



October 2018: This guidance applies only to accountable grant arrangements applying the new NPAC budget template available at <http://insight/Smart-Rules/Pages/Standard-templates.aspx>

Department for International Development (DFID) Programme Expenditure: Eligible Cost Guidance for ACCOUNTABLE GRANT ARRANGEMENTS

1. Background to guidance

John Manzoni, Chief Executive of the Civil Service, has made it clear that eligible expenditure terms must be employed in all government grant agreements, to deliver the Government's stated policy that taxpayers' money is used as intended¹. In order to **increase transparency, clarity** and **consistency** this directive has also been extended to include all directly procured contracts.

This guidance document for accountable grant arrangements provides details of both eligible expenditure and items of expenditure that are expressly ineligible, and should be referred to when submitting the budget supporting your grant application. The guidance will help organisations calculate the full cost of a particular project or service, including an appropriate share of all relevant support services and other overheads.

From October 2018, an overheads (or NPAC) budget template is available and recommended for use for new accountable grant arrangements. A full budget template for accountable grants will be available from Spring 2019.

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

Expenditure cost categories containing specific eligible and ineligible definitions are defined within this guidance and the budget should be completed in line with the guidance. A prescribed model to appropriately allocate non project attributable costs (NPAC) is included.

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-Attributable Costs.

¹This is an extract from [Managing Public Money](#)
Programme Expenditure: Eligible Cost Guidance for AG
27 September 2018 Version 1.0

Direct Programme Costs are subdivided further into two types of Direct Costs:

- (a) **Direct project costs:** These 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.
- (b) **Directly attributable project costs:** These are all the costs that are clearly and directly *attributable to the project*. Typically, they include country office resources specifically allocated to the project.

Non-Attributable Costs comprise those overhead costs that are not attributable to a project (**NPAC**). These costs are incurred by an organisation *in order to support the projects* that it runs.

Expenditure in the budget should be classified as either a Direct Programme Cost or NPAC and should follow this guidance with regards to general eligible and ineligible criteria and eligible and ineligible criteria specific to the cost categories listed.

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 agreement or contract).

Additional information relating to specific cost categories, such as insurance, are detailed in this guidance and are mandated in addition to the below listed ineligible costs.

DFID Smart 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 DFID in advance. DFID Smart Rules are available online at <https://www.gov.uk/government/publications/dfid-smart-rules-better-programme-delivery>.

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, DFID 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
- Depreciation
- 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 action²
- Activities which directly enable one part of government to challenge another on topics unrelated to the agreed purpose of the grant

² This is an extract from [Grant Standards](#)

- 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

Costs included as direct project costs should 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 (eg 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.
 - Where these relate to taxes imposed as fines, they will be considered ineligible

6. Insurance

Institutional insurance policies are an eligible NPAC cost. Where additional specific policies are required for a programme, this must be approved in writing 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 DFID where DFID is not the sole funder of the project).

Partners should make a risk based-decision on the insurance required to adequately manage the risks associated with the projects they deliver. Examples of insurance partners may wish to consider are:

- **Assets Insurance:** Partners should manage the risk of assets being lost, stolen, damaged or destroyed under their own policies and procedures. DFID expects the Partner to cover the cost of repairing or replacing lost, stolen, damaged or destroyed assets and should make a risk based decision on how best to do this. If the Partner decides to take out commercial insurance to cover lost, stolen, damaged or destroyed assets, DFID funds cannot be used to fund the premiums unless, explicitly approved in writing in advance as a direct cost.
- **Health, safety and security** - the Partner is responsible for all security arrangements, including the health, safety and security of any person employed or otherwise engaged as part of the programme/project activities, including those employed or engaged by any Downstream Partners. DFID funds cannot be used to fund any insurance premiums intended to cover medical expenses, injury or disablement, and death unless, explicitly approved by DFID in writing in advance as a direct cost.

7. Foreign exchange and inflation

7.1 Foreign exchange rate

It is DFID's policy to make its financial commitments in sterling. Budgets must be submitted in GBP with the stated exchange rate specified (including the date and the source of rate used).

7.2 Inflation rate

The inflation rate applied should be the UK projected rate and be applied to the total project cost line. 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 UK Treasury Rates of inflation for each financial year (01 April to 31 March). 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 DFID to jointly decide how these are managed.

In the case of adverse movements in exchange or inflation rates, the Partner (in liaison with DFID) 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 DFID. 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.

8.1 Frontline project delivery costs

All frontline delivery expenditure includes commodities for beneficiaries or participants, transport of commodities (excluding vehicles which are capital expenditure and driver salaries which are included under travel costs but including freight and logistics), storage of commodities, training and associated costs for beneficiaries or participants, disbursements to beneficiaries or participants, and any other frontline delivery costs associated with the delivery of project outputs. This excludes staff costs, travel accommodation and subsistence, and capital expenditure which should be detailed separately.

8.2 Capital expenditure items

Frontline capital expenditure and non-frontline capital expenditure should be distinguished. This 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.

Where existing vehicles and capital items can be used to deliver a DFID 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 DFID funds is retained by DFID 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.

8.3 Staff costs (including taxes and benefits)

Individuals working under an employment contract, a direct contract (consultant), a sub-contractor or an individual seconded and assigned to the project. Each non-salaried staff member should be assigned a job family from the mandatory criteria and the daily fee rate should be individually listed:

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

The job families are split between international, national and regional staff and potential suppliers must include other mandatory information in the direct costs budget. Full details of mandatory information are included in the budget guidance. The daily fee rate is deemed to cover the cost of salary remuneration and benefits including superannuation (pension) and taxes. 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. A line item stating total staff costs will not be accepted.

Drivers' salaries and staff costs relating to monitoring and evaluation are eligible staff costs however details should be included in direct costs budget template and in the monitoring and evaluation cost category respectively.

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. Staff training should be listed as a separate direct cost.

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

For the avoidance of doubt, training, conferences and workshops relate to staff learning and development including hire of venues are eligible costs, however these should be detailed within other direct costs (refer to section 8.6 of this guidance).

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 should list trips, title of traveller (where known) and dates and value. Travel, subsistence and accommodation costs associated with monitoring and evaluation, if applicable and appropriate, should be included within the budget under the monitoring and evaluation.

In line with DFID'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 DFID representative will confirm if this is appropriate and no travel should be booked in a class higher than "standard economy" without express 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 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.

8.6 Other direct costs

All items of direct programme expenditure not otherwise specified within this guidance must be shown as separate lines under this sub-heading. This can only include costs which support the delivery of the project. NPAC should not be included under this section. If corporate functions within regional offices are supporting delivery of the programme these costs are classified as NPAC and should be listed separately, being calculated in line with this guidance. A cost purposely incurred by a regional office to support delivery of the programme is a direct cost and should be included in the relevant budget heading.

Training, conferences and workshops related to staff learning and development including training and development costs, , technical and professional development and hire of venues. It should not include travel costs.

All costs associated with the organisations' property and facilities including rent, property purchase (where permitted), management of facilities, rates, maintenance and cleaning, groundworks and gardening, utilities, catering, vending services and residential accommodation.

All costs associated with security provisions including security patrols and guard costs, installation and maintenance of security equipment, close protection, maintaining and running armoured vehicles. It should not include the purchase of motor vehicles.

All costs associated with IT and communications including rent, maintenance and support of computer networks and systems, and the hosting of applications, fixed and mobile telecoms including equipment and call charges, hardware and software purchases, repairs and maintenance of hardware devices/equipment and peripherals (printers, faxes, copiers, VCs, laptops/PCs, phones, keyboards, cameras), consumables (for example toner, cables, paper, publishing costs), internet service provision, datalinks, local broadband. It should not include the purchase of IT and communication equipment which should be included as capital expenditure.

Whilst we have endeavoured to make this structure intuitive and fit across different organisations with different financial structures it may not in all circumstances be reasonable to provide an exact mapping. The costs listed here are provided for guidance. Please include costs according to your internal cost allocation policy, with reference also to Cost Template Guidance document and annexes, providing an explanation of your policy for defining Other Direct Costs and allocating them to individual programmes.

9. Non-project attributable costs (NPAC)

NPAC are overhead costs that relate to the overall operations, management and identity of the delivery partner rather than to programme services. These costs are necessary for programmes to function although cannot be clearly linked to specific project outcomes and results (i.e. business expenses not including or related to direct labour, direct materials or third-party expenses that are charged directly to projects). Typically, they include overall management and employee costs, administration and support, equipment, 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 or support costs. The inclusions detailed are not exhaustive.

Partners who require clarity as to whether an NPAC cost is eligible should discuss this with their DFID contact. DFID staff should contact the Civil Society Team for support.

You are required to calculate the total annual NPAC of your organisation in line with the following budget cost categories (the budget adheres to the principles behind The Chartered Institute of Public Finance and Accounting (CIPFA) guidance *Best value accounting: code of practice, CIPFA, 2000* and has previously been recommended best practice by HM Treasury):

- 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

Whilst we have endeavoured to make this structure intuitive and fit across different organisations with different financial structures we recognise that an organisation's cost categories may not naturally map exactly to the cost categories identified. 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.

Your NPAC costs should also, as best possible, align with your organisation's financial statements (audited accounts if applicable). Financial statements must be provided when submitting your budget and will be reviewed by the relevant DFID staff member. If your organisation's reporting format does not adhere to this requirement you must raise this with the relevant DFID staff member who will determine an appropriate alternative. Annual NPAC should form the basis of your total NPAC for the expected life of the programme.

9.1 NPAC

The NPAC calculation is based on organisational overhead costs, typically comprising a mix of administration, support staff and governance costs. Examples of these costs are provided on the NPAC template, but note that this is neither an exhaustive nor prescriptive listing. Rather, it is provided as an indicative guide. The NPAC template and related budget guidance provides further detail on how costs are evaluated to produce the NPAC total. Some further indicative guidance is provided over paragraphs 9.2 – 9.5 below.

9.2 Administration Costs - premises and office costs

These comprise costs associated with the organisation's premises and office including rent and imputed 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 Foreign exchange, inflation and material changes

We recognise that these costs are calculated at the commencement of the programme and may be subject to upward or downward revision. 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.

Criteria in section 6 of this guidance should be applied to address foreign exchange and inflation considerations.

9.6 NPAC for non-lead delivery partners

Consortium Partners (Tier 1): DFID 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**.

Local partners (Tier 2): DFID expects lead organisations to apply the principles of full cost recovery downstream. The DFID 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. If the actual cost of delivering the project is less than the budget, the budget should be revised and in turn the amount of NPAC payable also revised to reflect this. 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 reconciliation of the budget and spend.

10. Payment basis and cost verification

DFID 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.

10.1 Advance payments

Advance funding may be possible for a number of reasons such as supporting small Downstream Partners and funding mobilisation payments. Such funding would need to be justified in advance with the overriding consideration that whilst funding can be provided in advance on a 'just in time' basis, **it cannot be provided in advance of need.**

Advance payments:

- Should have adequate written justification;
- Should be considered only where there is a sufficient value for money argument;
- Should be requested in writing;
- Should be made just before the programme needs it to allow the next stage of the programme to proceed (usually within 3 months);
- Should not be made until previous advances have been accounted for, unless justifiable;
- Require documentation to be submitted to DFID in support of application.