GUIDANCE ON ELIGIBLE COSTS FOR APPLICANTS AND GRANTEES

May 2022

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INTRODUCTION

This guidance is intended for those seeking funding from an Elrha programme on what costs they may or may not include in the budgets they submit as part of their proposals. Costs that may be included, we refer to as “eligible” or “allowable”; those that are not, we describe as “ineligible” or “not allowable”.

GOLDEN RULES

1. Costs must be relevant for the project
2. Costs cannot be predominantly capital in nature
3. Costs must be reasonable for the project

4. Costs must not be specifically excluded

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. To put it another way, these costs would not exist if the project didn't occur.

Examples would include:

- Staff costs for the project lead / principle investigator
- Travel costs to undertake project work
- Publication costs for a project report
- Ethical review fees or similar

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 this 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; for example, if the Finance Manager is expected to spend an average of one day per week on that project, then 20% of the associated costs would be eligible.

Overheads

Overhead costs are those that are not specific to any project, and are required more for maintaining the organisation. You could imagine that these costs would continue to be incurred even if no projects were being run.

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
- Statutory audit costs
- Essential bank changes (NB. penalty charges would be ineligible)

Overhead costs can be claimed at a rate of up to 10% of the total combined Direct and Indirect costs, and do not need to be itemised. Any itemised overhead costs will be deemed to contribute towards this percentage. The overhead allowance should be allocated proportionately and equitably between the participating organisations; i.e. it should not be disproportionately allocated to the lead applicant at the cost of other organisations in a collaboration or consortium.

Relevance

Costs must also be relevant to the project. For example:

- For a research project associated with a programme intervention, the costs must be related to the research only, not the intervention.
- For an innovation, costs must be for the development of the specific innovation being proposed, and not used to help enhance a different one.
- Costs must be incurred during the period of the project.

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.

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.

Limited 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. In other words, it should make up a very small percentage of the overall budget, and must be essential to the project.

Examples of capital spend which might be eligible include:

- Computers
- Mobile phones
- Expensive and/or specialised scientific equipment
- Other technological/electronic equipment

Large capital spend is unlikely to be eligible, particularly if it involves the purchase of land, or contributes to the creation of a permanent structure, such as a building. If you believe such costs are essential to your project, you are advised to consult with Elrha at the earliest possible opportunity.

- Furniture
- Vehicles
- Buildings or construction costs
- Land

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

Budgets should also take into consideration the project cycle and resources required at each stage of the project. In most projects we expect that the most intensive period of spend will be in the middle of the project period, and that this is when the team will be at its largest. Conversely, there may be a period of training required to bring staff on board for the project, in which case this should be factored in.

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:

- Contingency pots, "Other" costs, or costs that are not well-defined
- Fundraising
- Lobbying governments
- Gifts
- Finance lease interest payments or service charge payments
- Depreciation, amortisation and other non-cash accounting adjustments
- Activities that may lead to civil unrest or discriminate against any group
- Statutory fines, criminal fines or penalties
- Replacement or refund of any funds lost to fraud, corruption, bribery, theft, terrorist financing or other misuse of funds

SPECIFIC ISSUES

VAT and Sales Taxes

For organisations in the UK, our grants are treated as Outside the Scope for VAT purposes, and VAT on project expenditure will be irrecoverable. Budgets should therefore include the VAT element of all relevant costs.

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.

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 (e.g., the Apprenticeship Levy in the UK)

Similarly, costs related to the employment of someone who is <u>not</u> working on the project should be excluded. Examples include:

- Long-term sick pay (i.e. long enough to affect project delivery)
- 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.

Payments to Study Participants

Small payments or tokens of appreciation to study participants may be appropriate under certain circumstances. Factors which should be considered include (but are not limited to):

- Is there a clear basis for the amount being paid? (e.g. reimbursement for travel expenses; appropriate compensation for time and effort)
- Is the basis of the payment transparent to all participants?
- Have the ethical aspects of making payment been fully considered?

The provision of appropriate food and refreshments to participants at events is eligible as part of the costs of running the event.

It is important to ensure that all payments are fully documented.

Payments to Influential Individuals or External Advisors

Transactions with community leaders, government officials, and others in similarly influential positions must be made for a clear and legitimate reason. Examples of costs which could be eligible include:

- Reimbursement of standard class travel expenses to a project event, upon presentation of receipts.
- Provision of refreshments for a meeting.
- Payment for services legitimately provided by the individual outside their official role, following a competitive procurement process.

Examples of costs which would be ineligible include:

- Payment for an individual to provide services which are part of their job responsibilities, outside official government fees or taxes.
- Payments or gifts made in the expectation of access to influential individuals.
- Per diems or travel expenses which do not meet the definition of 'reasonable' as described above.
- Any payment which is not supported by appropriate documentation.

Insurance

In recognition of the fact that many projects funded by Elrha operate in high-risk locations, project-specific insurance premiums are permitted to cover the following costs:

- Medical expenses, injury or disablement, or death of staff.
- Loss, theft, damage, or destruction of assets

The costs of any such premium must be allocated to the budget on the same basis as other types of costs. This does not absolve the organisation of responsibility to manage all risks relating to people and property, regardless of insurance status.

Advocacy & campaigning vs uptake & dissemination

Advocacy and campaigning costs are generally ineligible, unless specifically approved as part of a project. If you think this may apply to your project, you should consult with Elrha as early as possible.

Uptake and dissemination costs are fully eligible and should be included as appropriate, to ensure you can share the results of your project.

Inflation

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

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.

QUERIES

If you have any queries on any aspects of this guidance, you can contact us at grants@elrha.org.