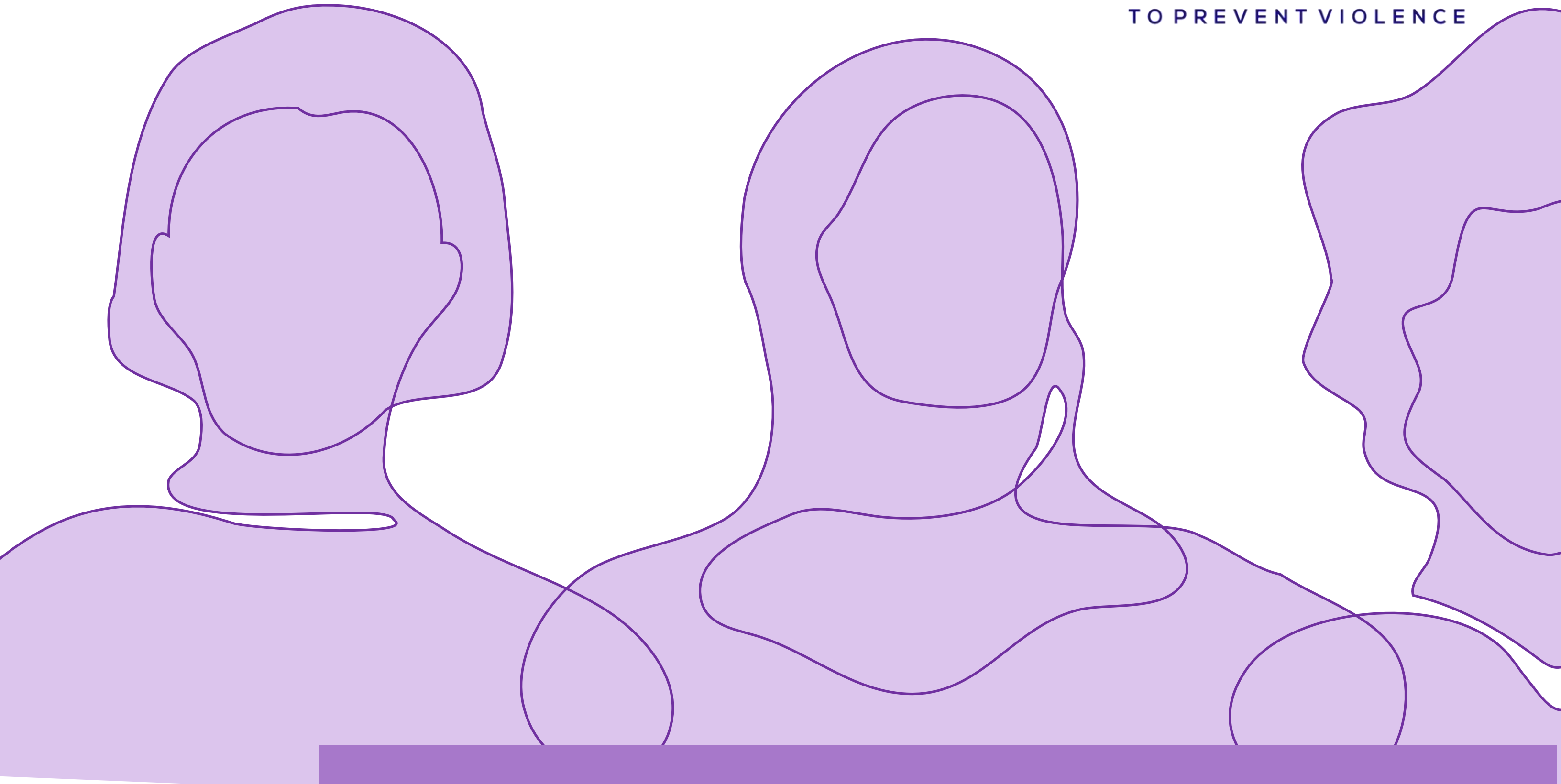

Guidance on Budget development and NPAC calculation

October 2024

About this guidance

This guidance seeks to ensure that What Works 2 applicants and grantees understand what the Foreign, Commonwealth & Development (FCDO) means by Budget and NPAC, and more specifically, that they:

- Understand the Budget categories in the What Works 2 budget template and differentiate between expenses classification.
- Understand the purpose of the budget development and NPAC rate
- Learn how to calculate NPAC rate, and what is eligible to include in the NPAC calculation.

Each of these areas is addressed in the following sections. At the end of the document, there is a list of useful links and documents for further information and reference.

Budget structure (Budget categories/ headings)

This section covers basic guidance on the classification of expenditure between the standard budget headings:

1) ***Project activities***

Project activities is defined as costs which are linked to the achievement of the project outputs. Activities are what the project team do to achieve the aims of the project.

The Project Activities budget heading is expected to cover all recurrent project delivery expenditure unrelated to administrative costs, staff costs, or monitoring and evaluation. It would be expected that all project activities included within the project plan and logframe have corresponding costs included within the budget in the period the activity is due to take place.

Please include travel, accommodation and other related costs for at least 2 people for the following activities:

- to attend an annual programme meeting (1 meeting per year for the duration of the grant);
- one co design workshop (this should be an in-person workshop, please consider key stakeholders, partners, etc). A specific co design workshop guidance will be shared as soon as the grant is awarded.
- one inception workshop.
- a close-out workshop.

2) ***Capital Expenditure***

The Applicant must budget for all items of capital expenditure to be funded under the project. Recognition of capital should be in line with the organisation's own finance manual but remain subject to the requirements of reporting an inventory, as set out below. Grantees must report on capital expenditure in the year in which cash is exchanged. The cost of the transaction should not be spread over the lifetime of the project, i.e., the depreciation of an asset should not be included in reporting.

Foreign, Commonwealth & Development Office (FCDO) considers any equipment and / or supplies purchased in part or fully from FCDO funds as project assets if they have a useful life of more than one year; and either

1. the purchase price or development cost of the asset is in excess of £500 or equivalent in local currency; or
2. is a group of lower value items (e.g., pharmaceutical products, food, relief packs, etc) where the combined value is in excess of £500 or equivalent in local currency; or
3. can be considered an attractive item regardless of cost (for example mobile phones, cameras, laptops, tablets, satellite phones)

As per the FCDO Accountable Grant Arrangement, ultimate ownership of the inventory of assets will remain with FCDO and any ownership, transfer, or asset disposal is otherwise agreed in writing by FCDO, normally at the end of the grant. It should not be assumed that assets will remain with the lead grantee or local implementing partners after project completion, so grantees should plan for replacement of assets after the end of the grant if this will impact on the continuation of the critical project activities. We encourage large value assets to be purchased from a component of the budget not funded by UK aid and avoid splitting the costs of such items between different funding sources. Reporting on the inventory is completed once per year.

3) *Staff costs*

Staff costs are recorded in a separate section of the budget. Staff costs will typically include expenditure incurred for:

- Staff associated with project activities
- Staff associated with administrative costs, unless judged to be inseparable from the overheads
- Payments to consultants as well as staff members
- Employment costs not included in salaries (these may include payroll taxes, pensions, staff bonuses as dictated by contract). These additional costs are expected to be appropriate to the normal practice of the country of implementation.

To allow for verification of amounts in all cases it is required that formal pay slips will be produced.

Budgeting for staff costs is based on percentage FTEs (full-time equivalents), so it is important that the grantee collects sufficient information to demonstrate compliance against their budget.

Grantees do have the flexibility to adjust pay if it is within their budget or the flexibilities identified in Accountable Grant Arrangement (AGA). However, where salaries are significantly adjusted upwards, and charged to the What Works 2 project, there should always be a clear justification for doing so, and the grantee should be prepared to demonstrate that the change was necessary to achieve value for money in the context of the project.

4) *Monitoring, Evaluation, and Lesson Learning*

The project must have an appropriate and proportionate budget (10% of total budget) for monitoring, evaluation and learning activities (i.e.: data collection, monitoring, knowledge management and evaluation). Grantees should – at minimum - budget for (a) baseline data collection; (b) ongoing data collection and monitoring during project implementation; (c) and end line data collection; (d) and M&E staffing costs. If working in a consortium, please consider M&E costs for each of the partners.

Grantees will be responsible for collecting data for monitoring, evaluation, and learning (MEL), in partnership with the Research Consortium. However, the budget for the evaluation will be covered by the Research Consortium and will be separate from the innovation grant budget.

5) *External Engagement and Influencing (EEI)* Activities

Please ring-fence 10% of total budget for external engagement and influencing (EEI) activities. This should include the costs of conducting a Gendered Political and Economic Analysis (GPEA), the development of a National Advocacy Strategy (and any associated engagement in national and regional advocacy), as well as any desired external engagement and influencing trips to key regional and global events and conferences. More information on how to conduct a GPEA and National Advocacy Strategy will be provided during the co design/inception phase of the grant, but both will require staff time.

6) Control community interventions budget

What works recognizes that some of the impact evaluations may use the Randomized Controlled Trials (RCTs) where one group/community has the intervention tested. The other (the comparison or control group/community) will have an alternative light touch intervention as a contribution to their participation in the study; this is particularly important for What Works projects to stay accountable to control communities and to avoid being extractive. The content and focus of the light touch intervention in the control community/group will be different from the intervention that is being tested.

At application stage, we do not know whether an intervention will have an RCT or not (this will be determined at co design stage); therefore, please include it in the **application budget up to GBP 10,000 for an intervention on control communities.**

7) <u>Other Admin Costs</u>

FCDO recognizes the need for grantees to support any project through head office administration. These costs are accumulated under the heading of 'Other Admin Costs'.
'Other admin costs' is intended to cover an appropriate and justifiable apportionment of the grantee's (and any implementing partner's) administrative costs expended in support of the grant, where these costs are not covered by the other budget classifications.

These costs should be minimized in line with FCDO's approach to value for money. Grantees should consider where cost savings could be made through sharing administrative costs across projects. The fund manager is aware that most grantees will already have their own internal guidance on the calculation of administrative support costs and, as far as is appropriate, are content for this to be used in the calculation of administration costs under FCDO. For the conveniences of grantee, however this guidance sets out some good practice principles which must be adhered to, and recommended methodologies which are cleared as appropriate to FCDO.

- Expensed costs must be based on the actual expenditure
- Any costs charged must be evidenced by supporting documentation
- Staff time allocation charges should be supportable by time sheets
- The recognition of costs should follow the standard reporting principles of all other types of expense regarding the cash basis of accounting and the timing of reporting
- These principles should apply to both grantee and any implementing partners.

Note that the principles above preclude certain methodologies for charging of administrative costs. In particular, it is not acceptable for grantees to change a fixed rate for administration (e.g., a fixed figure of £100,000) or to charge a flat rate based on the size of the grant (e.g., 10% of the total granted). In some cases, grantees have spread costs for highly predictable charges across the reporting year (e.g., in the case of audit charges) which is also not accepted. Recommended and approved methodologies to apply to FCDO grants are as follows:

- Calculation based on the actual observed levels of effort by project
- Calculation based on the total actual administrative costs apportioned across the project portfolio

What is NPAC?

FCDO has defined Non-Project Attributable Costs (NPAC) as:" 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. Typically, they include overall management and employee costs, administration and support, equipment, space and premises costs, and activities that relate to the whole organization and partly support your project, but also support your other projects."

In short, NPAC can be defined as the core overhead support costs that are necessarily incurred by an organization to support its overall charitable activities and objectives. These are often referred to as indirect, core, overhead, central or support costs.

Historically, the inclusion, calculation, and classification of these costs within FCDO-funded projects has been inconsistent and, as a result, NPAC has recently been developed and introduced by FCDO as a fair and consistent way of allowing organizations to include an element of these overhead support costs within their FCDO-funded activities

How is NPAC calculated?

The amount of NPAC that can be funded by FCDO should be an 'appropriate apportionment' and is calculated as the percentage of core overhead costs deemed necessary to support your organization's charitable activities. As such, an appropriate amount can be included in your proposed budget submitted with your application.

It should be noted that NPAC will still need to be managed within the overall budget limit for the project and will not be paid separately.

When calculating NPAC, all amounts included should be sourced from your annual financial statements over the past three years (where available) to ensure that a realistic annual average cost is recognized. These costs are typically clearly identified in the notes to the accounts, and are generally classed as administration, support, and governance costs.

The resulting average amount is used to calculate what the average percentage of core costs has been needed to support the organisation's charitable activities over the same time period and this provisional amount can be applied to your proposed budget.

For approved applications, any proposed non-project attributable costs (NPAC) will be fully checked and verified by the Fund Manager during the grant set-up stage, at which point the final agreed percentage will be applied to your project budget.

All costs included in NPAC must be wholly in support of the organization only. Care must be taken to ensure that NPAC costs are not duplicated within your proposed budget for the delivery of project activities. For example, if the cost of your board members is included as NPAC, then an allocation of the Executive Director's time should not be included as a staffing cost within your project budget.

After filling in the amounts from your financial statements, you need to input your annual “Direct Project Costs” as per the totals in “Agreed Budget” tab, the form will then calculate your “Predicted Budget NPAC” for each year.
In some cases, when the NPAC rate is relatively high and not competitive, grantee can propose lower rate by filling “Actual Budget NPAC” in the table below predicted budget NPAC, please make sure to maintain the consistency of the NPAC rate for all years, summary budget will then calculate your NPAC based on the actual figures not predicted NPAC.

If the grantee proposes to have sub-partners, it’s the grantee’s responsibility to manage the NPAC calculation of sub-partners in the same calculation way, however, they may differ from the grantees’ NPAC rate based on their financial statements of the past three years. Theoretically, grantee’s NPAC should include the NPAC amount of all implementing partners. The last table in NPAC tab should be filled with the amount of each sub-partner.

A list of eligible NPAC examples

Supporting overhead costs typically classed as NPAC include:

- Rent, rates, and utilities
- Maintenance and repairs
- Equipment
- Printing and stationery
- Cleaning
- IT maintenance costs
- Bank charges
- Interest payments, service charge payments and loans for finance leases
- Consultant fees
- Programme quality support costs
- Telephone charges
- Support staff costs
- Subscription fees
- Legal and professional fees
- Support and review visits
- Annual conference costs
- Trustee meeting costs
- External audit costs
- Internal audit costs
- Payments for works/activities for which the grant holder has a statutory duty to undertake
- Institutional insurance policies

A list of ineligible costs as NPAC

The costs below are not eligible for FCDO funding and should therefore not be included within NPAC calculations:

- Depreciation
- Fundraising

- Costs associated advocacy and campaigning marketing and communications
- Contingencies
- Fines
- Debt repayment
- Capital expenditure, land, and legal charging of assets to a bank
- Policy retainer fees
- Taxes for which exemptions apply or are reclaimable via other sources (for example, HMRC or an alternative funder)
- Payments for works or activities fully funded by other sources, whether in cash or in kind. For example, the Department for International Development (DFID) will not contribute to notional rent when premises have been provided free of charge

These lists are not exhaustive, and we urge you to also refer to the Eligible Costs Guidance for Accountable Grant Arrangements below.

Further reading and references

- A full guide to **Eligible Costs for Accountable Grant Arrangements is available at this** link.
- A blank non-project attributable costs (NPAC) calculation template can be viewed on the link below.

  NPAC - Template 2019.xlsx
- An example, completed NPAC calculation can be viewed on the link below.

  Completed NPAC example.xlsx

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