



Adaptation Research Alliance

Adaptation Research Alliance Expense Guide

Eligible expense guide for ARA
micro-grant agreements

Date: October 2022

1. Background to guide

This guide sets out eligible and ineligible expenses for micro-grant agreements funded by SouthSouthNorth (SSN) under the Adaptation Research Alliance (ARA) Programme funded by the Foreign, Commonwealth and Development Office (FCDO) under the CLARE accountable Grant arrangement. It should be used by applicants when submitting a budget supporting a micro-grant application. The guide is designed to ensure applicants calculate the full cost of a project and includes guidance on SSN and FCDO's approach to overhead expenses. This guide should be used in conjunction with the Call for Submissions. Please note that the ARA Programme Lead and Manager may request additional budget information during the period of the micro grant.

2. Principles of eligibility

The micro-grant funding amount is to be used solely for expenses included in the budget for the delivery of the outputs and outcomes of the proposal. These expenses must:

- Be actually incurred by the micro-grantee;
- Be incurred within the period set out in the micro-grant agreement;
- Be indicated within the approved budget submitted as part of the proposal;
- Be incurred in connection with and necessary for implementation of the proposal
- Be identifiable, verifiable and recorded in the micro-grantee's accounts in accordance with applicable accounting standards and with the micro-grantee's usual cost accounting practices
- Be compliant with applicable national law on taxes, labour and all other relevant national law
- Be reasonable, justifiable and compliant with the principles of sound financial management

In case of any doubt that the expenditure does not fall within the ambit of the micro-grant agreement, the micro-grantee should consult SSN prior to incurring the expense/s. If SSN is not consulted, and the expense falls outside of the micro-grant agreement, the expense may not be reimbursed.

3. Expenditure cost categories

In an organisation there are two types of expenses that are incurred as a result of running a project or service: Direct Expenses; and Non-Project Attributable Expenses (NPAC/overheads/admin costs attributed to the running of the organisation to enable the project).

Direct Expenses are all the expenses 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 expenses easily identifiable as part of the project. They also include office resources specifically allocated to the project.

Non-Project Attributable Expenses (overheads) **or admin fees** are expenses that are not feasibly allocable to a single project (**NPAC**). These expenses are incurred by an organisation in order to support its work and the projects that it runs – for example administration and support, equipment, space and premises expenses, and activities that relate to the whole organisation and partly support the project, but also support other projects and the work of the organisation.

NPAC is often also called indirect, overhead, core, central or support expenses.

Expenditure in the budget should be classified as either a direct expense or NPAC. We cannot accept NPAC fees over 10% of the total expenditure amount.

4. Ineligible expenses

The following expenses are explicitly **ineligible** and therefore not allowed 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 and local government charges, are detailed later in this guide.

4.1 The following expenses are explicitly ineligible across all budget categories:

- Activities which may lead to civil unrest
- Activities which would be classified as child labour/underage labour
- 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 including promotional and novelty items e.g. branded clothing, branded stationery, mugs & glasses and similar
- Statutory fines, criminal fines, penalties and associated legal expenses
- 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, SSN will not contribute to a notional rent
- Activities in breach of UK legislation on State Aid
- Bad debts to related parties
- Payments for unfair dismissal and associated legal expenses
- 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
- Expenses incurred prior to a formal sub-grant agreement being executed including expenses associated with preparing grant proposals

4.2 The following expenses are ineligible unless they are a specific requirement of the grant arrangement and approved as part of the proposal, in which case they are eligible direct expenses:

- Capital expenditure includes specialist equipment, office furniture and equipment, laptops, computers and computer peripherals including software, mobile phones, satellite phones, etc and standard and off-road motor vehicles, and any other project related equipment.
- Depreciation is not an allowable expense.
- Where existing vehicles and capital items can be used to deliver an ARA project, SSN accepts a running and maintenance cost for the use of these to be included in the budget.

- 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 for additional funding;
- Expenses associated with fundraising, campaigning, marketing and communications, policy, retainer fees, capital expenditure, land and bank charges.

4.3 The following expenses are ineligible as direct expenses but can be included as NPAC:

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

Expenses included as direct project expenses must not be duplicated as NPAC– for example, a specific member of staff's salary should be removed from indirect expenses if it, or a percentage thereof, is being charged as a direct cost for this project. **Only NPAC included in the budget upfront can be reimbursed. NPAC cannot exceed 10% of the total expense cost, and must fall within the agreed grant amount.**

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 expenses, they will be considered eligible as direct expenses.
- Where these relate to taxes imposed as fines, they will be considered ineligible.

6. Micro-Grantees 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 project, this must be approved in writing by SSN 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 the micro-grant where SSN is not the sole funder of the project).

This should be explicitly discussed with the ARA Programme Team as part of the process of approving the final budgets for the micro-grant agreements.

7. Foreign exchange and inflation

7.1 Foreign exchange rate

It is ARA policy to make financial commitments in British pounds.

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).

Other rates may be used but are subject to prior review and approval in writing by SSN.

The micro-grantees are responsible for monitoring and managing any exchange rate fluctuations across the duration of the project and shall bear the risk or reward of any exchange rate losses or gains. Micro-grantees may not build in additional expenses to protect against the risk of exchange rate/conflation losses.

8. Direct project expenses

Direct project expenses are activities and expenses directly incurred in the delivery and implementation of the project, and are directly linked to specific project outcomes and results. This generally includes frontline delivery expenses and project management and support expenses. Support expenses should be apportioned to direct expenses 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.

8.3 Staff expenses (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.

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.

All other staff expenses 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 are ineligible.

Staff training should be listed as a separate direct cost under staff expenses. SSN may also require the micro-grantee to furnish details where time is donated to projects at no charge (in-kind contributions). Training, conferences and workshops relating to staff learning and development including hire of venues are eligible expenses, however these should be detailed under project expenses.

8.4 Travel, subsistence and accommodation

For travel undertaken by all staff, sub-contractors and consultants in relation to the project, including air, rail, bus, car hire and other travel expenses, hotel and accommodation expenses, subsistence, travel management fees, travel documentation expenses:

- The budget detail should provide sufficient detail of the nature of the travel and the departure and arrival locations.
- Travel, subsistence and accommodation expenses associated with monitoring and evaluation, if applicable and appropriate, should be included within the budget under monitoring and evaluation. In line with the donor's policy, all journeys by rail, bus 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. The ARA Programme Lead or Manager will confirm if this is appropriate and no travel should be booked in a class higher than "standard economy" without prior written permission.
- Economy Premium/Business/ First class travel will not be permitted under any circumstances
- Toiletry products, Alcohol and tobacco are not allowable subsistence items and will not be reimbursed.

This guidance applies throughout the programme delivery chain.

8.5 Monitoring and evaluation expenses

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 expenses should be included in the budget.

There is no specific ceiling for monitoring and evaluation expenses; however, an assessment will be made as to whether the expenses indicated are appropriate for the proposed project. The 'Detailed Description' within the budget notes should explain what is covered; for example, visits by a parent office of the organisation, an independent evaluation by consultants, and expenses should clearly link to the monitoring and evaluation plan as set out in the narrative proposal.

Travel, subsistence and accommodation expenses, 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 expenses (NPAC or overheads)

NPAC are overhead expenses that relate to the Head Office function, central operations, management and identity of the micro-grantee rather than to project activities. These expenses are necessary for programmes to function but cannot be clearly linked to specific project outcomes and results. Examples include overall management and employee expenses, administration and support, equipment, Head Office space and premises expenses, 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 expenses.

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 Expenses - premises and office expenses
Please note this guidance applies to civil society organisations only and does not apply to multilateral organisations or academic institutions. Multicultural organisations and academic institutions should contact SSN directly re overhead expenses.
- Support Staff Expenses - central function expenses (Board of Directors' expenses and support functions expenses)
- Governance Expenses - governance and strategic development expenses

Your NPAC expenses should align with your organisation's financial statements (audited accounts if applicable). SSN may require financial statements to be submitted along with the budget. SSN is aware that different organisations will have different financial structures. The overarching principal of the calculation is to allow for the organisation's NPAC to be appropriately apportioned to the project funded and organisations should therefore align their NPAC with these cost categories. If the organisation's reporting format does not adhere to this requirement, it should be raised with the SSN Programme Lead and an appropriate alternative jointly agreed. It should be noted that the NPAC will still need to be managed within the overall budget limit for the programme being 10% of actual spend, not gross grant value, and will not be paid separately and above the gross grant value.

9.2 Administration Expenses - premises and office expenses

These comprise expenses associated with the organisation's premises and office including rent, mortgage expenses, management of facilities, building insurance, rates, maintenance and cleaning, groundworks and utilities.

9.3 Support Staff Expenses - central function expenses

These comprise expenses 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-expenses 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 expenses.

9.4 Governance Expenses – governance and strategic development expenses

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 expenses are calculated at the commencement of the programme and if circumstances change, may be subject to upward or downward revision in consultation with the ARA Programme Lead and/or Manager. There is a requirement on the micro-grantees to notify SSN of any material change which would reduce overhead expenses.

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 expenses

incurred when claims are submitted and paid based on actual expenses incurred.

10. Payment basis and cost verification

Micro-grant payments are made with a 50 % initial payment on signature of the micro-grant agreement and the balance in arrears unless otherwise agreed. We expect micro-grantees to follow the same principles downstream. An assessment of the eligibility of the expenses included within your bid or grant application will be conducted prior to the award of any contract or agreement. Any expenses deemed ineligible should be removed or the bid or application cannot proceed.