

If sampled, you will need to provide a copy of the contractual documentation, along with the payroll and any other supporting evidence needed to demonstrate the actual gross employment costs and defrayal. No timesheet is required.

Please be aware the Managing Authority's [Action Note 038/19](#) and [Simplified Cost Options Guidance](#) contain the statement "as the 'Fixed Percentage' methodology is a Simplified Cost Option, there is no requirement for defrayal evidence". This relates to what is required by the Managing Authority and their Article 125 team. The defrayal evidence for simplified cost options remains auditable and the Government Internal Audit Agency's **Article 127** team may want to see it. **Therefore, you must continue to collect the defrayal evidence for staff costs where the fixed percentage methodology is used.**

### **Additional considerations - fixed percentage**

#### **Overtime**

If a staff member works overtime which does not affect the percentage of time working on BBO, the fixed rate can still be applied.

If overtime causes fluctuations in the proportion of time an employee spends on BBO the fixed percentage methodology cannot be used.

#### **Alternative working patterns**

The fixed percentage methodology will only work where an individual is employed with regular hours (full or part-time) and a single rate of pay. It cannot be used to claim direct staff costs for individuals employed on contracts such as zero or minimum hours or have multiple rates of pay.

If an employee has more than one contract with an organisation, assuming their hours for each are fixed and they are on the same rate of pay for each, the fixed percentage methodology can be used.

We cannot accept any apportioning of salaries or on costs such as employers' national insurance or pension other than where the use of the fixed percentage methodology has been approved.

We cannot cover all employment scenarios within this guidance, if you have any specific queries please speak to your Funding Officer.

## 8.3 Employees working on more than one BBO project or other ESF Programmes

For people working 100 per cent of their time on ESF, but across multiple projects, how their costs are split depends on whether the projects are considered part of the same 'operation'. You should discuss these costs with your Funding Officer before including within your claim.

### Employees working across projects on multiple operations

These are individuals that work across multiple ESF programmes, one of which is BBO, or multiple BBO projects that are in different LEP areas.

You must use either the 1720 calculation or fixed percentage SCOs to claim the cost of these employees.

Associated staff expenses for these employees, such as IT equipment or mobile phone costs are not generally eligible as a direct cost.

### Employees working across multiple projects in a single operation

These are individuals who are working all their time on BBO projects **within the same LEP area**.

As above, either the 1720 calculation or fixed percentage SCOs can be used. However, in this scenario there is a third option. The cost can be apportioned (using a time sheet to support how costs are split). This is because they are viewed by the Managing Authority as a single project. Therefore, they can keep a time sheet and their employment costs can be split between BBO projects, using the ratio established in the timesheet.

The expenses and equipment costs for these staff can also be apportioned. This exception to the rule, is due to projects being part of the **same operation**. This would either be split using the ratio established by the time sheet or the fixed percentage ratio.

## 8.4 Employer National Insurance allowance

If any of the organisations in your partnership are eligible for the [Employment Allowance](#) this will need to be accounted for when claiming staff costs. At the time of writing (2021/2022 financial year) the allowance reduced an eligible organisations annual Employer National Insurance payment by £4,000. You must check if there has been a change to the value of the allowance each financial year. It will be your responsibility to confirm and document whether each partner is in receipt of an Employment Allowance.

For staff where an hourly rate calculation is required a suitable amount must be deducted from the gross annual employment cost of each staff member. Please see the stand-alone hourly rate guidance for employees who spend part of their time working on BBO. This contains additional information on accounting for the allowance within the hourly rate calculation.

For employees who work 100 per cent on BBO or use the fixed percentage methodology, the employer National Insurance or an appropriate amount of it must be removed from the month(s) where the allowance is claimed. The month(s) the allowance is claimed should be evident in the National Insurance defrayal evidence.

Depending on the size of the organisation the impact of this allowance will vary. For small organisations employing only a few staff it may result in no employers' National Insurance being paid during a year, whereas for large organisations it will only represent a small amount for each employee. Therefore, how best to account for the allowance should be considered and justified on a case-by-case basis.



## 8.5 Participant expenses, allowances and incentives

### Participant expenses/costs (including childcare)

We expect these to be limited to costs that are essential to the delivery of the project. You should consider why the cost is appropriate, how it links to the participant needs analysis and if applicable who will ultimately own any equipment at the end of the project and why. You must also consider programme limits for small items of equipment and procurement thresholds where required.

For costs relating to external courses, the length of the course, and the cost of travel (if applicable) must be shown.

Costs for caring for children or other dependants should show the net weekly or hourly costs involved, excluding any contributions from participants.

In cases where expenditure on items for participants might be perceived to be for non-ESF as well as ESF purposes, projects are able to claim costs, where appropriate controls are in place. For each purchase projects must keep documentary evidence of:

- ✓ the justification for the expenditure
- ✓ a signed commitment from the participant confirming that they will use the item(s) exclusively for ESF purposes

The type of items this might apply to may include travel passes, bicycles, work boots and IT devices.

Refreshment costs for participants that are reasonable and evidenced are permitted.

### Allowances and incentives

If used as part of the project, participant allowances can be claimed. For each individual allowance or incentive, we need to understand how it will:

- ✓ represent value for money
- ✓ be based on comparable, local costs
- ✓ HM Customs and Revenue may regard some allowances as taxable benefits, so it is imperative to check with them before setting the allowance levels.

Small incentive/bonus payments or gifts are allowable, however, these must be small and proportionate. No individual may receive cash or gifts as incentives totalling more than £50 throughout their involvement on the project. Examples could include a £10 shopping voucher for the participation in an evaluation event.

### Evidencing participant expenses, allowances and incentives

You'll need to provide the following forms of evidence:

- ✓ a written explanation of the reasons for offering this expense, allowance, or incentive and how this represents good value for money, where applicable this should involve a cost/benefit analysis
- ✓ a record of the advice received from Jobcentre Plus, HM Revenue and Customs and other bodies concerning each individual participant's existing allowances (allowances only)
- ✓ financial records showing the participant, date and amount paid, including a signed declaration
- ✓ a signed agreement that items claimed are only for ESF related activity

- ✓ a record of the participant's attendance/activity that fulfils the terms of the expense, allowance or incentive.

Each time an expense, allowance or incentive is given, you will need to complete a **participant expense, allowance and incentive form (Annex N)** or hold equivalent evidence. This must be kept in their participant file.

Please note that participant expenses, allowances and incentives must occur whilst the participant is on the project. Once the participant has exited, these costs become ineligible.

For further details please see [European Social Fund National Eligibility Rules and Programme Guidance](#).

### Participant housing costs

A major barrier to employment for some participants is the fact that they are homeless or have no fixed address. Where there is robust evidence to show that without addressing this housing crisis, the participant would be unable to move towards the labour market or into work, BBO projects can provide participants with help to overcome this barrier.

Where support with housing costs are being considered projects must:

- ✓ demonstrate that the costs are an integral part of a set of actions that will support a participant
- ✓ demonstrate that the support contributes to the success of the project
- ✓ evidence that there is no other help available from any other source to address this need
- ✓ assess each case on its own merits
- ✓ be compliant with ESF rules

- ✓ have robust evidence to show that without this specific type of ESF support the participant would be unable to move towards the labour market or into work
- ✓ not duplicate existing provision

It is important to remember that in most areas Deposit and Bond Guarantee schemes are run by local councils, authorities or charities and information about these can be found on the [Shelter website](#).

Note, housing costs associated with rent arrears or other debt are ineligible.

## 8.6 Petty cash

The use of petty cash to facilitate low level cash purchases, such as paying participants bus tickets, is allowable within the following rules:

- ✓ no more than £50 can be used in one transaction
- ✓ there must be receipts for all expenditure, along with other documents demonstrating the nature or need for the purchase where necessary
- ✓ it is spent only on eligible costs.

All petty cash transactions must be capable of being tracked back to individual items claimed, related evidence in the petty cash system and the individual receiving the payment.

You will need to be able to show the defrayal between the organisational bank account and the petty cash account (showing the source from which the petty cash account is routinely replenished) and reconcile the petty cash operation to the bank account.

Please see [European Social Fund National Eligibility Rules and Programme Guidance](#).

## 8.7 Procurement and contractor costs

During your project, you will likely need to procure goods or services. This could include procuring a new partner following the exit of an existing partner or the identification of gaps in delivery.

Alternatively, it could be to procure goods or services paid on invoice as a single item/service, or series of related items/services. Examples may include evaluation contractors, marketing services, MIS licences, regular participant training providers or to buy several laptops (each under £1,000).

Please note, that items or services bought as part of an organisation wide contract will be subject to procurement using the total value of the contract.

**It is vital that you follow the [National ESIF Procurement Requirements](#), obtaining specialist support if required. When procurement is not carried out correctly, up to 100 per cent of the contract value could be subject to clawback.**

The [National ESIF Procurement Requirements](#) set out the rules for procuring goods or services, or a series of related services, using appropriate procedures depending upon the cost of the goods or services. Different thresholds apply to different organisations, **you must clearly establish whether your organisation is a contracting authority before you start the procurement process.** You should ensure that your procurement complies with the procurement rules, taking professional advice if necessary.

## 8.8 Irrecoverable VAT

VAT on items paid for with the grant is an eligible project cost as long as you are not able to reclaim these funds from elsewhere. More information on our approach to VAT can be found in the terms and conditions of your grant.

If you are able to recover VAT but are choosing not to, the VAT amount must still be deducted from what you report to us.

If you have included VAT in your claim and later discover it is possible to re-claim these funds, you must notify us immediately and refund the cost.

The lead should know for each partner:

- ✓ whether the organisation is VAT registered
- ✓ if an organisation is VAT registered, what its status and registration number are
- ✓ whether the organisation is reclaiming VAT for any of the goods or services paid for with the grant.

You should include this information within the **partner list (Annex V)** you provide with each claim and be prepared to provide VAT eligibility declaration or certificates for each partner where applicable. The irrecoverable VAT should be shown within its own column of the **Financial Monitoring Spreadsheet (Annex O)**.

## 8.9 Venue hire and the lease or rental of buildings

The lease or rental of a building along with the costs of running it are eligible direct costs, if you can clearly demonstrate that the building is wholly used for ESF activity. To establish eligibility, factors such as the following will be considered:

- ✓ when the lease commenced
- ✓ the duration of the lease
- ✓ where there is good justification for the need of the new premises.

Rent and building running costs cannot be apportioned. Where the lease covers more than just ESF activity, the projects contribution to these costs must be taken from indirect costs.

Short term venue hire, for example, to run a course, is acceptable as long as the activity that it is being used for is 100 per cent ESF. Supporting evidence such as an agenda and attendees list should be collected.

Partner to partner room hire can be an acceptable cost, provided there is evidence of an invoice and payment relationship and clear rationale regarding value for money are available.

Internal recharging for room hire within a single organisation is not an eligible direct cost due to difficulties with defrayment and evidencing actual cost.

From 1 February 2020, where projects have incurred cancellation and other costs related to event bookings that cannot go ahead due to local COVID-related restrictions, such costs can be considered as eligible expenditure and will need to be evidenced.

However, the following must be taken into account:

- ✓ the expenditure will not be considered eligible if there is an insurance contract in place and the project can claim the cost
- ✓ if a credit note has been issued, costs are not eligible
- ✓ the project should have exhausted all possibilities to claim the expenditure incurred by other means e.g. travel insurance
- ✓ if the project can obtain a partial repayment, only the remaining costs are eligible

Projects must provide detailed background information about the circumstances leading to the cancellation of any event where costs are being claimed to help show that such costs were unavoidable.

## 8.10 Indirect costs

Indirect costs are calculated as 15% of your direct staff costs. No evidence or other calculation is required.

They are, by default, all other eligible costs that do not meet the definition of a direct cost. Indirect costs are shared organisational costs, which cannot be directly linked to project activity because it is difficult, or impossible, to quantify a precise amount attributable solely to a single operation/project.

This 'simplified cost option' which enables you to claim indirect costs at an agreed flat rate, was introduced to simplify ESF arrangements. Indirect costs can only be claimed by projects at the agreed flat rate and no other form of apportioning costs will be permitted.

Please see [European Social Fund National Eligibility Rules and Programme Guidance](#) and [Guidance on Simplified Cost Options](#) for further details.

## 8.11 Reporting expenditure

Use the **financial monitoring spreadsheet (Annex O)** to report your expenditure.

Each partner must complete and maintain its own spreadsheet over each quarterly period (see **Section four: Payments and monitoring**).

Partners must send their spreadsheets to the lead organisation, who will in turn aggregate this information into a full report to us each quarter.

The spreadsheet:

- ✓ collects information for each transaction
- ✓ categorises transactions using the cost headings outlined earlier in this section
- ✓ requests various details about the payments we need to report to the Managing Authority.

To support reporting, you should give each item of expenditure a separate unique invoice/ID number.

### Completing the financial monitoring spreadsheet

Bear in mind that:

- ✓ you must retain the correct evidence to prove the expenditure is eligible (including defrayal), otherwise we will be unable to pay for it
- ✓ each transaction must have a clear enough description to enable us to determine its eligibility, without the need to view the original invoice
- ✓ the information contained within the spreadsheet must be sufficient to identify the evidence until the end of the retention period

- ✓ expenditure must be paid and claimed in full pence
- ✓ an over claim as little as 1p is considered an irregularity
- ✓ please ensure that you have appropriate checks in place to prevent duplicate lines being submitted to us
- ✓ please use local customer reference numbers to identify costs associated with individuals
- ✓ staff costs and expenses should be identifiable using information such as initials and post, partner or payroll number rather than using an individual's name.

### Completing the financial monitoring spreadsheet for direct staff costs

It is noted that “on-costs” - employer’s National Insurance and pension contributions - are often defrayed a month in arrears from salaries. It is permissible to use the payroll date as the defrayal date for all employee costs, unless the partner incurs on-costs on a quarterly, biannual or annual basis. The reasoning for this is:

- ✓ NI costs are statutory and incurred in the month salaries are paid. This means that the precise amount is known at the point of salary payment.
- ✓ Pensions are part of the contract of employment; they cannot be changed without consultation. Again, the amount is known at the point of salary payment.

When completing Annex O, there is no requirement to separate either full-time or part-time employee costs into salaries, NI and pensions.

Please note, the apprenticeship levy cannot be claimed.

## Acceptable descriptions of costs claimed in the financial monitoring spreadsheet

The following table provides examples of some unacceptable and acceptable cost descriptions.

Unacceptable Description	Acceptable Description
Room hire	Room hired for [state purpose and with whom] on [date] at [place]
Catering	Catering charge for [state purpose] on [date] at [place]
Salary	Salary for [state initials and post/payroll number] for period dd/mm/yy to dd/mm/yy
Expenses	Expenses for [initials/payroll/post] covering period dd/mm/yy to dd/mm/yy [Include detail of type of expense e.g. mileage, parking, subsistence, claim reference number if applicable]
Stationery	Stationery, [description of stationary items], [team/post/post holder initials as required], [what they are for]
Printing	Printing, [description of what was printed], [explanation of why and what used for]

## Completing the financial spreadsheet for projects that cover more than one category of region

Where a project covers two categories of region the project will need to have two physical delivery locations, one in each region.

- ✓ Budgets and actual costs for participants should be allocated to the physical location and region where they will participate.
- ✓ For general costs that apply to both regions (e.g. advertising posters that reference both locations or management costs) the cost should be apportioned by participant numbers.
- ✓ **Annex O** enables you to split an individual transaction between categories of region.

## Completing the fields in the financial management spreadsheet

In the following tables, we've summarised the fields you need to complete on the spreadsheet.

What the financial monitoring spreadsheet collects:

**“Summary” Worksheet**

Annex O Field	Description
<b>Project Name</b>	Please enter the name of your project here.
<b>LEP Area Name</b>	Select your LEP area from the drop-down box.
<b>Investment Priority</b>	Most projects should select “1.4 Active Inclusion”. COR/2/1 will select “1.2 Sustainable Integration of Young People”.
<b>Priority Axis</b>	This has been pre-filled as all Building Better Opportunities projects are part of ESF Priority Axis 1 (Inclusive Labour Markets).
<b>MA Operational Identifier</b>	This is the Managing Authority’s LEP-level reference. This field will auto-complete when your LEP area name is entered.
<b>The National Lottery Fund Project ID</b>	Please enter you’re Project ID from The National Lottery Community Fund in this box. Your Funding Officer can provide this number to you if you do not know what this is.
<b>Lead Partner Name</b>	Complete with the name of the project lead partner.
<b>Project Quarter</b>	Select the claim quarter from the drop-down box. Quarters refer to calendar years e.g. “2016 - Q1” refers to the period January to March 2016.
<b>Claim Summary by Cost Category Table</b>	This table summarises the claim by cost category providing a value for each for invoice value (excluding VAT), irrecoverable VAT, flat rate indirect costs, total and then splits the total cost into the value by category of region.
<b>Claim summary less any ineligible expenditure</b>	This repeats the table above, only excludes cost of any transactions that have been given the status sense check - ineligible or sampled - ineligible on the transaction tab.

## “Transactions” Worksheet

Annex O Field	Description
Line number	The number has been pre-filled.
Cost category	These are the cost categories listed in your payment schedule and in 8.1 of this section. Select the appropriate category from the drop-down box.
Procurement contract ID	Where a line is related to a procured contract, the Procurement Register reference must be entered here (see Section seven: Partners and procurement).
Supplier name	A free-format field where the supplier name should be entered. Where a line refers to direct staff costs, the partner supplying the staff should be entered here.
Supplier VAT number	If the supplier is VAT-registered, their VAT number must be entered here. If the supplier is VAT-exempt, type “VAT exempt” in this field.
Invoice/ID number	<p>All documents should be given a separate unique reference number (URN) to clearly identify the item of expenditure. You should consider using one of the following methods:</p> <ul style="list-style-type: none"> <li>✓ For invoices - add the month and year (in the format MMY) to the supplier invoice number, separated by a dash, for example: 0216 - 12345.</li> <li>✓ For salary costs - add the month and year to the staff payroll number.</li> <li>✓ For participant expenses, incentives and allowances - add the month and year to the receipt or expense number.</li> </ul>
Supplier invoice date	The date shown on the supplier invoice.
Defrayal date / date paid	Enter the date that the invoice was paid from your bank account. For staff salaries, add the appropriate monthly payroll date.
Payment method	There are nine options: cash, cheque, credit card, CHAPS, direct debit, debit card, bank transfer, BACS and other.
Payment reference	<p>Enter an appropriate reference for the payment method, for example:</p> <ul style="list-style-type: none"> <li>✓ Cash - a petty cash receipt number.</li> <li>✓ Cheque - the cheque number.</li> </ul>



Annex O Field	Description
	<ul style="list-style-type: none"> <li>✓ Credit card - the bank account reference for the relevant monthly statement.</li> <li>✓ CHAPS / BACS / Bank transfer / Direct debit - the bank account payment reference.</li> </ul>
<b>Expenditure details/description</b>	You must enter a clear description of the item being claimed for. It must provide enough information for a reviewer to be able to judge whether or not the cost is eligible, without the need to view the original invoice. See 8.11 above
<b>Apportionment details</b>	<p>Indicate how the eligible value was arrived at. There are four options:</p> <ul style="list-style-type: none"> <li>✓ N/A - This is used where the entire invoice is eligible.</li> <li>✓ Whole invoice/receipt value minus ineligible costs - where the ineligible portion has been deduced before reporting.</li> <li>✓ Apportioned by contract value - this is used where costs are apportioned between different ESF contracts.</li> <li>✓ Split by category of region - If the invoice /receipt cannot be traced back to a specific location within a category of region, then its value should be apportioned by the number of participants in each region. For example: <ul style="list-style-type: none"> <li>Invoice value = £1,000.</li> <li>Two regions = A has 20 participants, B has 30 = 50 participants.</li> <li>Region A portion = <math>(20 \div 50) \times £1,000 = £400</math>.</li> <li>Region B portion = <math>(30 \div 50) \times £1,000 = £600</math>.</li> </ul> </li> </ul>
<b>Invoice value (excluding VAT)</b>	Enter the invoice or receipt value before VAT. Values must be in full pence.
<b>Irrecoverable VAT</b>	<p>Any irrecoverable VAT should be entered here. In the event that you are able to fully recover VAT, the amount should be entered as £0.00.</p> <p>As with the invoice value, amounts must be in full pence.</p>
<b>Category of region</b>	<p>There are four options: less developed, transition, more developed and Split by category of Region.</p> <p>Please select the category of region for each item of expenditure.</p>

Annex O Field	Description
	If you are apportioning costs to more than one Category of Region, please select “Split by Category of Region” and manually enter the appropriate amounts in the next three columns.
<b>Total category of region expenditure</b>	<p>These three columns provide the ESF grant amount per category of region for each expenditure line.</p> <p>If your transaction relates to one Category of Region the value will automatically pull through.</p> <p>If you are apportioning costs to more than one Category of Region, you must enter the value in each column to show how you have split the costs. The sum of these values must be equal to the Total Eligible value.</p>
<b>Flat rate indirect costs</b>	This column automatically calculates 15 per cent indirect cost where the cost category staff costs (direct and external) is selected.
<b>Total eligible value</b>	This field will calculate automatically and is the total value of the individual transaction.
<b>Errors</b>	This will be automatically generated if there are any errors in the information provided.
<b>Transaction status</b>	For The National Lottery Community Fund use only during the claim check process. There are four options: sense check - ineligible, selected for sample, sampled - okay, sampled - ineligible. Your funding officer will use the transaction status to mark the lines selected for testing and their outcome.
<b>Notes</b>	For The National Lottery Community Fund use only during the claim check process. Free text.