Foreign, Commonwealth & Development Office

# Programme Expenditure: Eligible Cost Guidance for ACCOUNTABLE GRANT ARRANGEMENTS

## 1. Background to guidance

This guidance document sets out eligible and ineligible costs for civil society organisations (CSOs) accountable grants arrangements with the Foreign, Commonwealth and Development Office (FCDO). It should be used by CSOs submitting a budget supporting a grant application. The guidance is designed to ensure CSOs calculate the full cost of a project and includes guidance on FCDO's approach to overhead costs.

The guidance should be used in conjunction with FCDO's standard budget template, available at: https://www.gov.uk/government/publications/dfid-accountable-grant-arrangement-budget-template-and-guidance. Please note that FCDO programmes may request additional budget information if required it.

This guidance is fully in line with the FCDO Programme Operating Framework (including the mandatory rules for FCDO programme delivery) and Government Grant Standards.

Academic institutions should **not** use this guidance but should follow the TRAC methodology: https://www.trac.ac.uk/about/

**FCDO Programme Operating Framework (PrOF) Rules** provide further details on how aid funds can and cannot be spent. In case of any doubt, the partner or potential supplier should consult FCDO in advance. FCDO PrOF Rules are available online at https://www.gov.uk/government/publications/fcdo-programme-operating-framework

## 2. Principles of eligibility

The funding amount is to be used solely for costs included in the budget for the delivery of the outputs and outcomes in the log frame or agreed results model framework. These costs must:

- Be actually incurred by the recipient
- Be incurred within the period set out
- Be indicated within the cost budget
- Be incurred in connection with and necessary for implementation
- Be identifiable, verifiable and recorded in the recipient's accounts in accordance with applicable accounting standards and with the beneficiary's usual cost accounting practices

- Be compliant with applicable national law on taxes, labour and any all other relevant national law
- Be reasonable, justifiable and compliant with the principles of sound financial management

### 3. Expenditure cost categories

In an organisation there are two types of costs that are incurred as a result of running a project or service: Direct Programme Costs and Non-Project Attributable Costs (NPAC or overheads).

Direct Programme Costs are all the costs that are clearly and directly incurred because of the project. Typically, they include the salaries of project staff, their travel and subsistence, project materials, and all other costs easily identifiable as part of the project. They also include country office resources specifically allocated to the project.

Non-Project Attributable Costs (overheads) are costs that are not feasibly allocable to a single project (NPAC). These costs are incurred by an organisation in order to support the projects that it runs – for example administration and support, equipment, space and premises costs, and activities that relate to the whole organisation and partly support the project, but also support other projects. NPAC is often also called indirect, overhead, core, central or support costs.

Expenditure in the budget should be classified as either a direct cost or NPAC.

### 4. Ineligible costs

The following expenditure items are explicitly ineligible across all expenditure cost categories. This list is not exhaustive and does not override activities which are deemed eligible and explicitly agreed as part of the grant arrangement.

Additional information relating to insurance, local government charges, are detailed later in this guidance.

The following costs are **explicitly ineligible** across all budget categories:

- Activities which may lead to civil unrest
- Activities which discriminate against any group on the basis of age, gender reassignment, disability, race, colour, ethnicity, sex and sexual orientation, pregnancy and maternity, religion or belief
- Gifts
- Statutory fines, criminal fines, penalties and associated legal costs
- Payments for works or activities that are fully funded by other sources whether in cash or in kind, for example if premises are provided free of charge, FCDO
- will not contribute to a notional rent
- Activities in breach of EU legislation on State Aid
- Bad debts to related parties
- Payments for unfair dismissal and associated legal costs
- Replacement or refund of any funds lost to fraud, corruption, bribery, theft, terrorist financing or other misuse of funds
- Inflation or foreign exchange contingency
- Contingency or risk premium
- Costs incurred prior to a formal agreement being executed including those associated with preparing bid or grant proposals

The following costs are **ineligible unless they are a specific requirement of the grant arrangement**, in which case they are eligible **direct** costs:

- Lobbying UK government, i.e. activities which aim to influence or attempt to influence Parliament, UK government or political activity, or UK legislative or regulatory action
- Activities which directly enable one part of government to challenge another on topics unrelated to the agreed purpose of the grant
- Petitioning UK Government for additional funding;
- Costs associated with fundraising, advocacy and campaigning, marketing and communications, policy, retainer fees, capital expenditure, land and bank charges

The following costs are **ineligible as direct costs but can be included as NPAC**:

- Interest payments, service charge payments and loans for finance leases
- Payments for works or activities which the grant recipient, or any member of their Partnership has a statutory duty to undertake
- Depreciation is an eligible overhead cost, except on assets which have their purchase costs captured under other parts of the budget.

Costs included as direct project costs must not be duplicated as NPAC– for example, a specific member of staff's salary should be removed from indirect costs if it is being charged as a direct cost for this project.

### 5. Import, customs duties, sales taxes and any other taxes or similar charges applied by local Governments or by any local public authority

Any taxes for which exemptions apply or that are reclaimable via other sources (e.g. government department, alternative funder etc) are ineligible. For legitimate taxes that are not reclaimable via any source:

- Where these form part of direct frontline project costs, they will be considered eligible as direct costs.
- Where these relate to taxes imposed as fines, they will be considered ineligible.

### 6. Insurance

Partners should make a risk based-decision on the insurance required to adequately manage the risks associated with the projects they deliver. Institutional insurance policies are an eligible NPAC cost. Where additional specific policies are required for a programme, this must be approved in writing by FCDO and captured as a direct cost.

Any case to include insurance as a direct cost should demonstrate value for money considering: the level of risk; the need to take out commercial insurance; the benefits of using commercial insurance; and the cost of the premiums (including how and why they are apportioned to FCDO where FCDO is not the sole funder of the project). This should be explicitly discussed with the FCDO programme team as part of the process of approving the final budgets for accountable grant agreements.

### 7. Foreign exchange and inflation

7.1 Foreign exchange rate

It is 's policy to make its financial commitments in sterling. Budget totals must be provided in GBP with the stated exchange rate specified (foreign currency reports should be converted using the relevant exchange rate in OANDA www.oanda.com and include the date). NPAC can be completed in local currency, in order to allow for transparency with audited accounts. In the Budget Detail tabs, there is the facility to enter the cost in local currency along with the exchange rate, which will then calculate the total cost in GBP. Other rates may be used but are subject to prior review and approval by FCDO.

7.2 Inflation rate

The inflation rate applied should be the UK projected rate and be applied to the total project cost line, unless otherwise agreed with the SRO. Local rates may be more appropriate in some country contexts. Where inflation is likely to change unit costs over each year of implementation, an average cost across the project years can be utilised and explained in the budget note.

This should not exceed the agreed fixed rates of inflation for each financial year (01 April to 31 March). Where UK Treasury Rates are used, these rates, referred to as 'GDP deflators' can be found on GOV.UK here: https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp For financial years in the future where the Treasury has not yet set the predicted rates, the last available rate should be used.

7.3 Impact of foreign exchange and inflation rates applied

The lead Partner Organisation ('the Partner') is responsible for monitoring and managing any exchange rate fluctuations across the life of the project. Where significant exchange rate gains or losses are being accumulated the partner should notify FCDO to jointly decide how these are managed.

In the case of adverse movements in exchange or inflation rates, the Partner (in liaison with FCDO) will need to consider a range of options including re-assessing the outcomes/ deliverables of the funded activities and/or seeking additional budget through dialogue with FCDO. Partners should not build in additional costs to protect against the risk of exchange rate/conflation losses.

## 8. Direct programme costs

Direct programme costs are activities and costs directly incurred in the delivery and implementation of the programme, and are directly linked to specific project outcomes and results. This generally includes frontline delivery costs and programme management and support costs. Support costs (see Annex 1 for examples) should be apportioned to direct costs based on time sheets or allocated based on the key cost drivers of the activity. Supporting documentation of this apportionment should be retained and made available if required.

8.1 Capital expenditure items

Capital expenditure should be itemised on the budget template. Capital expenditure includes specialist equipment, office furniture and equipment, standard and off-road motor vehicles and any other project related equipment. Any aspect of capital expenditure included must be fully justified as contributing to the sustainable outcome of the project. The cost should be recorded in the year in which the purchase is planned; do not spread the cost of a new purchase over the lifetime of the project. Depreciation is not an allowable expense for direct capital expenditure.

Where existing vehicles and capital items can be used to deliver a FCDO project, we accept a running and maintenance cost for the use of these to be included in the budget. Ownership of new vehicle and capital items bought using FCDO funds is retained by FCDO throughout the lifetime of the project. The future use of the item is discussed and agreed on project completion.

There is a requirement for a programme asset register to be maintained for all assets purchased at a value of £500 or more. Attractive assets should also be included on the register. Attractive assets are those considered to be mobile and attractive to a potential perpetrator. This can include items such as mobile phones, laptops, satellite phones, etc. Lower value items that are grouped together and have a combined value in excess of £500, such as food, pharmaceutical products, relief packs, etc. are also considered to be attractive and should be included on the register. Please see PrOF Rules for more details on assets.

8.2 Country or local office costs

A proportion of country or local office costs are eligible to be included as direct costs, where the office is directly involved in project delivery. Any resources for the sole use of the funded project can be costed in their entirety against direct costs. If offices are split between several different projects, the costs should also be split by the same proportion. For example, if the FCDO-funded grant represents 20% of the project spend in that office, then 20% of the costs should be included in the direct costs. Ineligible costs (such as fundraising) should be deducted from the total. Any apportionment model should be agreed with SRO and evidence should be retained that can be viewed if needed. Staff costs (HR, Finance, etc) should be budgeted under 'Staff Costs' and office running costs should be budgeted under 'Project Costs'. Please see the Annex for examples.

8.3 Staff costs (including taxes and benefits)

This category includes individuals working under an employment contract, a direct contract (consultant), sub-contractors and secondees. Each staff member listed should be assigned a job family from the dropdown list:

- Programme leadership
- Programme management
- Technical advisor
- Programme support and administration

The daily fee rate should be individually listed. This should cover the cost of salary remuneration and benefits including superannuation (pension) and taxes. Fee rate should be noted in 'detailed description' and 'Quantity' and 'Unit Cost' in the template. If the cost is that of a sub-contractor, the daily fee rate will be the total invoiced cost chargeable to the project. List each salaried core staff member on a separate line.

List as a separate line item, all other staff costs including, but not limited to, clothing, passports, visas and vaccinations, non-salary remuneration and benefits, such as allowances (Cost of Living Allowance, hardship, relocation/shipping, rental subsidy, education grant) and expenses of whatsoever nature that may be incurred by the potential supplier in relation to programme staff. We will not cover any repatriation or termination costs except where termination costs are a statutory requirement in the operating country. Staff training should be listed as a separate direct cost under staff costs.

FCDO may also require that details where time is being donated to programmes at no charge (in-kind contributions) is provided.

Training, conferences and workshops relate to staff learning and development including hire of venues are eligible costs, however these should be detailed under project costs.

8.4 Travel, subsistence and accommodation

For travel undertaken by all staff, sub-contractors and consultants in relation to business, including air, rail, car hire and purchase and other travel costs, hotel and accommodation costs, subsistence, travel management fees, travel documentation costs. The budget detail should provide sufficient detail of the nature of the travel and the departure and arrival locations. Travel, subsistence and accommodation costs associated with monitoring and evaluation, if applicable and appropriate, should be included within the budget under monitoring and evaluation.

In line with FCDO's policy, all journeys by rail or air will be budgeted by a class of travel that is no more than "standard economy" unless higher travel classes are representative of improved value for money or are required to adhere to specific legislation, for example the Equality Act 2010. Your FCDO Programme Manager will confirm if this is appropriate and no travel should be booked in a class higher than "standard economy" without written permission. First class travel will not be permitted under any circumstances. Alcohol and tobacco are not allowable subsistence items. This guidance applies throughout the programme delivery chain.

8.5 Monitoring and evaluation costs

Within the budget there will likely be a provision for baseline and on-going data collection and an end of project review. If there is a case for undertaking an independent mid-term review of the project, or a final independent evaluation (for example if the project is testing a new approach, or working in a particularly difficult or sensitive context, or is high value), these costs should be included in the budget. There is no specific ceiling for monitoring and evaluation costs; however, an assessment will be made as to whether the costs indicated are appropriate for the proposed project. The 'Detailed Description' within the budget notes should explain what is covered; for example, visits by the UK office of the organisation, an independent evaluation by consultants, and costs should clearly link to the monitoring and evaluation plan as set out in the narrative proposal. Travel, subsistence and accommodation costs, if applicable and appropriate, should be included within the budget under monitoring and evaluation and details listing trips, title of traveller, dates and value should be detailed.

## 9. Non-project attributable costs (NPAC or overheads)

**Please note this guidance applies to civil society organisations only and does not apply to multilateral organisations. Academic institutions should use the TRAC methodology for calculating overhead costs.** https://www.trac.ac.uk/about/

NPAC are overhead costs that relate to the Head Office function, central operations, management and identity of the delivery partner rather than to programme services. These costs are necessary for programmes to function but cannot be clearly linked to specific project outcomes and results. Examples include overall management and employee costs, administration and support, equipment, Head Office space and premises costs, and activities that relate to the whole organisation and partly support your project, but also support your other projects. NPAC are often also called indirect, core, central, overhead or support costs.

9.1 Cost Categories

You are required to calculate the total annual NPAC of your organisation in line with the following budget cost categories:

- Administration Costs - premises and office costs

- Support Staff Costs - central function costs (Board of Directors' costs and support functions costs)
- Governance Costs - governance and strategic development costs

Your NPAC costs should align with your organisation's financial statements (audited accounts if applicable). FCDO may require financial statements to be submitted along with the budget.

We are aware that different organisations will have different financial structures. The overarching principal of the calculation however is to allow for the organisation's NPAC to be appropriately apportioned to the project we are funding and you should therefore align your NPAC with these cost categories. If your organisation's reporting format does not adhere to this requirement you should raise this with the relevant FCDO staff member and jointly agree an appropriate alternative. It should be noted that NPAC will still need to be managed within the overall budget limit for the programme and will not be paid separately.

If an organisation already has an agreed NPAC rate from another project in the current financial year, this can be reused as it will be the same.

9.2 Administration Costs - premises and office costs

These comprise costs associated with the organisation's premises and office including rent, mortgage costs, management of facilities, building insurance, rates, maintenance and cleaning, groundworks and gardening, utilities, catering, vending services and residential accommodation.

9.3 Support Staff Costs - central function costs

These comprise costs associated with the organisation's Board of Directors including basic salary, maternity and sick pay, other paid leave (sabbatical, vacation, home leave, and paid holidays) overtime, allowances, taxes, pensions, travel and subsistence and telephone.

It also relates to all salary and on-costs associated with the organisation's central functions including but not limited to human resources, finance, information technology, secretarial, internal audit, policy and research and evidence departments, marketing, office management and any other central support functions, travel and subsistence, bank charges and recruitment costs.

9.4 Governance Costs – governance and strategic development costs

These relate to external expert and professional services expertise brought in when in-house skills are not available, including payments for services contracted to provide strategic or governance direction, financial, management, procurement, legal, audit, human resources or technical advice. This includes any other internal governance and strategic development cost that is not a central function cost or premises and office cost.

9.5 Material changes

We recognise that these costs are calculated at the commencement of the programme and if circumstances change, may be subject to upward or downward revision in consultation with the FCDO Programme Manager. Any material change to an organisation's corporate overhead structure should be adjusted annually, for example, the closure or expansion of significant operations or premises. There is a requirement on the CSO to notify FCDO of any material change which would reduce overhead costs. However, if there are no material changes there is no need for the NPAC to be adjusted annually: this is at the discretion of the CSO and FCDO Programme Manager.

9.6 NPAC for non-lead delivery partners

**Consortium Partners (Tier 1):** FCDO expects lead organisations to apply the budget template's methodology and eligibility criteria for calculating NPAC costs to consortium partners. Consortium Partners must complete the NPAC template and provide to the lead organisation to collate this information into Table 6.

**Downstream partners (Tier 2):** FCDO expects lead organisations to apply the principles of full cost recovery downstream. The FCDO lead for the programme is free to specify whether adequate assurance has been received. The total of the direct and overheads costs paid to a local partner are eligible direct costs.

9.7 Surplus NPAC

The amount of NPAC calculated at the outset of the project is based on the agreed budget. The NPAC rate will be applied to the actual costs incurred when claims are submitted and paid based on actual cost. If payment is in advance, the amount of NPAC payable should be adjusted when the direct costs are reconciled. Where this results in the Partner holding a surplus of NPAC already paid, that surplus must be repaid at the end of the project as part of the final spend reconciliation.

## 10. Payment basis and cost verification

FCDO and HMG operate on a policy of operational need. Payments are made in arrears unless otherwise agreed. We expect our partners to follow the same principles downstream.

An assessment of the eligibility of the costs included within your bid or grant application will be conducted prior to the award of any contract or agreement. Any costs deemed ineligible should be removed or the bid or application cannot proceed.

**Annex 1 – Cost Categories and eligibility**

| Cost Category | Description | Budget Template |
|---|---|---|
| Direct Programme Costs | Programme Costs means those costs that are incurred in support of specific programme/ project outcomes. Organisations typically allocate all such costs directly to donors who fund their objectives. This generally includes frontline delivery costs as well as programme management costs. | Budget Detail (Direct Budget Cost) |
| Programme Support Costs | Programme Support means those costs that are more closely aligned with programmatic outcomes, but are shared among a number of projects and which are not easy to charge directly to individual projects as they are incurred. E.g. country offices or technical staff such as gender advisers or in country local corporate support that is required for the operational running of the programme. | Budget Detail (Direct Budget Cost) |
| Central Support Costs | Central Support means those costs that relate to the organisation's overall operations and management, rather than to programme services. E.g. a Civil Society Organisations' central finance system. These are sometimes referred to as 'Organisational' 'Head Office', 'Strategic' or 'Corporate' function costs. | NPAC |

<table>
<tr><th>Generally unacceptable</th><th>Project Specific</th><th>Indirect/support/overheads/Non -Project Attributable Costs</th></tr>
<tr><td rowspan="3">• Fundraising<br>• Advocacy<br>• Marketing and communications<br>• Policy (if a specific FCDO objective then should be project-attributable)<br>• Retainer fees<br>• Land, Property or major capital expenditure<br>• Inflation or Foreign exchange as a standalone budget line<br>• Contingency<br>• Debt repayment<br>• Costs of preparing proposal/incurred</td><td>1.Programme support costs - administration costs directly associated with project delivery – e.g. finance/logistics staff[18]</td><td rowspan="3">• IT infrastructure, equipment and personnel<br>• Finance and accounting, financial services, grants management<br>• Oversight: programme quality, coordination, internal audit. Technical specialist support (where not project attributable), compliance, governance<br>• Legal support<br>• Human resources<br>• Logistics and procurement<br>• Facilities management<br>• Headquarters facilities/rent (recurrent costs) – global operations, security</td></tr>
<tr><td>2. Programme management costs – staff[18] (planning & managing) salaries and allowances, transport, monitoring</td></tr>
<tr><td>3. Direct (front line) programme delivery costs:<br>• Technical advisory/expert staff[18]<br>• Monitoring & Evaluation, lesson learning, surveys, communication of results, publications, knowledge production & sharing, financial audit – data collection, end project review and possibly independent Evaluation where justified<br>• Transport – freight and staff travel[1]<br>• Security<br>• Training to beneficiaries<br>• Grants</td></tr>
</table>

1 Reclaimable provided within existing permitted rates/rules

| Generally unacceptable | Project Specific | Indirect/support/overheads/Non -Project Attributable Costs |
|---|---|---|
| before formal agreement signed<br>• Marketing/promotional comms that don't directly contribute to project objectives<br>• Bank charges<br>• Insurance<br>• local taxes per AG template | • Supplies, materials including equipment/ **Capital** (assets) – for implementing partner or beneficiaries/construction<br>• Downstream implementing partner charges<br>• Translation/interpreters<br>• Conferences and seminars<br>• Retainer fees | • Regional office facilities (local offices involved in frontline delivery should be included in direct Project specific costs)<br>• HQ/Chief executive office, organisational purpose and wellbeing/direction, external relations, corporate comms, capital expenditure, staff training |