European Regional Development Fund: An Independent Guide

2nd Edition

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For Lorraine Gradwell

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Preface

There is an ERDF User Guide available to project managers, and this Independent Guide is not intended to be its substitute. However, the User Guide is written by Government officials, at times as instructions to other officials, and it cannot be expected to give a view 'from the trenches' of project management.

Since the first edition was published, new national guidance for ERDF in the UK has been issued by the Government, and this updated version includes these changes for new projects. 'Old' projects should continue to follow the previous guidance.

This Independent Guide is intended to draw together some of the current key themes and concerns, and to provide a knowledge bank for other ERDF project managers so that practice can be improved year on year. The guide hopefully reads as being without hubris because the intention here is to help new and existing ERDF project managers usefully draw on the knowledge and experience of others as well for us reflect on our own practices.

If this Guide helps in any way to improve the experience of ERDF for project managers then it will hopefully have done some good.

I am indebted to the time and advice that many people have generously given, and many are acknowledged later here. Further comments are always welcome as I hope that there may be one or more future updated editions if useful. As ever, however, the mistakes and omissions are my own.

TB, xx 2012

Introduction

We live in interesting times.

Economically, what some call the Great Recession which started in the USA sub-prime housing sector initially in 2007 and fully took hold worldwide in 2008 has yet to run its course, and its impact on the built environment sectors in most developed economies has

been severe. Many ERDF projects have focussed, and more so than public funded projects generally, on improving the built environment especially through various area regeneration programmes.

Politically in the UK, the abolition of regional development agencies and the associated regional tiers of Government and similar bodies such as BusinessLink at the regional level caused a hiatus in ERDF administration while the reorganisations took place. This has led to some concerns on how to best manage the legacy implications, including how best to safeguard programmes against clawback through future ERDF audits of the now dormant regional projects of these abolished bodies.

Financially, there has not been the scarcity of public funding to match ERDF for at least ten years, and this tightening is being experienced across all sectors from local authorities to universities to voluntary and community groups, along with private sector pressures in the reduced availability of bank loans.

Socially, many see the rising trend in unemployment as being likely to continue for some time to come, along with the less visible social and economic costs of under-employment. The impact has been severe on disadvantaged communities where long-term and inter-generational unemployment was beginning to be tackled in recent years but are now on the back foot. The physical and mental health consequences of this continuing waste of peoples' talents will unfortunately become more evident.

In this context we find ERDF programmes with millions of pounds required to be committed or lost by the end of the programme period, but with complexities and issues that can be daunting to project managers, especially if they are new to ERDF. This book is intended to cover the 'hot topics' of ERDF in a practical and no-nonsense manner so that a clear view can be taken on the opportunities as well as on the possible risks.

To resolve some of these pressures, ERDF programmes are moving to include investment funds such as the Venture Capital Loan Fund

as well as what might be called the traditional old-style projects. These types of funds are intended to provide a market-driven source of investment by loan, repaid in future years so that the fund can continue to invest and support an area's prosperity. Some aspects of the ERDF requirements covered in this book will also apply to the activities supported by these investment funds, but primarily the focus of the discussions in this book is around the project management challenges and opportunities found when running a 'traditional' ERDF project.

All ERDF grant payments from the EU are expected to be additional to and not substitutes for UK funds. This *additionality* test dates back prior to the 1980s when the then-Government insisted that all EU funds were to be used to pay off public sector debts, not to increase public sector expenditure. However, somewhere along the way the idea has come about that ERDF must be 'the fund of last resort' otherwise it is not additional. This is a wrong explanation, and it is harmful to the extent that it might be a reason for any disproportionate complexities in ERDF programmes.

Matching Funding

All EU grants are awarded and paid as a percentage of the total eligible cost, and this percentage is known as the *intervention rate.* ERDF is usually paid at 50%, and some transnational EU funds can be paid at up to 100%. The non-EU remainder of the funding is known as matching funding or 'match funding'.

The source or sources of the matching funding must be named in the Funding Agreement, and letters of intent are required at the outset, including from the applicant organisation itself. If funding is sourced from an organisation not mentioned in the Funding Agreement (and not added to it by a Contract Variation), then all the funding that such an organisation provides is deemed to be income, and taken off the grant at 100%.

Matching funding can be sourced from the public sector including universities and voluntary organisations, and from the private sector. Projects are awarded ERDF grant as public money for a public good, and therefore the aims and objectives of any project cannot include benefitting the funding organisations themselves. For example, a private sector company cannot gain approval if its matching funding is to co-fund activities that enhance its own operations or supply chains. However, such a company can be approved to co-fund activities for SMEs generally.

Matching funding cannot be provided in-kind except for buildings and land, and there are strict rules about how the value of in-kind contribution is to be calculated. However, the project delivery partners named in the application (bid) and Funding Agreement can provide matching funding by making non-cash resources such as their staff time available to the project as well as or instead of making cash funds available.

The ERDF core principle of true cost applies to non-cash matching contributions. The true cost of a contribution is not its price, so for example a donation of some advertising space is valued not at its

market value (such as £2 a word as usually charged to customers) but instead at its actual cost to the organisation providing the in-kind contribution (such as £1.17p a word for printing and distribution). This calculation can seem burdensome to some organisations, and may also seem intrusive into a company's private and confidential costings, so it is best to prepare such a contributing company at the outset of the project to expect this level of disclosure. There are specific rules for the independent valuation of land within a project.

Private sector matching funding can also be provided by beneficiary SME companies if care is taken to design the process correctly in terms of ERDF rules. Consider the following two scenarios which have the same financial outcome for the SME involved but have two very different treatments within the ERDF rules. Both examples involve an SME getting consultancy support at a cost of £500 instead of the usual £1,000.

> Scenario 1: *Net payment.* The SME pays Advisor ABC a fee of £500 to help the SME improve its performance in some manner, as described in the Funding Agreement. The SME then provides the Project with evidence that the payment has been made (defrayed), and the Project uses this payment as private sector matching funding to try and draw down a further £500 as ERDF grant to pass on to Advisor ABC. This is *incorrect*, as the defrayment when the claim is made is only £500, so an ERDF claim would be for £250.
>
> Scenario 2: *Gross payment.* The SME pays the Project a fee of £1,000 to pass on to Advisor ABC to help the SME improve its performance in some manner, as described in the Funding Agreement. The Project uses this payment to Advisor ABC as a defrayment sourced from private sector matching funding to draw down £500 as ERDF grant to pass on to the SME as a reimbursement. This is *correct*, as the defrayment when the claim is made is £1,000, so an ERDF claim would be for £500.

Confusingly, these SMEs are known in the ERDF rules as the

project's *End* Beneficiaries, and the funded project itself is known as the *Final* Beneficiary.

One feature of this type of SME-centred project is that it can take many months for the SME to receive its reimbursement, unless the organisation running the project uses its own resources to improve the speed of the cash flow. Final payments to SMEs could also be conditional on providing all the necessary evidential papers to the project office, in order to reduce the risk of funds being unclaimed or clawed back later due to incomplete financial records.

For matching funding, ERDF has precise lists of what is classed as capital and as revenue, and it is advisable to apply these distinctions to the matching funding stream as well as ERDF so that both funds are consistently described, even if the regime governing the matching funding has slightly different practices. For ERDF, capital expenditure is limited to purchasing items such as land, buildings, vehicles, furniture and plant. Other types of assets, such as software, books, databases, website designs, are all treated as revenue for ERDF purposes, even if other funds would normally take a different approach. It is important to look at the *apportionment* rules which apply to revenue expenditure, for example where an asset may be used in part for other non-project purposes. Similarly there are rules for the *depreciation* of a capital asset with an expected value beyond the project end-date.

Matching funding is usually evidenced by payments into the project organisation's bank account, or by the organisation spending its own money when it is providing some or all of the matching funding from its own resources. In-kind payments are financially evidenced by an independent professional valuation for land and buildings.

In terms of ERDF, and EU funding generally, the source of the matching funding cannot be from another EU fund. The logic of this rule is that, by requiring matching funding from other parties the European Union is sharing in any risk associated with the project, and perhaps more importantly the EU is getting a local 'buy-in' of the project by the matching funder, whether it is a national

government, a more local public body or civic organisation. This is seen as adding further legitimacy and local priorities to the awarding of the EU grant, as well as sometimes ensuring that there is a further layer of scrutiny of the activities of the project.

Claims Processing

The methods used by a project to process regular claims for ERDF payments is undertaken by an organisation can now literally make or break a project.

Previously this was perhaps less the case. One the key benefits of having to include match 'local' funding with ERDF was that the local public sector tests, safeguards, and accountability had meant that less of the routine checking work would have to be done at the European level. This arrangement was known as subsidiarity, or placing the work as close to the source as possible. In this context, public authorities were deemed to have already tested the payments and financial processes that flowed through their accounts each year, and thus it was straightforward to enter these details into claims. Of course, there was still additional work for an ERDF project claim such as correct apportionments and limiting the fees for capital works, but the core was considered to be a sound basis for claims. In terms of the accounting documents, receipted invoices were sufficient for the project records.

However, the trend in recent years has been for additional tests to be applied to ERDF transactions above what at least some grant recipients had become used to in the previous programme periods. The correct processing of these newer tests for eligibility are key to managing a successful project.

Making an ERDF financial claim is centred on completing a standard spreadsheet and keeping files of supporting documents as 'evidence' to justify its contents. The two core features of the spreadsheet are the financial payments made and the outputs achieved, both in the current period. From these core features most of the summary tables are produced automatically.

Depending on the exact details of each ERDF programme, the spreadsheet can have some local nuances. For example, the ERDF Programme for the North West of England reports its finances and outputs with analyses across two geographic sub-areas for historic reasons: the Merseyside area and the Rest of the North West. This is done by providing extra columns for each financial transaction, and extra categories for each type of output.

Each financial transaction must relate on a payment made from a bank account of the project organisation or from the bank account of a delivery partner as named in the Funding Agreement. This payment is known as *defrayment*. In previous programmes it was sufficient to show a receipted invoice, however it is now required to show bank statements as well.

A typical financial transaction will show the following eleven entries (thirteen in the North West of England), all on one line:

1. The cost category, which should be used to include a *unique* project reference for the transaction. It is important to avoid confusion in the records so this reference needs to be unique throughout the life of the project. For example the reference format A.B.C can be where A denotes the delivery organisation, B is the claim number, and C is the transaction number within the claim. If a transaction is removed at a later date for any reason, the unique reference should not be used again for a different transaction, to avoid any doubt later.
2. The date of defrayal, when the funds left the bank account.
3. The reference number of the invoice or document.
4. The date shown on the invoice or document.
5. The total expenditure details as shown on the invoice or document.
6. The expenditure details, which is a text description for the transaction. This needs to be as descriptive as possible, but must not include any personal data such as a person's name,

job title or National Insurance number. For personal data use a unique code in the text which is private to the Project Office, which will help you comply with personal data protection laws. For a lot of the arms-length checking of claims within Government this line of text is the only indication of the purpose of the transaction available to the checker, so a clear description can prevent unnecessary queries and delays. For example, 'goods received' will only cause queries to be raised, whereas '*Stationery (ring files, conference badges, flipchart sheets, paper cups) required to deliver Low-Carbon Seminar to Project SMEs*' gives more detail and conveys a greater sense of control within the project to external checkers.

7. The apportionment of this cost to the project (this is calculated automatically).
8. The eligible value of this transaction for ERDF.
9. The eligible value of this transaction for matching funding (same value as for ERDF above).
10. The Lisbon classification, usually left blank at this level.
11. The Lisbon narrative, also usually left blank at this level.

For the date of defrayment, note carefully that when someone uses a charge card or credit card or pays their own cash for a train ticket, for example, the defrayment date is not the date when the ticket was bought, nor even the date when the expenses claim was submitted, but instead it is the date that the organisation's bank account repays to the person, travel company or the charge card company. This is particularly important near the end of a project, as a journey could take place before the project end-date but the defrayment could take place too late after the project end-date to be allowed as a project expense within an ERDF claim.

The evidence file for each transaction should be held on paper, with all items filed in the same order as the transactions are shown in the spreadsheet. If there are seven sheets of paper that relate, say, to transaction A.2.28 (organisation A, claim 2, transaction 28) then

each sheet should be marked by pen as A.2.28.1 through to A.2.28.7. The next sheet in the file would be marked A.2.29.1. Typical sheets on file would include the purchase order, the invoice, the project cost centre statement showing the payment amount and date, plus useful items such as delivery notes, price lists, other quotes sought or received, and references to any *procurement* exercises which are important and considered in more detail later in this book.

The evidence or supporting papers file should also make it easy for an auditor to see how one number relates to another. In other words, all calculations must be made explicitly. Take special care with rounding any decimal fractions, because the ERDF rules do not allow for rounding up, only for rounding down, also known as truncating. Thus, 7.9 pence is 7 pence, not 8. Decimal fractions used in calculations should be to four places, for example: 4.9086.

If a transaction is looking particularly complex or novel, it is best to add an extra sheet as a *file note* to explain the context to the payment and to explain the method used in the calculation. For example, a file note might explain that,

> ‘due to a severe storm, a brick wall next to an east-side pavement became cracked and dangerously at risk of a sudden collapse, therefore urgent measures were followed to ensure it was demolished safely the same day based on a verbal quote from the contractor already on site and known to have the correct equipment, with the verbal authority of the senior manager at the time, followed by a Purchase Order the next working day’.

or more prosaically perhaps,

> ‘the hire costs for this event for project beneficiaries was shared with a similar event for another group of companies in order to reduce costs and to encourage business networking, where there were 46 project beneficiaries and 154 other companies present, therefore the costs are apportioned by 46/(46+154) that is 23.0000%’.

The ERDF transactions list is grouped firstly into capital and revenue, and then revenue is grouped into five further categories, namely: salaries, overheads, premises, fees, and other revenue. Fees are restricted to certain limits within each project, and include the costs of any external audits paid for by the project. The 'other revenue' category covers all types of revenue not included in the first four categories.

There are ERDF rules for the calculation of overheads and premises costs, and universities have a particular sub-set of these rules. As a general rule, overheads and premises costs for any project are both a function of the number of people working on the project at any particular time. Therefore it is advised to calculate the total time of project staff before starting to calculate overheads and premises costs. The fees and other revenue transactions can usually be added to a claim as and when necessary without affecting the other sub-categories. The salary calculations for a claim will usually provide a summary of the staff input to the project in terms of full time equivalent people (FTE), and this project FTE expressed as a proportion of the FTE of organisation as a whole will provide the apportionment fraction for overheads and premises costs.

Overheads methods for each project

Most overhead costs are based on actual payments made by the organisation and apportioned to the project. In some instances, for example a university project which is based within a campus, the overheads will include all the premises costs. Some ERDF projects are allowed to use a *flat rate* method to make it easier to calculate their overheads. The Funding Agreement will make it clear if the flat rate option is available to a project, and the project's contract monitoring manager within Government can clarify this point if necessary. The key point is that the overheads and premises costs methodology are required to be agreed between Government officials and the project staff at the outset of the project, and certainly before the first financial claim is allowed to be submitted to Government for payment.

Overheads and higher education

If an ERDF project is based within a university, and especially if it is based on campus, the organisational overheads including IT, libraries, buildings maintenance, and other costs, can become quite high. In August 2009 the UK ERDF rules were amended so that all projects run by universities must follow a standard ERDF method in calculating their overheads, and must use standard financial data consistent with TRAC Guidance system (Transparent Approach to Costing) which are based on the most recent annual accounts.

Typically this produces an ERDF staffing overhead rate for a university in the range of £16 to £21 per person per hour, with the specific figure calculated annually in pounds to four decimal places.

The overhead rate should not be confused with the separate and additional salary on-cost rate calculations. Salary on-costs include items such as Employers National Insurance (ENI) payments and employers pension contributions, in total being roughly a 25% on-cost to basic pay. The separate overheads calculation is for the other organisational on-costs required to run a functioning organisation.

The graph shown in Figure 1 shows how the overheads can be used by a university as their matching funding contribution, which has the advantage of not requiring additional payments because the overheads are already being defrayed through other budgets such as buildings maintenance.

Figure 1 also shows a breakeven point (A) on the salary scale, below which the ERDF income is greater than the costs of salaries plus employer oncosts. The exact value of the breakeven point will vary from one university to another depending on their specific overhead costs, but typically it will be somewhere within the Scale 5 banding used in the national structures for salaries.

This breakeven point is possible because, unlike some othe grant regimes, ERDF calculates overheads as a function of staff time, not as a function of staff costs.

£ - eligible expenditure

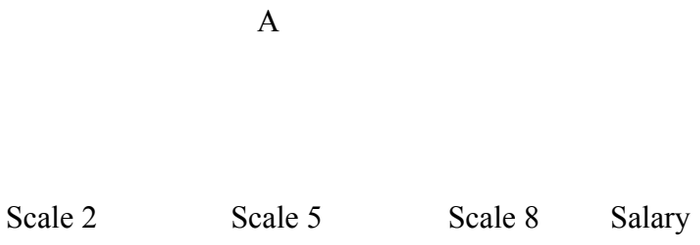

Figure 1: Graph showing the salary range up to breakeven point A where ERDF grant is greater than salary plus oncosts, when ERDF allowed overheads are per person per hour as for UK universities.

At the time of writing, some universities are making ERDF applications based on pre-doctoral post-graduate researchers being paid to undertake work for an ERDF project, and for the payment to be called a *stipend* rather than a salary in order to try and avoid creating contracts of employment. Whether these project designs and delivery will proceed as planned is as yet unclear. Employment case law concerning internships in respect of any employment contract existing indicates that being able to refuse an instruction or task is a key feature that differentiates volunteers from staff.

Apportionment is widely used by ERDF projects, because often only part of many payments relate to the project. The fundamental rules on apportioned costs are that the methods and data used must be both true and fair.

Within these rules there are certain conventions which are described below. The key test is to avoid using apportionment systems which are biased towards the project, and especially to avoid chopping and changing the methods used in order to try and get the 'best' level of ERDF grant each time regardless of project consistency, sometimes called gaming.

True and fair

The figures used in an apportionment calculation must be true. For example, the floorspace of a building can be calculated from accurate drawings or from measuring the rooms, and keeping a record of these measurements on file. But even if the building had a flat roof and an access ladder and some equipment located there that was relevant to the project, we would not expect the total floorspace figure to include the roof as well.

Having started with true data, the method of apportionment must be fair. For example, consider an event that is held with some people attending with a connection to the project and some other people who are connected to a different project. The first project relates to music companies and the second project relates to video companies. For some reason, every music company has each sent two people to the event, whereas the video companies have sent one person each. The whole event cost £1,000. If the project for music companies apportions by number of people (66.6667%) and the project for video companies apportions by number of companies (50.0000%) we can see that the methods are not fair because the two claims in total would be based on more than 100% of the actual cost, which is not fair. A project cannot choose different methods for different

events depending on which turns out most generous each time. Instead, the project has to work consistently with a standard method throughout its operations and accept the rough with the smooth.

As a guide, the more unusual an auditor finds an apportionment method or data set to be, the more they are likely to suspect that there is a hidden and unfair motive buried within the workings, or at least an error in the calculations because of their unnecessary complexity.

Data and methods

In terms of data, it is best to keep every piece of evidence to hand while calculating an apportionment, and then keep most of it in the transactions evidence file afterwards. This can include copies of signing-in sheets for a meeting showing totals of the number of eligible and ineligible people – if there were no ineligible people present then there would be no need to do an apportionment calculation. A spreadsheet can sometimes help show the data used and the calculation methods applied to this data – as well as helping with arithmetic accuracy.

Consider the example of a Project Office which is located on an open-plan second floor of an office building with shared space and facilities with other non-project staff, though all staff on this floor are employed by the organisation running the project. The area is 150 sqm for ten staff, six on the project and four on other duties. Each staff member has their own desk, but project staff work 21 hours each week and non-project staff work 35 hours each week. The four non-project staff all work with their desks pushed together at one end of the open plan area, whereas the six project staff desks are arranged separately and each with their own filing cupboards nearby.

What would be a fair apportionment for the project in terms of ERDF?

Firstly, there are some answers that generally would not be accepted. Dividing the charges based on headcount alone (60:40) is not acceptable because some are part-time and some are full-time. Taking hours worked each week into account as well as headcount the ratio becomes ((6*21):(4*35)) or roughly (47:53).

Another approach would be to look at floorspace, where measuring the areas used might show 110 sqm for the project and 40 sqm for non-project staff, giving a ratio of (55:20), but again factoring in the hours worked as well the ratio becomes ((55*21):(20*35)) or roughly (63:37).

So, we could try and claim 47%, 60% or 63% of each invoice for the second floor rent depending on which one of the methods we choose to adopt. The 60% has been ruled out already, and the 63% would depend on showing to auditors how spreading out the desks of the project staff added value to the project. Maybe the project staff have to interview potential beneficiaries and there are no confidential rooms. Maybe the volumes of project storage required are particularly onerous. Clearly unless there is a compelling case, the apportionment will be around 47%.

Next, consider a further complication that the second floor is sub-leased from another host organisation that is the main occupier of the building and holds the head lease, and the host organisations passes on the landlord's charges plus a 40% mark-up to cover costs of cleaning, heating, security and a shared caretaker, and plus lighting and power added at cost based on a separate electricity meter for the second floor.

Here, the landlord's charges and the electricity bill are external costs. The 40% mark-up however will depend on whether the office space was competitively procured, in which case it can be shown to be fair, or whether the co-location of the two organisations has been decided in order to meet some other objective – which is fine but means that the ERDF calculations become more complicated. In such circumstances it is often necessary to find out the actual costs of the additional services (cleaning, etc) and apportion these actual

costs in a similar manner to those above. ERDF processes do not accept the idea of notional charges or ‘going rates’ as a basis for making a claim, and all calculations are expected to track back to a real, external payment which has been justified by competitive procurement.

Procurement

The procurement of goods and services is a key area that is tested by the ERDF audit regime. ERDF is a public fund, and the laws governing public procurement apply to ERDF projects even if some or all of the delivery partners do not consider themselves to be in the public sector. The single market is a cornerstone of the European Union Treaties, and full and open competition is seen as central to the efficient working of the single market.

Certain types of large contracts being let by any part of the public sector within the 27 Member States of the EU are required by law to be advertised in the EU's Official Journal (OJEU), so that any interested company can apply to be considered for the contract. The thresholds for a compulsory OJEU notice of an intended contract procurement to be awarded between 1st January 2012 and 31st December 2013 are in summary:

Capital works	£ 4,348,350
Services and supplies contracts	£ 173,934

There are also more detailed rules requiring notice of certain types of contract that must be published in the OJEU, for example in connection with textiles or steel, which are not usually relevant to an ERDF project.

However, great care needs to be taken when procuring any contracts below these OJEU thresholds, and especially the need to *advertise* any contracts of £10,000 or more in value, because the general principles for public procurement still apply. This follows case law in the European Court of Justice, after which the European Commission in 2006 issued its interpretation蜉 of best practice in terms of compliance for lower-value contracts.

If an audit inspection finds that any contracts have been awarded but not in compliance with these EC Treaty principles for public

procurement, then automatic ERDF fines (by clawback) can be imposed on the value of the whole non-compliant contract, ranging from 25% to 100%.

Therefore, it is strongly advised that fully detailed records are kept of each procurement exercise, including key correspondence and copies of any publicity. For an ERDF project these records should be in their own distinct files, and indexing them in alphabetic order of supplier can help.

Some organisations will have a formal set of Financial Regulations or a similar policy, often associated with contracts of employment so that a breach of the regulations is grounds for dismissal. These regulations will set out the procurement rules which must be followed, and for public bodies the regulations will incorporate the legal requirements for public procurement, sometimes with additional internal safeguards.

The ERDF guidance in the UK previously was that following the various 'sub-thresholds' usually found in the financial regulations of a UK public body would keep an ERDF project in compliance with the EC Treaty principles that protect the single market. However, not all Financial Regulations are now considered by the ERDF Audit Authority to meet the EC Treaty requirements in terms of procurement, and project managers are ***strongly advised*** to do the maximum required by the recent changes to the ERDF rules rather than continuing following their internal financial regulations alone.

The European Commission's guidance from 2006 is that:

> "the practice of contacting a number of potential tenderers would not be sufficient in this respect, even if the contracting entity includes undertakings from other Member States or attempts to reach all potential suppliers. Such a selective approach cannot exclude discrimination against potential tenderers from other Member States, in particular new entrants to the market. The same applies to all forms of 'passive' publicity where a contracting entity abstains from active advertising but replies to requests for information

from applicants who found out by their own means about the intended contract award. A simple reference to media reports, parliamentary or political debates or events such as congresses for information would likewise not constitute adequate advertising. ... Advertisements [of contracts to be awarded] on **the contracting entity's own website** are flexible and cost-effective. They should be presented in a way that potential bidders can easily become aware of the information." (emphasis in original).

Core features

The core features of procurement as set out in the EC Treaty are:

1. Free movement of goods and services – throughout all 27 Member States of the EU (to be 28 states with Croatia joining in July 2013).

2. Transparency – the selection criteria for awarding a contract need to be made clear at the outset, to help the market understand what is required and to ensure that 'the goalposts have not moved' later in the process to favour one particular bidder. Transparency is achieved by compliance with non-discrimination and equal treatment below.

3. Non-discrimination – this principle ensures that a public procurement specification does not insist on particular makes, sources, processes, trademarks, or patents, unless objectively justified, and unless the wording 'or equivalent' is added. Non-discrimination is sometimes known as mutual recognition – that a local or national qualification, diploma or feature usually cannot be insisted on to the exclusion of an equivalent but different feature found in another Member State of the EU.

4. Equality of treatment – the public procurement must not include any conditions that would exclude an organisation from another Member State from being considered, such as having to have an existing local office. However, it *can* be a

condition that a local office needs to be in place subsequently if the award is granted.

5. Proportionality – the larger the value of the contract, the more advertising and publicity it will need to be given, and the more detailed will be the selection process and criteria.

Advertising to the single market is a strong sign that discrimination against organisations based in another Member State is not taking place. It is *very rare* that a single tender action will be acceptable at audit, and especially for a contract above £1,000. Showing that the bidding opportunity was known to the market will almost always require a notice of the intended contract to be placed on a web page蜉. A failure to advertise is currently a common cause for a subsequent ERDF clawback following an audit. As shown in the extract above, it is no longer compliant to show that five, seven, nine etc firms were invited to tender, for example by emails to each company, if there was no other general publicity.

The publicity needs to state at least roughly how large a contract is likely to be. There is some debate amongst procurement professionals about whether it is good practice to include the available budget in the notices seeking commercial interest. The view against including a budget figure believes that the market will always price up to the budget. However the view in favour of disclosing the budget available argues three points: that some parties may find it out anyway and thus gain an unfair advantage; that time is wasted on both sides with bids that could have produced a good outcome but because they are over-budget they cannot be considered at all or without further negotiations (itself a fraught area); and that an experienced bid appraiser will be able to tell from submitted documents when crude pricing-to-budget is taking place.

For large value contracts there is a choice of various complex and staged processes, such a framework agreements or panels and subsequent ‘mini-competitions’, pre-qualification questionnaires, invitations to tender, and invitations to negotiate. These require specialist procurement advice if they are to be associated with an

ERDF project.

Considering the usual single-stage process of procurement, this will cover (a) writing the specification, (b) advertising with a deadline, (c) receiving bids, and (d) selecting the best bid. As mentioned above, the writing of the specification needs to make clear at the outset what will be the selection criteria used to determine the winning bid. It is usual to provide a scoring grid, typically with 100 points available. Firstly there is a quality-cost ratio, so for example a 70:30 quality-cost ratio would award 70% of available points on the qualities shown within the bid, and 30% on the price quoted. Some assessment criteria include minus scores, and some include 'hard gateways' which are compulsory requirements before the scoring can start, for example in health and safety qualifications for dangerous work.

The following is an example of a basic scoring grid:

General criteria	Detailed criteria	Bid 1	Bid 2	Bid 3
Price (30%)	(1) Increments of: Above budget = minus 30%, 1% score for every 1% in value the bid is below budget (max 25 %), lowest bid = 30%; OR (2) Formula of: 30% times (1 minus (this bid – lowest bid) / (lowest bid))			

Quality (70%)	Evidence of strong project management skills in the delivery team named in the bid (max 30 points)			
	Evidence of national and international awards achieved for similar projects in last 5 years (max 10 points)			
	and others as required			
Totals				

All of the detailed criteria should be included in the call for bids, but it is permissible for there to be undisclosed benchmarking and training documents for the bid appraisers which give guidance on scored examples to ensure a consistent approach, especially if a team of appraisers is involved. Even if all the appraising is done by one person, their papers and recommendation must go to another, senior person for final approval, and this approval needs to be included in the procurement file papers.

Care needs to be taken that the scoring criteria are followed as stated and that there is no *double counting*. For example, if 'experience of similar contract delivery' is a pre-requisite (also known as selection criteria, a hard gate, or first stage) then it cannot be scored a second time (also known as award criteria, a soft gate, or second stage) such as when using the grid above.

For example:

> *Selection criteria* looks at general suitability or competence and can include items such as: experience, qualifications, reliability, reputation, performance resources (equipment, specialist staff, etc).

Award criteria can include one or more of: price, quality, subsequent running and dismantling costs or whole-life costs, after-sales service, delivery date, and environmental performance.

Often the best projects are those where a partnership of organisations comes together to address what seems to be an intractable problem, where the expertise of each partner is used to tackle the aspects of the problem they know best, and where the project succeeds because the whole is greater than the sum of the parts.

However, partnership working is not without its challenges, and sometimes the ERDF requirements can seem almost too onerous for a project to succeed. The key feature of an ERDF partnership-based project is that the partnership has to justify itself to others from the start, and there are two usual forms in which this partnership can occur.

Delivery partners

A partnership can be formed before the project starts. This is where delivery partners come together with a shared agenda, and often to share matching funding, in order to make a joint application for ERDF support. One of the partnership bodies will be nominated by the group as the lead body and will become the applicant for ERDF and responsible for the general running of the project. This lead organisation is known as the Grant Recipient. The other partner organisations become delivery partners, and each one must be named in the ERDF contract within the Funding Agreement, with their role within the project explained.

The justification of this type of partnership is tested through the independent appraisal process, which is where the ERDF application is tested against a range of criteria for its likely effectiveness (impact) and efficiency (value for money). This provides a due diligence process for public funds by ensuring that the partnership and its proposal will produce a public good. One important aspect of ensuring financial probity through this arrangement is that all such

named parties within an ERDF contract can only claim for their actual costs as defrayed, and not for any higher amount for the same work such as they might invoice for when earning income, even when working for the Government.

For some organisations, the role of being an ERDF delivery partner can also expose their internal commercially and personally confidential costings, such as overheads and salaries, to a degree of wider scrutiny outside the organisation which, even within the confidential limits of accounting and auditing, range from being uncomfortable to being unacceptable. This aspect of an ERDF project's financial dealings is not always fully appreciated by delivery partners who are unfamiliar with the ERDF rules, and it is best practice to ensure that this degree of financial disclosure is understood by senior managers and especially the organisation's Finance Director at the outset of each project.

In terms of project governance, delivery partners are able and expected to be fully participating members of the Project Board in order to direct and challenge the work programme of the project, and to relate via the Board to similar projects and strategic initiatives, especially those that have complementary work programmes within the public sector. This governance dimension is not usually available to organisations that are involved with the project as contractors or suppliers.

Contractors

Another form of joint working, though not always described as a partnership, is that of an ERDF applicant organisation working together with its contractors. Such collaborative working is often promoted as best practice, for example in the construction sector in 1994 with the publication of the influential Latham Report, *Constructing the Team*[蛑] and its successor initiatives. Such collaborative working is encouraged because better outcomes and efficiencies are achieved by organisations working closely together rather than in an adversarial manner.

However, unlike for organisations which are 'named at the outset'

delivery partners, those that are designated as contractors can charge the project a commercial rate including profit and are not limited to claiming for their actual costs only. The protection of public funds through financial probity in this case is achieved through a procurement exercise which will ensure that the qualities of and charges for any work are the best possible in the circumstances. An organisation named in the ERDF Funding Agreement can have some certainty of its role in the project even though its costs have to actual, unlike an organisation which seeks to become a contractor with possibly additional income but with no certainty of work.

However, from a project design point of view, one of the difficulties with organisations wanting to be contractors and 'take their chances' in a procurement exercise rather than being a named and certain delivery partner with its additional obligations of financial disclosure and cost-only recovery, is that a delivery partner can provide the project with much-needed matching funding to the project whereas such funds cannot be provided by a contractor. Alternatively, as described earlier, SME beneficiaries can co-fund work from which they benefit.

Two possibly less difficult options to be considered by organisations at the early project design stage are, firstly whether they wish to provide matching funding in cash as a type of sponsorship in being associated with the project's impacts and marketing, or secondly whether their matching resources could exclude confidential areas such as salaries and overheads and instead focus on less sensitive items such as capital plant, computers, office space and seminar rooms being made available for the project's use. The value of the matching resources is calculated by the actual cost to the delivery partner of making such resources available, and not by using opportunity costs such as foregone income.

Risks and liabilities

Though perhaps more important for delivery partners than for contractors, it is nevertheless essential to ensure that there is a clear understanding amongst the organisations of where the project's risks

and liabilities are going to be held and how they will be managed. A recommended approach for delivery partners is to produce ‘back to back’ agreements or contracts which mirror the ERDF Funding Agreement *pro rata* to each organisation in proportion to their work within the project. In particular, it is useful to have a schedule which covers the various types of financial data sheets and whether some of the more sensitive items are to be retained within the originating organisation (and held secure for potential future audits, currently up to 2025) or whether some types are to be retained centrally by the project office in a secure manner, or a mixture of both arrangements. Original bank statements and original invoices are usually retained within the source organisation, and sometimes even copies are not allowed to be made, which can therefore require a visit to each organisation each time an inspection or audit is necessary.

State Aids and SMEs

State Aid law is applied across the EU, and its purpose is to stop the public sector in any EU country trying to distort the single market, for example by unfair subsidies or trade protection measures which favour a local company against one further away.

However, the EU institutions also recognise that sometimes there is a need to address a 'market failure' such as a lack of knowledge, a shortage of skills, or a deep-seated failure for a whole region to share in the wider prosperity.

State Aid law therefore allows for certain limited exemptions whereby the public sector can work with the private sector in order to address market failures, and one key exemption is working with SMEs in most sectors of the economy.

The general definition of a small and medium enterprise (SME) is:

1. turnover less than €50 million a year, OR a balance sheet under €43 million,
2. fewer than 250 employees, and
3. less than 25% of its ownership is held by large companies.

SMEs are further categorised as micro companies (with up to nine employees), small companies (up to 49 employees), and medium companies up to the general SME thresholds of 249.

For many SMEs there is an exemption to State Aid restrictions, known as *de minimus*, where the public sector can assist some SMEs with help up to a value of €200,000 in any three year period. The onus is on the each arm of the public sector, including an ERDF project, to tell each SME it assists the value of that assistance, and on the SME to keep a record of the three-year running total of the value of all these contributions.

The logic of this exemption is that assistance to an SME is small enough in scale not to impact on other companies. There are some exceptions where the *de minimus* rule is not allowed, for example in the retail sector where these SMEs are in direct competition with other local shops run by other SMEs. There would be a distortion of competition here if one firm was assisted, even if it is an SME.

To determine whether a company could be a potential beneficiary for an ERDF project, it is important that a senior figure within the company signs a declaration form stating that it is an SME as defined by law. It is advisable for the project office to check the company details using free sources such as Companies House for a basic check and if possible paid-for sources such as the Fame database of companies. A basic internet search using the company name will provide details which can be cross-checked against the declaration form. The signed SME declaration form should be stored in the project's beneficiary files, either in alphabetical order or otherwise indexed.

Of course, not all SMEs will be registered as companies whether limited by share (for profit) or limited by guarantee (not for profit), and the other permitted types of SME include self-employed sole traders, trusts, friendly societies and limited liability partnerships (LLPs).

It is probably the high audit intensity of ERDF programmes that causes the most operational difficulty for project managers and for their managers and directors. The EU introduced the format of Structural Funds in the 1980s to move away from project-by-project approvals all having to be taken at the European Commission level, and instead to move to a more devolved approach by approving *programmes* and then letting various local partners throughout the EU decide on the project-by-project details by running programmes.

At the time, Structural Funds' audits were similar to other audits by starting with a general scrutiny of a project's records and systems, then sampling some of the specific items, and moving on to test in greater number and detail any areas where any discrepancies had been found in the samples, and finally quantifying the findings and producing a report with the actions required, including clawback if necessary. Such audits would often start with a sample test of a utility bill, because how this type of general payment was apportioned and claimed for could quickly tell an auditor a lot about the quality of the project's and the host organisation's systems. The local programmes had to show matching funding from other public sources, with an expectation that the proper controls over the non-EU public funds within each project would extend in scope to provide proper local control over the EU-sourced funds, with auditing as a second line of assurance.

However, in recent years the trend has been to increase the intensity of all ERDF audits, so that currently frequently the instruction to ERDF auditors is not to sample, but instead to check 100% of the transactions and to test all of the non-financial compliance instances. This increased intensity is perhaps understandable because there has been pressure from some quarters to prevent or minimise any bad press that might occur.

There are four levels of auditing and checking for an ERDF project:

1. a Project Engagement Visit (PEV) made at the start of a project to iron out any project systems issues at the outset,

2. a 10% check of the transactions of each claim when it is submitted to DCLG,

3. a periodic Progress And Verification (PAV) visit, sometimes also called an *Article 13* Audit, either at the normal or at the 'Enhanced' level, and these include:

    a. a normal PAV which can audit any claims made to date, along with follow-up tests on the project's systems as covered in the previous PEV audit; and

    b. an Enhanced PAV which can cover 100% of one or more recent claims, and at least 15% of a project's lifetime transactions, and

4. an *Article 16* Audit, which will check 100% of the selected claim's transactions, along with an audit of outputs claimed, and for compliance in terms of State Aids, publicity, procurement and governance.

ERDF projects were required up to 2011 to also have an annual audit paid for by the project and done by a qualified external firm of auditors to standard national instructions, called the Statement of Grant Expenditure (SGE), but this requirement has since been discontinued for ERDF projects in some of the programme areas in the UK.

Irregular expenditure

The definition of irregular expenditure is 'charging an unjustified item of expenditure to the general budget' of the EU.蛑 Some rules for eligible expenditure are decided at the EU level, but most are decided at the Member State level, for example the UK Government.蛑 For ERDF in the UK these rules are described in Chapter 2 (96 pages) of the ERDF User Manual (817 pages), available online.蛑

Irregular items above €10,000 are reported to OLAF if they have already been claimed by the Member State, but this reporting is not required if the error is found early on, and especially if found by the project itself. Irregularities are classed as either administrative or fraudulent, with zero tolerance for any fraud and, at the EU level, a 2% tolerance of acceptable risk for administrative errors within each programme. The errors are still corrected, of course, but the 2% indicates a threshold where concern about risk would grow and additional financial controls would be applied, with significant concerns if the overall error rate is above 5%.

Preparing for an ERDF audit

For most of the types of an ERDF audit there will be a letter announcing the selection of the project for a forthcoming audit, plus a questionnaire for the project to complete and return to the auditors around two weeks before the visit, and possibly a request for some or all of the selected claims as spreadsheets.

A project is normally selected for audit either by timescale (such as, the project has just started) of by a random sampling of all claims submitted in a recent period. It is important to realise that once the selection of a project has taken place, it is not possible to avoid the audit taking place. However, it is reasonable to liaise with the auditors in advance to ensure that the proposed dates for their visit are convenient, for example to avoid any annual leave of key people that may have already been booked.

Having agreed the dates and clarified the scope of the audit if necessary, the next stage is to consider the questionnaire well before the deadline for its return. The questionnaire can be quite long, and starting to draft a response will suggest some features of the project that the auditors may well focus on during the visit, for example if the particular claim they have selected included a relatively large procurement exercise.

It is very useful to try and look at the project through a fresh pair of eyes. Could a visiting auditor make sense of the filing structures used by the project? Is it possible to browse the shelves of files to

readily find details on various aspects of the project, or for example is there a somewhat complex file structure on a server hard disk with over ten levels of folders? Now would be the time to consolidate the paper files with any documents that are only held electronically, and to simplify the titles and layout of the main project files. A disorderly start to an ERDF audit visit will reflect badly on the project. It is also a useful time to book a private room for the auditors' exclusive use while they are visiting, and to arrange for the use of a nearby photocopier. It is fine to check with the auditors in advance to find out how many days they think the visit will take, bearing in mind that they may have to arrange to return later to inspect some further documents if for any reason those papers are not available during the first visit.

Having looked critically at the project's files and having checked the file details for completeness and accuracy, such as misfiled copy invoices or purchase orders, and preferably at least a week before the planned visit, make use of any individuals within the organisation who can provide a claims quality assurance (QA) role. If this is not possible, consider inviting in a colleague from another project in a similar organisation to be a 'critical friend' in advance of the audit, having ensured that your senior managers are confident that professional confidentiality will be respected. Don't miss out your own file checking stage first and then expect the QA person or people to find all the blemishes.

During and after an ERDF audit

Project staff must assist and respond to auditors in what is termed 'good faith', which means not trying to mislead them or being devious as well as simply not being untrue. If something is missing or has been done in error then say so, along with any reasons if relevant. It is expected that any large project will have some clerical errors, including figures transposed in error within a spreadsheet. Normally these are for small amounts, and for a project to produce records possibly spanning years of delivery without a single error would itself be unusual and require further audit attention. Ideally, having followed the preparatory steps above, by this stage the

project staff would be aware of any major areas of weakness before the audit commences, and would have prepared some responses to try and mitigate the risk of clawback or adverse comment.

Some audits in recent years have raised adverse findings around project procurement alleged deficiencies for smaller value contracts below the EU public procurement thresholds. These critical findings have not always been seen as being consistent with public sector custom and practice to date, and in 2012 DCLG issued a general letter to all ERDF project managers setting out its interpretation of requirements for the procurement of lower value contracts, especially in respect to compulsory advertising, an interpretation which it will continue to pursue at audit.

After an audit the project will receive a formal report, and depending on the type of audit there will be a timescale to accept or contest the findings and then a further timescale to implement the changes suggested or required. The production of this formal report can take some weeks because various sections within DCLG can comment on it in draft form before it is issued to the organisation running the project.

Errors and irregularities

Any type of error in the expenditure details of a project can become an irregularity if it is not caught in time, and some mistakes are irregular as soon as they are found. An irregularity can result in a reduction in funding to offset the incorrect amount.

The guidance from DCLG on definitions of errors is:

> A '*clerical* error is the unintentional addition or omission of a word, phrase, or a figure ... [where] the failing is due to a simple oversight on behalf of the project, [and DCLG] must be confident [that the project] has not intended to knowingly claim ineligible grant.'
>
> A '*technical* error is an error that does not affect the nature or facts of the project. For example, using a wrong stamp,

forgetting to attach an annex to a grant offer letter, etc.*'* (DCLG, 7 March 2011).

By implication, there is also a third type of *other* error which is neither of the above and consequently is more serious.

The consequence of any ineligible costs found that have been claimed by the project *and* has passed the point of being declared by DCLG to the European Commission, is a clawback or recovery of the amount, and this is done by a reduction in the ERDF grant allocation.

However, if all three following conditions apply then it is possible for there to be no financial clawback:

1. the ineligible cost was due to a clerical or technical error,
2. the error is not systemic, and
3. the ineligible cost was found before DCLG have made their programme-level claim to the European Commission.

DCLG use their MCIS project data recording system to track all project expenditure errors to look for any systemic reoccurrences. This means that even if there are no immediate financial consequences, repeated errors of the same type may lead to an irregularity being decided later on which will cause a reduction in grant. However, MCIS currently is known to contain some software bugs and there are some concerns on the levels of accuracy of the historic project data.

If the error is classed as being *systemic*, then an extrapolation is calculated so that similar clawbacks are applied to the project's other ERDF claims where this systemic error is likely to occur. An example of a systemic nature would be where the *method* to calculate the project's overheads contains an error.

Some adverse findings in public procurement testing will produce an automatic penalty or clawback. These findings would be classed as more serious than clerical or technical, and the following are

some typical examples:

Above the OJEU thresholds:

- Direct award with no competition – 100% of contract value;
- Unadvertised additional works which could have been foreseen – 100% of additional value;
- Illegal criteria in the selection or the award stages – 25% to 100% of contract value.

Below the OJEU thresholds:

- Insufficient advertising – 25% of contract value;
- Unadvertised additional works which could have been foreseen – 25% of additional value;
- Illegal criteria in the selection or the award stages – 10% of contract value;
- Inequality to treatment between tenders received – 10% of contract value.

Project Management and Reporting

At the heart of any project management there needs to be a management information system (MIS) and this used to record what has happened so far, to compare what has been achieved against the project plan, and to inform the project manager and governance about the range of choices for the future. This section will assume that there is not a commercial MIS available to the project manager, and just using spreadsheets will suggest a useful method.

At the outset it is useful to keep in mind the paradox that it is at the heart of many ERDF projects. In Government and in other organisations it is broadly possible to divide activities between 'business as usual' and projects. Much of the public sector is rightly based on business as usual – we want to see the school crossing patrol helping children get safely to school *every* morning. In other

areas, sometimes an innovation suggests a way to be more effective at work, and the time-limited project approach is used to try and change the business.

An ERDF project manager has to reconcile the paradox of running a project that it intended to deliver change in local economic performance, exposed to market conditions, but within rules that require expenditure, activities and results to follow a detailed structure and quarterly specific timetable decided up to four or five years in advance. To some extent this is possible, for example a business seminar programme can be scheduled and costed in advance, leaving the content to be decided nearer the time, but there are limits to the benefits of this approach. Crucially there is an optimum balance between running a 'clockwork' or efficient project and running a fully responsive and therefore effective change project – the craft of good project management.

Sometimes a major change in the project plan becomes unavoidable, for example if the source of matching funding is changed by new legislation, and the section on Contract Variations discusses this in detail, but such major changes are not the first option that an ERDF project manager should be considering.

Project Management Information System (MIS)

Assuming that there is no corporate MIS available to the project manager, it possible to produce the basics of an MIS using one or more spreadsheets. Ideally it would be just one spreadsheet file, using different internal sheets or 'tabs' within the worksheet for different aspects of the project. I would always favour a spreadsheet instead of a database for this task for three key reasons: the correctness of the logic and data is transparent and testable by managers and auditors, more staff have the IT skills to readily work with a spreadsheet than can code a database, and compatible free and paid-for spreadsheet software is widely available. Perhaps a downside is that good databases produce better printed reports, whereas a spreadsheet's figures need to be embedded within an explanatory report, but this is not difficult to organise.

The following structure for the spreadsheet is suggested as a suitable MIS for a medium-size project:

1. The dashboard – this is a one page graphical summary of the project which is on the agenda of every project governance meeting, with three graphs showing:
    a. Outputs against time, contract profile and achieved to date
    b. Total expenditure against time, contract profile and achieved to date
    c. Key inputs against time, depending on the nature of the project, for example staff time
2. The financial claims made to date, funds received, and the estimated value of financial transactions 'in the pipeline' to be included *if eligible* in a future claim (this pipeline figure can also be helpful for any internal requirements for year-end accruals)
3. If there is a range of delivery partners, then a breakdown by partner and by quarter and by expenditure type for Sheet 2.
4. The outputs claimed to date, by each type, and the 'pipeline' of likely future outputs for example SMEs engaged in a programme but yet to complete.
5. If there is a range of delivery partners, then a breakdown by partner and by quarter and by output type for Sheet 4.
6. Beneficiary records, with full details and their current status, for example, planned, engaged, underway, completed, claimed, or abandoned. This feeds into Sheets 5. This data sheet can become quite large, and a link between two spreadsheets is an option to consider if it would not be too fragile an arrangement in organisational IT terms, and if different staff in the project office need to edit different sheets at the same time.

7. The key inputs deployed so far within the project, and the future profile. For example, staff time may be the single main determinant of outputs and of expenditure, in which case an analysis of timesheets etc could be shown graphically as full time equivalent (FTE) people deployed on the project by month to date, and profiled forward if possible.

This may seem an over-complicated structure, and especially at the start of the project when lots of the figures will just be blank space. This basic MIS can be started in stages of course, but I would strongly advise an ERDF project manager to have the fundamentals of an MIS such as this in place early on, even if there is a strong sense that the structure will need amending as the project proceeds.

An ERDF project manager will find that they usually have a good view of the outputs because they have a tangible link to the project's activity. However, depending on an organisation's internal arrangements the view of expenditure can sometimes be harder to discern. For example, the project may have its own cost centre in the accounting system, but the totals can be unreliable if there are significant amounts being journal transferred in or out. Further, some of the expenditure is determined using an apportionment of sums in other cost centres such as estates and maintenance. The role of the ERDF project accountant or finance officer is key to the control and reporting of expenditure, not least because of these wider influences. The ideal of cost control where a project manager can require every invoice to cross only their desk for sole authorisation and nothing is claimed in other apportioned ways is not real, and the project finance officer's role is crucial in keeping a close track of the often complex streams of expenditure across different cost centres.

The project files should include an organisational chart showing the staff teams deployed on the project and their reporting lines to managers, and through them to a Project Board which exercises the governance of the project. The membership of the Project Board will probably consist of the managers, including the project manager either reporting or as a full member, along with possibly some directors and representatives from the delivery partners plus other providers of matching funding.

The Project Board may also have sub-committees, working parties or steering groups, along with regular meetings between the delivery partners, to deal with operational issues between Project Board meetings. All these meetings should have agendas prepared beforehand, and should have minutes or action notes circulated afterwards. All these documents should be retained in a project governance file for future reference and audit.

Risk Register

One document that should be shared across all these groups, and should be a standing item on each agenda, is the project risk register. This should be seen as a dynamic document, each version dated, and should follow the usual convention of four columns as follows:

1. A description of the risk itself, with the likely consequences for the project if it does occur
2. The probability of the risk occurring, on a scale of 1 to 5
3. The degree of impact this occurrence would have on the project, on a scale of 1 to 5
4. A description of actions taken and planned to mitigate (reduce the probability or the impact or both) the degree of risk that the project is exposed to.

It can also help to colour code each risk in the document as red, amber or green (RAG). One approach is to multiply columns 2 and 3, and use thresholds as follows:

RAG	Probability (1 to 5)				
Impact (1 to 5)	1 – G	2 – G	3 – G	4 – G	5 – G
	2 – G	4 – G	6 – G	8 – A	10 – A
	3 – G	6 – G	9 – A	12 – A	15 – A
	4 – G	8 – A	12 – A	16 – R	20 – R
	5 – G	10 – A	15 – A	20 – R	25 – R

Some projects also separate the risks into two sets: the first set consists of the risks that are within the *control* of the project (such as keeping regular backups of data in case of IT faults), and the second set consists of risks that are *inherent* in running this type of project (such as the national or local economy performing worse than expected). Inherent risks need to be planned for just as much as control risks, because even though the probability associated with any inherent risk is beyond the control of the project manager and the Project Board, there may still be some preparations that can be put in place to lessen the impact within the project if these risks do materialise.

It is a good test of the quality of governance and of project management to find that a risk register does indeed contain some red or high-risk concerns, especially if the proposed mitigations are strong and well targeted. An ERDF project that goes through all its trials and tribulations with every risk rated green or low-risk is very unlikely to be reflecting reality and such a document is likely to cause concerns on inspection. It is a good indication of the maturity of the project governance that it can correctly identify and work through high risk issues.

There is also interesting recent research (Kahneman 2011) which suggests that individuals and groups incorrectly assess risks which have a low and very low probability of occurring, and that people are risk seeking when faced with a potential loss, whereas they are risk averse when faced with a potential gain. This behaviour contradicts some of the classic economic models for rational decision making, and it is therefore worthwhile for project managers to examine the low and high corners of the RAG table above for any issues of risk which are possibly incorrectly assessed in the light of these research findings.

In ERDF terminology the results of projects are categorised in three ways: outputs, results and impacts. The recording of the achievement of these different types of results or products from a project vary in their details and in their methods.

Outputs – businesses assisted

The phrase project *outputs* in an ERDF programme refers to the recording of project activities. A typical example is the reporting of the number of firms that have been assisted by the project to improve their performance. The number of businesses assisted is usually reported at one of three levels of intensity: basic, intermediate, and advanced.

The *basic* level of business assistance is increasingly out of favour, because the intervention is so 'light touch' that it is hard to show any impact on the way the business operates as a result of their contact with the project. The *intermediate* level of assistance is roughly equivalent to two full days of bespoke and individual contact between the firm's managers or directors and the project, costing the project around £1,000 in the staff time and other resources it uses to produce this contact, and resulting in an action plan for change that the firm agrees with and signs. The *intensive* level of assistance is more long-term, where the firm and the project have contact time which lasts on and off for over a year. Clearly one level of assistance can lead to the next, but each firm can only be counted once, therefore one more intensive assist is one fewer intermediate assist.

Results – jobs

Following on from the business assistance, there is an expectation that firms will then be able to safeguard some existing jobs and create some new ones. These project *results* need to be declared by the firm to the project, and need to include enough detail so that an

auditor could visit the firm and verify the positions safeguarded or created, though this is unusual. The names of the firm's staff members do not need to be included, but a unique identifier such as a works number or payroll number is required. There are also additional equality monitoring details that are requested, and these are optional and at the discretion of the firm and its staff members.

Depending on the ERDF Funding Agreement, there may an expectation that the organisation receiving an ERDF grant will continue to gather and report details of results (such as jobs) to Government for up to 18 months after the project's financial completion (that is, at the organisation's own cost). This later date is known as the project's practical completion.

Curiously, some firms find it easier to report to the project on their new jobs than they do to report on any jobs safeguarded. The suggested reason for this is that creating a new job is seen as a positive move or a *gain*, whereas telling someone that their job has now been safeguarded is seen as a negative or a *loss* – such staff may well ask: how long is my job safe for; and why didn't I know sooner?

Results – new policies and practices

Some early outcomes of a project's actions are more than simple measures of activity, but less than the final economic changes that are being desired. For example, one of the results that a project may need to report on could be the number of small and medium firms that adopt a policy of corporate social responsibility (CSR). This policy is not an end in itself, but is a milestone for an SME towards some economic, social and environmental impacts which will place the SME above minimum standards. The SME is therefore more able to win new work from clients whose quality specifications are more demanding than the firm has been used to so far, as well as producing wider public benefits such as less pollution, less ill health, or less energy needing to be consumed by the firm for the same work done.

Some results will be quite specific to the purposes of the project. For

example, as well as the required reporting of the carbon footprint of every *project team* as a cross-cutting theme, some projects may have additional targets for reporting the reductions in climate change emissions reductions achieved by the assisted *firms* as well.

This same approach can apply to targets such as for reducing waste to landfill by SMEs, to showing the increases in the resource efficiency of firms assisted, to showing their increased profitability as measured by gross value added (GVA) per employee.

Impacts – evaluating the changes

In terms of project reporting on its impacts, this is usually done during the evaluation of the project. For example, many results may have occurred such as new jobs created, but this needs to take account of any trade-off with other jobs being lost elsewhere, known as displacement. Another example is that, one way to increase a firm's resource efficiency (if measured as GVA per employee) is to reduce the size of the workforce while maintaining the scale of production. However, this obviously has a negative impact on the local economy in terms of employment, and is sometimes posed in the difficult context of safeguarding some jobs rather than losing them all. The Project Board needs to be clear at the outset what its approach will be to such trade-offs and guide the project manager and delivery team accordingly.

Sequencing of project benefits

As part of the project plan, and as part of the project's marketing strategy, it is helpful to be able to explain a typical sequence of benefits (the 'logic chain') that will flow as a consequence of the work of the project.

An example of such a sequence would be:

1. Because of the advice and assistance given to an SME, it is able to reduce the wasted time and materials in it processes, and it is able to apply new low-carbon technologies which reduce their costs within energy bills;

2. Because of the financial savings made, the SME is able to reduce prices to clients without reducing profits, and with lower prices the SME is more competitive and able to win further work from existing clients for which it needs to recruit new staff;
3. Because the skills and knowledge sets for some new staff specifically included CSR and low-carbon technologies, the SME is able to win contracts from new clients by using the new skills sets to become more competitive on quality as well as on price, including some public sector contracts requiring local economic benefits to be measured;
4. Because of the links established with local skills organisations in order to source new staff and to report local economic benefits, the number of unemployed people in the trade sector of the SME is reduced.

The degree to which this sequence actually works as planned can be measured by one or more evaluations of the project's efficiency and effectiveness.

Publicity and Marketing

One of the key tests during an ERDF audit is to examine whether the fund's publicity requirements have been complied with, and there are automatic grant clawback fines where non-compliance is found. The publicity rules are more circumscribed for capital works and especially those involving the required temporary boards and permanent signage for built environment projects, but revenue projects must also take a careful look at publicity compliance to ensure that audit requirements will be satisfied. ERDF programme teams generally produce a guideline document on publicity, usefully accompanied with the necessary graphics and logos in electronic formats.

In order to demonstrate compliance with the publicity requirements of the fund, it is advisable for each project to have a Publicity Examples File, and for the project manager and team to take a reasonable number of photographs throughout the running of the project. It is perfectly acceptable for pictures to be taken using whatever is convenient to hand such as a mobile phone.

All the images should be stored in folders with the folder named and dated so that it explains the context of the images it contains, and not just keeping the 'random' alphanumeric folder names produced by cameras. It is much harder to go back and do this naming later, and folders of images can soon become disorganised and hard to make sense of at a later date, for example when an audit notice letter is received.

For the Publicity Examples File, selected photographs should be printed as a file note with the printed sheet including the project name and logos, along with a short explanatory text and a date for the image if relevant. For best practice, these images should include aspects of the project's work which show diligence and proper control, for example images taken when visiting some partially-completed works before a stage certificate is produced to release the next payment to a contractor.

Photographs on file of any *temporary signboards* are absolutely essential, and the acknowledgement of ERDF funding must cover at least 25% of any signboard. However, the range of photographs and images held by the project should be more extensive and include, for example, seminars, exhibitions, business workshops, and screen grabs, all showing the correct use of the ERDF logo, and other logos if necessary.

Sometimes a project also purchases branded gift items to help publicise the project's work such as pens, mugs, rulers, and coasters. It is a requirement that sample copies of branded items are retained within the project's records for any future inspection, but it is also useful to photograph the items showing the branding because these images provide an additional record within the project's electronic files, and are easier to include in reports.

At an early stage in the project it is advisable to prepare a *standard paragraph* that explains the purposes of the project, who it is for and which organisations are involved, along with an acknowledgement of ERDF and other funders which is compliant with the guidelines. This short text should be widely shared across the project team plus any partners with a standing instruction that it is to be 'pasted' into all communications produced for external consumption, including reports, flyers, presentation slides, press releases and websites. This is particularly useful if some aspect of the project is misreported by others externally, to show that the correct information was made available had they wished to check the details.

Proactive Marketing

Smart project marketing can be a powerful tool to increase the impact of the project in fulfilling its objectives, and often can be done at minimal additional expense. Some aspects of publicity may appear to be defensive and aimed at showing compliance, but it is possible to make communications and marketing proactive as well as compliant. There are documents available from other ERDF projects on their Project Communications Strategy which can be a

useful starting point for another project to consider, as well as the various textbooks and short courses in marketing, and some projects will have the added advantage of have dedicated marketing staff within the team to take forward such a strategy.

There are recent trends, including the increasing popularity of social networking (Twitter and LinkedIn in a business context, Facebook if a wider public reach is required) and in the increasing demand by trade journals for free 'copy' - written articles - on topical items within its sector. Of course the journal editors retain control, but within the bounds of fair comment it is possible to get a strong message across and even start a debate which can draw more readers to the journal's website or pages. Some caution is needed, as the time to write these articles is a cost to the project, so their cost-effectiveness must be judged each time. Interestingly, academic journals have always relied on free copy, although written in a different convention.

Case studies

Where an ERDF project has worked extensively with a beneficiary organisation such as an SME, both the project and the beneficiary may agree that it would be useful to write up the work and lessons learnt as a case study. Clearly this can have multiple benefits, such as:

1. Promoting the wider messages of the project to other organisations for them to apply any lessons learnt as appropriate, for example in reducing climate change emissions in a cost-effective manner;
2. Showcasing the work of the case study SME in a good light, this may assist the SME in winning awards and further work;
3. Highlighting the work of the project and its host organisation; this may assist with promoting the organisation's other services and in gaining future grants for similar types of projects;
4. Contributing to a range of case studies covering different types of beneficiary organisations in different business and

economic circumstances, to show that there is a range of solutions and in this range at least some case studies will be appropriate to whoever is interested in changing their business.

Testimonials

Finally, it is always useful to keep a short clippings file of testimonials to the work of the project from named people and with details of the organisation they represent. Of course, even if it sent as an unsolicited compliment it is right to check first that their name can be used in future publicity.

Contract Variations

Once an ERDF Funding Agreement has been signed, there is an expectation that the project will proceed broadly as planned. It terms of revenue expenditure this is measured within the tight tolerance of plus or minus ten percent (+/-10%), measured in each three-month quarter, of each of the five revenue sub-categories of salaries, overheads, premises, fees, and other revenue. For example, each year an ERDF project plan will have four quarters each with five sub-category figures for planned expenditure giving twenty expenditure control points a year. Of these, the profiles at 31 December each year are key because they are at the EU financial year end.

It is usually understood that some of these expenditure sub-totals may be acceptably outside of the +/-10% tolerances, especially if mid-year and if the total for the quarter is within bounds, and if there is an explanation for this variance within the accompanying text in the Progress Monitoring Report associated with the claim. This is especially relevant when there has been a delay in starting the project due to a later-than-planned signing of the Funding Agreement, or new ERDF national guidance which has impacted on the project's timetable.

However, sometimes the changes that a project faces are of a more deep seated nature, for example where there is a change to the matching funding availability, or where the national economy has profoundly changed. In these circumstances it is possible to renegotiate the relevant elements of the project. For example, changes in the matching funding availability would be reflected by changes in the expenditure profile; and economic changes would impact on the project's ability to achieve its planned outputs.

However, while it is relatively straight-forward to agree on minor variations in the expenditure profile, by contrast it can sometimes be a drawn out process to agree a change or variation to the Funding Agreement. The starting point is normally an informal enquiry

outlining the concerns that are expected to impact on achieving the profile, with a discussion about the most effective way to resolve these concerns, which can then be taken forward more formally if necessary or just noted for future reference.

As has been discussed in the public procurement section, while it is not possible to insist that any of the contractors within a project are local in origin, it is possible to specify that, if successful, they must create a local base and that they measure and report on the extent of the local benefits they achieve.

As part of the evaluation of the North West Construction Knowledge Hub ERDF project while it was running (known as formative evaluation, as opposed to summative after the project end date), it was possible to analyse the beneficiary SMEs locations against the Government's Index of Multiple Deprivation data set (March 2010). This analysis showed that over 70% of the SMEs assisted by the project were in the region's more deprived areas. This gives a strong indication of the extent to which the project was able to target its assistance on local areas of greater need.

In recent years some economists have been developing new tools to measure the circulation of money within local economies. Sometimes funds 'stick' and are retained and re-used many times within a local economy yet in other circumstances the funds 'leak out' of the area very quickly. These new measurement tools by economists allow different projects, different localities and different industrial sectors to be compared with each other in terms of their performance and local impacts.

The LM3 tool in particular was initially developed by NEF (the New Economics Foundation) from 2000 to 2002. The LM3 method looks at *three rounds of spending* –

1. the original income to a project or scheme;
2. how and where that income is spent on wages, materials, overheads, other items; *and again*,
3. how and where that money is spent again by those supply chain's employees and suppliers.

A quick example could be a £100 grant to a project, of which £74 is spent by the project on local labour and local suppliers, and then £58 of this £74 is again spent locally. So the LM3 is £100 + £74 + £58 = £232 or a 2.32 multiplier.

How Round 2 is done will have a strong influence on Round 3 and the final result, and therefore LM3 has become a useful tool for measuring local economic impact, and particularly for measuring the impacts of public procurement.

Capital and revenue project differences

Some previous studies such as Armstrong *et al* (1988), Armstrong *et al* (1997) claimed that money spent as capital on a construction project had a lower local economic multiplier than the if the same funds were spent as revenue on general running costs. They suggested as the main reasons for this difference the following:

> "(a) the short duration on the main contracts and sub-contracts, leading to less use of local labour, ...
>
> (b) the tendency of the larger contractors to draw upon regional (and not local) networks of sub-contractors ...
>
> (c) the low proportion of materials and other inputs purchased locally." (Armstrong et al, 1997:157)

However, more recently public authorities have taken a stronger role in using procurement programmes to support wider policy initiatives, and as a general statement for construction in the UK, the CBI state that the current construction multiplier (not necessarily all local) is £2.84 (Confederation of British Industry, 2011).

Local labour

In terms of local labour, there is no single definition on how local labour is to be measured. Some calculations allow for a 90-minute commute as local whereas some others will concentrate on a Lower Super Output Area which is a very local area used for census data and statistics, especially for disadvantaged neighbourhoods, with

typically around 2000 people living in each such area, on average 1500 being of working age.

Local supply chains

In aiming to maximise the impact of a project through its support to local supply chains, the emphasis is usually on working with SMEs (small and medium size enterprises) because SMEs usually have more of their sources of supplies in the locality when compared with larger firms. This general approach to support SMEs can fit with the EU state aid and procurement rules, but there are limits to adding further ambitions, such as 60% of supplies sourced within 30 miles.

Further reading

Armstrong, H. W., Ingham, M. and Riley, D. (1988), *The effect of Heysham 2 Power Station on the Lancaster and Morecombe economy*. London: Central Electricity Generating Board.

Armstrong, H. W., Darrall, J. and Grove-White, R. B. (1997), The local economic impact of construction projects in a small and relatively self-contained economy: The case of Lancaster University. *Local Economy,* 12 (2). pp. 146-159. ISSN (printed): 0269-0942. ISSN (electronic): 1470-9325.

Bailey, M. (2010) *Assessing the economic impact of social housing programmes.* Conference presentation: Sustainable refurbishment of housing conference, Jordanstown, 29 April 2010, Constructing Excellence in Northern Ireland.

Confederation of British Industry. (2011), *Unfreezing the housing market*.

Kaplinsky, R. and Morris, M. (2001). A handbook for value chain research.

Prince's Foundation for the Built Environment (2010). *Sustainable supply chains that support local economic development.*

If we were to do this again, which aspects were most useful, which other areas were less so, and why?

The above statement covers the key evaluation questions for a project. Unlike some other areas of research reporting, an evaluation has to be explicit about measuring the *utility* of the project, asking whether and how much it was useful, valuable, efficient, and effective.

Key questions in the evaluation design

In addition to looking at utility as the key question, a project evaluation should also consider feasibility, ethics, legality and accuracy.

Feasibility looks at the practicalities such as funding, staffing, managing and other resourcing. For example, was there something unique about the context of this project that would make it hard to replicate.

Ethics considers whether the project would be right to do, especially if it involves people directly. An unlikely example would be if people had been deceived into doing something they later regretted in order to improve the project outcomes.

Legality includes respecting existing laws such as health and safety, but can also include in the evaluation whether a law has changed recently which would change the way another project would be able to do future work. For examples, when ending selling inefficient light bulbs or when the minimum wage were introduced in law.

Accuracy is concerned with what otherwise may be a very good project idea, but where it is just not possible to measure the key outcome that is being sought after. For example, a small local labour project may seek to reduce the local level of unemployment, but there are so many other factors also in play, it would be inaccurate

to attribute a fall in the local unemployment statistics to the effects of the project. This doesn't mean that such a project should not start or continue; just that it should be evaluated against other outcomes where it can be more accurately assessed.

Mechanisms

The mechanisms used within a project explain how the project attempted to eventually achieve the desired outcomes. The connection between project mechanisms and outcomes within the context of an evaluation can be summarised as follows:

Outcomes ← Outputs ← *Mechanisms*, and

Mechanisms → Data Seeking Strategy → Findings

The following grid gives some examples of the mechanisms that can be chosen as part of a project design:

Description of the project mechanism	Activity type
Gaining knowledge of best practice face-to-face will lead to better business skills and behaviours	Modelling
Reading about best practice will lead to better business skills and behaviours	Acquiring knowledge
Repeated changes in current business behaviours will lead to better business performance	Breaking habits
Seeing new approaches by other businesses will lead to better business strategies by managers	Reflexive self-appraisal
Reconfiguring the usual contacts of businesses will create stronger cross-sector benefits	Network building
New ways of working may already exist partially but will need to be championed	Campaigning

Working with managers to examine barriers to best practice will improve their performance	Coaching
Working in small confidential groups will reinforce the improvements of managers	Action learning sets

Just as important, there should also be a list of the mechanisms considered but not chosen, with a justification or commentary, which can also be tested as part of the project evaluation. For example:

Description of the project mechanism	**Activity type**
Working with a television production company to highlight case studies for a wider audience	Cultural change
Producing a knowledge bank of business mistakes as case studies for managers to study	Acquiring knowledge
Providing grants to businesses in order that they will undergo some internal changes	Directing resources

Data seeking strategies

As shown above, making explicit the mechanisms chosen by a project is key to starting to evaluate how useful (the utility) the project is or was. However, some evaluation studies sometimes start at the wrong place, by deciding on the data seeking strategy.

Mechanisms → *Data Seeking Strategy* → Findings

The difficulty with this approach is that evaluators sometimes have a weakness for preferring their 'favourite' method of gathering data, including examples from the following range:

Survey questionnaires, diaries, interviews, observations, project documents, focus groups, analysing spreadsheets,

behaviour modelling, statistics, tracking, cost benefit analysis, cost effectiveness analysis, and cost utility analysis.

This can become counter-productive if familiarity, or how the evaluator best likes to gather their data, becomes the key factor in designing the evaluation study. The main question should be: given the mechanisms identified (for example, coaching) which data seeking strategy will produce the richest data set?

Communicating the findings of an evaluation is crucial to its usefulness, and Roger Sykes from the Audit Commission has previously recommended that every evaluation should have a free-standing executive summary of no more than four pages, otherwise the messages are lost and the evaluation is therefore ineffective.

Logic chain

Based on an undated presentation slide given by Kirby Swales, DCLG Analysis Division for Neighbourhoods, Cities and Regions; the following logic chain expresses the connectivity within a project from inputs through to outcomes. This diagram is helpful in understanding a particular project's mechanisms (the right hand column) if they are not already explicitly available to an evaluator:

Main stages	Detailed stages	Project-specific stages
Outcomes -	End results	More jobs, less carbon
	Behaviour change	New business practices
	Attitude change	Thoughts on knowledge
	Reaction	Views of the project
Outputs -	Participation	Types of businesses
	Activities	Businesses engaged
Inputs -	Resources	Staff, funds, knowledge

A good guide to cost benefit, cost effectiveness, and to cost utility

measures such as ‘quality adjusted life years’ as used in health sector evaluations, is given on page 276 of:

> James McDavid & Laura Hawthorn, 2006, *Program Evaluation and Performance Measurement: an introduction to practice.* Sage.

A good introduction to small scale evaluations, along with a discussion on the ‘legacy effect’ when there is participant involvement, is given on page 125 of:

> Colin Robson, 2000, *Small-Scale Evaluation: principles and practice.* Sage.

and page 317 of:

> Carol Weiss, 1988, *Evaluation: methods for studying programs and policies.* Prentice Hall.

For recent developments in behavioural economics theory on utility, and especially how people are inconsistent between perceived gains and losses, and on the optimism bias in projects, see:

> Daniel Kahneman, 2011, *Thinking, Fast and Slow.* Allen Lane / Penguin.

Although ERDF simplification has been 'on the agenda' for some years now, it still remains unrealised. The following extract shows that there is a common understanding between the three main EU institutions.

> 'Legislative simplification will also address the high proportion of error that can be attributed to final beneficiaries overstating costs, misunderstanding or misapplying the often complex rules and regulations that govern EU funds. ... The concept of "tolerable risk of error" is the practical implementation of this political approach to audit, and *it is a debate long overdue* for the EU budget. ... Following the [European Court of Justice's] single audit opinion, the [European Council of Ministers] concluded in November 2005 "that it should reach an understanding with the European Parliament regarding the risks to be tolerated in the underlying transactions, *having regard to the cost benefits of controls* for the different policy areas and the value of expenditure concerned".' (European Commission, 16 December 2008, COM(2008) 866, emphasis added).

In measuring the cost-benefits of controls, however, to date the costings have only been measured in terms of costs at the EU and at the Member State Government levels, but not also at the delivery level within all the projects concerned, which would at least double the costs to the public purse.

The European Commission published on 6th October 2011 the draft regulations蛑 for the next programme period from 1st January 2014 to 31st December 2020. As ever, there are optimistic statements about this next programme starting on time, just as there were such statements for every previous programme, yet every programme to date has had a delayed start due to protracted negotiations. There is also sometimes no hurry because the previous programme is usually allowed a further two years to complete its expenditure and

accounting.

One positive element is that this draft regulation would repeal the current regulations, and the proposed changes include lump sum ERDF grants of up to €100 000, unit cost and flat rate grants, as well as the current method of reimbursed defrayed payments. There is also more leniency proposed for in-kind contributions and for depreciation.

As now, there is a 'negative list' of types of expenditure which are not eligible for ERDF support anywhere in the EU. And as now, it is left to each Member State to draw up a 'positive list' using national rules:

> 'The eligibility of expenditure shall be determined on the basis of national rules, except where specific rules are laid down in ... this Regulation' (draft Article 55 paragraph 1).

It is strongly hoped that the UK Government will take this opportunity before 2014 to truly simplify the national ERDF eligible expenditure rules, but it will need to find some clear and fresh thinking rather than adopting a 'track changes' or hesitant approach to change.

Another example of a new approach to simplification is where the Greater Manchester's local authorities are calling for businesses to submit bids to a single fund of around £100m for investment projects, where the new fund is due to include £30m granted to Greater Manchester's Local Enterprise Partnership by the Government's Regional Growth Fund, £25m from the Government's Growing Places Fund, around £20m from the 'evergreen' JESSICA Fund provided by ERDF to inject mezzanine finance into stalled investment projects, and unallocated ERDF in the regional programme.

Conclusions

At a time when public funds are so difficult to find for projects that can help with much-needed employment and economic growth, it is

hard for many people to understand why ERDF is not ‘flying off the shelf’.

A substantial reason for this failure is that ERDF remains a funding source which is perceived as impossibly hard to work with, and as a very high risk endeavour. The intense complexity of the back office function is widely felt to be unnecessary and counter-productive.

There is a current move towards putting large amounts of ERDF into even-larger loan funds for businesses, to dilute its eligibility constraints with other, more tolerant funds, and to achieve economies of scale in any unavoidable back office tasks. In effect this ‘mopping up’ of ERDF usually takes place anyway towards the end of each programme period, where one or two large infrastructure programmes would swing in and take up the remaining funds.

In policy terms, it sometimes appears that the key interest at least nationally is focused on negotiating the overall sums involved, but with little or no interest in ‘the details’, and instead quickly moving on to something else more interesting. Yet it is these details which hold back many good project proposals, and undermine the delivery of those few that do get funding approved.

This is not to decry the need for ERDF being given its due publicity, nor for laws such as state aid and public procurement being respected and complied with. But when a user manual reaches 817 pages then someone, and maybe all of us, have taken our eyes off the ball.

The key to improvement here is to start with a cultural change. The current culture for ERDF is mostly negative, being based on a general fear of bad press and a specific fear of staff becoming typecast and deskilled. The difficulty at the moment is that the culture of ERDF values ever-increasing levels of complexity as always being ‘a good thing’ with no drawbacks, whereas removing a complexity is automatically classed as an increase in the risk of incorrect expenditure, and in a context of all risk being wrong.

In other financial audit regimes there is the internationally understood term of materiality. The materiality of an audit allows for minor errors, rounding problems and other small value mis-statements. Materiality in government accounts has a wider scope than in private sector audits, and will include issues such as accountability and governance as well as income and expenditure. Materiality also has a zero tolerance of fraud and corruption, and the methods used by auditors are specifically designed to root out unethical as well as illegal practices.

But perhaps the cultural sticking point for ERDF is that materiality relies on *professional judgement*, and not on following a long list of rigid rules written to try and anticipate every possible future occurrence in real life projects, and to be followed as would be done by a computer or a robot.

This cultural change towards requiring more use of professional judgement within an agreed audit framework, as in other international audit regimes, would require peer review of case decisions in order to arrive at agreed standards. This would be far more preferable to the current regime where each ERDF auditor is left to account for their findings at times in isolation of shared standards, and where projects being audited are required to 'fight their corner' in an adversarial manner rather than engaging in the process as professional colleagues.

Finally, it is hoped that this small text can help encourage the process of cultural change within ERDF, partly for the benefit of projects but much more for the better employment and economic outcomes for the communities these projects serve.

APPENDIX ONE

Project Files

The following filing structure is one that matches the current schedule used for a progress and verification visit, also known as a PAV visit and as an Article 13 audit. It is recommended that either this structure is adopted, or a mapping exercise is done to show how

the actual project files relate to this list. Auditors will require this mapping to be provided to them roughly two weeks before an announced visit.

Project Management, General

1. Funding Agreement as signed
2. Changes to the Project, as signed
3. Planned and Actual Progress
4. Organisational Status and Project Structure
5. Contingency Plans
6. Risk Management
7. Insurances, Equality Policies, Health & Safety
8. Agreements with Delivery Partners, as signed
9. Procurement of Contractors, as signed
10. Governance Roles, Records of Meetings
11. Data Protection and Privacy

Finances

12. Financial Procedures as followed
13. Accounting Software, Cost Centres
14. Retrieval of Original Invoices, Receipts
15. Accounting Records, Budget Approval
16. Scheme of Delegation
17. Value Added Tax
18. Claims Compilations - Claim 1 onwards
19. Apportionment - Methods and Data Sheets
20. Matching Funding Details
21. Capital Costs, Valuations, Depreciation
22. Salaries, Staffing Structure, Job Descriptions
23. Timesheets
24. Prior Agreement on Overheads Method, as signed

State Aid

25. Details of System, as used
26. Copies of Letters, Notices, Agreements

Project Procurement

27. Details of All Procurement Exercises
28. Any Single Tender Action Contracts Awards
29. Any Preferred Supplier Contracts Awarded
30. All Formal Tenders
31. Any Contract Extensions

Publicity

32. Publicity Examples by the Project
33. Publicity Examples by Third Parties

Other Matters

34. Defrayal by the Grant Recipient
35. Defrayal by Named Delivery Partners
36. Document Retention Arrangements
37. Project Assets and Useful Economic Life
38. Project Final Audit, if applicable
39. Records for Cross-Cutting Themes
40. Records for Outputs.

Abbreviations, Phrases

AA	Audit Authority
BIS	Department for Business, Innovation and Skills
CA	Certifying Authority
COR	(European) Committee of the Regions
DECC	Department of Energy and Climate Change
DCLG	Department for Communities and Local Government
EC	European Commission (EU permanent civil service)
ECM	European Council of Ministers (from each Government)
EP	European Parliament (directly elected)
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union, previously EC - European Community
ex ante	prior, before the event
ex post	actual, after the event
LMC	Local Management Committee (governs an ERDF Programme)
MA	Managing Authority
MCIS	Computer records of ERDF projects held by DCLG
MPS	Merseyside Phasing-in Sub-Committee (of NW England's LMC)
NIFF	Notification of Irregular Funding Form

OLAF	European Anti-Fraud Office
PAV	Progress And Verification visit (at intervals throughout project)
PDT	Programme Delivery Team (DCLG staff)
PEV	Project Engagement Visit (at project start)
PMR	Progress Monitoring Report (submitted with each claim)
PMS	Performance and Monitoring Sub-Committee (of the LMC)
SFIR	Structural Funds Irregularity Report
SGE	Statement of Grant Expenditure (discontinued in 2011 for ERDF)
SME	Small and Medium [size] Enterprise
TESA	Previous computer system for ERDF projects held by DCLG (replaced by MCIS)

Tony Baldwinson first became involved with ERDF in 1989 as the representative for the voluntary sector on the local governing committee of the Manchester Salford Trafford Integrated Development Operation (MST IDO), and in the 1990s representing local authorities at the national ESF programme governing committee. He has managed ERDF projects and programmes for two local authorities and a university, promoted best practice in regeneration for a regional funder, and worked freelance to help public organisations develop their knowledge systems for neighbourhood improvement and for promoting green infrastructure themes in local authority planning.

He has an honours degree in Computation following an industrial gap year as a programmer, and is awaiting post-viva an MPhil for research into the political history of disabled people through their photography in England between 1920 and the 1970s.

His early interest in voluntary work was with homeless young people, then in mental health and currently with rights-based disabled people's organisations. He led the Buses for All European campaign from 1994 to 2001 which changed EU single market law so that all new urban buses are accessible to disabled people including wheelchair users.

He lives in Manchester and is married to Lorraine Gradwell with two adult step-children.

Centre for Construction Innovation

The Centre for Construction Innovation is a centre of excellence in the Built Environment hosted by the University of Salford. CCI was formed in 1999 to further the growth of knowledge within the construction sector, especially through the development of the *Rethinking Construction* policies. CCI has become a key provider of advisory and grant aided services to the construction sector.

CCI offers one-to-one business assists and consultancy, performance measurement and reviews, action learning, training, best practice clubs, networking events, space for events and meetings, and various other services. CCI manages and delivers major improvement programmes and projects.

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