



EUROPE & SCOTLAND
European Regional Development Fund
Investing in a Smart, Sustainable and Inclusive Future



EUROPE & SCOTLAND
European Social Fund
Investing in a Smart, Sustainable and Inclusive Future

2014 – 2020 European Structural Fund Programme **Challenge Fund Principles**

Introduction

A challenge fund is an open and competitive application process for disbursing funding. It is one of three delivery methods that can be used by Lead Partners in the 2014-20 Programmes. Lead Partners can either deliver activity in-house, contract the services of a third party through a procurement process or run a challenge fund. The Lead Partner should have clearly detailed their intention to run a challenge fund in the approved Strategic Intervention application.

Challenge Fund Versus Procurement

Procurement of a contract is when the Lead Partner awards a contract for the provision of goods, services or works from an external source. Procurement involves advertising the opportunity, selecting bidders, establishing payment terms, strategic vetting, selection and the negotiation of contracts.

A challenge fund focuses on the skills of the bidder to provide the service required, but also their ability to provide match funding. In certain circumstances however, the Lead Partner may not require the bidder to provide match. While, the challenge fund selection process involves an Advisory Group or similar set up, to decide the successful bidder(s), it must still be demonstrably fair, open, transparent and equitable.

Call for Funding

The challenge fund must operate on an open, fair and transparent process. Any advertisements inviting applications for funding should be of sufficient scope that applicants from the relevant sectors are aware of the opportunity (for example on the Lead Partner websites and/or in the local/national press and /or on websites relevant to the sector they target). Lead Partners should ensure relevant logos are used in accordance with the Publicity Requirements - accessible from the Managing Authority website via the following link:

<https://www.gov.scot/publications/esif-publicity-requirements-2014-2020/>

Lead Partners should note that potential applicants should not be precluded from the process simply because they have not previously worked with the Lead Partner or other public sector bodies. Receipt of applications, their 'opening' and subsequent processing should be recorded showing dates and the individuals / groups responsible.

Challenge fund projects must adhere fully to the National Rules – it would therefore be advisable for links to this document to be included within the call for applications and letters of offer to successful applicants. The European Structural Funds Guidance and Eligibility Rules can be found on the Scottish Government website via the following link:

<https://www.gov.scot/publications/esif-eligibility-expenditure/>

Aims and Activity

The challenge fund call should set out the aims of the fund, eligible activity and expected outputs, detailing the importance of the ambitions of the relevant 2014-2020 Operational Programme.

Cost Model

Challenge funds will generally operate using one the following cost models:

- Procured / Actual Costs (excluding Grant Schemes)
- Flat Rate (Staff Costs plus 15% or 40%)
- Unit Costs (please see Sections 2 & 3 of the National Rules) – these may be included as part of a challenge fund where duly justified and agreed by the Managing Authority in advance. Lead Partners should note that **Unit Cost models must fully adhere to the requirements set out for the Programme and be established and evidenced as set out in Section 2.1 of the National Rules**.

For ESF, the presumption is that Lead Partners will use a Flat Rate cost model, unless otherwise agreed with the Managing Authority.

The Lead Partner should ensure there are sufficient controls in place within the application appraisal systems to ensure value for money and, in claims checking, compliance with the National Rules and where appropriate, compliance with Public Procurement Regulations. The core principles noted above (operating in an open, fair and transparent manner) apply across all aspects of the fund, including procurement carried out within projects supported by the challenge fund.

Application and Approval Stage (Including Selection Criteria)

The application process should be structured to ensure that the applicant can fully justify the added value their project can bring - not just with additional activity, but also with specialist knowledge or skills. All applicants should be given the same version of the application form and have access to the same guidance. In addition, the call for funding should clearly state whether applicants are expected to provide match funding and, if so, the level of match funding required. Where applicants are asked to provide match funding, Lead Partners must ensure that the match funding comes from public sources, does not include European funding and is 'clean' for the purposes of ESIF funding (Lead Partners should refer to the relevant section of the National Rules for further guidance – sections 1 and 1.4).

Applications should be assessed by a group/panel whose membership does not include anyone with any personal/professional interest in the applications. Ideally, the group should have internal and external members to assess the applications. An example of an assessment group could be a selection of the Community Planning Partnership members such as those from local authorities and the NHS.

Criteria to consider when assessing:

- Has the applicant justified the need for the activity in relation to the participants/organisations being targeted?
- Does the applicant provide evidence that there is a demand?
- Does the application show how the project fits with the objectives of the Strategic Intervention (SI)?
- Are the actions and targets in line with the approved SI and Operational Programme?
- Have they referred to the need to comply with the National Rules and other relevant Guidance?
- Is there a need for grant?
- What is their track record in delivering the activity and achieving results?
- Does the activity meet state aid tests?
- Does the applicant demonstrate an understanding of the Procurement Regulations?

Indicators/outputs/results

Unlike previous programmes, the 2014-2020 Programme focuses on outcomes and the Managing Authority has adopted simplified costs to support this. Under the ESF Programme, it is important that applicants clearly identify their client group, are clear about the gap in service they intend to address, and can provide realistic and achievable targets.

Document Retention

Lead Partners should certify that procedures are in place to ensure that the challenge fund recipients adhere to the ESIF document retention requirements - link:

<https://www.gov.scot/publications/esif-document-retention-guidance/>

Lead Partners must ensure that they have taken advice from their own legal sources before proceeding.

Common terms used in Challenge Funds

Term Used	Description
Challenge Fund Project	A project approved through a challenge fund.
Lead Partner	Organisation responsible for the delivery and administration of the SI.
Delivery Agent	Organisation responsible for the delivery and administration of the challenge fund (the LP or another organisation as named in the Operation).
Delivery Organisation	Applicant / Grantee - the organisation that is responsible for the delivery of an approved challenge fund project.
ESIF	European Structural and Investment Funds (European Regional Development Fund, European Social Fund)