

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 programme delivery costs

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 programme outputs. This excludes staff costs, travel accommodation and subsistence, and capital expenditure which should be detailed separately.

5.2 Capital expenditure items

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.

Where existing vehicles and capital items can be used to deliver a DFID programme, 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)

All individuals working under an employment contract, a direct contract (consultant), a sub-contractor or an individual seconded and assigned to the programme should be included on **tab 2.3 – Programme Staff - Pay**. Each salaried and 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

Staff performing roles connected with fund management or monitoring and evaluation will be identified as such under Staff Costs, using technical expertise drop-down analysis options.

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 tender 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 should be included in the travel, subsistence and accommodation tab (tab 2.4) of the budget template.

Management fees

The costs incurred by the Lead Organisation of managing both the recruitment and project work of external consultants and delivery partner programme staff where these are significant – ie they result in specific additional direct programme costs that are in excess of normal organisational establishment cost levels – should be included on *tab 2.1 – Programme Activities FPD*, with full supporting analysis provided in the Notes box.

Other staff-related costs

List elsewhere on the template (normally on *tab 2.1 – Programme Activities FPD*), 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)
- staff costs that may be incurred by the potential supplier in relation to programme staff, **including**: training, conferences and workshops related to staff learning and development, conference and retreat costs, technical and professional development including hire of venues are eligible costs.

We will not cover any repatriation or termination costs.

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

5.4 Travel, subsistence and accommodation

For all travel undertaken in relation to business (including that related to monitoring, evaluation and learning activities), including air, rail, car hire and purchase and other travel costs, hotel and accommodation costs, subsistence, travel management fees, travel documentation costs (e.g. 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.

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 rates³.

5.5 Monitoring, Evaluation and Learning costs

Within the budget there will likely be a provision for baseline and on-going data collection and an end of project review. 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 programme. The budget notes should explain what is covered - for example visits by the UK office of the organisation, - and costs should clearly link to the internal monitoring and evaluation plan as set out in the narrative proposal.

All staffing and travel costs in relation to monitoring, evaluation and learning activities should be included on tabs 2.3 and 2.4 respectively. All other (non-pay/non-travel) costs should be included on the separate Monitoring, Evaluation and Learning tab 2.5.

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 should be included on tab 2.1 (Programme Activities – FLD) – with the exception of staff and travel-related Fund Management costs which should be included on tabs 2.3 and 2.4 respectively. Details of the calculation model should be included in the budget notes.

³ <https://www.gov.uk/government/publications/scale-rate-expenses-payments-employee-travelling-outside-the-uk> -

6. Non-project attributable costs (NPAC) – refer to Annex 1 for methodologies for sharing 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 according to DFID policy rules unless in exceptional circumstances and where 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.

ANNEX 1: Sharing NPAC

This section explains how to share your NPAC among programmes on a fair and reasonable basis. This means:

- Each programme's share of the NPAC is appropriate given the nature and extent of its activities (i.e. a programme does not receive a share of overheads that it does not incur).
- There is a rational basis for the method used to share NPAC that can be justified and supported.
- The allocation of NPAC to the programme is only an estimate. It does not have to be too detailed or time consuming. Just make sure the allocation method is fair and reasonable based on the information you have.

The addition of a fee or rate calculated as a standard percentage of programme costs is not considered a fair and reasonable basis of sharing NPAC. This is because this method is not based on understanding of that your NPAC are. Common ways of sharing NPAC are:

- Number of staff (FTE):** If the number of direct programme staff fairly reflects the relative sizes of your programmes this method may be appropriate. All staff should be shown in terms of full time equivalent (FTE) – i.e. a person who works half the usual weekly hours would be expressed as a 0.5 staff member. If there are many volunteers working on programmes it may be appropriate to include volunteer time in the calculations.
- Premises usage:** Where premises costs are substantial, it may be appropriate to share costs based on the length of time each programme uses the premises or the floor area occupied by each programme.
- Direct programme expenditure:** This method is only appropriate if the NPAC are small compared to the total direct programme costs and the direct programme costs in each programme are of a similar type. For example, if one programme is staffed entirely by volunteers and another by paid staff, if this method is used the apportionment to the volunteer led programme may be too low.
- Number of beneficiaries:** The number of service users or beneficiaries may be an appropriate basis for sharing NPAC if each beneficiary incurs a similar level of costs or if you will receive funding based on the number of beneficiaries.
- Staff time-based methods:** If you have one or more managers who each manage several programmes, and the management costs are substantial, it may be appropriate to share these costs based on manager's time spent on each programme. Programmes sometimes require more management time in the start-up and close-down phases, so this can be an effective way of allowing for this.
- Sharing NPAC in different ways:** Sharing different type of NPAC in different ways is often unnecessary and may not improve the accuracy of your estimates. However, there are times when using more than one basis is appropriate. If some programmes do not incur one category of NPAC then it may be necessary to use a different basis for sharing the different NPAC.

After calculating your programme's share of the NPAC you should consider if the results appear reasonable. Consider:

- Do the results appear reasonable from your knowledge of the programme?

- Are the programme's NPAC costs compared to the programme's direct costs fair and how does this compare to other programmes?
- Is the programme's share of the organisation's entire NPAC fair and how does this compare to other programme's shares?

If you intend raising income for your programme from other sources, we expect those sources to cover their fair share of the programme's NPAC. The department will only fund its share of the programme's overheads. We would not expect to fund a greater share of your NPAC than the share of your direct programme costs you are asking us to fund.

ANNEX 2: Definitions

Delivery partner	Delivery partner refers to organisations which will be either subcontracted by the lead organisation or be an operator in a group of operators.
Direct programme costs:	These are all the costs that are clearly and directly <u>incurred because of the programme</u> . Typically, they include the salaries of programme staff, their travel and subsistence, programme materials, and all other costs easily identifiable as part of the programme.
Directly attributable programme costs:	These are all the costs that are <u>clearly and directly attributable to the programme</u> . Typically, they include country office resources specifically allocated to the programme.
Disbursement partner:	An organisation engaged to make disbursements on behalf of the contracted organisation.
Experience:	Years of professional experience relevant to the individual's field of expertise.
Expert status:	<p><i>International Expert:</i> An international expert is an individual whose assignment takes place outside his/her home country or place of permanent residence.</p> <p><i>National Expert:</i> A national expert is an individual whose assignment takes places in his/her home country or place of permanent residence.</p> <p><i>Regional Expert:</i> A regional expert is an individual whose assignment takes place within one or more countries of the continent in which his/her home country of permanent residence exists, <i>with the exclusion of</i> their own home country of permanent residence.</p>
Frontline programme delivery:	Activities associated with delivering the programme outputs or outcomes for end beneficiaries.
Job family:	A thorough description of the job responsibilities of a position without regard to the knowledge, skills, experience, and education of the individuals performing the role. A job family will have parity in job titles, consistent job levels within organisational hierarchy, and salary ranges determined by identified factors. These factors include market pay rates for people doing similar work in similar industries in the same region of the country, pay ranges of comparable jobs within the organisation, and the level of knowledge, skill, experience, and education needed to perform each job.
Job family categories:	
(a) Programme leadership	This job family covers positions delivery for leading a whole programme. Responsibilities will include setting up strategic directions to the programme team and interacting with DFID leads and any identified stakeholder (Governments / Industry / Institutions / Ministries etc). These positions typically include positions such as Programme Directors, Team Leaders, Chair of Groups, CEOs etc
(b) Programme management	This job family covers middle-management positions delivery for the execution/delivery of programmes and managing their related teams.

The roles require effective co-ordination of the programme's programmes and management of their inter-dependencies including Risk/Financial and Contract Management control. It typically includes positions such as programme managers, finance managers, office managers to a certain extent and junior/graduate advisers at lower pay scales. These positions are long term roles.

- (c) Technical advisor** Technical advisors are recognised subject matter experts who are appropriately qualified in their particular fields of knowledge and hired to provide detailed information and advice to the wider team, in the successful delivery of the programme.
- (d) Programme support & Administration** This job family covers all positions relating to programme support and administration. Program assistants provide administrative support in a variety of office settings (including "in country" and "back office"). General administrative duties for program assistants are often clerical in nature. They gather information, control documents and maintain records, schedule meetings, prepare necessary materials and compile reports. Duties can also involve computer work i.e. logging data, creating charts and updating websites. Program support duties include gathering information from program team members, reporting or investigating concerns and performing research. Program assistants also keep program plans up to date, allowing program managers to get a clear view of a programme current status. Program assistants also develop methods to coordinate and manage data and reports. These positions are mostly long term and include office support staff.
- Job classification:** A system for objectively and accurately defining and evaluating the duties, tasks, and authority level of a job.
- Lead organisation** Lead organisation refers to the organisation with which DFID will contract, and which shall manage the suggested consortium partners/group of operators.
- Long term programme staff:** Individuals that work on the programme for a cumulative period of more than 4 months or 120 days in aggregate.

Nationality:	<p><i>International:</i> An international team member is an individual whose assignment takes place outside his/her home country or place of permanent residence.</p> <p><i>National:</i> A national team member is an individual whose assignment takes places in his/her home country or place of permanent residence.</p> <p><i>Regional:</i> A regional team member is an individual whose assignment takes place within one or more countries of the continent in which his/her home country of permanent residence exists, <i>with the exclusion of</i> their own home country of permanent residence.</p>
NPAC:	<p>Non-programme attributable costs. These 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 programme 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 programmes). 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 programme, but also support your other programmes. NPAC are often also called indirect, core, central or support costs.</p>
Programme commodities:	<p>Refers to operational items, including physical goods and material, non-capital assets or inventory items and programme materials.</p>
Resource accounting:	<p>The application of accrual accounting to the accounts of central government departments and pension schemes. It focuses on resources consumed over an accounting period rather than just cash spent, and relates resources consumed to departmental objectives.</p>
Short term programme staff:	<p>Individuals that work on the programme for a cumulative period of less than 4 months or less than 120 days in aggregate.</p>
Unit base:	<p>A baseline for measuring the total cost of a set of units e.g. monthly rate, daily rate.</p>
Unit cost:	<p>The average cost is calculated using a costing method by which the value of a pool of assets or expenses is assumed to be equal to the average cost of the assets or expenses of that pool, i.e. the total value of the pool divided by the volume of the pool.</p>