



FINANCIAL WORKSHOP

for

PROJECTS FUNDED UNDER

EQUAL – (ROUND II)

COMMUNITY INITIATIVE PROGRAMME

Prepared by

WRCsec - Technical Support Structure



EUROPEAN SOCIAL FUND:
helping develop employment by
promoting employability, the business
spirit and equal opportunities and
investing in human resources



An Roinn Fiontar, Trádála agus Fostaíochta
Department of Enterprise, Trade and Employment

FINANCIAL WORKSHOP

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1 OBJECTIVE OF THE FINANCIAL WORKSHOP

Now that projects have recruited the relevant staff, the purpose of this workshop is to facilitate projects by having a forum for discussion of financial requirements of the EQUAL programme with a particular focus on practical issues and matters that projects encounter on a day-to-day basis.

Over the coming months the TSS will organise individual project visits. Projects are encouraged at all times to contact the TSS for clarification on any issue.

2 FRAMEWORK IN WHICH EQUAL OPERATES

EQUAL is a European Social Fund (ESF) funded initiative and as such is subject to the general ESF regulations. The ESF will support EQUAL projects in Ireland up to **a maximum of 75% of eligible expenditure, within contractual limits**. This is an important point i.e. it is the total project expenditure which is supported by a combination of ESF **and Match Funding**. The cost of operating the project is the total cost, of which Match Funding is a percentage which must be at least 25%.

2.1 The Regulations, Revisions and Guidelines

The interpretation of the regulations governing the eligibility of expenditure and the rules governing an ESF funded project are contained in four documents, two of which are particularly relevant to EQUAL projects, namely; ESF/PA/2 – 2001 and ESF/PA/3 -2001. Revisions and guidelines relating to particular issues have also been provided for clarification. I do not propose to look at the content of these in detail, but rather to look at the practical aspects of their intent. You will already be aware that the Regulations, Revisions and Guidelines are contained in the Project Operations Manual and CD, and also on the EQUAL website

As the programme progresses, further revisions and guidelines to the circulars may be issued to deal with practical matters which arise.

For those projects that were engaged in Round I of EQUAL, please take note that some of the Circulars have been amended and some of the Rules governing the operation of EQUAL are different for Round II – please familiarise yourselves with the Round II Circulars and Guidance as contained in the Operations Manual (CD) and website (www.equal-ci.ie)

All clarifications provided are subject to the above.

2.2 Financial Reporting Requirements

Now that projects have moved into Action 2, there are effectively two types of reporting requirements:

1. Quarterly Monitoring requirement;
2. Claims and annual returns.

Guidance on monitoring, claims and payments are included in Circular number 5 in the Circulars and Guidance Folder on the CD.

2.2.1 Quarterly Monitoring

The primary purpose of the quarterly monitoring process is to provide the Technical Support Structure (TSS) with information which can be used to assess the progress of a project. The returns will provide key indicators such as levels of expenditure, balance of Match Funding and ESF etc.

The quarterly monitoring returns are also used as one of the bases for approval of draw-down of funds.

The financial return is essentially a return of expenditure by income source, a document we will look at later. This return is due by the end of the month after the completion of the preceding quarter.

Example:

3rd quarter 2005, ending 30th September 2005 – this return is due by 31st October 2005.

You should send these returns in an electronic format i.e. by e-mail to your project officer in the TSS.

Non Financial Return

There is also a non financial/qualitative return that is due at the end of each quarter and this should be sent to your project officer in the TSS

2.2.2 Claims and Annual Returns

There are two types of claim, Final Claim and Interim Claim.

Final Claim

At the end of each calendar year there are essentially five documents that must be filed to fulfil the financial requirements of the project. These are:

1. Form B1 (sign off sheet on compliance with regulations and requirements);
2. Form EC2 (Final claim for funding for that year) – this must be accompanied by a list of cheques supporting the ESF amount claimed;
3. Expenditure by income source spreadsheet (similar to the quarterly monitoring requirement except this covers the entire year/period);
4. Audited accounts;
5. Auditor's certificate.

There is a natural progression in the order in which these forms will “*fall into place*”.

- If the books and records are complete and audited, items 4 and 5 will derive from these.
- The expenditure by income source will come from the books and records and agree with the audited accounts.
- The EC2 and B1 forms should be completed at the end of the above process.

Please do not file the above items in a “piecemeal” manner as this delays and confuses the claim.

Please note that the deadline for receipt of final claims is 31st March of the year following the claim year i.e. final claims for 2005 must be received by 31st March 2006.

Interim Claim - When should Form EC1 be used?

The EC1 form should only be used for interim claims. Please remember to use this process (if you need to draw down more funding during the year). There will be a cut off point (probably early December each year) for receipt of interim claims – if you haven't made an interim claim by then you will have to wait for the final claims process to draw down any further funding for that year.

The normal ESF drawdown process is as follows:

- 50% of the funding allocated for a particular year is paid in the first part of the year (please remember this is not automatic – you should contact the TSS in writing to advise that you wish to drawdown this 50%);
- Up to a further 30% of that year's allocation is paid later in the year if projects have substantially utilised the first 50% and require further funding;
- The final amount (up to 20% of that year's allocation) is paid in the year following the claim year, after the annual returns and claims for that year have been made.

The only time the EC1 will have to be completed is when claiming an additional amount (up to 30%) during a particular year.

The decision on the exact amount to be paid on receipt of an interim claim will be subject to;

- Receipt of Quarterly Monitoring Returns which are complete and indicate an adequate spend. An adequate spend would normally be interpreted as at least 80% of the first 50% of that year's allocation;
- Full discharge of any queries which may have arisen pursuant to any Article 4 visit.

It should be noted that this payment can be "up to 30%", and not necessarily a de facto 30%. The reason for this is that a project may need to make an interim claim towards the end of a year, but not have the capacity to use a full 30%. Interim claims will be examined on a case by case basis.

Where to find Forms EC1 and B1

Forms EC1 and B1 are not in the CD that accompanies the Operations Manual due to the fact that these were being reviewed and have recently been revised. These were e-mailed to projects recently but will be available on the EQUAL website or from the TSS.

First Interim Claim

It was originally intended that the first interim claim would be made in 2006, but the first payment for Action 2 (2005) was only a 50% advance and not an 80% advance as originally anticipated. Therefore projects may need to make an interim claim in 2005 and, if required, this should be done before 30th November 2005.

2.3 Carry Forward of ESF Funding

The allocation of ESF funding between the various years was determined at the outset. Where a project fails to consume sufficient expenditure to drawdown its full ESF allocation for a particular year, the excess ESF allocation available will be carried forward to the following year, with obvious implications for an increased requirement of Match Funding in that following year.

The exception to this is of course at the end of the project where the excess ESF allocation will not be drawn down by the project.

Example:

Project ESF allocation 2005	€150,000
Amount paid (80%)	€120,000
Total amount of ESF claimed on EC2 form	€100,000
Total original allocation for 2006	€250,000

Result at end of 2005

Under utilisation of 2005 allocation	€ 50,000
Balance in bank at 31-12-05	€ 20,000

In this case, the under utilisation of €50,000 for 2005 will be added to the 2006 allocation and the overpayment of €20,000 will be deducted from payments for 2006.

Original 2006 allocation	€250,000
Add under utilised 2005 allocation	€ 50,000
Revised 2006 allocation	€300,000

In practical terms, the first 50% of 2006 will be based on the original allocation (because this will most likely have been advanced early in the year and before the final details about the previous year are known). The overpayment and revised allocation would be calculated upon payment of the next amount (either the 30% interim claim or the final claim for 2006). Assuming a full 30% interim claim is approved, this would take place as follows:

Revised 2006 allocation	€300,000
80% of revised allocation	€240,000
Less 50% of original 2006 allocation already paid	€125,000
Less overpaid in 2005	€ 20,000
Amount payable at Interim Claim	€ 95,000

It is important to note that, whereas an underspend in ESF can be carried forward, there is no automatic carry-back of ESF to an earlier year and the Managing Authority would adjudicate on such circumstances on a case-by-case basis. Therefore it is essential to closely monitor expenditure.

It is also essential to manage the relationship between ESF and Match Funding. It is advisable to do this on an ongoing basis as insufficient Match Funding, or over consumption of ESF allocations will result in net deficits.

2.4 Eligible Expenditure

This will primarily be determined with reference to:

- Date incurred;
- Purpose – consistent with Plan;
- Type – normally current expenditure.

Date incurred

This is critically important and has arisen in Round 1 as something that can cause significant problems for projects. It is generally accepted that for administrative reasons, some period of time may elapse between the time expenditure is incurred and the date when the payment is made.

At the end of the claim year some items of expenditure will inevitably not be paid until early in the following year and, once these are paid within a reasonable time this expenditure can be included in the claim.

Projects should be aware that, approaching the end of the claim year, they may need to source temporary funding which will allow them to fund the payment of expenditure while their final claim is being prepared and processed. Such sources of funding might be a bank facility or a loan or credit from a DP member.

Amounts incurred in a claim year that are not paid within a reasonable time and are therefore not included in that claim can cause compounded cashflow difficulties and projects are advised to avoid this situation.

Actual nature of Expenditure

Expenditure claimed by the project must be actual, for example:

- Expenditure directly incurred by the EQUAL project;
- Expenditure attributable to the project which must be apportioned on an appropriate actual basis (using an acceptable and consistent method of apportionment - see Overhead Apportionment Template in Appendix);
- Expenditure must be claimed within the relevant accounting period. In most instances this will mean the cheque is actually paid during the period, but where an expense is incurred during the period and not paid until after the period-end, this can be accrued. The time between the expense being incurred and the cheque being paid should be reasonable.

2.5 Allocation of existing resources

Where projects intend to allocate time of existing DP staff to operate the EQUAL project, please be aware of the following:

1. Unless the staff member is effectively seconded to the EQUAL project, it is only possible to contribute a limited amount of time to the EQUAL project and still continue to fulfil the requirements of the staff member's existing position.

2. The ESF should not be seen as a mechanism for contributing towards the cost of existing organisation overheads (staff or otherwise). Where spare capacity exists to facilitate the EQUAL project, this can be usefully utilised. Where such capacity does not exist, DP members should ensure the EQUAL project is properly and independently resourced, and the associated costs should have been identified in the Project Action Plan.

2.6 Financial Accounting Systems

During Round 1 of EQUAL, projects used a variety of financial accounting systems. These included:

1. TAS Books;
2. QuickBooks;
3. Sun Accounting systems;
4. Sage;
5. Excel;
6. EPIC (Bespoke system based on Word, Excel and Access, and developed by third party to meet the needs of EQUAL Programme).

Projects are free to choose any system they wish, as long as it has the necessary capabilities of recording and reporting expenditure (ESF and Match Funding) as required.

2.7 Tendering / Public Procurement

This is an extremely important requirement and projects should adhere to it at all times. Failure to do so may lead to expenditure being deemed ineligible.

Circular Number 6 – Tendering and Public Procurement contained in the Circulars and Regulations Folder of the CD gives detailed guidance on this issue.

Where a contract for goods or services exceeds €6,350, a minimum of three quotations must be sought. Where a contract exceeds €12,700 then a minimum of five quotations must be sought. This can be done by seeking quotations on an individual basis or putting the contract to public tender.

Where a contract is much greater than the limits outlined above (for example if a contract was likely to exceed €30,000) then it would be advisable to consult with the TSS in order to establish if there would be preferable methods of seeking the necessary tenders.

In all cases you should keep a file on the process undertaken, to include:

- Invitations sent for tenders;
- Copy of tender/public notification;
- Tenders received;
- Adjudication/scoring and selection process;
- Successful contract.

Procurement guidelines apply on a cumulative basis over the lifetime of the project.

Example:

The project engages a trainer for a course delivery at a cost of €5,000. This is less than the minimum limit required and quotations are not required.

Even though the project only anticipates the first year contract (€5,000) and does not tender on this basis, but because the training course is successful, decides to extend for two more years, as the process is cumulative, the project must then engage in the tendering process.

2.8 Publicity and Logos

It is essential that all material that purports to represent the project in the public domain carries the correct logos. These are:

- The EQUAL logo;
- The EU logo and ESF legend.

This applies to advertisements, signs, stationery, publications, reports, brochures, presentations, CD ROMs, websites and any other material which represents the project.

If the project is issuing a publication, publishing an article etc., and EQUAL is funding this cost, please give a brief introduction to the fact that it is an EU funded project and please give proper prominence to the EQUAL logos. This does not prevent the project using the logos or background of other partner organisations, but these should not be given priority over the EQUAL and EU logos and ESF legend.

Failure to adhere to the Publicity and Logos requirement will result in the associated cost being deemed ineligible.

The required logos for all publicity requirements are the following and these are available on the CD accompanying the Operations Manual and on the EQUAL website



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2.9 Capital Expenditure

Capital Expenditure is, in the first instance, governed by the ESF Regulations and Guidance. Projects are advised that there are also limits to capital expenditure under the EQUAL Programme, as follows:

Limit per project (over three years) €20,000

Limit per individual item of expenditure €7,000

Projects must seek approval from the Technical Support Structure for planned capital expenditure.

2.10 Technical Support Resources – Financial Management

Aside from the forms and documents required as part of the interim or final claims process, the TSS has provided templates that projects are advised to use as part of the financial management of their projects. These templates are included in the Project Management – Resource Materials Folder on the CD. These cover the following areas:

1. Job specifications for coordinator/administrator
2. Monitoring Budget against Actual Expenditure Template
3. Certification of Total Match Funding Contribution per partner.
4. Confirmation of Salary – Match Funding
5. Overhead apportionment template

The TSS is also available at all times to assist projects and if there are any issues that you wish to clarify, please contact us. Queries should be submitted in writing (email or letter).

2.11 Article 4 visits

All ESF funded programmes are subject to audit visits at various levels. This means that the EU Commission can audit the programme in Ireland, and within Ireland the Financial Control Unit and/or Internal Audit Unit can audit projects. It is likely that some or all of these will take place within the lifetime of current EQUAL Round II projects.

The TSS also has an “Article 4!” responsibility and projects will be visited periodically in order to carry out preliminary monitoring/control checks.

2.12 Procedures Manual

Circular number 7 (Circulars and Regulations older in the CD) gives guidance on Procedures Manuals. Please note that this is a requirement of EQUAL Round II and should be available for inspection.

3. MATCH FUNDING

3.1 Introduction

Many ESF funded projects have a requirement to secure Match Funding at a particular percentage of overall consumption. In the case of EQUAL this requirement is a **minimum of 25%**. Therefore if the total project expenditure is €100,000 in any given period, there must be at least €25,000 Match Funding. In this example, the maximum amount of ESF which could be claimed is €75,000.

The guidance on Match Funding Is contained in Circular number 4 in the Operations Manual (CD) and website.

Match funding can be categorised in two ways:

1. Actual;
2. In Kind.

3.2 Actual Match Funding

There are two different types of Actual Match Funding:

1. Cash;
2. Seconded time of DP board members and/or employees (Secondees). The actual salary of the relevant person must be used as the basis of the calculation of the contribution to EQUAL.

3.2.1 Cash Match Funding

- As the name suggests, this is cash that the EQUAL project has secured, most probably from the partners within the DP. Such cash must be lodged to the EQUAL bank account and will be deemed to have been spent first i.e. before ESF cash funds are spent.
- Cash Match Funding can also comprise of costs that were invoiced to the EQUAL project but paid directly on behalf of the project by one of the DP members.
- Cash Match Funding can also comprise “ring fenced” and pre-declared contributions from DP members e.g. the payment of participant allowances by FAS.

10% of minimum Match Funding must be “Cash at Bank”.

Please note that it is only the first of the above examples i.e. cash lodged to the EQUAL bank account that is considered when calculating the annual minimum 10% of Match Funding.

This percentage is 10% of the minimum Match Funding requirement and not necessarily 10% of the total match funding contributed. For example

Gross expenditure (including MF)	250,000
Total Match Funding	100,000
Net ESF expenditure	150,000
Match Funding %	40%
Minimum MF requirement to support ESF of €150,000	50,000
Minimum Cash MF (10% of this figure)	5,000

Although the Match Funding is €100,000 (40%), the 10% requirement for Cash MF is only €5,000.

Important Note

Projects will have made commitments of Cash Match Funding during the initial engagement with the TSS when final allocations were being negotiated. Commitments made and assurances given in relation to Cash Match Funding during this period are an integral part of the project's contract and are not superseded by the above example of minimum cash match funding calculation.

Reduction of ESF as a result of excess Match Funding

Some projects have expressed concern about the interpretation of this in the Contract. The principle is correct and applies to the ESF calculation. However in practice the composition of Match Funding may give rise to a different arithmetic outcome than might otherwise seem to be the case.

Example

In the above table it can be seen that the Gross expenditure (including MF is €250,000. Let's assume that the minimum requirement for cash MF has actually been realised and that the balance of MF (€95k) is comprised of Seconded time and In Kind MF.

This €95k is already reflected in the figure for Gross Expenditure. Effectively as "non Cash" Match Funding increases, so does Gross Expenditure and so does the MF percentage. In such circumstances the MF figure will increase but the net ESF figure will remain the same.

So by having more than the minimum Match Funding percentage, and when this is comprised of anything other than cash lodged to the EQUAL bank account, the net ESF figure will not be reduced.

3.2.2 Secondees

This Match Funding represents the time which is contributed to the EQUAL project by DP board members or employees working on the EQUAL project. The key difference between "seconded" time and "in kind" time is that in order to be considered as secondees the actual salary/wage of the particular individual must be obtained by the EQUAL project (evidenced on file by confirmation of salary – see Salary Confirmation Template in the Operations Manual) and used to calculate the value of this time contribution.

3.3 In Kind Match Funding

This Match Funding covers many types of contributions to the EQUAL project by DP members. Typical sources of in kind Match Funding might include:

- Time contributed to the EQUAL project by board members or employees of DP members working on the project. This is different from “seconded time” as the actual salary is not required and a rate of €25 per hour may be used to calculate the value of the time contributed;
- Use of premises or facilities;
- Use of overheads/DP resources by EQUAL project;
- Travel/subsistence borne by DP member (this must not exceed the rates prescribed by EQUAL);
- Value of contributions made by volunteers to the project.

3.4 Actual Nature of Match Funding

As with the actual nature of the ESF eligible funding, Match Funding must also be based on actual information. In the case of time contributed by DP board members or employees, this is outlined in the next section.

In the case of all other types of expenditure, detailed backup must exist demonstrating that the value of the Match Funding contribution is based on actual expenditure. For example, if the rent of a premises is being contributed as Match Funding, this must be based on the actual rent (evidenced by Lease etc) and apportioned to the EQUAL project on a suitable basis e.g. per capita, by area etc.

Significant changes from planned Match Funding should be communicated to the TSS for agreement.

Match Funding should be certified at the end of each year by each contributor (see Certification of Match Funding template included in the Operations Manual). These certifications should be retained by the project for inspection.

3.5 Match Funding Process for Seconded and In Kind Contributions.

There is essentially a three-part process for capturing the value of time contributed:

1. *Original commitments of time to be contributed:*

In the Project Action Plan projects have indicated the nature and amount of Match Funding which will be secured for the project. In relation to staff time, this is an intention in that it will be unlikely as the project proceeds, to have accurately anticipated the actual time contribution.

2. *Time sheets/Attendance sheets:*

The only accurate way of capturing the actual time contribution of DP board members or employees is to have the individual maintain a timesheet. These timesheets should be signed by the individual and countersigned by their senior manager within the DP organisation – see Sample Timesheets included in the Appendix

In the case of attendance at Board/Management Committee meetings, attendance sheets should be signed, and this will act as evidence.

When the timesheets are gathered, it is then timely to collate the information by accumulating the hours and calculating these as “seconded” or “in kind” as appropriate. In the practical example contained in the next section a suggested example is given for this part of the process.

3. *Certification of Contribution:*

At the end of a period the contributing organisation should certify the contribution made (see template on Certification referred to above).

3.6 Alterations in Match Funding from that included in Action Plan

It is recognised that as the project develops, it is unlikely that the budgeted expenditure (including Match Funding) will be as originally projected. In this regard, where there are likely to be significant deviations in the sources or amounts of Match Funding, projects should advise the TSS in writing of any such possibilities.

Where projects have made commitments to Cash Match Funding it is extremely important that these are honoured. Any difficulties in relation to Cash Match Funding should be brought to the attention of the TSS at the earliest possible date.

3.7 Carry Forward of Match Funding

Unlike ESF allocations described in an earlier example, Match Funding is tied into the particular year.

Excess Match Funding cannot be carried forward (or back) to another period.

Important Note

The timing of Match Funding (other than Cash lodged to the EQUAL bank account) will largely be driven by project activity e.g. meetings, overheads incurred, participant allowances etc.

The exception to this is Cash which will be counted as Match Funding when lodged to the EQUAL bank account. It is critical to note the importance of the timing of the receipt of such Cash. In Round 1, in some instances, projects had difficulty in obtaining Cash Match Funding at the times they anticipated and difficulties arose as Cash lodged after the end of the year, in most instances, was disallowed for that year's claim.

This had serious consequences for the projects' abilities to support and draw down the ESF expenditure being claimed.

3.8 Project costs – ESF or Match Funded?

When preparing the project plan, projects will have anticipated total project costs, some of which will be supported by Match Funding and some through ESF. In relation to any particular project cost it is important to note that it must be “one or the other” – **NEVER BOTH!**

Let’s say the project uses a DP member’s premises and the appropriate apportionment of rent is identified as being €8,000 per annum. This can be claimed as an ESF cost or be contributed as Match Funding. It can’t be split and partly ESF funded, partly Match Funded.

Similarly if a staff member’s time is being contributed to the project, this can be claimed under ESF or presented as Match Funding, but not both.

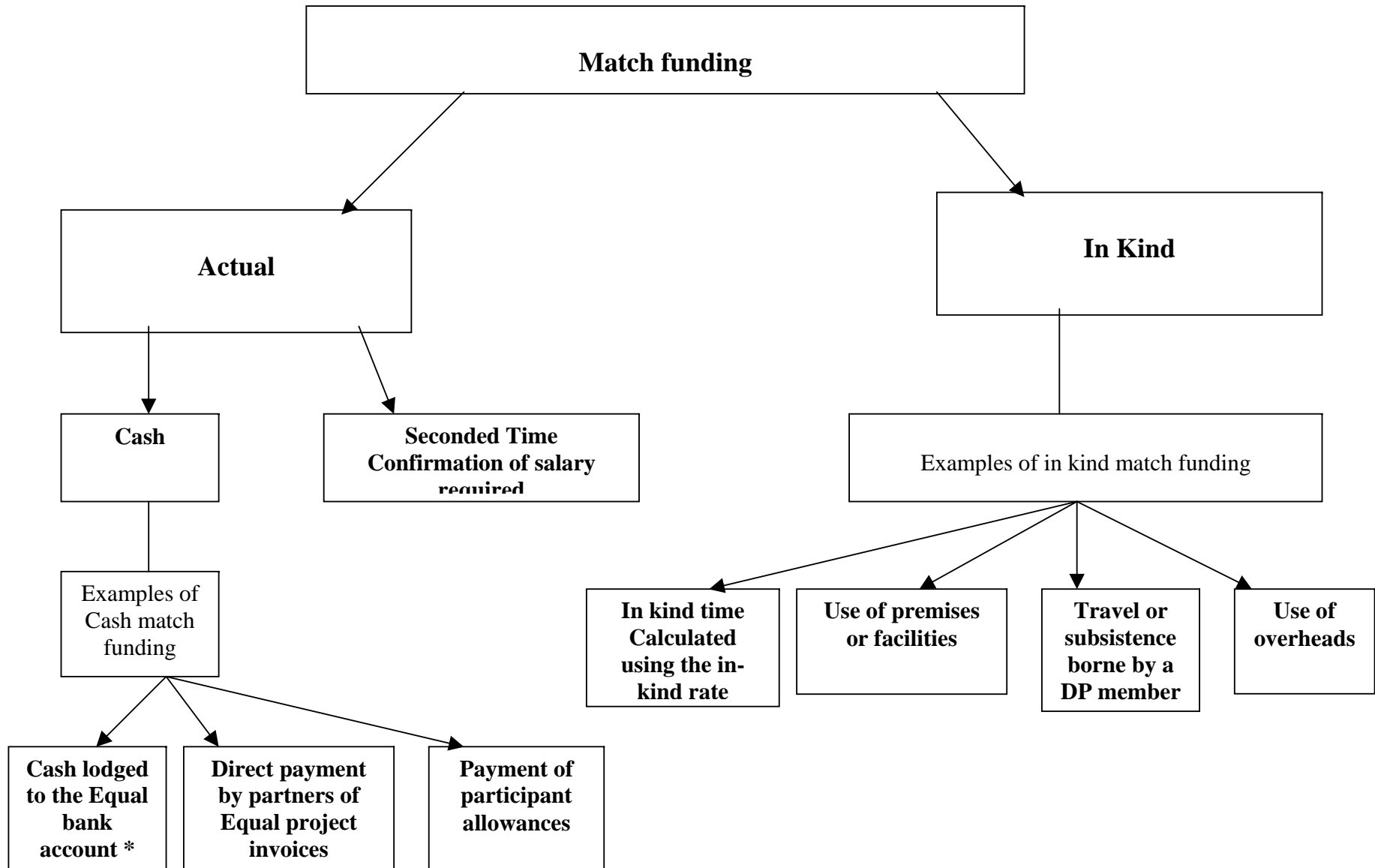
Important

The decision to claim a cost under ESF or to contribute it as Match Funding would have been made at the outset of the project (Action Plan). It is not anticipated that projects would ordinarily be revisiting decisions during the lifetime of the project.

Cash Match Funding

An exception to the above arises in the case of Cash lodged to the EQUAL bank account. The reason for this is that such Match Funding is lodged to the bank account and will effectively offset costs that might otherwise be claimed as ESF.

In this instance (best shown in the Expenditure by Income Source spreadsheet) the Cash can be offset against any line of expenditure.



*** The minimum cash at bank requirement (minimum 10% of the match funding requirement) must be in the form of cash lodged to the Equal bank account by DP members. The €8,000 cash match funding received from the MA cannot form part of this**

4. PRACTICAL EXAMPLE

I have prepared an example based on a limited number of transactions to demonstrate how the information might be collected and collated into the various returns. This has been based on Excel spreadsheets, which are sufficient as a system to gather such information.

Some projects have their own, more sophisticated systems for gathering information (such as TAS books, Sun, EPIC etc) and, properly maintained, these provide efficient methods of recording the information.

In the example, I have recorded information for the third quarter 2005.

Points to Note about Practical Example

1. I have prepared the cheque payments using the Excel facility to sort information by category (or any other field). An alternative is to have columns across corresponding to various expenditure categories. Either way, the object of the exercise is to have a system that allows the expenditure to be easily gathered and analysed.
2. It is important to have a system to capture and report Match Funding. As part of the Quarterly Expenditure Report I have used the Match Funding worksheet. Some projects may find it difficult to show all of their Match Funding in this way and that's okay. However there must be an underlying spreadsheet that allows the figures for Match Funding to be collated and reported to the Quarterly Expenditure Report.
3. The template for Confirmation of Salary must be used when calculating Seconded Time. If upon inspection, these are not available this time will not be eligible.

Other templates provided in the Operations Manual (CD) should be used as appropriate.