Guidance on Eligible Costs for applicants and grantees

July 2018

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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
* IRB fees

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.

### 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

Overhead costs are generally not allowable. Instead, each Call for Proposals will include a rate, up to which overhead costs may be claimed. Any itemised overhead costs will be deemed to contribute towards this percentage.

### 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.

# 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
* Buildings / Land

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. In other words, it should make up a very small percentage of the overall budget.

# 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:

* Contingency pots, “Other” costs, or costs that are not well-defined
* Fundraising
* Lobbying governments
* Purchase of land
* Creation or purchase of permanent structures
* 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

# Specific Issues

### VAT and Sales Taxes

For organisations in the UK or the EEA, 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 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 (currently, around 2%).

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 [info@elrha.org](file:///C:\Users\AnneHarmer\AppData\Local\Microsoft\Windows\INetCache\Content.Outlook\9MV9DQ33\info@elrha.org).