

Eligible Costs Guidance

Introduction

This guidance is intended for those seeking funding from the UK Humanitarian Innovation Hub (UKHIH) on what costs they may or may not include in the budgets they submit as part of their funding application.

Costs that may be included, we refer to as "eligible" or "allowable"; those that are not, we describe as "ineligible" or "not allowable".

General 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. 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

Rule 1: Relevancy

Costs generally fall into three categories: Direct, Indirect and Overheads.

Direct Costs

Direct costs are those that are directly related to the project. Examples would include:

- Staff costs for the project lead / principle investigator
- Fellowships
- Travel costs to undertake project work
- Publication costs for a project report
- IRB fees
- A proportion of country or local office costs are eligible to be included as direct costs, where the office is directly involved in project delivery

Direct costs are generally allowable, unless they are specifically excluded elsewhere in this guidance.

Indirect Costs

Indirect costs are those that are not specific to a particular project but are shared by a group of projects of which this is one. They would not exist if that group of projects did not occur.

Examples would include:

- Running costs of a project office, where that office solely facilitates projects (i.e., there are no Head Office style functions like Fundraising)
- Staff costs of a Finance Manager, who supports the accounting or reporting of a group of projects (and only works on those projects)

Indirect costs are also generally allowable, unless they are specifically excluded elsewhere in this guidance.

We would expect these costs to be apportioned across the relevant projects, and therefore see only a percentage of them in any one budget.

Overheads

Overhead costs are those that are not specific to any project and are required more for maintaining the organisation. Examples would include:

- Costs of HR or IT functions
- Costs of senior executives or Boards
- Administration or Support staff
- Organisation-wide insurance
- Payroll benefits not related to specific people

Each UKHIIH awards programme will include a rate, up to which overhead costs may be claimed. Any itemised overhead costs will be deemed to contribute towards this percentage.

Rule 2: Capital Spend

Capital spend relates to when an asset is purchased that may have a life beyond the end of the specific project.

Examples would include:

- Computer equipment
- Large scientific equipment
- Electrical equipment
- Furniture
- Vehicles

Consumables, such as medical supplies, are not considered capital expenditure, as we assume them to have a negligible life beyond the end of the project. Therefore, where these are relevant to the project, they would be considered to be Direct Costs.

Capital expenditure is allowable, but only to the extent that it facilitates the main purpose of the project - it cannot be the main purpose of the project in itself. Accordingly, it should make up a very small percentage of the overall budget.

There is a requirement for a programme asset register to be maintained for all assets purchased at a value of £500 or more (a template would be provided with grant agreements).

Rule 3: Reasonable Costs

We expect budgets to reflect the principle of economy, to ensure that we can maximise the impact of our funding.

Costs therefore should be the minimum needed to achieve the aims of the project. If the project can succeed without a particular cost, it should be excluded.

For example, we would consider the following unreasonable (this list is not exhaustive):

- Staff who are employed at a higher salary or level than that required to complete the project
- Excessive allowances, such as per diems that do not reflect true subsistence costs within the relevant country
- First class or business class travel
- Excessive use of consultancy services

In a multi-year research project, we expect that research activities should be completed by the end of the second year, and that final year should be primarily dedicated to the uptake of findings. Therefore, our assumption is that research costs in the final year which amount to more than 25% of those in a previous year would be unreasonable. This is a rebuttable assumption: you can evidence to support the inclusion of such costs, if they are critical to the project.

Costs should also only be included if they are not already covered by other forms of funding.

Rule 4: Specifically Excluded Costs

The following costs are specifically excluded:

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

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
- Contingency or risk premium
- Purchases of land/buildings or similar (e.g. construction costs)

- Costs incurred prior to a formal agreement being executed including those associated with preparing bid or grant proposals

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

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

Matched Funding

Matched funding is not an explicit requirement for initial awards from UKHIH. Wherever possible, however, we encourage matched funding as it serves to support the capacity of projects and is an important downstream indicator of the success of UKHIH.

Types of potential match	Description	Examples (sources)
In cash	Direct financial contributions to the project from the applicant and/or third parties.	May include funding from: <ul style="list-style-type: none"> • Cash reserves/revenue funding • Impact investment • Crowdfunding • Grants (from governments, foundations or NGOs)
In kind	In kind matching includes any significant and quantifiable contribution to the project that is not financial.	May include: <ul style="list-style-type: none"> • Use of goods, services and facilities • Provision and access to equipment • Technical assistance

VAT and Sales Taxes

For organisations in the UK or the EEA, our grants are treated as Outside the Scope for VAT purposes. Budgets may therefore include the VAT element of all relevant costs, to the extent that it is expected to be irrecoverable. This rate may differ between organisations.

In other jurisdictions where other sales taxes apply, these may be included up to the point where they cannot be recovered from the relevant government agency.

Insurance

Partners should make a risk-based decision on the insurance required to adequately manage the risks associated with the projects they deliver. Institutional insurance policies are an eligible overhead cost. Where additional specific policies are required for a programme, this must be

approved in writing by UKHIH 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. This should be explicitly discussed with the UKHIH team as part of the process of approving the final budgets for accountable grant agreements

Staff Costs

Staff costs should include all payroll costs related to the specific employee whilst they work on the project. These include (but are not limited to):

- Basic pay
- Allowances
- Employer's pension contributions
- Employer's social security contributions
- Life and medical insurances (where charged on a per-head basis or on a percentage of salary)
- Payroll processing fees (where charged on a per-head basis or on a percentage of salary)
- 13th-month accruals (where required under local legislation)

Where a cost cannot be connected to a specific individual, these should be excluded. Examples include:

- Flat payroll processing fees
- Flat, organisational-wide insurances
- Payroll-level taxes and levies

Similarly, costs related to someone's employment when they are not working on the project should be excluded. Examples include:

- Sick pay
- Maternity / Paternity pay
- Compensation for unfair dismissal, etc

Recruitment fees and severance pay can be included if the employee is specifically hired for the purposes of the project and leaves at or before the end of the project. Otherwise, these should be excluded.

Inflation

Inflation may be included if it is consistent with that expected in the UK economy over the period of the project.

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

As we disburse funds in GBP, our assumption is that inflation elsewhere in the world will be counteracted by changes in foreign exchange rates, and the overall effect would therefore be consistent with UK inflation. This is a rebuttable assumption, especially in areas with hyperinflation.