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department of enterprise, trade and employment



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ESF Certifying Authority, Department of Enterprise Trade and Employment Circular 1/2008

ELIGIBILITY RULES FOR THE EUROPEAN SOCIAL FUND (ESF) 2007-2013 UNDER THE NATIONAL STRATEGIC REFERENCE FRAMEWORK

21 August 2008

1. Background

I am authorised by the Minister of the Enterprise, Trade and Employment to advise all bodies in the financial management and control cascade of the eligibility rules for expenditure concerning the European Social Fund (ESF) 2007-2013 under Ireland's National Strategic Reference Framework (NSRF), which apply to all expenditure co-financed through the Human Capital Investment Operational Programme (HCI OP).

This Circular should be read in conjunction with the financial management and control Circular 12/2008 issued by the Department of Finance for all Structural Funds to conform with the regulatory framework as laid down in the Council Regulation (EC) 1083/2006 and in particular Articles 58 and 62 and Commission Regulation (EC) 1828/2006.

The Department of Finance, as Member State Authority has overall policy responsibility for the Structural Funds and the Department of Enterprise, Trade and Employment has primary responsibility for the European Social Fund (ESF). However, the day-to-day responsibility for the implementation of co-financed operations rests with the appropriate statutory bodies e.g. Government Departments, Agencies and Authorities. These bodies are also accountable both to the Oireachtas and to the Comptroller & Auditor General for the National/Exchequer contribution to the co-financed operations.

Failure to comply with the procedures as laid out in Department of Finance Circular 12/2008 and/or this Department of Enterprise, Trade and Employment ESF Eligibility Rules Circular may lead to the suspension of financial assistance and/or loss to the Exchequer for which the relevant bodies in the financial management cascade will have to account.

A separate eligibility circular for the European Regional Development Fund (ERDF) will be issued by the Department of Finance (i.e. Department of Finance ERDF Eligibility Rules Circular 16/2008).

2. Scope

The eligibility rules set out in this Circular shall cover all expenditure declared for operations within the European Social Fund (ESF) co-financed operational programme 2007-2013 (i.e. HCI OP) as required by Article 56(4) of the Council Regulation (EC) 1083/2006, and subject to the general rules of the other subsections within Article 56 and the scope and exceptions provided for in Articles 3 and 11 of the Council Regulation (EC) 1081/2006.

3. National ESF Eligibility Rules

- 3.1 Expenditure shall be eligible for a contribution from the ESF if it has actually been incurred and paid (therefore notional costs are considered ineligible) for ESF co-financing between 1 January 2007 and 31 December 2015 and any grant/contract approval dates, subject to the receipt of the goods and services in accordance with the objectives of the operation as outlined in paragraph 3.2. Operations must not have been completed before the starting date for eligibility.

An example of 'incurred and paid' is a cheque given by the beneficiary in settlement of a purchase invoice/contract for goods and/or services received which is subsequently cashed by the project bank account of the beneficiary. The period for recording the eligible expenditure for ESF purposes is the later of the date entered on the cheque or the date the cheque is given by the beneficiary in settlement for the goods and/or services. In addition, the expenditure must be cashed through the beneficiary's bank account before it can be certified as eligible on an expenditure declaration.

- 3.2 Expenditure shall be eligible for a contribution from the ESF only where incurred for operations approved by the managing authority of the operational programme concerned or under its responsibility, in accordance with criteria fixed by the monitoring committee and set out in the individual Activity Implementation Plans (AIP's). New expenditure, added by the revision of an operational programme, shall be eligible from the date of the submission to the Commission of the request for revision of the operational programme.
- 3.3 Proof of expenditure is required and, as a general rule, the expenditure must be supported by receipted invoices or accounting documents of equivalent probative value, which have a proven link with the operation. Effectively, this means any document accepted to prove that the book entry gives a true and fair view of the transactions in accordance with current accountancy regulations. Examples of such proof include; purchase invoice/statement, contract agreement, signed delivery docket/timesheet, cheque book, electronic fund transfers printouts and bank statements.

These supporting documents must be held for up to three years after the closure (i.e. final or partial closure) of the operational programme, which is the date the final settlement is made for the closure of the HCI OP.

- 3.4 By way of derogation from paragraph 3.1, overheads/indirect costs, depreciation costs and in-kind contributions may, under specific conditions, be treated as eligible expenditure incurred and paid by beneficiaries in implementing operations. This is provided the written approval of the managing authority is received and the amount of the expenditure is justified by accounting documents having a probative value equivalent to invoices. The specific conditions for each of

the three derogation categories are provided for under section 2 of Appendix A and 4 to 5 of Appendix B.

- 3.5 A list of potential costs that shall be considered eligible for a contribution from the ESF, provided they are incurred in accordance with standard accountancy rules, is set out in Appendix A. This list is not an exhaustive list of all types of expenditure eligible for ESF purposes, therefore, clarification should be sought from the ESF certifying authority through the managing authority on any item not included or where the eligibility of same is considered uncertain.
- 3.6 A list of potential costs that shall not be considered eligible for a contribution from the ESF is set out in Appendix B. Again, this list is not an exhaustive list of all types of expenditure ineligible for ESF purposes, therefore, clarification should be sought from the ESF certifying authority through the managing authority on any item not included or where the eligibility of same is considered uncertain.
- 3.7 A revenue-generating project, for the purposes of ESF co-financed operations in Ireland and in accordance with Article 55 of the Council Regulation 1083/2006, means any operation involving the provision of services against payment (e.g. training course where fees are paid by participants). There are certain conditions applicable to assessing and implementing ESF co-financed revenue generating projects, which are set out in detail in Appendix C.
- 3.8 The Financial Management and Control system for ESF co-financed operations in Ireland is based on the principle of shared responsibilities by way of delegation and administrative agreements. Each level of the cascade must therefore take responsibility for ensuring that the requirements of the Management and Control system are adhered to at their own levels and that ESF and national rules are complied with (refer to Appendix D for a flowchart of the ESF financial management and control cascade structure). A checklist accompanies the level 1 expenditure declarations (i.e. Form B1) and requires confirmation that fifteen conditions have been adhered to before certifying to the next level in the cascade systems. The fifteen conditions are detailed in Appendix E and are all considered essential to ensure that expenditure is eligibility for ESF co-financing.
- 3.9 The Department of Finance Circular 12/2008 sets out the Financial Management and Control Procedures for EU Structural Funds Programmes 2007-2013 required. This Circular includes procedures for State aids, public procurement, information and publicity, irregularities, audit trail and retention of records that are required to safeguard the eligibility of expenditure for EU co-financing.

Conclusion

Conformity with this Circular, the Department of Finance Circular 12/2008 and with the relevant EU Regulations is obligatory for all operations within the ESF co-financed HCI OP. Failure to abide by the ESF eligibility rules outlined above may lead to the deferment or cancellation of ESF assistance to Ireland and a loss to the National Exchequer. Therefore, these rules must be adhered to and introduced into the procedures (i.e. procedure manuals) of all organisations involved in implementing and administrating ESF co-financed operations.

Finally, while every effort has been made to ensure that the ESF eligibility rules laid down in the Circular are as comprehensive as possible, they are not exhaustive. If, therefore, any items are not included or where the eligibility of expenditure is considered uncertain clarification should in the first instance be sought by contacting the HCI OP managing authority, Department of Enterprise, Trade and Employment. Any additional clarifications required will be sought from the ESF certifying authority, Department of Enterprise, Trade and Employment.

Tom Whelan
ESF Certifying Authority
Department of Enterprise, Trade and Employment

21 August 2008

Eligible Expenditure

The following is a list of potential costs that shall be considered eligible for a contribution from the ESF, provided they are incurred in accordance with standard accountancy rules. This list is not an exhaustive list of all types of expenditure eligible for ESF purposes, therefore, clarification should be sought from the ESF certifying authority through the managing authority on any item not included or where the eligibility of same is considered uncertain.

1. Salaries, Travel and Subsistence Costs

The salaries, travel and subsistence costs of operations that meet any of the following conditions are eligible;

- Salaries costs including employer's PRSI are eligible if based on real costs (e.g. amounts paid to employee/revenue and not notional costs). The grades and pay scales should be shown, where applicable, and evidence of actual time spent on ESF operation, such as time sheets must be maintained, unless the individual is allocated exclusively to the ESF operation. The relevant salary costs that include non-ESF activity must be excluded.
- Travel and subsistence costs per staff member must relate to ESF operations only and have appropriate documentation to support the costs. The travel and subsistence rates must be appropriate and justifiable (e.g. in line with applicable civil service rates and rules).
- Allowances or salaries disbursed by a third party for the benefit of the participants in an operation (e.g. training course allowances) and certified to the beneficiary.

2. Overheads/Indirect Costs

Overheads/indirect costs of operations may be eligible under certain conditions. These conditions must be confirmed and approved by the ESF managing authority in writing to the relevant intermediate bodies for each activity heading. The ESF managing authority will select one of the following methods for calculating the overheads/indirect costs:

- real costs which relate to the implementation of the operation co-financed by ESF and are allocated pro rata to the operation, according to duly justified fair and equitable methods, or,
- indirect costs declared on a flat rate basis for grants, up to a maximum of 20% of the direct costs of an operation. A clarification note that sets out the legal basis, the definition of direct and indirect costs, the scope and the justification requirements for this method is attached at Appendix F to this document.

3. Purchase Costs of Equipment (equal to or less than €1,000)

The purchase costs of equipment that is linked to the operation and that is equal to or less than €1,000, which is equivalent to the National accountancy threshold as set out in the Department

of Finance Circulars 02/2004 regarding the rules for the inclusion of assets in capital asset registers, are eligible.

4. Purchase Costs of Second Hand Equipment

The purchase costs of second-hand equipment that is linked to the operation and that is equal to or less than €1,000 threshold, as under section 3 above, and that meet all of the following conditions are eligible;

- the seller of the equipment shall provide a declaration stating its origin, and confirm that at no previous point has the equipment been purchased with the aid of National or Community grants;
- the price of the equipment shall not exceed its market value and shall be less than the cost of similar new equipment, and;
- the equipment shall have the technical characteristics necessary for the operation and comply with applicable norms and standards.

5. Leasing and Rental Costs

The leasing/rental costs of operations that meet all of the following conditions are eligible;

- The lease/rental costs must be related to the operation, where the link with this operation to the ESF co-financed operation can be shown and are allocated exclusively to this operation within the co-financing period. If the lease/rental costs are not related to the operation and/or are not allocated exclusively for the duration of the operation then the lease/rental costs are ineligible but may be claimable as an indirect/overhead cost if all the conditions set out under section 2 above are met, and,
- The maximum amount of ESF eligible expenditure shall not exceed the market value of the asset leased/rented as supported, were possible, by a receipted invoice or an accounting document of equal probative value detailing the purchase cost to the lessor of the asset being leased/rented.

6. Financial Charges

The financial charges of operations that meet any of the following conditions are eligible;

- charges for transnational financial transactions;
- where the implementation of an operation requires a separate account or accounts to be opened, the bank charges for opening and administering the account or accounts;
- legal consultancy fees, costs of technical and financial experts and accountancy and audit costs, if they are directly linked to the co-financed operation and are necessary for its preparation or implementation or, in the case of accounting and audit costs, if they relate to requirements imposed by the managing authority;

- the cost of guarantees, not including interest on debt, provided by a bank or other financial institution to the extent to which the guarantees are required by national or Community legislation.

The financial charges that are specifically ineligible are detailed under section 1 of Appendix B.

7. Technical Assistance

The technical assistance costs for the preparatory, management, monitoring, evaluation, information and control activities of the ESF operational programme together with activities to reinforce the administrative capacity for implementing the ESF actions are eligible. This includes the following categories of expenditure:

- relating to the preparation, selection, appraisal and monitoring of the assistance and of operations,
- on meetings of monitoring committees and sub-committees relating to the implementation of assistance. This expenditure may also include the costs of experts and other participants in these committees, including third-country participants, where the chairperson of such committees considers their presence essential to the effective implementation of the assistance,
- relating to audits and management checks of operations,
- expenditure relating to studies, seminars, information actions and evaluation, and,
- the acquisition and installation of computerised systems for management, monitoring and evaluation. This cost is subject to the €1,000 equipment threshold set out under section 3 above but the depreciation costs may be claimable if all the conditions set out under section 4 of Appendix B are met.

Expenditure on salaries including social security contributions is eligible only in the following cases:

- the salaries costs of the staff in the ESF Financial Control Unit,
- other civil servants or other public officials seconded by duly documented decision of the competent authority to carry out tasks, and,
- other staff employed to carry out tasks referred above.

The ESF contribution to the technical assistance expenditure is limited to the maximum amount approved for this cost by the HCI OP Commission Decision and this shall be within a limit of 4% of the total amount allocated to the programme as required by Article 46 of the General Regulation.

8. Cross Financing ERDF Activity

Without prejudice to the derogations laid down in the specific regulations of the Funds, the ERDF and the ESF may finance (i.e. cross financing), in a complementary manner and subject to a limit of 10 % of Community funding for each priority axis of an operational programme, actions falling

within the scope of assistance from the other Fund, provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it as allowed for under Article 34 of Council Regulation 1083/2006.

The national ERDF eligibility rules set out in the Department of Finance Eligibility Circular 16/2008, which comply with Article 7 of Council Regulation 1080/2006 (ERDF Regulation), shall apply to actions co-financed by the ESF, which fall within the scope of Article 3 of the ERDF Regulation.

The approval of the managing authority must be granted to the ESF co-financed operation before any cross financing is considered eligible. The amount of cross financing expenditure at operations level must be recorded and made available on request in order for the managing authority to ensure that the 10% limit is respected at priority level.

Ineligible Expenditure

The following expenditure shall not be eligible for a contribution from the ESF. Again, this list is not an exhaustive list of all types of expenditure ineligible for ESF purposes, therefore, clarification should be sought from the ESF certifying authority through the managing authority on any item not included or where the eligibility of same is considered uncertain.

1. VAT and Charges

The costs that come under the following headings are ineligible;

- recoverable VAT, and/or,
- fines, financial penalties, expenditure on legal disputes (e.g. court costs, legal fees and settlement costs) and interest on debt (e.g. bank interest).

2. Vehicles, Infrastructure, Real Estate and Land Costs

The purchase costs of vehicles, infrastructure, real estate and land are ineligible. This includes all the associated costs (e.g. auctioneers, legal, surveyors and engineers fees) involved in purchasing such items.

3. Purchase Costs of Equipment (greater than €1,000)

The purchase costs of equipment over the €1,000 capital threshold, which is equivalent to the National accountancy threshold as set out in the Department of Finance Circulars 02/2004 regarding the rules for the inclusion of assets in capital asset registers, are ineligible. The definition of equipment for the purpose of ESF co-financed operations in Ireland is that equipment relates to tangible property of a more or less permanent nature which is useful in carrying on operations. An equipment item is a moveable or fixed unit of furniture or furnishings, an instrument, a machine, an apparatus, or a set of articles that meets all of the following conditions;

- Under normal conditions of use, including reasonable care and maintenance, there is an anticipated useful life of more than one year;
- It retains its original shape and appearance with use;
- If the article is damaged or some of its parts are lost or worn, it may be more feasible to repair it than to replace it with an entirely new item, and;
- It does not lose its identity through incorporation into a different or more complex unit.

However, the depreciation costs of such equipment may be eligible if the conditions set out under section 4 below are met.

4. Depreciation Costs

As a general rule depreciation costs are ineligible, with the exception for operations approved by the managing authority in writing and that meet all of the following conditions;

- The depreciable equipment is directly used for the ESF co-financed operation,
- The depreciable equipment is allocated exclusively for the duration of an operation within the co-financing period. If the depreciable asset is not allocated exclusively for the duration of the operation then the depreciation costs are ineligible but may be claimable as an indirect/overhead costs if all the conditions set out under section 2 of Appendix A are met,
- The purchase cost of the depreciable equipment has not been already declared as eligible expenditure,
- National or Community grants have not contributed towards the purchase of the depreciable equipment, and,
- The depreciation cost is calculated in accordance with the relevant accountancy rules.

If written approval is received and all the above conditions are met then the depreciation costs of depreciable assets (i.e. equipment) as set out under section 3 above are eligible at the following rates:

- computer equipment 33.33%
- all other equipments 20%

5. In-Kind Contributions

As a general rule public or private in-kind contributions are ineligible, with the exception for operations approved by the managing authority in writing and that meet all of the following conditions;

- the co-financing from the ESF does not exceed the total eligible expenditure excluding the value of such in-kind contributions;
- the value can be independently assessed and audited;
- in the case of unpaid voluntary work, the value of that work shall be determined taking into account the time spent and the hourly and/or daily rates of remuneration for equivalent work (i.e. the value of volunteer time is based on the notional value of the tasks performed by the volunteer for the project not the current earnings of an individual in their usual paid employment);
- the overall in-kind contributions cost of providing the service and/or goods (e.g. hours worked multiplied by hourly rate for equivalent work) is not greater than the market value for providing the same service and/or goods. This case may arise were the number of hours taken by the volunteer in performing a specific task is greater than the hours required by a professional for the same specific task resulting in a cost greater than the market value, even if different hourly rates are applied to both the volunteer and the professional.

6. Sub-contracting Costs

The sub-contracting costs that fall under the following headings are ineligible:

- Sub-contracting which adds to the cost of execution of an operation, without adding proportionate value to it,
- Sub-contracts with intermediaries or consultants in which the payment is defined as a percentage of the total cost of an operation unless such payment is justified by the beneficiary by reference to the actual value of the work or services provided, and/or,
- Profit elements included in sub-contracts between related party organisation (e.g. sub-contract between a company and a subsidiary of the same company). Therefore, only the actual cost element of such related sub-contracts are considered eligible.

7. Location of Operation

As a general rule operations not located in Ireland are ineligible, with the exception for operations approved by the managing authority in writing and that meet all of the following conditions;

- The managing authority must foresee that Ireland will accrue a greater than 50% proportion of benefits from an operation located outside its region, and;
- The operation must be located in a NUTS III area of a Member State immediately adjacent to Ireland.

8. Treatment of Revenue / Income / Receipts

As a general rule any revenue/income/receipts generated by an EU co-financed operation must be deducted from the eligible expenditure of the operation. There are certain additional conditions applicable to assessing and implementing ESF co-financed revenue generating projects, which are set out in detail in Appendix C.

9. Redundancy and Pension Costs

As a general rule redundancy and pension costs are ineligible, with the exception for operations with specific approval by the managing authority in writing. In addition to the managing authority's written approval, the following condition must be adhered to for redundancy costs;

- The eligible amount of the redundancy payment is restricted to the non-refundable statutory element only and proportionally to the amount of time the person being made redundant was working on ESF operation activity.

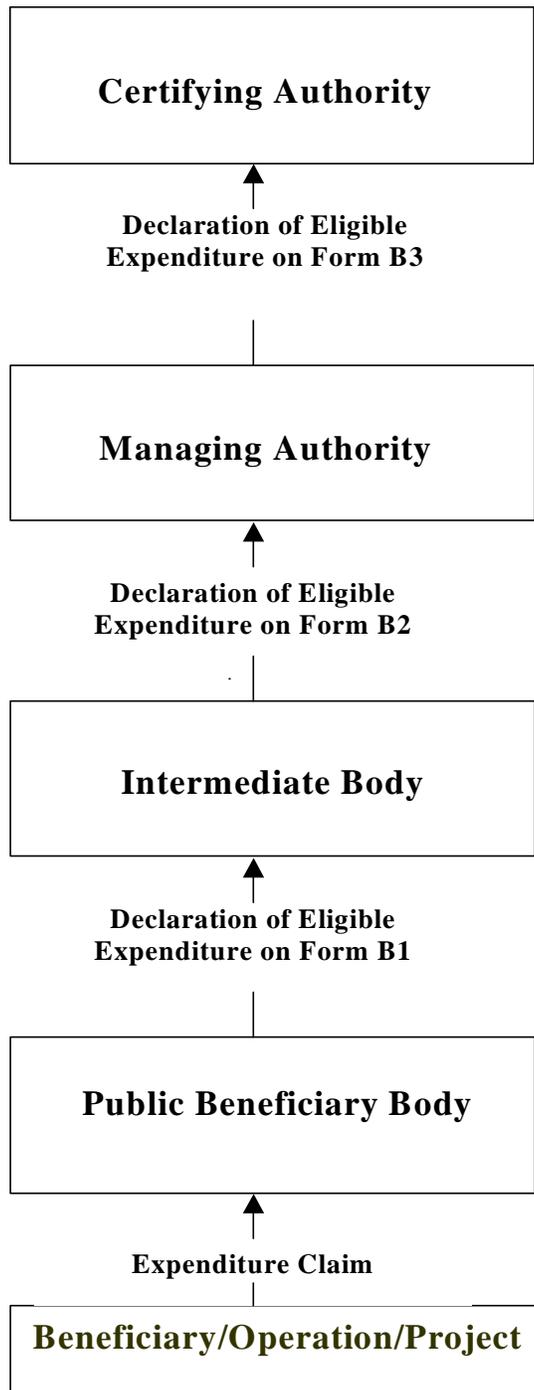
Assessing and Implementing Revenue Generating Projects

A revenue generating project, for the purposes of ESF co-financed operations in Ireland and in accordance with Article 55 of the General Regulation, means any operation involving the provision of services against payment (e.g. training course where fees are paid by participants). The following conditions are applicable to assessing and implementing ESF co-financed revenue generating projects:

- The eligible expenditure on revenue generating projects shall not exceed the current value of the investment cost less the current value of the net revenue from the investment over a specific reference period for projects where it is possible to objectively estimate the revenues in advance.
- Where not all the investment cost is eligible for co-financing, the net revenue shall be allocated pro rata to the eligible and non-eligible parts of the investment cost.
- In the calculation of the revenue estimate, the managing authority shall take account of the reference period appropriate to the category of investment concerned, the category of project, the profitability normally expected of the category of investment concerned, the application of the polluter-pays principle, and, if appropriate, considerations of equity linked to the relative prosperity of Ireland.
- Where it is objectively not possible to estimate the revenue in advance, the revenue generated within five years of the completion of an operation shall be deducted from the expenditure declared to the Commission. The deduction shall be made by the certifying authority at the latest at partial or at final closure of the operational programme. The application for payment of the final balance shall be corrected accordingly.
- Where, at the latest three years after closure of the operational programme, it is established that an operation has generated revenue that has not been taken into account such revenue shall be refunded to the general budget of the European Union in proportion to the contribution from the ESF.
- The operations whose total cost is below €200,000 may adopt procedures proportionate to the amounts concerned for monitoring revenues generated.

The provision of the above are not applicable to revenue generating projects that are subject to the rules on State aid within the meaning of Article 87 of the Treaty of Amsterdam. It should be noted that where there is no transfer of State resources to an undertaking, there is no State aid. Thus, if the State (at central, regional or local level) is the beneficiary of the contribution from the Funds there is no State aid as there is no transfer of resources away from the State.

Flow Chart – ESF Financial Management and Control Cascade Structure



Form B1 Checklist

1. Expenditure on the project/operation is consistent with the provisions of the National Eligibility Rules.
2. The intended purpose of the project/operation is consistent with the objectives of the OP Priority
3. The payment application for EU recoupment is based on eligible expenditure actually paid out by the Public Beneficiary Body and supporting documentation is available.
4. The expenditure for which recoupment is sought has been paid within the eligibility period
5. EU State Aids, public procurement, sustainable development and equality between men and women and non-discrimination and Regional aid rates, as appropriate, have been observed in accordance with Articles 16 and 17 of the General Regulation
6. EU information and publicity requirements are being observed, i.e. in conformity with Regulation (EC) 1828/2006 (information & publicity)
7. Physical and financial progress is being monitored and documented including on the spot site inspection where appropriate, in accordance with Article 13 of the Implementation regulation
8. There has been no overlapping of EU aid for the project/operation
9. A separate accounting system or an adequate accounting code is being maintained for all transactions relating to the operation
10. Evidence of receipt of funding by the beneficiary of the grant is available
11. Details of the underlying transactions are recorded, where possible, on computer files and are available on request to the Commission Services responsible and national authorities
12. An adequate audit trail exists i.e. in conformity with Article 15 of Commission Regulation (EC) 1828/2006.
13. All original supporting documentation will be retained in accordance with Article 90 of Council Regulation (EC) 1083/2006 and Article 19 of Council Regulation EC 1828/2006 i.e. for three years after the closure of the programme
14. Expenditure has been reconciled between the administrative unit and the accounts/finance unit and any differences explained and a print-out from the financial management system & copy of reconciliation has been supplied
15. Operations have been selected in accordance with the criteria approved by the Monitoring Committee

Clarification on the indirect costs declared on a flat-rate basis up to 20% for the ESF grants in the 2007-2013 programming period

Background

The European Commission proposed and the European Council agreed, by adopting Article 11.3(b) into the ESF Regulation, to simplify the rule on justification of the indirect costs (overheads) of ESF operations in the case of grants for the 2007 –2013 programming period, because experience from previous programming periods showed that the justification of these costs constituted a high source of risk for the beneficiaries, and an often disproportionate administrative cost for ESF operations presenting small amounts. Therefore, Ireland's national eligibility rules for the treatment of indirect costs in the case of grants, as provided for in the ESF Regulation, is that indirect costs can be declared on a flat-rate basis, up to 20% of the direct costs of an operation once it has been clearly defined and approved in the project's granting decision.

The aim of this rule is to simplify the administrative and financial file pertaining to an ESF operation, both for the beneficiary and for the other bodies responsible for the administration of the programme. Nevertheless, the detailed rules for the application of this treatment of indirect costs must be set out clearly as they could, otherwise, become a source of financial risk and of financial corrections when checks and audits are performed. Accordingly the following paragraphs set out the legal basis, the definition of direct and indirect costs, the scope and the justification requirements for indirect costs declared on a flat-rate basis up to 20% and some practical examples.

Legal basis

The legal basis for the indirect costs to be declared on a flat rate basis for grants is provided for in Article 11 of the ESF Regulation as follows.

11.1. *The ESF shall provide support towards eligible expenditure which, notwithstanding Article 53(1)(b) of Regulation (EC) No 1083/2006, may include any financial resources collectively contributed by employers and workers. The assistance shall take the form of non-reimbursable individual or global grants, reimbursable grants, loan interest rebates, micro-credits, guarantee funds and the purchase of goods and services in compliance with public procurement rules.*

.....

11.3. *The following costs shall be expenditure eligible for a contribution from the ESF as defined in paragraph 1[article 11.1] provided that they are incurred in accordance with accountancy rules, and under the specific condition (b) in the case of grants, indirect costs declared on a flat-rate basis, up to 20 % of the direct costs of an operation.*

Definition of direct and indirect costs

The definition of direct and indirect costs for the purpose of ESF operations 2007-2013 is that direct costs are to be regarded as those costs which are directly related to an individual operation, where the link with

this operation can be demonstrated. Indirect costs, on the other hand, are costs which are not, or cannot, be connected directly to an individual operation of the entity in question. Such costs would include administrative expenses, for which it is inherently difficult to determine precisely the amount attributable to a specific operation (e.g. administrative/staff expenditure, such as management costs, recruitment expenses, personnel costs for the accountant or the cleaner, telephone, water and/or electricity expenses).

Scope of the Article 11(3)(b) of the ESF Regulation

The treatment of indirect costs on a flat-rate basis up to 20% concerns only operations managed in the framework of grant payments, where declared expenditure is normally justified by paid invoices and/or other accounting documents of equivalent probative value (i.e. reimbursing the operation for actual expenditure incurred). This flat rate rule means that once direct costs have been clearly defined in the granting decision and properly justified by the beneficiaries by means of supporting paid invoices, beneficiaries can apply the agreed flat rate (i.e. within the 20% ceiling) to declare and justify indirect costs linked to this ESF operation, without any further justification.

If payments are not based on a grant payments but on the contract agreement price to the successful tender (i.e. not the actual expenditure incurred by the successful tender) then no overheads/indirect costs are eligible unless already included in the contract agreement price.

Justifying indirect costs declared on a flat-rate basis up to 20%

It is important to remember, first of all, that the declaring of indirect costs on a flat-rate basis must be foreseen at the programming stage of operations. The objective is to dispense with the need to justify in detail (e.g. provision of copies of paid invoices and a specific pro rata breakdown for each type of expenditure) the costs which make up the indirect costs. This simplifies matters both for the beneficiary and for the administration managing and controlling the ESF operation.

The simplification of the justification of indirect costs implies, however, careful verification of the declared direct costs, in accordance with the granting decision. This verification of direct costs allows for the justification of the amount of declared indirect costs and constitutes part of the management checks (Article 60(b) of Regulation 1083/2006) and of audits on operations (Article 62(a) and (b) of Regulation 1083/2006).

Finally, it also needs to be clear that;

- since actually incurred direct costs serve as the basis for calculation of indirect costs, any reduction in these direct costs in relation to the estimated budget or following a financial correction will have an impact on the flat-rate amount of indirect costs;
- any income generated on the ESF operation ought to be deducted from total costs (i.e. direct and indirect costs) declared on this ESF operation. When the income is allocated pro rata to the eligible and non-eligible parts of the investment cost the total costs of the eligible operation must be used. The rules governing revenue generating projects are set out further in Appendix C.