

NW Objective 2 Programme 2000-6

Information Note No: 2

ERDF Eligible Activities and Expenditure

(January 2001)

The “Information Notes” Series

These notes aim to help applicants through the processes of putting together and completing a successful application. They should also assist in the proper appraisal of projects. Copies may be obtained from the address on the front page. The aim is to answer the most frequently asked questions, and concentrate on areas where applicants often misunderstand what is required and so provide insufficient or inaccurate information. If your question is not answered in this series of notes, please let us know in the Secretariat and we will try to provide you with an answer (it isn't always possible to be definitive immediately) and consider whether these guides need to be amended or added to.

Note There are also two notes for guidance on Action Plans published by DETR which the Secretariat can supply - these to be updated.

Acknowledgement

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ERDF: Eligible Activities and Expenditure

Introduction

This note is designed to help applicants to determine the eligibility of activities for ERDF funding. Other useful references are the guidance notes which accompany the ERDF application form, the Single Programming Document (SPD) and the European Commission's eligibility rules set out in an Annex to the implementing provisions (Regulation (EC) no. 1260/1999).

There is no definitive list of ERDF eligible and non-eligible activities. The range presented here represents an indication of the eligibility of specific activities for ERDF support as a result of guidance from the European Commission, and practices and precedents established and accepted by the implementing authorities.

Eligibility

Project applications must show additional benefits to the Programme Area and that a need exists for Structural Fund support.

There are a number of areas that are completely ineligible for support. These include local government statutory services, health, education, police and fire services. Projects that are ineligible for support include:

- Those covered by EC sectoral restrictions e.g. production of synthetic fibres, clothing, motor vehicles, shipbuilding, coal and steel;
- banks and insurance companies;
- the provision of hospitals and related facilities;
- public administration buildings;
- statutory education and related sports and cultural facilities;
- housing;
- retail developments, except when an integral part of a general economic development strategy
- social welfare facilities;
- coastal protection with an exclusively agricultural bias

Other **ineligible** items of which partners should take particular note are:

- car parks (unless part of a wider tourism or industrial scheme);
- works which are essentially a safety measure;
- works which merely replace existing facilities with no significant improvement;
- works on routine or essential maintenance of a capital facility;
- works which are required to meet statutory obligations or EU directives;
- works with a domestic end-use;
- mobile infrastructure (e.g. buses, non-specialised furniture). Some mobile plant and machinery OK in exceptional circumstances, depending on its contribution to the capital project.

Types of Projects

The scope or types of projects that are regarded as eligible activities are contained within the measure sections of the SPD. In many cases these are straightforward - sites and premises for SMEs, equipment for vocational training etc. It does not however automatically follow that all expenditure related to these types of projects would be eligible. For example, land acquisition costs are limited to a maximum of 10% of total eligible expenditure of the operation. Applicants should read the following sections on eligible expenditure to ensure that their application distinguishes between ineligible and eligible expenditure. Also, applicants should

seek advice from the Secretariat on the eligibility of projects where the proposed activity has not been specifically identified in the SPD.

Capital Projects

Applications for capital projects related to physical works which result in the enhancement of an existing asset or the provision of a new permanent asset are eligible, provided they contribute towards the measures and priorities of the SPD and do not conflict with other points raised in this note. Repair, replacement, routine or essential maintenance works are ineligible.

Car Park Construction /Enhancement

Stand alone car parks are generally regarded as **ineligible**. Car park enhancements may be eligible where the project is part of a larger package of improvements on a tourism or industrial site.

Closed Circuit Television

CCTV schemes for urban areas, even those targeted for CED assistance, are **not eligible** for ERDF assistance since the crime prevention and community safety action of Priority 2 of the SPD is intended to address the **causes** of crime. Limited assistance may be given towards CCTV systems that protect industrial areas and properties.

Community Facilities

To be considered eligible for funding facilities should make a direct contribution to the economic regeneration of the Programme Area e.g. resource centres, training facilities, community businesses and child-care provision clearly linked to participation in employment and/or training. Facilities with a mainly social purpose e.g. social clubs and facilities for general interest groups are generally considered **ineligible** for funding. Applicants should provide detailed information on how the proposed activities will contribute to the economic development of the Programme area. Where facilities include several uses, grant will be restricted to that element of the facilities to be used for eligible activities.

Computer Software

Computer software is eligible as capital expenditure only when provided as an initial complement to computer hardware that is the subject of an ERDF application. Computer software provided in isolation is ineligible for ERDF assistance.

Construction and Refurbishment of Industrial/Training/Research Premises

Projects must encompass an improvement or enhancement in facilities to be eligible for ERDF grant. Investments in the field of education are **ineligible**, the new or improved facilities must relate to business/ vocational training facilities to fill a gap where there is clear evidence of SME need for the facilities in the region. Costs related to associated structures such as accommodation, amenities, catering or sports facilities are generally **ineligible**. The exception may be where the facility is located in a remote rural area with poor transport links.

Fixtures and Fittings

Expenditure on items such as furniture and computer equipment may be considered eligible if the items are central to the activities of the project. The eligibility of such items is considered on the merit of each individual application.

Footpath/Cycleway Construction and Enhancement

Improvements to footpaths and cycleways are unlikely to show any economic benefits in their own right and should be incorporated within a wider strategy for environmental improvements and improving access to industrial/ tourism locations.

Landscaping of Industrial Sites

The cost of landscaping industrial sites is eligible for support.

New and Improved Access

The construction of new roads or other related improvements such as junctions which provide direct access to industrial/tourism areas may be eligible.

Roads that form part of on-site infrastructure are eligible and a **grant rate of up to 50%** is available depending on other factors, such as revenue generation. Non-site specific road improvements are **ineligible**.

Professional Fees

Expenditure on professional fees must be directly linked to the implementation of the physical works. Professional fees will normally be limited to 12.5% of total eligible costs. In applications where proposed fees are in excess of 12.5% detailed justification will be required for consideration to be given on a case-by-case basis.

Financial charges such as interest charges, foreign exchange commissions etc.; and fines, financial penalties and expenses for legal procedures are ineligible. The cost of legal fees for advice, notary fees and the costs of technical or financial expertise necessary for preparing and/or implementing a project are eligible if directly linked to the project (Commission eligibility rule 3).

Site Acquisition

ERDF funding for site acquisition is available up to a maximum of 10% of total eligible costs (Commission eligibility rule 5). The remaining expenditure on site/land acquisition should be classified as ineligible for ERDF grant. For example:

Eligible Costs (excl land costs)	£500,000
Actual land costs	(£200,000)

Because eligible land costs are restricted to 10% of gross eligible costs, the remaining costs of the project (£500,000) are deemed to represent 90% of the gross eligible costs. The figure for eligible land costs is calculated by dividing eligible costs (excl land costs) by 9 ie $£500,000/9 = £55,555$.

Maximum eligible land costs	£ 55,555
Eligible Costs (excl land costs)	£500,000
Total Eligible Costs eligible land costs + other eligible costs	£555,555
Maximum ERDF grant @ 50%	£277,778 (50% of £555,555)

The restriction on grant for land acquisition relates solely to the land itself, not to any structures on the land. Thus, the full costs of purchasing a building could be eligible for grant at a higher rate.

Site Investigation/Preparation/Clearance

Reasonable costs are eligible.

Site Servicing and Internal Services

Costs relating to the provision of external utilities to a building or site such as telecommunications, electricity and gas provision and internal utilities within a building such as heating, lighting and plumbing are eligible. Funding for the provision of water and sewerage services is available only within the specific location of the project.

Sports Facilities

Sports facilities predominately for local use are **ineligible**, although sports facilities where it can be demonstrated that the principal function is the training of people in the tourism and leisure industry for identified needs of SMEs may be considered.

Tourism/Visitor Infrastructure

Expenditure on the provision of leisure facilities predominately for local use is **ineligible**. Facilities for tourism and culture having a regional impact may be considered under Priority 3 Measure 2.

VAT

VAT that is recoverable, refunded or offset by whatever means cannot be considered eligible, even if it is not actually recovered by the final beneficiary or individual recipient. If the organisation incurring expenditure on the project is unable to recover VAT and therefore bears the full cost, the VAT may be regarded as eligible for ERDF funding (Commission eligibility rule 7).

Revenue Costs

Revenue project applications are concerned with the provision of advice, services and other support which assist business development, research and development etc. Eligible revenue costs are those directly linked to the delivery of the project.

Revenue applications are subject to a maximum ERDF grant rate of 50%. The grant rate for a particular project will however be determined by reference to the scale of the revenue which is likely to be generated by the project, and will be subject to rules governing State Aids.

Childcare Costs

Applicants should note that the Commission has expressed the view that ERDF can support the capital costs of crèche facilities etc only where these are specifically provided to support training provision or employment opportunities. That proportion of childcare costs which can be attributed to specific training courses may however be included as part of the eligible costs for training courses which are the subject of ESF applications.

Depreciation of Owned Equipment

Depreciation on capital equipment is eligible for ERDF funding. Apportionment of the total cost of depreciation should be provided for equipment not solely used for the relevant ERDF project. It should be noted that depreciation costs cannot be claimed against equipment that has been the subject of an ERDF grant.

Financing of Capital Costs

Hire purchase, extended credit agreements and finance leases for eligible capital costs can be supported (Commission eligibility rule 10). However, only the actual expenditure paid out during the period of the Programme can be supported. Only the net cost of the asset is eligible (i.e. tax, interest payments, refinancing costs, insurance charges etc. are ineligible).

In-Kind Contributions

Contributions made by individuals "in-kind" which add value to a project and can be assigned a monetary value may be considered as eligible (Commission eligibility rule 1). Each project would be considered on its merits. Prior agreement from the Secretariat is needed, so applicants should ensure that full details of the approach to in-kind costs calculation has been provided. In-kind contributions must be capable of being audited. Value for money of all cash-in-kind transactions must be established. E.g. is the cost of contribution reasonable for the project, irrespective of the cost to the company providing the service.

All in-kind support must be quantifiable. However, where time spent on the project can be accurately recorded (timesheets) and the cost of the contribution calculated as proportion of actual salary costs, this may be regarded as a "real cost" rather than an in-kind contribution.

For capital in-kind support, an independent evaluation of the value of the goods must be provided.

The ERDF available to a project containing an in-kind contribution cannot exceed the total “real expenditure” of the project. Normal maximum grant intervention rates depending on the type of activity also apply.

Lease Rental of Premises

Eligible expenditure will relate solely to the premises required for the delivery of the ERDF project. Apportionment of expenditure is required for the proportion of space/time not used by the ERDF project.

Operating Costs of Premises

Expenditure directly related to the delivery of the project and e.g. heating, lighting may be considered as eligible. Expenditure classified as **ineligible** includes premises insurance and routine repairs and maintenance.

Overheads

Overheads which are allocated in an equitable manner, in accordance with generally recognised accounting standards are eligible for funding. Full details of the overheads and justification for the rate used need to be provided (Commission eligibility rule 1).

Project Operating Costs

Expenditure on consumable materials necessary for the operation of the project e.g. postage, telephone, fax, bookkeeping costs is eligible for ERDF funding. Applicants should provide a detailed breakdown of all proposed expenditure. Purchases of equipment with an asset life beyond one year are generally **ineligible** as part of a revenue project.

Staff Costs

Expenditure on staff costs is eligible if the applicant provides sufficient information to determine that ERDF resources are used to employ additional staff, directly related to the project. In addition, ERDF funding may be considered for staff replacement costs, to allow existing members of staff to implement a project.

ERDF grant can only be paid in relation to eligible expenditure. Applicants are responsible for maintaining adequate records to fully document all expenditure, and to make these records available to the Secretariat and EU auditors. ERDF grant which has been used for ineligible activities will have to be re-paid. Applicants should consult the Secretariat if they are in any doubt about eligible expenditure.

Further information is available from:

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