



Department
for Environment
Food & Rural Affairs



Financial Guidance

Darwin Initiative, Darwin Plus &
Illegal Wildlife Trade (IWT) Challenge Fund

2021 – 2022

This document is for guidance only (Terms and Conditions is the primary source for all financial issues relating the to the grants) and should be read alongside the

- Guidance for Applicants,
- Terms and Conditions (T&Cs), and
- Project Reporting Information Note

This document is for applicants to the Biodiversity Challenge Funds (Darwin Initiative, Darwin Plus and the Illegal Wildlife Trade Challenge Fund) and explains:

- What budget information you need to provide in your application.
- How payments will be made and how budgets need to be managed if you are successful.
- How to report finance.

Please ensure that the described process and standards can be delivered by your organisation before you apply.

Non-compliance with the guidance and T&Cs, may result in an ineligible application or place your project at risk.

Forms and Guidance Portal, on the fund website below, includes forms, guidance and templates to support your application, including:

- Application Forms (for drafting purposes)
- Application (incl. Budget) Templates
- Flexi-Grant User Guide
- Claim Forms
- Change Request Forms
- Terms and Conditions
- Reporting Forms
- Project Database

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This publication is available at www.gov.uk

Any enquiries regarding this publication should be sent to us at darwin.initiative@defra.gov.uk

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Glossary

Biodiversity	"Biological diversity" means the variability among living organisms from all sources including, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.
Defra	Darwin Initiative is a programme of the Department for Environment, Food and Rural Affairs (Defra), UK Government.
Evidence	Ranges in format, quality and relevance and include, documented and undocumented experiences, data, studies, policies, best practices etc. but is particularly valued when it is quality assured, accessible and applicable.
Lead Applicant	The individual who leads on the submission of the application and supporting materials, and will be the project contact point during the application process.
Lead Partner	The partner who will administer the grant and coordinate the delivery of the project, accepting the Terms and Conditions of the Grant on behalf of the project.
Matched Funding	Additional finance that is secured to help meet the total cost of the project, including public and private sources, as well as quantified in-kind contributions.
NIRAS-LTS	Darwin Initiative Administrator, and first point of contact for projects and applicants.
ODA	Official development assistance – commonly known as overseas aid – is when support, expertise or finance is supplied by one government to help the people of another country via activities that promote economic development and welfare as a main objective.
Partner(s)	Have a formal governance role in the project, and a formal relationship with the project that may involve staff costs and/or budget management responsibilities.
Poverty	Poverty is multi-dimensional and not solely about a lack of money; encompassing a range of issues to fulfil basic needs and better one's life with dignity.
Project Leader	The individual with the necessary authority, capability and capacity, and a full understanding of their role and associated obligations to take responsibility for delivering value for money, managing risk and financial controls whilst fulfilling the terms and conditions of the grant.
Stakeholder	Are consulted, engaged and/or participate in project activities as they have an interest or concern in the project and its impact. They can also be partners, but if not, they would not have a budget management, or a formal governance role, within the project.
Value for Money	Good value for money is the optimal use of resources to achieve the intended outcomes. Value for money is not about achieving the lowest initial price.

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1 Preparing Your Application

The **Budget Form template** (see Page 1) **must be used**, or your application will not be valid.

Exception to this: the first stage of a two-stage application process does not require the separate Budget Form, but an understanding of the budget guidance is strongly recommended to ensure that a full application can be made.

The Budget Form must match the details provided in the application form; any discrepancies will undermine confidence in the quality of the application or budget.

Defra may request additional information or evidence to support your application.

Key points to note:

- A fully costed budget must be presented in **GBP (Sterling)**.
- All budgets must use the 1st April to 31st March financial year.
- The budget must cover the **lifespan of the project**, split by financial years.
- For budgets prepared in other currencies and converted to GBP, the **exchange rate** used, and its **source** must be identified.
- Project **start and end dates** must be eligible and clearly identified; all financial commitments within the budget must be completed by the end date and within the maximum duration of the grant.
- Budgets must be **realistic and accurately forecast** spend by financial year.

Budget changes between financial years will only be considered in exceptional circumstances, following formal agreement with Defra (Section 6.2).

Costs are rigorously examined during the assessment process and decisions are based on **realistic and justifiable budgets** to deliver the work plan as well as the **value for money justification**.

Full accounting records, including original receipts and invoices, **must be kept for seven years** after project completion and made available if requested.

Final awards may be subject to negotiation with Defra, and financial guidance including processes are subject to review and change.

1.1 Staff Cost

The Staff Cost budget line should capture all costs and payments for services relating to named individuals working on the project. This would include:

- **salary payments** made to team members for their **time spent working on the project**. This is not restricted to those employed by the Lead Partner – staff costs include **all team members** employed by the Lead Partner or other partner(s);
- national insurance, or other social security costs and contractual pension contributions, and other reasonable **contractual employment benefits**; do not use the term ‘fringe benefits’ – rather explain what they are.

The Staff Cost budget line should **NOT** include:

- **external consultancy payments** (see 1.2);
- provision for **non-contractual bonus** or any other **non-contractual payment or benefit** (see Terms and Conditions);

- the **costs of individuals** making a **short, very local input** such as cooking for a field team or administering a workshop; these might be covered in Travel and Subsistence or Operating Costs.

The information provided **must** include the individual's **name** and **role** in the project; their main **location**, the **percentage** of their time given to the project during that period (compared to other projects/activities), and the actual cost to the Challenge Fund and cost being met from other sources. **Evidence** of the employment costs (i.e. employment contract and payslips) and proof of actual time worked on the project (i.e. from timesheets) may be requested.

Staff Costs should include any expected **salary increments** (including projected annual inflationary increments) during the project, up to a **maximum of 3% per annum**.

PhD students can be included as staff if it can be demonstrated that they have appropriate expertise and experience; any stipend costs can be included under Staff Cost and the student is free to use any income as they see fit. Tuition fees for PhD students cannot be claimed.

Staff Costs included in the budget should match the details you are required to provide on Staff Costs in Section 5 of the Actual and Final claim forms. These are available for review on the "Resources" section of the relevant fund's website (See Page 1).

Defra may ask for Staff Costs to be reduced if they are considered too high.

Foreign governments and their agencies cannot lead on projects, though they may be partners. UK government agencies, including UKOT governments, are eligible to apply for funding and are acceptable Lead Partners.

Darwin funding cannot be used as a substitute for activities that would normally be part of the government or agency's core functions (e.g. full-time staff salaries or routine management activities).

1.2 Consultancy Costs

*Consultancy seeks to fill a knowledge gap. It is defined as the **provision to management of objective advice** relating to strategy, structure, management or operations of an organisation. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited. Consultancy often includes the identification of options with recommendations, or assistance with the implementation of solutions but typically not the delivery of business as usual activity.*

For projects this can include the contracting of someone to **provide expertise** required for the success of the project, and which cannot be delivered by project staff or captured under Staff Costs. Staff costs of Partners should not be captured as consultancy costs.

Please **clearly identify who** will provide the expertise or **what it will achieve**.

1.3 Overheads

The Challenge Funds will fund actual direct project costs plus **reasonable and justifiable overheads** related to the project; but will not subsidise other activities of organisations.

To be considered reasonable and justifiable, the overheads claimed **must be less than or equal to the organisation's actual overheads** for the project and **appropriately apportioned** between **all its activities or projects**.

The amount claimed under the overhead budget line should be **appropriate, reasonable, and justifiable**, as supported by evidence, audited financial statements and/or internal policies. Defra will decide whether the level of **overheads charged is reasonable** by considering:

- the proportion of total overheads claimed (excluding audit costs) is **not greater than 20% of the project's total budget** (i.e. Challenge Fund plus additional funds) **OR**
- in the funds claimed, the proportion of overheads claimed in any year should not be greater than **40% of the 'Staff Costs' for that year**.

All other budget lines must contain only direct project costs, with **no overheads**. For example, the 'staff costs' budget line covers employment costs (salary, employer's National Insurance Contributions and pension contributions) for the people working on the project, limited to the time they spend working on the project. The costs associated with general management, administration, or finance functions must not be covered, unless included as such.

If the lead or other partners use **Full Economic Costing (FEC)** as standard practice, Defra will accept this method to account for overheads. However, the FEC % applied cannot be more than 40% of the budgeted salary costs. Effectively, if justified by your formal FEC policy, up to a maximum of 140% of salary costs can be funded, **100% under the Staff Cost budget line and 40% under the overhead budget line**. A copy of the formal FEC policy must be available if requested, with evidence that it is standard practice to apply the policy across the organisation, not just to selected projects.

1.4 Travel and Subsistence

Travel and Subsistence (T&S) costs should be clearly justified and offer the best value available.

Defra may ask you to **justify or reduce** your T&S budget if they believe it is excessive.

Costs should follow your **organisation's policy**; Defra reserves the right to request a copy of this policy.

Costs associated with meeting **COVID-19** requirements such as tests and quarantine can be included but should be justifiable within the context of the project.

To minimise carbon emissions, you should consider and minimise the number of flights required.

International travel should be presented separately from local travel.

Local travel is within the country or region where the project operates.

Field travel costs relate to specific field trips where additional resources are required.

1.5 Operating Costs

Operating Costs are those specific to the project.

For example, if you need to set up a local office for this project alone, you will show your costs here. If you have a local office that supports more than this project, we expect to see any related project costs under Overheads.

This is also where you can budget for other project specific costs such as workshops or the hire of tents for fieldwork.

Within the space available, please ensure that **any significant costs are clearly identified**.

1.6 Capital Costs

Capital costs are **long life/high value items** which may include vehicles, large pieces of equipment, and other assets, **with an expected life span of longer than the period of funding** (e.g. vehicles, high value equipment, IT equipment, machinery etc.) and should never include revenue items (e.g. consumables such as printer supplies, protective clothing, low value pieces of equipment such as flash drives etc.).

We expect that **tracking tags** (used to monitor the location of fauna) will appear under 'Other costs' as they do not normally last longer than the project, although associated software/hardware may be capital costs.

Purchases of capital items should be **in line with the agreed budget**, and will typically occur **early in the budget**; please consider carefully the timing to provide best **value for money**.

Any capital costs should **represent the best value for money** for delivering the project, as opposed to other approaches such as **hiring or leasing**.

Capital costs **should be no more than 10%** of the total grant, except in specific cases where higher capital expenditure is **essential** and is **clearly justified/explained** in the application.

For items **over £1,000**, 3 quotes (in so far as there are enough suppliers) must be obtained to justify your choice on the basis of cost, availability (if an item is required urgently) and suitability; Defra may request to see this evidence.

If any **capital item is sold**, a share of the proceeds in the **same ratio as the grant contribution** to the cost should be refunded to Defra or offset against any **further approved expenditure**.

Any capital items bought from project funds must be used for the benefit of projects and should **remain in the host country** once the project has completed; they **are expected to remain available to the local partners, communities and/or stakeholders**, to support ongoing work; alternatives to this approach must be justified.

1.7 Other Costs

Any project costs that do not fall under the headings above will fall under **Other Costs**, including translations, publications relevant to the project objective, Open Access costs and bank charges related to transferring funds to partners.

Within the space available, please ensure that any significant costs are clearly identified and detailed.

1.7.1 Financial Assurance

The Lead Partner must provide independent financial assurance that the grant has been spent in accordance with the terms of the Grant Agreement. The level of assurance is linked to the scale of the grant.

Total Grant	Spot Audits	Grant Statement provided by		
		Self-declaration	Independent Examiner	Auditor
Less than £50,000	Yes	Per claim, Project End	No	No
£50,000 to £99,999	Yes	Per claim	Project End	No
£100,000 to £599,999	Yes	Per claim	No	Project End
More than £600,000	Yes	Per claim	Annually	Project End

The **project end statement** (audit, independent examiner and self-declaration) is in reference to the entire project grant.

For all projects over £100,000, a copy of the **annual audited accounts for the Project Lead covering the Funding Period** also needs to be submitted with audit of the grant at the end of the project. Any matched funding does not need to be included in the audit of the grant.

The **independent examiner/auditor** must be a full member in good standing of a professional accounting body affiliated to the International Federation of Accountants.

The **independent examiner statement** can be conducted by any independent accountant (with a recognised accounting qualification), it does not need to be conducted by a practicing certified auditor.

The independent examiner/auditor should be provided with **full information** accounting for the grant (including internal financial controls) to enable them to be satisfied that the figures are accurate and provide appropriate explanations for all costs applied, including staff costs, foreign exchange, overheads, direct costs etc. Auditors should sample evidence across the award, but there is no requirement to check all receipts.

The audit is of how the grantee – the Lead Partner – has controlled and accounted for the funds. Information about how project partners have spent the funds provided to them should be in the Lead Partner's records, as the Lead Partner is accountable for these. Separate audits of each partners spend are not required, though the auditor may wish to sample receipts as part of their work.

The final project spend should, as far as possible, match the agreed budget at the time of the award, taking in to account any agreed Change Requests, and the funds claimed.

The independent examiner's/auditor's report should clearly show the total grant funds claimed against the total amount spent, or provide a clear explanation if it differs significantly.

The independent examiner's/auditor's report should include at least the following wording:

Name of Organisation:

Project Title:

Project Ref No:

I have examined the accounts, records and claims relating to this grant for the period [start date] to [end date]. I confirm that the total grant monies of [£total claimed] were fully and solely expended for the purposes set out in the original Grantee Application (or as subsequently agreed with Defra) and in accordance with the terms and conditions for the grant.

This audit/statement should be provided **within 6 months** of project end and should cover all funds provided by Defra, **including the final claim and the audit cost.**

The cost to organise an audit/independent examination of funds can be allocated in the project budget; this is ring-fenced, and any underspend may not be reallocated elsewhere. For grants where the total value is below £100,000, up to £2,000 can be claimed, for grants above this threshold, £3,000 can be claimed each financial year as required (see current Terms and Conditions for further details).

The project's **final claim** should be submitted **with the final report within three months** after project end. This allows the audit to be undertaken in parallel with the final report review so the final claim can be reviewed and paid as quickly as possible.

Defra retains the right to recover or withhold funds where issues of probity, governance or control are discovered.

1.7.2 Open Access costs

Please consider the project outputs and how this information can be **shared widely with others**.

Appropriate costs can be included in the budget to ensure open access publishing.

Potentially these costs will fall in the last financial year of the project and possibly beyond the close of the project, so it is worth considering matched funding for these costs.

1.7.3 Depreciation

Any **allowable depreciation** (calculated using acceptable accounting standards) in relation to capital items owned by the organisation and not purchased specifically and exclusively for the project, and not covered by Overhead Costs, should be claimed under the **Capital Costs**.

Depreciation for the use of assets not specifically purchased for exclusive use on the project, may be included within the **Overhead Costs**.

Depreciation should not be claimed for assets which were purchased specifically and exclusively for the project with Defra funds: instead, their purchase cost should be claimed as a **Capital Cost** in the year in which the asset is bought.

1.7.4 Bank charges

You can include bank charges where they are specifically relevant to your project, such as the transfer of funds to partners.

However, you should not include bank charges that are not specific to your project such as fees or charges relating to your bank account in general or which would be covered under 'overheads'.

1.8 High-level Budget Characteristics

1.8.1 Value for Money

Projects must demonstrate good Value for Money in terms of impact and cost-effectiveness of each pound spent (economy, efficiency, effectiveness and equity).

- **Value for money means aiming for the best feasible project, not just a good project.** This means drawing on evidence to carefully appraise possible objectives and delivery options, considering how to use competition and thinking creatively about how to get the best impact.
- **That doesn't mean that we only do the cheapest things.** We need to understand what drives costs and make sure that we are getting the desired quality at the lowest price.
- **Nor do we just do the easiest things to measure.** We need to explain what we value, be innovative in how we assess and monitor value for money and what results we are trying to achieve with UK taxpayers' money.
- **Value for money is not something that applies only to project design.** It should drive decision making throughout the project cycle and in relation to running costs and evaluations.

Partners must demonstrate that they are pursuing **continuous improvement** and applying stringent **financial management and governance** to reduce waste and improve efficiency.

We expect Projects to demonstrate openness, honesty and realism about capacity and capability, **accepting accountability and responsibility** for performance **along the project chain**, in every-day and exceptional circumstances.

See Annex B for further details on vfm.

1.8.2 Matched Funding

Matched funding is not obligatory, but is highly desirable and will strengthen applications, it should be clearly identified in the budget aspects funded by Defra and which will be co-financed.

Matched Funding can include finance leveraged before or after the start date by the project from **public** and **private** sources, and **in-kind** contribution that can be quantified in financial terms.

Finance should be classified as based on the type of organisation providing it, with:

- **Public finance** being defined as government agencies including central departments, sub-national public agencies, multilateral agencies (e.g. GEF, UNEP), donor agencies.
- **Private finance** including commercial operations but also philanthropy and private foundations/funds.
- **In-kind** contributions are resources (other than money) such as staff, facilities and equipment than are not paid for by the project can be quantified or valued in financial terms.

Where no matched funding is identified, applicants must clearly justify why it is not available or necessary for their project.

1.8.3 Budget spread

You should consider the spread or profile of funds throughout your project lifespan.

It is **preferable that funds are spread relatively evenly over the project lifetime**, but variation from this even spread can be considered if justified.

1.8.4 Balance of funding between partners

Applicants should ensure that there is a justified balance of funding, activities and responsibilities between partners.

Partners have a formal **governance role** in the project, and a formal **relationship** with the project that **may involve staff costs and/or budget management responsibilities**. We expect a **significant portion of funding to be directly benefiting in-country project partners**, rather than meeting the costs for international partners and their team.

Applicants are strongly advised to agree **clear arrangements and understanding with all partners** (including Memorandum of Understanding (MoU) as appropriate) on budgets and how funding will be allocated, routed, spent and accounted for.

At a local partner's request, it is acceptable for the Lead Partner to include funds within 'their' part of the budget to cover local partner costs. This might be to help local partners manage their finances where they have specifically asked for assistance, and should be clearly detailed in the application including how the arrangement will strengthen the capability of the local partner.

1.8.5 Monitoring and Evaluation

Monitoring and Evaluation costs should be included in the budget, allocated to the appropriate budget line (e.g. Staff Costs, T&S etc.). As a guide, we would normally expect to see M&E costs of between 5 and 10% of your total budget cost.

1.8.6 Contingency

Your budget must not include a 'Contingency', it must be adequate and appropriate for the project.

1.8.7 'Sitting' payments

Defra will not pay 'sitting' cost to supplement salaries for individuals to attend workshops.

However, Defra will pay *per diem* costs and other reasonable costs for partners to participate in the project, to cover meals, travel and accommodation as necessary.

You can also include salary costs as appropriate, but you should not include any costs to provide additional, direct payments for attendance at meetings which are supplementary to salaries already being paid.

2 Budget requirements at application

2.1 One Stage Application Processes

The budget for single stage application processes should be accurate and based on actual expected costs. Budget figures should not be rounded without a brief explanation.

Any application for up to £100,000 may use the simplified Excel form.

2.2 Two Stage Application Processes

The Stage 1 application does not require detailed information, only *indicative* budget totals per financial year. Stage 1 costs should be based on realistic figures, but these can be presented as rounded figures.

The requested budget may vary between Stage 1 and Stage 2, although **you must provide information to justify any substantial change** with your Stage 2 application or cover letter. The budget at Stage 2 should be accurate and based on actual expected costs. Budget figures at Stage 2 should not be rounded without a brief explanation.

Any application for up to £100,000 may use the simplified Excel form.

3 Financial Capacity and Capability

3.1 Financial obligations of the grant holder

As set out in grant Terms and Conditions, grant holders must fulfil their responsibilities and obligations including:

- Ensure that the project funds are **properly accounted for**.
- Ensure proper financial accountability, through adequate **financial management** (including, but not limited to, adequate controls, accountability structures and procedures to ensure transparency) in accordance with the financial guidance
- **Retain all invoices, receipts and accounting records and other relevant documents** relating to the project funds for a period of **seven years** after the expiry of the grant. Such records should be made available at the Fund Manager's reasonable request for audit purposes during the lifetime of the project.
- Keep the Fund Manager **regularly informed of forecast spend** during lifetime of the grant arrangement
- Comply with the Terms and Conditions of the grant.

3.2 Lead Partner

Evidence of the Lead Partner's current financial situation through audited or independently examined accounts for the last two years needs to be provided (unless your grant request is under £100,000, see 3.2.1).

The review of **financial capacity and capability** will be based on the following questions:

- have you submitted the requested **financial statements**, examined as required?
- if the accounts are not in GBP and/or English, have you **identified the currency** and provided all key information in English?
- are there comments from the auditor/independent examiner that raise **concern**?
- is there **sufficient evidence** to show you have successfully managed grant funds in the past?
- does your profit/loss level demonstrate that the organisation is **sustainable**?
- have you provided evidence of **sufficient reserves**?
- is your level of income in the last two years **sufficient to demonstrate** you could manage the level of funding you are applying for?

If there are reservations on any of these areas, you will not automatically be rejected, but additional checks may be required.

Additional requirements on how payments are handled may be applied if reservations are raised. For example, you may be asked to apply for advance funds based on actual expenditure each quarter rather than the standard payment process (see Section 4).

The maximum annual value of funds requested should not exceed 25% of the Lead Partner's average annual turnover/income for the previous 3 years. For example, if your project request is for £250,000 (£75,000 in year 1, £125,000 in year 2 and £50,000 in year 3), you would be assessed based on the largest annual value of £125,000 and would therefore need to demonstrate a turnover of at least £500,000 per annum. **Applicants that are unable to demonstrate this will only be considered in exceptional circumstances.**

Should an applicant not meet this requirement, applicants should provide a statement and, if appropriate, supporting evidence (e.g. a letter of support from a parent organisation, recent funding awards if current turnover/income is significantly more than prior years) to justify financial capacity by some other means.

Government departments and agencies are required to demonstrate technical capacity on similar sized projects via audited accounts or other means.

3.2.1 Grant requests under £100,000

Audited or independently examined accounts for the last two years are not required but are welcomed. In the absence of these, you should be able to provide **evidence and demonstrate your financial capability and capacity** via year-end financial statement or the latest management accounts.

3.3 Submitting your organisation's accounts

Accounts must be submitted in English (certified translations of the financial statements and any relevant notes or comments from the auditor will be accepted) and include the following:

- the last two separate sets of **full formally audited/independently examined and signed accounts** with comparative figures provided for two financial years (effectively providing the last 3 years financial information);
- the **most recent set of accounts** should be no older than 1 year, unless adequate explanation can be provided. If this is the case, a copy of unaudited management accounts can be provided as well as the prior 2 years (+ comparatives) audited/independently examined financial statements.
- please be clear in which **currency** figures are presented.

Accounts must be uploaded to Flexi-Grant as **PDFs no larger than 5MB**, if this is not possible, please upload an explanation (PDF format) and email the zipped files to the application mailbox.

Please do not send hard copies or links to websites as these will not be considered a valid submission.

4 Standard Payment Procedures

Please ensure that the standard payment process described here is compatible with how your organisation works before you apply:

- **Projects make three quarterly advance claims for payments, with the Q4 payment in arrears.**

Variation from this standard approach is possible **if agreed in advance**, as this will impact the award of future grants to other organisations.

Claim forms are available (see Page 1) and these are **updated periodically**, and it is **your responsibility to ensure the correct and current form is used every time**.

Claims submitted on an incorrect template, with errors or with omissions will be rejected. We cannot accept invoices from your organisation.

For each new financial year, you will receive confirmation of the award offered for that year; you must accept this award for payments to continue. Delays in receiving the signed Award or Annual Grant Acceptance Form, may result in processing and payment interruptions.

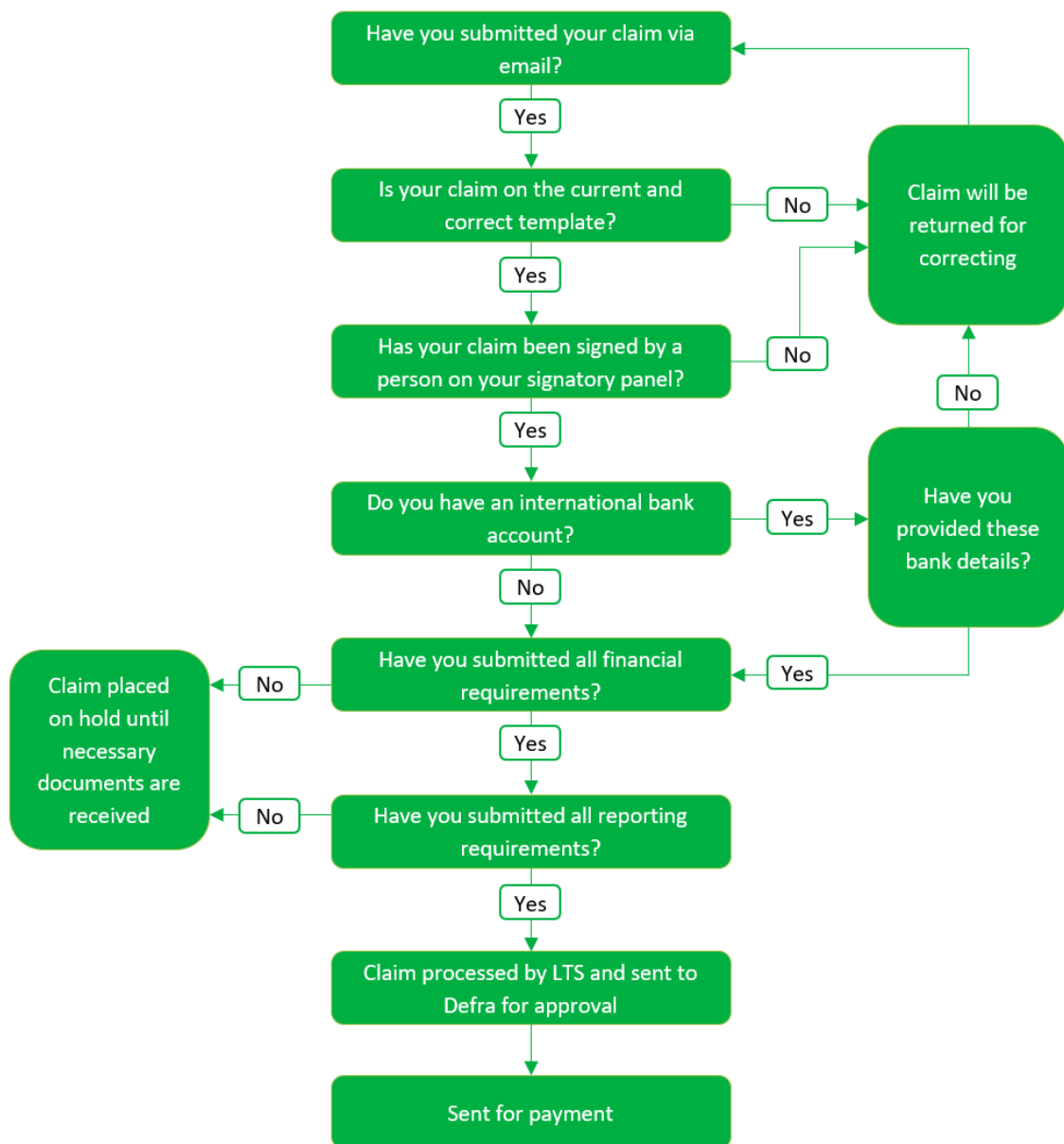
All claims are checked before being submitted to Defra for approval. The intention is to pay within 15 days of Defra approving the claim, and notice that the claim has been sent for payment will be provided.

Factors can introduce delays in processing claims, but you will be kept informed of any known issues.

All claims must be submitted by email, with a clear signature that matches the signature panel on the Grant Acceptance Form, or with a revised signatory panel.

The Standard Payment Procedure is under review and may be revised in 2022/23.

4.1 How the claims process works



4.2 Payment Schedules

Awards are payable in quarterly instalments: the first three quarters are paid in advance at 25% of the award figure for that financial year, with the 4th quarter paid in arrears

Quarterly advance claims should be submitted as follows:

Claim	Amount	Covering the period	Submission period
FY Quarter 1 – Advance Claim	25% of annual grant award	1 st April to 30 th June	1 st – 30 th April
FY Quarter 2 – Advance Claim	25% of annual grant award	1 st July to 30 th September	15 th June to 31 st July
FY Quarter 3 – Advance Claim	25% of annual grant award	1 st October to 31 st December	15 th September to 31 st October

For projects that start after 1st April, the payment schedule will be recalculated on a pro rata basis; with the first payment made at the start of the project before reverting to the above quarterly timings.

To demonstrate good financial management, it is important that projects produce **accurate forecasts and make timely claims** as set out here. This provides Defra assurance that the portfolio level forecast is accurate and helps to avoid difficult financial decisions that can impact on the Challenge Fund’s ability to award new grants.

Defra retains the right **not to pay claims** submitted later than indicated in the agreed payment schedule.

Project expenditure must be accounted for on an actuals basis, so the fourth quarter claim will be based on the actual expenditure for the year less the advance claims; this is referred to as the Actual claim.

You must submit an **Actual Claim**, even where no additional funds are claimed.

Claim	Amount	Covering the period	Deadline
Actual Claim	Expenditure for the year, less the Advance Claims	1 st April to 31 st March	31 st May

Ongoing projects must submit their Actual claim by 31st May each year; claims submitted late may not be paid and this may result in the suspension or termination of the project.

Poor financial management is not acceptable and may impact your future applications.

The Actual Claim is paid in arrears, so projects need to ensure that they are able to accommodate this.

4.2.1 Existing Fellowships (discontinued fund)

Two payments are made per year **to the Lead Partner** who is responsible for making payments to the Darwin Fellow.

Claim	Amount	Covering the period	Submission date
Year 1 Advance	50% of annual grant award	Start date to 31 March	From 10 days before start date
Year 1 Actual	Balance of annual grant award	Start date to 31 March	By 31 st May
Year 2 Advance	50% of annual grant award minus £5k retention if relevant	1 st April to end date	From 1 st April
Final Grant Claim	Balance of Year 2, including retention	1 st April to end date	Within one month of end date

4.2.2 Final year of Project

An Advance Claim cannot be made for the quarter in which the project is due to complete, up to this point the standard payment schedule is followed. You should consider any implications this may have for your project.

We do **not require consolidated project accounts** in either the final report or the last claim.

A final **Actual Claim** should be prepared detailing the actual expenditure in the final year, and submitted with the **Final Report within 3 months of the project end date** (one month for existing Fellowships).

Your final **Actual Claim** will only be paid once your **Final Report** has been received and is dependent on the Final Review and Audit being acceptable.

Late or sub-standard reporting may result in any outstanding **claims not being paid**.

4.2.3 Retention

Where issues of probity, governance or control are discovered, Defra retains the right to recover or withhold funds.

- Budgets over £600,000

Either **25%** of the total award for the final year or **£50,000** whichever is greater, will be withheld.

These funds will be paid on acceptance of the Final Report and Audit Statement.

- Budgets between £100,000 - £600,000

Either **25%** of the total award for the final year or **£20,000**, whichever is greater, will be withheld.

These funds will be paid on acceptance of the Final Report and Audit Statement.

- Budgets under £100,000

Either **25%** of the total award for the final year or **£5,000**, whichever is greater, will be withheld.

These funds will be paid on acceptance of the Final Report and, for grants greater than or equal to £50,000 but under £100,000, the grant statement.

4.3 Claims from and payments to non-UK bank accounts

Lead Partners with non-UK bank accounts should be aware that international payments, in particular the first payment, **may take time to arrive** and you should plan accordingly.

New grant recipients should fully and accurately complete 'Part C. Payment Details' on the Grant Acceptance Form; failure to do so may result in a delayed payment.

On the Claim Form, you are asked to provide confirmation of bank details, this needs to be **completed in full for every claim submitted**.

Defra will **normally pay in GBP**, but can instruct the bank to pay in a different currency to suit your account if requested.

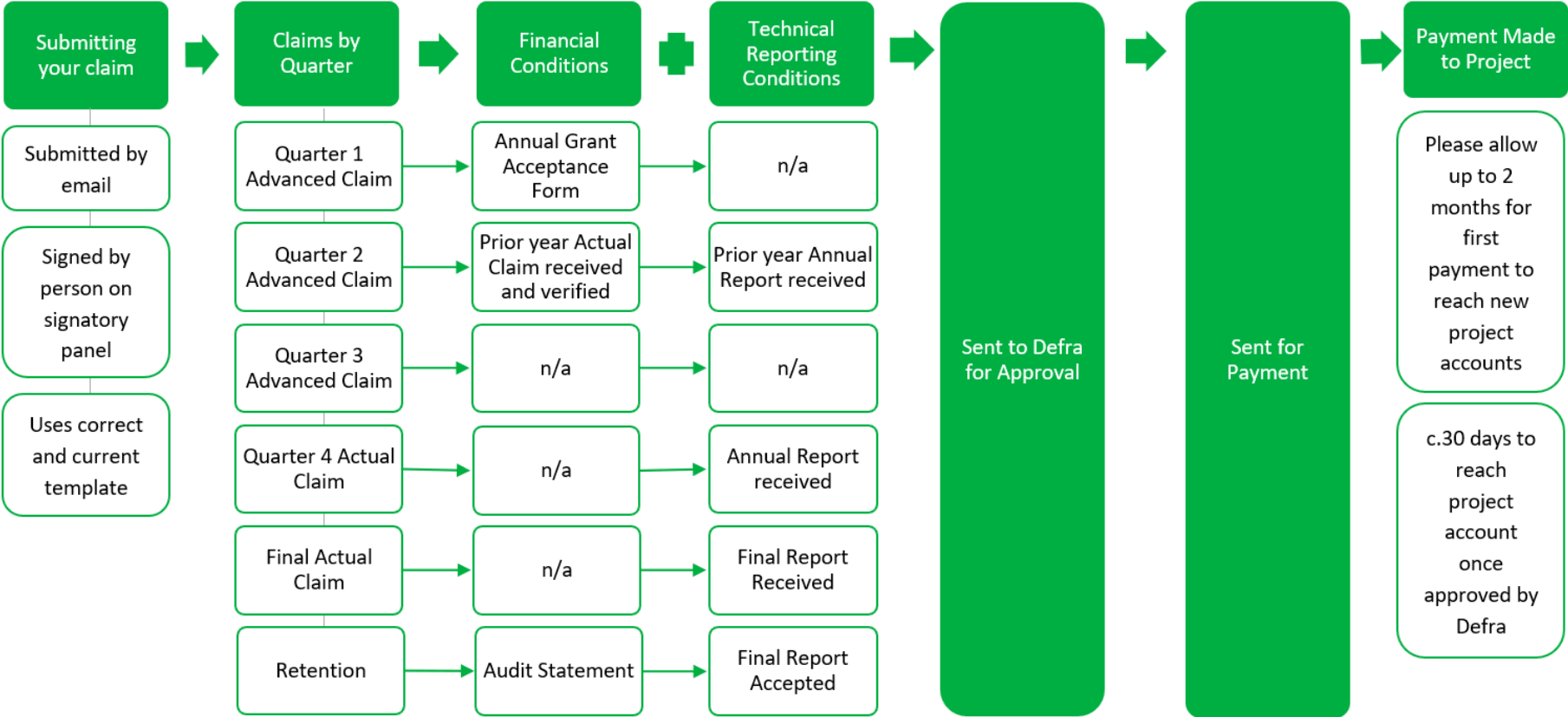
5 Conditions for Payment

The payment cycle is tied to the technical and financial reporting; failure to meet the reporting or financial reporting requirements in a timely manner and to the expected standard will impact payments.

The required evidence for payments can be summarised as follows:

Claim	Deadline	Financial Evidence	Technical Evidence
FY Q1 1 st April – 30 th June Advance Claim	1 st - 30 th April	Year 1: Grant Acceptance Form From Year 2: Annual Grant Acceptance Form Advance Claim	n/a
FY Q2 1 st July – 30 th September Advance Claim	15 th June – 31 st July	Year 1: n/a From Year 2: Verified Q4 Actual Claim (from previous FY) even if no outstanding funds to claim	From Year 2: Annual Report Due by 30 th April.
FY Q3 1 st October – 31 st December Advance Claim	15 th September – 31 st October	n/a	From Year 2, prior year Annual Report Accepted
FY Q4 1 st January – 31 st March Actual Claim	31 st May	Confirmation of Actual spend across the FY even if no outstanding funds to claim	Annual Report due by 30 th April
Final Actual Claim, less retention	<3 months of project end	Verified Final Actual Claim	Final Report Received
Retention	<6 months of project end.	Verified Audit Statement where required	Final Report Accepted

5.1 Conditions for payment



Conditions may vary between different grants, and may be revised in 2022/23.

6 Managing your budget

This section explains how we expect you to manage your budget if your application is successful.

6.1 Good Practice

All Lead Partners are expected to closely monitor their budget against the project plan and logframe. Some degree of flexibility within budgets is possible, but the expectation is that accurate planning and forecast should occur upfront and that the need for revisions to the budget will be by exception only and will in most cases be anticipated in advance by the Lead Partner.

Defra has its own budgetary restrictions, the quality of forecasting on all grants is paramount and repeated high variance against forecast is seen as a consequence of weak financial management.

All partners should consider the below points of best practice when designing their systems:

- **Collaborative.** Management of the budget is only effective when it is a collaboration of the finance section and technical delivery sections, and between Partners. Financial forecasts should be activity based and consider the real-world actions taking place, and be aware of the local context, rather than a simple apportionment of budget across months.
- **Forward looking.** The Fund Manager should be made aware of the need to adjust budgets as far in advance as possible. If Lead Partner reports budget variances only during annual reports, then they are at risk of the Fund Manager and Defra rejecting budget adjustments and denying any disbursement of funds not in the agreed budget.
- **Regularly updated.** It is recommended that forecasts and plans are reviewed at least monthly and accurate up to date financial forecasts on request.
- **Realistic.** There is an inevitable tendency to over-promise on the delivery of projects. Effective planning should attempt to control this and set a project plan linked to a budget which is ambitious but achievable.

6.2 Spend relating to Financial Year

Defra allocates annual budgets based on the expected project expenditure set out in applications.

Underspends cannot be carried forward and overspends are not allowed.

This means that projects must provide accurate and realistic budgets at the outset of the project and manage their funds to a high standard.

- You can operate with some flexibility **between budget lines within a financial year** (<10% in any one high level budget line), but cannot change the total annual budget without agreement.
- If >10% change is needed to any **budget line within a financial year, prior agreement** from Defra is required, noting that approval is not guaranteed.
- You cannot apply any informal/internal transfers **between different financial years** within your own project budget without Defra's agreement.
- If you **overspend**, you must ensure you cover that from another line or meet the additional costs from matched funding or from within your own organisation.

In exceptional circumstances, for example where conflict or natural disasters have an impact on your ability to deliver, **Defra may be able to offer some flexibility** over budget changes. However, any such changes **must be justified** and **be due to unforeseen circumstances** beyond the control of the project, rather than poor planning, delivery or budgeting.

There are **limitations as to what is possible**, particularly when changing budgets across the project lifetime or moving funds between financial years as this can **impact future project awards**. It is advisable to avoid significant activities or expenditure in January – March in case these are delayed; moving unspent finance to the subsequent financial year may not be possible.

In addition to the annual forecasting exercise, please contact us as soon as you become aware of an issue as we may be able to offer advice to avoid or minimise any required changes.

If you need to make a budget change and you believe you meet the criteria, you should do this via a **Change Request** (see 6.3 for guidance) as soon as possible.

6.3 Project Change Requests

Any significant budgetary or technical project changes must receive prior approval.

This is particularly important for proposed financial changes **between budget years and significant technical change**, but also includes changes to the project principals/key project personnel for which CVs or job descriptions and other significant project changes (e.g. to the logframe).

Project Change Requests must be submitted on the **Change Request form** (see Page 1), after you have discussed any proposed changes with your finance team.

Changes can only be made to **current and future years**; unless the case is exceptional and clearly justified.

Any financial change that involve movement of budget between financial years **must be submitted before 31st December**; late requests **are unlikely to be agreed** unless exceptional and clearly justified.

Exceptional circumstances could include, for example conflict, natural disasters, or a new epidemic. Ongoing COVID-19 restrictions are no longer considered exceptional.

In planning your budget, you should think about risks that may disrupt planned activities for example:

- *Recruitment*: your original project plan should allow sufficient time for recruitment, taking into account relevant challenges (such as the job being in a remote location);
- *Timing of events* which may be subject to minor disruption – if a workshop is planned for March, is there any risk of slippage? If so, could it be scheduled for April to avoid any need to request to move funds if slippage occurs?
- *Changes in government*: if forthcoming elections which may affect your project are known at the start of the project, build in time to manage this change and plan your budget accordingly.

Further details are available in the Change Request Form.

6.4 Foreign exchange

Projects will incur costs in currency other than GBP, and you should apply your organisation's approach to exchange rates, and **manage the currency exchange risk yourself**.

Please ensure that at least monthly exchange rate records are maintained throughout the project.

6.5 Forecasting

A forecast is a prediction or estimate of project expenditure that is likely to be incurred over any given time period, predicting and planning for cash flow requirements as well as aiding resource planning.

Why is forecasting important?

- **For Lead Partners:** For you and your partners, forecasts allow you to plan future events, based on an analysis of what has happened in the past. Forecast should predict and reflect what is needed to allow you to be able to deliver everything you have planned to do.
- **For the Fund Manager:** Every month, the Fund Manager is required to submit an updated forecast of planned expenditure for all grants to Defra. The information you provide in your claims is reviewed and assessed, before being amalgamated and further analysed by our finance team.
- **For Defra:** Forecasting gives the Defra an insight into the activity of the portfolio, ensures sufficient funds are available at the right time to meet the needs of projects, and allows spending to be monitored and kept in line with higher budgets and forecasting.

Forecasting Exercise

Defra requires projects to undertake a forecasting exercise each project year and will be in touch with details of what is required. This will happen in November/ December and will coincide with the deadline for Change Requests. You must provide an accurate estimate of your total projected spend for the full financial year.

The approach to forecasting is under review and may change in 2022/23.

6.6 Spot Checks on expenditure and procedures

Every year, a proportion of projects will be identified for a spot check to ensure the grant has been spent in accordance with the agreement with Defra. You should be able to provide electronic information about all the transactions accounted for in your Actual Claim and to produce copies of original receipts and invoices backing up your claims if requested. The spot checks may include a review of internal financial controls and procedures, a record of which should be kept to support this.

Annex A. Items ineligible for funding

Under Government policy, there are a variety of items that are not normally acceptable for government funding and these are set out in the Terms and Conditions of Award.

For Challenge Fund projects, there are additional items that would not be considered eligible. These are summarised below and split into two lists. The first list covers items that **are not and cannot** be eligible. The second covers items **not generally acceptable**, but which could be considered acceptable in particular circumstances, as summarised below.

Not eligible

- gifts (except for gifts below £10 in value, typically educational or promotional materials which disseminate awareness of the project and further its aims)
- bribes, facilitation payments and any other inducements to obtain favourable treatment
- fruitless payments (costs whose expenditure obtained no benefit for the project)
- any costs which do not demonstrably further the aims of the project, or the expenditure of which is not reasonably attributable to activities performed in the furtherance of those aims
- any costs which are not necessarily incurred in the course of the performance of the activities of the project as submitted in the project proposal and approved by Defra or agreed subsequently through the formal Change request process
- any costs which are morally the private responsibility of the individuals who benefited from their expenditure (for example, travel costs to/from home and other expenses claimed by individuals which did not arise from their employment; other examples might include clothing other than uniforms/PPE, consumer electronics which confer substantial private benefit, travel and hotel accommodation for partners/family)
- any costs which a reasonable person would consider excessive, extravagant or wasteful

Not normally acceptable

- hospitality is potentially relevant, particularly with respect to workshops. We recognise that for many projects, fieldwork and workshops are key activities. We do not expect people to attend workshops or fieldwork, often travelling long distances, without being provided some hospitality. However, excessive hospitality which doesn't clearly advance the outcomes of the project, is not permitted
- tips and gratuities (these are not normally accepted, but small tips and gratuities under £5 may be provided)
- extra-contractual payments and bonuses (if the Project Leader wants to provide a bonus, with project funds, for outstanding performance this should be made via a Change Request)
- alcohol

Annex B. Value for Money

VfM is about **maximising the impact of each taxpayer's pound spent to improve lives**. The purpose is to develop a better understanding of costs and results so that more informed, evidence-based choices can be made. This is a process of **continuous improvement**.

To maximise the impact of UK aid, there is a need to be **very clear about the results expected as well as the costs**. We also have to be confident in the strength of the evidence base and explicit in stating the underlying assumptions we are relying on to achieve those results.

The approach requires that we look at the **3Es: economy, efficiency, and effectiveness**.

Additionally, when we look at the effectiveness of an intervention, we need to consider issues of **equity**: making sure our results are targeted at the **poorest** and include sufficient targeting of **women and girls**.

You should frame your approach to VfM in a wider context of **how the overall benefits will outweigh the costs**. Consider your story of change, what will happen and what benefits will the project bring for the investment to made.

Economy: *Are you buying inputs of the **appropriate quality at the right price**? Inputs are things such as staff, consultants, raw materials and capital that are used to produce outputs.*

- What are the project's **major costs** and what drives the pricing of those costs?
- What actions can you take to **control those costs**?
- A significant cost of delivering a project are staff costs. How do you and your partners staff costs **compare to others** working on similar issues or within the same country?
- If staff costs are higher than the benchmark, then **why must they be at that level**?
- What **overhead cost** recovery are you budgeting in the project budget? Is this comparable with other projects? If not, then what reasons are there for the change?
- What cost categories will be subject to a **competitive procurement process**, and how robust is that process?

Efficiency: *How well do you **convert inputs into outputs**? Outputs are results delivered by you.*

- What economies of scale have you been able to identify in your project?
- What is the project cost per beneficiary? How does this cost compare to cost per beneficiary benchmarking, for your own work and for others who work in your sector? If it is higher, can you justify the reason?
- What is the matched funding contribution to the project and what efforts have you made to maximise that?
- Would the cost per beneficiary reduce if you were to increase the scale of the project, and if so, why are you not aiming to deliver a larger project?
- What activities cost the most and how will demonstrate that you are conducting these in an efficient manner?
- What controls will you put in place to ensure that you are delivering the goods or services in the most efficient manner?
- Can you demonstrate experience in meeting project deadlines and milestones?

Effectiveness: *How well are the **outputs achieving the desired outcome**? Noting that you do not exercise direct or total control over outcomes.*

- If your project will be delivered in a difficult environment, do you have **evidence of your capability to deliver** in such environments?

Your theory of change will demonstrate that:

- Outputs that are “**necessary and sufficient**” to deliver purpose
- **Realistic and credible assumptions** analysing key externalities in sufficient depth
- A **causal chain** that is strong and evidence of its strength is verified.
- Indicators that are clearly **relevant and robust**

The project may have leverage and replication potential:

- **Leverage** of other activities/investments and wider effects are described with evidence that shows significant potential for expansion or replication
- Very high potential for additional benefits identified. For example, scale up, multiplier or **replication**.

Additionality

An important aspect to value for money is assessing the additionality of the project’s activities.

- Can you demonstrate clearly that **you cannot carry out the project without help** from Darwin Initiative?
- Can you show that the planned activities will **not displace initiatives** that already serve your intended beneficiaries?
- Can you show that **other parts of your organisation will not struggle** if the persons you choose to implement the project are taken from their current work or commitments?
- If you assist your beneficiaries as planned, are there other positive impacts that will accrue to them that you might **take credit for**?
- Will there be useful lessons arising from this work? If so, how will you provide those lessons?

Equity

- How focused is your project on the **most vulnerable and marginalised populations**, in particular girls and women?
- If there are other beneficiaries, then you will need to present and justify the reasons why others are also targeted.

References and further reading

- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/49551/DFID-approach-value-money.pdf
- <https://icai.independent.gov.uk/report/value-for-money/>
- <https://www.gov.uk/government/publications/dfids-approach-to-value-for-money-vfm>