Funded by UK Government

Sunderland UKSPF Funding Guidance to Applicants

Sunderland City Council

Contents

1. Introduction to Funding Guidance

This guidance document is a source of information for potential applicants, grant recipients and their delivery partners as well as Sunderland City Council (the Council) staff. It sets out the eligibility principles and practices to which we expect all projects to adhere. In certain circumstances there may be variations relating to specific interventions and/or priorities, these flexibilities will be clearly set out in the calls for proposals.

The guidance will be regularly reviewed to ensure it remains relevant, adding value to the process and reflecting any amendments to national guidance on UKSPF. It is designed to standardise delivery practices to enable the Council to effectively manage the UKSPF programme in Sunderland.

2. Who can apply for UKSPF funding?

Any organisation can apply for Sunderland UKSPF funding including Public Sector, Private Sector, Voluntary Community and Social Enterprise (VCSE) sector, and Higher Education. Organisations must be legally constituted and have a bank account with at least two signatories.

Non-public sector applicants applying for funding will be subject to a financial due diligence assessment. This assessment tests the financial health of the applicant organisation, its on-going sustainability, its ability to manage the cash flow requirements, and its ability to repay funding if necessary.

2.1 Organisation Size

Private sector organisations must provide details of company size. A combination of number of employees and turnover is used to define the size of a business.

Large Enterprises	Employ 250 people or more and have an annual turnover of more than £36million or a balance sheet of more than £18million.
Medium-sized Enterprises	Employ fewer than 250 people and have an annual turnover of no more than £36million or a balance sheet greater than £3.26million but no more than £18million.
Small Enterprises	Employ fewer than 50 people and have an annual turnover of no more than £6.5million or a balance sheet of no more than £3.26million.

2.2 Project Location

Projects must support residents, businesses and organisations located within the Sunderland city boundary area. If a project is to be delivered in a wider geographic location, please specify this in Section 1 of the Business Case, listing any additional areas. The North East LEP (NELEP) area comprises:

- County Durham
- Gateshead
- Newcastle upon Tyne
- North Tyneside
- Northumberland
- South Tyneside and

- Sunderland.

A project can work in Sunderland-only or in Sunderland and one or more of the other NELEP areas.

3. How to apply for Sunderland UKSPF funding

The Council will publish fund specific criteria and the application process on the Council website, inviting project applications to meet specific funding needs. These will normally be issued via a call for proposals which will set out the strategic context and any specific project requirements.

All projects will be required to complete a business case and associated supporting documents based on the requirements on the HM Treasury Green Book. Projects will be assessed against their contribution towards the priorities in Sunderland's City Plan and according to the Five Case Model set out in the HM Treasury Green Book. **The amount of detail required in the business case should be proportionate to the scale and complexity of the project.**

The Strategic Case	Provides a compelling case for change that explains how the project provides fit with the objectives of the NTCA's Vision and how it aligns to regional and national priorities.
The Economic Case	Describes how the project represents the best public value in meeting our economic and inclusive economy objectives.
The Commercial Case	Demonstrates that the deal is attractive to the market, can be procured and is commercially viable.
The Financial Case	Shows how the project is affordable and financially sustainable.
The Management Case	Confirms that that the capacity is available and proportionate to the delivery requirements and that the project is deliverable, achievable, and adequately planned.

In addition to the business case, applicants will be required to provide key project information including financial profiles and output targets as annexes to the business case. Templates for these annexes are provided which must be used.

4. General Rules and Principles

4.1 Eligible Expenditure Date

Projects can begin to incur expenditure from the date of approval.

Projects can spend at risk from the date of approval when the project is accepted onto the programme. Any expenditure incurred before this date is not an eligible project cost unless the project approved includes eligible retrospection.

4.2 Verification

Project applicants must be able to provide an audit trail to evidence that expenditure has been incurred and defrayed (paid out of the applicant organisation's bank account).

As part of the quarterly claims process, the Council will undertake a minimum sample check of 25-30% of expenditure (depending on the project), selecting a number of transactions from each claim. Recipients will be required to provide supporting evidence to verify expenditure. Evidence will include but is not limited to:

- Invoices
- Payslips
- Quantity Surveyor Reports
- Screenshots of finance systems
- BACS statements
- Bank Statements

In addition, the Council will seek to verify achievement of outputs and outcomes reported through the Quarterly Monitoring and Claims process. Depending on the output or outcome type projects will be required to provide a list of beneficiaries, enterprises and organisations being reported as supported in the reporting period/ quarter from which the Council will select a sample to check the evidence held and verify the numbers reported.

4.3 Payment in arrears and Intervention Rate

The Council's UKSPF claim process operates quarterly in arrears with projects able to claim for actual expenditure on project activities on a quarterly basis after the money has been spent. Applicant organisations are required to cashflow the project prior to receiving the first claim payment; this needs to be factored into project planning and financial profiles included within the business case. If the project cannot be delivered on this payment basis please contact the Council at the earliest opportunity to discuss alternative cashflow and payment arrangements. Any alternatives are at the discretion of the Council, are subject to due diligence and may be withdrawn at any time.

Once a complete claim is received against eligible expenditure as described in the business case, the Council will pay the grant to projects. Where match funding is also approved, the Council will pay claims based on the approved project intervention rate.

For example, a project with a total value of £1m with £500,000 of UKSPF and £500,000 of match funding would have a 50% intervention rate. If a project submitted a claim for £200,000 of eligible expenditure then the Council would pay 50% of those costs (£100,000).

In exceptional circumstances the Council may agree to adjust the profile of financial drawdown, this should be discussed and agreed as part of the development of the business case. In all circumstances the lifetime approved project intervention rate must be achieved by project completion.

4.4 Match Funding

Whilst UKSPF does not require match funding, leverage of match funding is strongly encouraged to demonstrate added value for money. All match funding must be auditable and attributable. Therefore, match funding for projects must relate to actual project expenditure.

There is no fixed proportion of match funding.

Match funding can be provided from the applicant, delivery partners, or third parties such as businesses or other funding bodies. Applicants must be able to provide evidence to the Council that match funding is in place prior to the project commencing.

Loans from banks, building societies etc may also be used as match funding. The loan should be secured prior to contracting to ensure project delivery in line with the agreed timescales.

Contributions in kind are not eligible as match funding. In-kind contributions, such as services offered free of charge or donation of staff time or equipment that cannot has a notional but not actual value, may be included in project applications as added value and to support the value for money statement, but they cannot be included within the project budget.

The only in-kind contribution that may be accepted is the donation of buildings or land where an independent valuation can be provided. If you are preparing a project that involves the donation of land or buildings as a project cost, it is essential you discuss this with the Council at the earliest opportunity to agree the process.

4.5 Delivery Partners

The Council encourages collaborative projects and the inclusion of delivery partners within project applications. Delivery partners are defined as organisations that support the lead applicant to deliver the project and actively undertake activity and incur expenditure on behalf of the project. All delivery partner costs should be included in the project budget and it is expected that delivery partner expenditure will be claimed at cost, in line with agreed processes set out in the business case.

It is the responsibility of the lead applicant to verify costs and outputs of delivery partners. Lead applicants are expected to enter into partnership agreements or SLAs with delivery partners that pass down the terms and conditions of the Sunderland UKSPF Grant Funding Agreement.

Any organisation that is charging a fee for a service must be procured and would not be considered a delivery partner.

4.6 Procurement

All costs claimed by the lead applicant and/or named delivery partners must be on an actual cost incurred basis.

Where the grant is to be used to procure third party contractors, all costs must be incurred in compliance with the following minimum standards:

- The lead applicant (regardless of whether or not they are a contracting authority) must ensure that the procurement of all contractors is transparent and demonstrates value for money;
- Where the lead applicant is a contracting authority, they must ensure that all procurement activity complies with Public Procurement Law (currently contained in the Public Contracts Regulations 2015);
- Where the lead applicant is not a contracting authority, they must comply with the minimum procurement procedures as set out below;
- All other applicable laws to the activity undertaken, including without limitation Modern Slavery Act 2015, IR35 (Intermediaries Legislation), Equality Act 2010, Subsidy Control Act 2022, etc; and
- Other compliance areas such as Fraud Risk Assessment and Due Diligence.

The procurement and appointment of all contractors to be funded by the proposed grant will be subject to audit and verification and any irregularity will result in a financial penalty of up to 100% of the grant paid.

It is strongly recommended that applicants review their own procurement procedures to ensure they are in line with UKSPF guidance available on the Government's UKSPF webpage [UK Shared Prosperity Fund: procurement (8) - GOV.UK (www.gov.uk)](https://www.gov.uk).

Grant recipients should also consider and implement wherever possible:

- sustainability and green measures in procurement plans, aligned with the government's net zero strategy;
- innovative procurement, including the factoring in of social value into procurement; and
- government initiatives, guidance and policy such as the Sourcing and Consultancy Playbooks, Construction Playbook, the Outsourcing Playbook and government guidance on Resolution Planning.

<u>Minimum Procurement Procedure for Non- Contracting Authorities</u>

Value of contract	**Minimum procedure**
£0 - £9,999	Direct award provided value for money has been considered
£10,000 - £49,999	3 written quotes or prices sought from suitable suppliers of goods, works and / or services
Over £50,000	Formal tender process

Sunderland based suppliers should be given the opportunity to quote and/or bid for tenders as far as possible.

4.7 Outputs and Outcomes

Output and outcome measurements are a key accounting tool to measure the impact the UKSPF programme. The UKSPF Outputs and Outcomes Definitions in Annex B has been developed as a tool to support applicants set appropriate output and outcome targets and provide verification criteria.

Applicants should ensure appropriate systems and processes are put in place to:

- Collate claim documentation and supporting evidence
- Compile data for statistical analysis or evaluation
- Track progress against contracted output targets

Output and outcome measures need to be defined during both project design and delivery. Care should be taken to:

- Understand the resources needed to manage and collate the outputs
- Develop systems and processes that capture project outputs and results

When designing projects, applicants must consider which outputs and outcomes are relevant to the type of activity you intend to deliver.

4.7.1 Objectives

All projects are required to define SMART objectives that relate to the project outputs. SMART stands for Specific, Measurable, Achievable, Realistic, and Time-bound. In practice this means that objectives are targeted outcomes and should include metrics and timescales, e.g. To create 250 direct jobs by December 2022 (see Section 3.4 of the Business Case).

4.7.2 Outcomes

In addition to the measurable outputs and objectives your project should lead to softer outcomes as a result of activities undertaken that can be acknowledged in the added value of the intervention (see Section 4.3.1 of the Business Case).

4.7.3 Other/Non-Quantifiable Benefits/Outcomes

Beyond the standard outputs/outcomes recognised by UKSPF, your project may also offer additional benefits. These will be improvements that result from an outcome and provide an advantage to beneficiaries but that aren't represented in the UKSPF Outputs and Outcomes Definitions. Including additional benefits in your business case also contributes to the added value of the proposed project (see Section 4.3.2 of the Business Case).

4.8 Subsidy Control

Following the UK's departure from the European Union on 31 December 2020, a new UK Subsidy Control regime is now in place. As such, the Council will require all project applicants to provide a statement confirming whether the award of funding classifies as a subsidy **and if so**, how their project is compliant with the new UK Subsidy Control regime. In some cases, a legal opinion may also be requested to provide the required assurance. This should include but not be limited to confirmation as to how the subsidy being provided (e.g. the funding) is compliant against the seven principles below:

1. It pursues a specific public policy objective in order to a) remedy an identified market failure or b) address an equity rationale (such as social difficulties or distributional concerns)
2. It is proportionate and limited to what is necessary to achieve the specific public policy objective
3. It is designed to bring about a change of economic behaviour of the beneficiary that is a) conducive to achieving the specific public policy objective and b) would not be achieved in the absence of the proposed subsidy
4. It should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy
5. It is an appropriate policy instrument to achieve the specific public policy objective and that objective cannot be achieved through other less distortive means
6. It is designed to achieve the specific policy objective while minimising any negative effects on competition of investment within the United Kingdom.
7. The beneficial effects of the subsidy (in terms of achieving their public policy objective) outweigh any negative effects, in particular the negative effects on a) competition or investment within the United Kingdom; b) international trade or investment.

This is a requirement under the new regime, set out in the BEIS Technical Guidance.

Please note the statement provided, and where appropriate supporting legal advice, should cover both the applicant's receipt of the Funding from the Council and any subsequent transfer of that Funding to third parties.

4.9 State Aid

The vast majority of State Aid in the EU regime was awarded under block exemptions (e.g. GBER). No such exemptions are yet in place under the new UK Subsidy Control regime. As such, the Council considers that the EU State Aid regime continues to serve as a useful reference point for determining whether a measure is permissible against the above principles. Please therefore ask your legal advisers to also confirm how your proposal is compliant with the EU State Aid Rules. Please refer, where applicable, to the relevant General Block Exemption Regulation (GBER) Articles.

4.10 Evaluation

The UK Government have developed a Monitoring and Evaluation Framework for UKSPF. It is intended to undertake evaluations at three levels: Intervention Level (to measure impact on pride of place and life chances with standardised surveys and methodology to measure change); Place Level (where the UK Government will commission 36 placed based evaluations); and at National/Programme Level. If applicants wish to undertake individual project-specific evaluations, these can be included as part of project costs, however you should discuss the design and scope of the evaluation with Council officers to ensure complementarity with the scope of wider UKSPF evaluation commitments.

There may be occasions when projects are asked to undertake project level evaluations. This will be detailed in the call document prior to application.

All projects receiving UKSPF funding will be required to contribute and participate in Intervention, Place and Programme level evaluations where appropriate.

4.11 Communications & Publicity

Branding and publicity play a key role in ensuring effective promotion and acknowledgement of the UK Shared Prosperity Fund.

The requirements relate to all communications materials and public facing documents relating to funded activity – including print and publications, through to digital and electronic materials. The requirements cover a number of areas including logo use, production of plaques, print and digital materials, and also co-branding.

Projects are expected to comply with the UKSPF requirements and adhere to the guidelines.

Projects should read the Sunderland UKSPF branding and publicity guidelines available at UKSPF guidance and resources - Sunderland City Council **in full to ensure they comply with the requirements throughout their project lifecycle.**

4.12 Document Retention

Project applicants need to ensure robust systems are in place to record and retain project records. This includes but is not limited to financial and procurement information, output and outcomes data, publicity and communication material and evidence of compliance with subsidy control. The UK Government has not yet defined a retention period. Projects are therefore recommended to retain project documentation for a period of at least 6 full financial years following the closure of the UKSPF Programme in Sunderland to the satisfaction of the UK Government, currently estimated to be by December 2025. This would translate as a document retention period ending no earlier than March 2032. Project applicants are advised not to destroy any project records without seeking permission of the Council first.

5. Revenue Funding

Revenue expenditure is eligible where the activity fits within the scope a specific call for projects. Eligible revenue costs should fit within the following expenditure headings:

Expenditure Heading	Types of expenditure to be included
Salaries	Please see separate section below
Flat Rate Indirect Costs	Please see separate section below
Travel & Expenses	Costs for travel and expenses related to project staff and activity. This can include mileage and public transport costs in line with the applicant's travel and subsistence policy.
Accommodation Costs	Accommodation costs such as rent or rates that can be directly attributed to the project. For example, if building is used solely for the purposes of the project then the rent and rates for that building can be included in the project budget. **If costs need to be apportioned, then they should be covered by the flat rate indirect cost.**
Materials & Consumables	Includes costs for specific materials, small equipment, and goods that need to be used and regularly replaced that are necessary for project delivery.
Training	It is expected that staff members should have the skills and experience to deliver the project, however this budget line covers any necessary training for staff skills and development that are absolutely necessary to deliver the project. Inclusion of training budget will be challenged during project appraisal to ensure it is additional and proportionate.
Marketing & Promotion	Includes marketing costs such as press releases, social media, events, and publicity materials to promote project activity.
Consultancy/ Legal Fees	Procured consultancy support to deliver specific aspects of project activity that cannot be undertaken by project staff. This can include legal fees where applicable.
Evaluation	Costs associated with evaluation of project activity. Please refer to Section 4.10.
Other Revenue	Any other direct costs that do not clearly fit into the categories above. The business case or granular budget breakdown should provide details as what these costs include.

5.1 Salaries

Costs associated with staff members employed to deliver project activity. Salaries included as project expenditure must be actual costs and cannot include day rates. Sunderland City Council request that applicants use a simplified cost methodology to calculate salaries in order to standardise processes and reduce administrative burden on all sides.

The simplified cost methodology falls into three categories:

- Staff working 100% of their time on the project
- Staff working a fixed proportion of their time on the project (Fixed Hours)
- Staff working intermittently on the project (Hourly Rate)

5.1.1 100% of time

Staff working 100% of their time on the proposed project can include their full gross salary within project claims. This will include gross salary (before deductions) plus on costs such as employer's national insurance contributions, employer's pension contributions, and any extra costs included within the employees' contract.

5.1.2 Fixed Hours

Staff costs related to individuals who work part of their time on a project may be calculated as a fixed percentage of the gross employment costs, in line with a fixed percentage of time working on the project per month, with no requirement to complete time sheets.

The employer **must** issue a document for employees setting out the fixed percentage of time for working on the project. This could be, for example, in the form of a job description or a letter from HR detailing the new contractual hours of work. The key requirement is that it must be formally documented. Personnel working flexibly across a number of projects where hours fluctuate would not be able to use this methodology. They would need to keep time sheets and use the 1720 hours calculation (see below).

5.1.3 Hourly Rate

The hourly rate is the cost per hour of a project staff member whose time needs to be recorded on time sheets, because they either:

- Do not spend 100% of their time working on the approved project (e.g. the activity covered by the relevant Funding Agreement) and do not work a fixed percentage of their time on the project
- Work flexibly on more than one UKSPF funded project

The underlying principle is that the project pays for the hours of work it receives. It allows an organisation to make use of existing staff as well as newly appointed staff on a temporary or ad hoc basis whilst being appropriately compensated. If a member of staff is absent from work for whatever reason (including sick leave, maternity/paternity leave) the assumption is that hours of work required by the project would be covered by an alternative member of staff and thus paid at an agreed rate. Projects cannot claim for notional hours that *might* have been worked should an individual be absent from work.

5.1.4 How is the hourly rate calculated, agreed, and checked?

Where no alternative method for calculating hourly rates is already used by the project applicant it is expected that project applicants should seek to use the 1720 method. Where a project applicant has an existing alternative method this must be discussed and agreed with the Council prior to being used. In all instances project applicants will be required to provide evidence to support the hourly rates that will be used by the project.

The 1720 hourly rate method calculates rates by dividing the **Latest Gross Annual Employment Costs** by 1720. In the calculation, the **'Latest Gross Annual Employment Costs'** refer to the individual's gross salary + Employer's National Insurance Contributions + Employer's Pension Contribution + any other contractual costs to the organisation relating to the post.
1720 hours assumes a working week of 33 hours – it therefore overcompensates by between 4 and 9 hours depending on an organisations standard working week to take account of annual leave costs.

If individuals work part time, their hourly rate must be calculated by using a corresponding pro-rata of 1720 hours. This means that if an individual's working pattern is 0.5 FTE the gross employment costs would be calculated as follows: 1720 x 0.5 = 860.

The following table demonstrates the calculation in more detail:

(A) Job Title (B)	Project Manager	Project Officer	Admin Assistant
(C) Employee Working Pattern	Full Time	Full Time	Part Time 0.8 FTE (4 days per week)
(D) Annual Gross Salary	£40,000	£28,000	£18,400
(D) Employers National Insurance	£4,200	£2,550	£1,220
(E) Employers Pension	£8,400	£4,200	£2,000
(F) Any other Contractual Staff Salary Costs	£1,200		
(G) Total Actual Gross Employment monthly Cost (C+D+E+F)	£53,800	£34,750	£21,620
(H) Hourly Rate (G/1720)	£31.28	£20.20	£15.71*

** Calculation is £21,620 / 1376 (1720 * 0.8 = 1376) to account for 4-day week.*

Once the method of calculating hourly rates is agreed with the Council, the resulting hourly rates will be fixed and cannot be changed other than with the agreement of the Council. In the case of a project implemented over several years, applicants will have the option to update the hourly staff cost annually at agreed review points. The review points will normally be set at the Project Initiation Meeting. This means the rates will be agreed in principle during appraisal with initial verification of the rates taking place prior to payment of the first claim. The Council will agree the future review points with the applicant/grant recipient. The first review point can be within 12 months of the initial agreement/verification of the rates but would not normally be conducted any more than annually from the date of the first review. A key principle of the simplified method is to reduce the administrative time required to update and check the hourly rates so multiple review points during a single year would not be agreed.

Hours claimed must be evidenced by appropriate timesheets.

5.1.5 Points of Note

- The latest annual gross employment cost has to be documented through accounts, payroll reports, etc. This information does not have to be audited in advance but has to be auditable.
- Latest documented annual gross employment costs may be derived from the available documented gross employment costs or from the contract for employment, duly adjusted for a 12-month period. This means the actual gross annual salary of the individual should be used at the point at which costs are included in the project.
- Only the hours actually worked should be used for calculating the eligible staff costs. Annual leave for instance is already included in the calculation of the hourly staff costs.
- Staff costs calculated using the hourly rate can then be used to calculate the indirect costs through the use of the flat rates for indirect costs.
- As this is a unit cost the rate does not have to be justified with each claim. Evidence is through time sheets.
- The hourly rate method can only be used for **direct** staff costs. Indirect staff costs are calculated and claimed using the flat rate for indirect costs.
- The added value of using the simplified methodology is that it reduces the calculation and checking requirements at full application stage, appraisal, claims and audit stages.
- Changes in guidance pertaining to the calculation of the hourly rate can be implemented at the agreed hourly rate review point or at any other point agreed by the Council.

Where projects require hourly rates, the use of the 1720 hours methodology will be used in the majority of cases. At the discretion of the Council other methodologies may be agreed however this will be by exception and only in cases where there is a strong justification and sufficient assurance can be easily demonstrated to ensure value for money.

5.2 Flat Rate Indirect Costs

Flat rate indirect costs refer to shared costs or overheads. These are genuine costs to the project but cannot be directly attributed or audited. Many organisations have complex methodologies for calculating and apportioning indirect costs, and these can be administratively burdensome to evidence and audit. Where applicants seek to utilise a flat rate to calculate indirect costs this should be calculated against direct staff costs only and not other direct project costs. The tracing/auditing of all costs to individual supporting documents is not required - this is the key point of simplified costs as it significantly alleviates the administrative burden.

5.2.1 Simplified costs: 15% Flat Rate

This rate is applicable for all projects seeking Funding under the Communities and Place and Supporting Local Business Investment Priorities. This rate may also be used for projects being supported under People and Skills, however a second option is also available for People & Skills projects. See 5.2.2 below.

A 15% flat rate enables the calculation of **all indirect costs** attributable to a project without the need for complex apportionment or overhead methodologies or checking of evidence/audit trail associated with indirect costs. Use of the 15% rate permits other Direct Costs (Travel & Expenses, Accommodation Costs, Materials & Consumables, Training, Marketing & Promotion, Consultancy/ Legal Fees, Evaluation, Other Revenue) to be claimed.

5.2.2 Definitions of Costs

It is important to define the types of costs within a project and ensure that there is no overlap between the types of costs to avoid any costs being double funded e.g. wrongly classified as direct (and included as such) when in fact they are indirect and already covered by the flat rate. To avoid the risk of double funding the following definitions apply.

5.2.2.1 Direct Costs

All eligible costs ***other than direct staff costs*** which are essential for the delivery of the project. This includes (but is not an exhaustive list):

- Premises costs and associated running costs which are **exclusively** used for the **project** – that is to say costs that are **not** shared or apportioned across multiple projects.
- Equipment used exclusively for project purposes.
- Materials and consumables purchased solely for project activity.
- Other costs such as marketing, publicity, and evaluation where these can be clearly identified and directly attributable to the project.
- Stipends, as these are not salaries associated with a contract of employment but a living allowance – these could be agreed as an eligible direct cost where the payment relates to a period of time within the project lifetime and the student is required to carry out a piece of work which directly relates to project activity.
- Procured goods/services/works (used exclusively by the project) essential for the delivery of project activity.
- Cost of business trips, other travel, and subsistence.

5.2.2.2 Exclusions – Shared or Apportioned Costs

This includes shared/ apportioned premises and running costs as well as shared/ apportioned assets, equipment or services used for purposes other than the project. This is to avoid the use of apportionment methodologies. A general rule of thumb is that if a methodology is required to calculate the cost to the project it would be classed as indirect. **This does not mean that project costs need to be separately invoiced to constitute a direct cost**, they just need to be specifically and clearly attributable to a project.

5.2.2.3 Indirect Costs

Any costs which do not fall within the direct staff costs category, or other direct costs categories, are indirect costs and will be claimed using a flat rate. Such costs do not have to be individually identified or listed within an application.

(A) Indirect costs, often referred to as 'overheads' are those costs which are linked to activity that supports the delivery of a project but cannot be easily attributed to the project in terms of the actual specific cost and cannot be evidenced by invoices or other transactions.

Such costs include:

- Support from non-public facing staff, not engaged in activity directly related to the implementation and management of the project (i.e. HR, payroll support).
- Other costs which are not ***solely*** associated with the delivery of the project, such as the shared premises costs including rent, utilities, cleaning, IT maintenance or insurance. This means that unless a premise is used for only the project outlined in the business case then the costs would be derived from the 15% flat rate. There is no apportionment methodology to share the cost of premises and running costs amongst projects as a direct cost.
- Costs of services, equipment or assets not exclusively used by the project where an actual specific cost cannot be identified.

Indirect costs can apply to capital and revenue projects. If delivery of a capital project involves direct staff costs as a revenue cost (e.g. engaged in activity directly related to the implementation and management of the project) then the rate can be applied but would be included as a revenue element to the project in the project budget.

5.2.3 Calculating Indirect Costs

A project will essentially contain up to three types of costs:

- **Direct Costs** – costs which are directly related to the delivery of the project activity. These costs are not calculated with the flat rate and the rate is not applied to them. They will be subject to audit and must be capable of being traced back to original actual cost-based transaction. For People & Skills projects where the 40% Indirect Cost option is used, there will be no direct costs.
- **Direct Staff Costs** – the salaries and on costs for those staff engaged in activity directly related to the implementation and management of the project. This is the cost driver for the flat rate, e.g. the set indirect rate % is applied to these costs to calculate the eligible indirect costs.
- **Indirect Costs** – a figure arrived at by applying the set flat rate % to the direct staff costs, this figure will then be used to cover those costs which are not or cannot be connected directly to the project activity and an exact actual cost cannot be attributed to the project.

Indirect costs are calculated by applying the set flat rate % to **direct eligible staff costs**. Using the flat rate applicants ***only*** need list direct staff costs and other direct costs (or direct staff costs only for projects under People & Skills applying the 40% option). ***There would be no need to identify, cost out or list indirect costs.*** They would be included in a cost schedule as:

Indirect costs (£) = Direct Staff Costs x set indirect rate%

In such cases the actual indirect costs are not auditable at all – only the direct staff costs (used to calculate the indirect costs) and the other direct costs would be checked and verified.

5.3 Ineligible Revenue

The following individual revenue costs are not eligible for support:

- Notional costs, e.g. where an item usually retails at £x, but the applicant buys it cheaper but claims the difference between the price paid and £x.
- Payments for activity of a political or religious nature
- Payments for works or activities which the applicant, delivery partner or end beneficiary has a statutory duty to undertake, or that are fully funded by other sources
- Provisions, e.g. money set aside to pay for future events e.g. sink funds
- Contingencies and contingent liabilities
- Dividends
- Interest or service charges arising on debt incurred including finance leases, hire purchase, and credit arrangements
- Costs resulting from the deferral of payments to creditors
- Costs involved in winding up of a company
- Payments for litigation, unfair dismissal or other compensation
- Costs incurred by individuals in setting up and contributing to private pension schemes
- Compensation for loss of office
- Payments for gifts and donations
- Entertainment apart from food and non-alcoholic drink provided for a meeting
- Statutory fines and penalties
- Criminal fines and damages
- Legal expenses in respect of litigation

This list is not exclusive and any queries about the eligibility of costs not included in the list above should be addressed to the Council.

6. Capital Funding

6.1 Capital Spend & Assets

The Council defines a capital spend as:

- The acquiring or creation of a tangible asset or spend which increases the value or useful economic life of a tangible asset, and for that asset to have an asset life greater than one year.
- Spend on a group of assets that individually may not be classed as capital spend can also be classified as capital if for the same purpose and location e.g. fitting our a toy library or equipment store.

For the purposes of UKSPF in Sunderland, the Council will require grant recipients to maintain an asset register for tangible assets funded in full or part from UKSPF with an asset value of over £5,000.

Applications should set out the types of assets to be purchased through the project and applicants should be aware that the Council may wish to hold restrictions on those assets as part of a grant funding agreement.

6.2 Contingencies

Inclusion of contingencies in capital projects is standard practice in project development and planning to allow for cost fluctuations and unforeseen costs. The Council will therefore allow a contingency budget to be identified at application stage **for capital projects only** under the following circumstances:

- A risk analysis should have been undertaken to establish all significant risks to a project, identifying uncertainties around the actual budget estimate to ensure the proposed figure for contingency is reasonable.
- The value of a contingency budget can be used to determine the total eligible costs. This should be clearly identified and quantified within a granular breakdown and should be included within the relevant budget heading e.g. the building and construction line, or other appropriate cost category within the finance tables.
- There will be no reimbursement of costs against the heading ‘contingency’ as such costs will be defrayed and claimed within the relevant cost category under which they are agreed and contracted. Submitted claims cannot include contingency as an eligible item. Only actual costs relating to the agreed budget headings should feature in any breakdown of expenditure.

6.3 Eligible Capital Expenditure

Capital expenditure is eligible where the activity fits within the scope a specific call for projects. Eligible capital costs should fit within the following expenditure headings:

Expenditure Heading	Types of expenditure to be included
Land Acquisition	The cost of purchasing land which is not built upon.
Building Acquisition	The cost of acquiring a building if there is a direct link between the purchase and the objectives of the project.

Site Investigation	The cost of investigations and inspections of sites to collect information, and report potential hazards or risks of a site which are unknown.
Site Preparation	The costs associated with demolition of existing buildings and structures, clearing of building sites, excavation, levelling, drainage, and other preparation prior to construction.
Building & Construction	This should include external/ internal refurbishment and conversion of existing buildings, new build premises, provision of services, and landscaping.
Plant & Machinery	This should include tangible fixed assets used for the purpose of providing a service for the project. It should also include equipment required for operational and research purposes where it is directly related to the project. The purchase costs of second-hand equipment are eligible provided they meet the needs of the projects and have not been purchased with the aid of national or community grants.
Fees	This should include fees and salaries for design and supervision. Fees include legal consultancy fees, notarial fees, and the cost of technical and financial experts if they are directly linked to the project and are necessary for its preparation or implementation.
Other Capital	Any eligible capital expenditure not covered by the categories above provided it can be clearly demonstrated that these are directly related to the delivery of the project.

6.4 Ineligible Capital

The following would not be eligible:

- Costs not directly linked to the project. Where only part of the capital development fits with the scope of the funding priorities, costs will need to be apportioned.

6.5 Sustainability

Please include a plan setting out the operational, management and care/ maintenance costs for any capital assets funded through UKSPF. Depending on the nature of the capital asset, the plan may be limited to care and maintenance costs only.

Maintenance is the routine work that is necessary to keep the fabric of a building, monument, park or garden in good order. When carried out on a planned basis, maintenance helps to limit the deterioration of the fabric and prevent the types of failure which would otherwise occur over time. Maintenance differs from repair. Repair is work carried out to put right defects caused by decay, damage or use. In contrast to maintenance, repair implies work to return a property to a good condition on a long-term basis.

The plan should cover a minimum period of ten -years from the practical completion of the capital project. Project applicants should note that whilst the plan is limited to a ten-year period, grant recipients will be expected to maintain the benefits of the project for the lifetime of the asset. The UK Government and the Council, as Lead Applicant for UKSPF in Sunderland, expect grant recipients to make sure that the work funded by UKSPF is kept in good condition.