

**THE EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME**

**FOR NORTHERN IRELAND 2007-2013**

**MANAGING AUTHORITY GUIDANCE**

**CAPITAL RETENTION AND RETENTION BONDS**

1. The following guidance on the treatment of capital retention and retention bonds is provided by Managing Authority and should be read in conjunction with CPD rules on procurement. This guidance supplements DFP Guidance Note 5 (Northern Ireland Rules on the Eligibility of Expenditure).
2. Capital projects typically include a retention period at the end of a project to compensate for any deductions associated with snagging issues. Retentions, held in accordance with a procured/tendered contract, can be considered eligible if paid within the eligible expenditure period of the Programme, i.e. by 31 December 2015. Any payments made after 31 December 2015 are ineligible for reimbursement from the Programme.
3. Where the timing of the final (retained) payment has the potential to fall outside the eligibility period, a retention bond may be procured to cover the risk of snagging costs.
4. Where a bond is procured there is no need for capital retention as the bond will cover the risk.
5. The tender documents and project specification should contain a requirement for the contractor to purchase a bond, which will provide recourse for the procurer in the event that works are not completed satisfactorily. This will then form an integral part and cost of the tendered service.
6. Where a tender exercise has already been conducted and a bond option is brought in retrospectively, the additional cost of the **retention bond itself is not eligible expenditure** within the Sustainable Competitiveness Programme. However, the benefit of acquiring a retention bond is that a capital retention clause is not required in the contract, the full costs of the capital works can be considered eligible and the risk is mitigated of payments falling outside the Programme eligibility period.
7. Projects that proceed using retention from the contractor as opposed to a retention bond do so at risk if there is a possibility that the final payment will fall outside the eligibility period.
8. It is highly recommended to include the requirement for the contractor to procure a retention bond as part of the contract in order to mitigate the risk of payments being considered ineligible due to the eligibility period.

July 2013