



Department
for International
Development



Department for International Development (DFID)

Programme Expenditure:
Eligible Cost Guidance for Commercial Contracts

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 commercial 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 been extended to include all directly procured contracts.

This guidance document provides details of both eligible expenditure and items of expenditure that are expressly ineligible and should be referred to when submitting the standard budget template supporting your commercial procurement bid. The guidance and budget template 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.

2. Principles of eligibility

The contract 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 costs not directly attributable to the project (NPAC) is included.

2.1 Foreign exchange

All costs within the budget must be in GBP. Beneficiaries operating in another currency must convert to GBP at the spot FX rate and the source and value of any exchange rates used should be referenced in the budget.

3. Ineligible costs (applicable to all budget categories)

The following expenditure items are explicitly ineligible across all expenditure cost categories unless permitting them is a specific requirement of the contract (this list is not exhaustive and does not override activities which are deemed eligible and explicitly agreed as part of the contract):

- 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 contract
- To petition UK Government for additional funding;
- 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
- Interest payments or service charge payments for finance leases
- Gifts
- Statutory fines, criminal fines or penalties

¹This is an extract from [Managing Public Money](#)

- 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 or other compensation
- Replacement or refund of any funds lost to fraud, corruption, bribery, theft, terrorist financing or other misuse of funds
- The cost of any fines or charges applied by local Governments or by any local public authority
- Fundraising (with the exception of any agreed allocated costs not attributable to the project (NPAC))
- Foreign exchange as a standalone budget line
- Contingency or risk premium
- Depreciation (with the exception of any agreed allocated NPAC costs)
- Debt repayment
- Costs associated with preparing bid or commercial proposal prior to a formal agreement being executed
- Costs incurred prior to a formal agreement being executed
- Unless directly attributable to the programme, advocacy and campaigning, marketing and communications, policy, retainer fees, capital expenditure, land, bank charges and insurance (unless, by exception, explicitly agreed in writing in advance)²

Additional exclusions relating to specific expenditure cost categories are detailed in this guidance and are mandated in addition to the above general 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>.

4. 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.

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 (also known as Indirect 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.

5. 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.

² There are limited circumstances where it is appropriate to include insurance costs, for example to meet legal obligations or where doing so provides value for money (this is an extract from [Managing Public Money](#))

5.1 Frontline project delivery costs

All frontline delivery expenditure including 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.

5.2 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.

5.3 Staff costs (including payroll 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 supporting tabs. 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 payroll taxes. If the cost is that of a sub-contractor, the daily fee rate will be the total invoiced cost chargeable to the project. A line item stating total staff costs will not be accepted.

DFID will only reimburse productive days.

Drivers' salaries and staff costs relating to internal monitoring and evaluation are eligible staff costs however details should be included in the travel, subsistence and accommodation tab of the budget template and in the internal monitoring and evaluation cost category respectively.

List as a separate line item, all other staff costs including, but not limited to, clothing, and vaccinations, non-salary remuneration and benefits, such as allowances (COLA, hardship, relocation/shipping, rental subsidy) 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.

Include details where time is being donated to programmes at no charge (in-kind contributions).

For the avoidance of doubt, training, conferences and workshops related to staff learning and development including training and development costs, conference and retreat costs, technical and professional development including hire of venues are eligible costs, however these should be detailed within other direct costs (refer to section 5.7 of this guidance).

5.4 Travel, subsistence and accommodation

For travel undertaken 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 (eg passport/visa costs). The budget should list trips, title of traveller (where known), dates and value and other mandatory inclusions as detailed in the travel, subsistence and accommodation tab. Travel, subsistence and accommodation costs associated with internal monitoring and evaluation, if applicable and appropriate, should be included within the budget under the internal monitoring and evaluation tab.

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. Travel and living expenses will be paid at a rate consistent with the HMRC's schedule of rates.

5.5 Internal 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 internal 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 internal 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 the internal monitoring and evaluation tab and details listing trips, title of traveller, dates and value and other mandatory inclusions as detailed in the travel, subsistence and accommodation tab should be included in the notes tab of the budget.

5.6 Fund management costs

If applicable, all fund management service costs including management fees, challenge fund, loan fund, PMU, and any other costs associated specifically with the management of the fund. Details of the calculation model should be included in the budget notes.

5.7 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, conference and retreat costs, technical and professional development including 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 (laptops) 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. Whilst it is important that the structure is adhered to as closely as possible, in areas where this is not reasonable it is important that discrepancies are noted – so complete meta-data can still ensure consistency and transparency. In case of any doubt, the partner or potential supplier should consult DFID in advance.

6. 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. If you require clarity as to whether an NPAC cost is eligible then please contact your DFID representative. The inclusions detailed are not exhaustive.

Since different projects make different demands on the organisation it is important to note that NPAC are not necessarily proportional to the direct costs of a project. A straight percentage allocation to the budget is not based on an understanding of your organisation's overheads and is therefore not acceptable.

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):

- Premises and office costs
- Central function costs (Board of Directors' costs and support functions 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.

6.1 Premises and office costs

This category relates to all costs associated with the organisation's premises and office including rent and imputed rent, mortgage costs, depreciation, management of facilities, building insurance, rates, maintenance and cleaning, groundworks and gardening, utilities, catering, vending services and residential accommodation.

6.2 Central function costs

This category relates to all 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, payroll 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.

6.3 Governance and strategic development costs

This category relates 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.

7. 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 commercial bid 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.

Should DFID determine after paying for a particular cost or service that this amount was not compliant with this guidance, DFID may recover, or withhold from further payments, an amount not exceeding that previously charged for that particular cost or service.