



Finance Guidance

Round 1, FY 2024/25

January 2024



**Ocean Community
Empowerment
and Nature**



**UK International
Development**

Partnership | Progress | Prosperity

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1. Purpose of this guidance

This guidance note provides information on what you need to include in your application, how payments will be made, how budgets will be managed if you are successful, and how to report financial information. It is structured in the following sections, excluding annexes:

- Glossary
- Preparing your application
- Financial capacity and capability
- Standard payment procedure
- Conditions for payment
- Managing your budget

All guidance is available from Flexi-Grant (<https://ocean.flexigrant.com/>) and from our website (<https://oceangrants.org.uk/>). Required templates can be downloaded from Flexi-Grant and our website.

We strongly recommend reading all sections of this guidance note as well as additional guidance materials such as the Finance Guidance and the Flexi-Grant Guidance.

Contact us

If, after reading this guidance, you require any further assistance, please contact us on helpdesk@oceangrants.org.uk.



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2. Glossary

Capability & Capacity	Capability refers to the types of ability (skills and knowledge) required for a task; Capacity refers to the amount of ability at a point in time to deliver a task.
Country	Unless otherwise stated, refers to any country on the eligible country list (see Annex A: Eligible countries of the Guidance Note for Applicants).
Defra	Department for Environment, Food and Rural Affairs (Defra), UK Government. The OCEAN Grants Programme is a programme funded by Defra.
Evidence	Information that demonstrates project actions, outputs, outcomes and impact. It varies in format, quality and relevance and can include, documented and undocumented experiences, data, studies, policies, best practices, from a range of perspectives. However, evidence is particularly valued when it is quality assured, accessible and applicable.
FEC	Full Economic Cost is the total expenditure required to produce goods or services.
FY	Financial Year runs from 1 April to 31 March for the purposes of government financial statements.
GBP	British pound sterling.
International organisations	Organisations that may have a presence in an eligible country, but a head office located in a country not listed as an eligible country (see Annex A: Eligible countries of the Guidance Note for Applicants).
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. The lead applicant should also be the person that submits and signs the application form.
Lead Organisation	The organisation who will administer the grant and coordinate the delivery, accepting the Terms and Conditions of the Grant on behalf of the project.
Logframe	A monitoring tool to measure progress against a Results Chain, comparing planned and actual results along a causal pathway, and including indicators, baselines, targets, as well as risks and assumptions.
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	OCEAN Grants Programme Administrator; first point of contact for projects and applicants.
OCEAN	The Ocean Community Empowerment and Nature Grants Programme.
Partner Organisation(s)	The organisation(s) who 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.
Project Leader	The individual with the necessary authority, capability and capacity, and a full understanding of their role and associated obligations, who takes

	responsibility for delivering value for money, managing risk and financial controls whilst fulfilling the terms and conditions of the grant. The Project Leader could coincide with the Lead Applicant.
Project Partners	The Lead Organisation together with each Partner Organisation.
Scale	The ability to deliver greater impact of a proven approach, either through expanding the scope of activities within a given geography or focal issue, taking the approach into a new geography or focal issue, or through uptake by stakeholders that promotes systemic change.
Stakeholder	The individuals/organisations who 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. Stakeholders are not homogenous groups and will include layers of diversity within them (see the Guidance Note for Applicants for further details).
Theory of Change	Explains the process of change by outlining causal linkages taking activities through to a desired outcome, being explicit about the assumptions underlying the expected causal pathways and including an analysis of barriers and enablers as well as indicators of success. Often set out in a diagram and narrative form.
VFM	Value For Money is the optimal use of resources to achieve the intended outcomes.

3. Preparing your application

3.1. Budget templates

Two different budget templates are provided on Flexi-Grant (<https://ocean.flexigrant.com/>) and the OCEAN website (<https://oceangrants.org.uk/>); one for applicants seeking a grant under £100,000 and one for applicants seeking a grant over £1000,000. Please use the budget templates provided to ensure your application is valid.

Community Grants, at application Stage 1, do not require the submission of a completed budget template. Instead, summarised budget information should be presented in the application form at Stage 1. Costs should be based on realistic figures but can be presented as rounded figures.

Applicants to the Community Grants will be requested to submit their budget on the template provided at Stage 2. 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. 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. **We strongly recommend applicants of Stage 1. of Community Grants to have an understanding of the budget guidance laid out here to ensure that a Stage 2 application can be made.**

The information on the budget template 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 **British pound sterling (GBP)**.
- All budgets must use the **1 April to 31 March** Financial Year (FY).
- The budget must cover the **lifespan of the project**, split by FY.
- 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 FY.

Budget changes between FYs will only be considered in exceptional circumstances, following formal agreement with Defra (see 7).

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. Financial guidance including processes are subject to review and change.

3.2. Staff costs

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**. Staff costs include all team members employed by the Lead Organisation or Partner Organisation(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' – instead ensure to explain what these are.

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

- **external consultancy payments** (see 3.3);
- 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 OCEAN 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.

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

3.3. 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. **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. Clearly identify who will provide the expertise or what it will achieve.**

Staff costs of Partner Organisation(s) should not be captured as consultancy costs.

3.4. Overheads

OCEAN 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**, and where possible demonstrate good Value For Money (VFM), supported by evidence, audited financial statements and/or internal policies.

The maximum proportion of total overheads claimed (excluding audit costs) can be up to 20% of the project's total budget. For example, if your project totals £100,000, then you would be eligible to apply for up to £20,000 of overheads.

In addition, the proportion of overheads claimed in any given year should not be greater than 40% of the total 'Staff Costs' for that year. For example, if in Year One of your project your staff costs are £10,000, then in Year One you would be eligible to apply for up to £4,000 of overheads for this 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 Organisation or other Partner Organisations 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.

3.5. 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.

To minimise carbon emissions, you should consider and minimise the number of flights required. All flights must be in economy class. 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.

3.6. 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, ensure that **any significant costs are clearly identified.**

3.7. 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 suppliers, 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; carefully consider 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 for grants over £100,000.** For **grants under £100,000 there is no limit on how much you can request but you must demonstrate** that the level of capital expenditure is essential and ensure it is clearly justified/explained in the application.

For items over £1,000, three 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.

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.

Any capital items will need to be registered on an inventory list. In case a capital item is sold, the disposal should be dealt in such a way that it represents the best value for money and should be accompanied by a clear record of decision making. Defra may request spot-checks on capital items. 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.

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

3.9. Financial assurance

The Lead Organisation must provide independent financial assurance that the grant has been spent in accordance with the terms of the Grant Agreement. The Lead Applicant should sign off all accounts and certify that the funding has been spent on eligible expenditure only. The level of assurance is linked to the scale of the grant.

Total Grant	Spot Audits	Self-declaration	Grant Statement provided by	
			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 Organisation 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 Organisation – has controlled and accounted for the funds. Information about how project partners have spent the funds provided to them should be in the Lead Organisation's records, as the Lead Organisation 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 under £100,000, up to £2,000 can be claimed, for grants above this threshold, £3,000 can be claimed each FY as required (see 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.**

3.10. Open access costs

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 FY of the project and possibly beyond the close of the project, so it is worth considering matched funding for these costs. **OCEAN grants can only be spent within the project start and end dates as stated in the grant agreement.**

3.11. Depreciation

Any **allowable depreciation** (calculated using acceptable accounting standards) related to capital items already owned by the organisation, and not purchased specifically and exclusively for the project, should be claimed under **Capital Costs**. Depreciation for the use of assets purchased, but not specifically for exclusive use on the project, may be included within **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.

3.12. Bank charges

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

3.13. High-level budgetary characteristics

3.13.1. Value for Money

Projects must demonstrate good Value for Money (VfM) 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 does not 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: Value for Money for further details on VfM.

3.13.2. Matched funding

Matched funding is not obligatory but is highly desirable and will strengthen applications. It should be clearly identified in the budget what aspects are 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 non-UK government agencies including central departments, sub-national public agencies, multilateral agencies (e.g. United Nations Environmental Programme), 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.

3.13.3. 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.

3.13.4. Balance of funding between Project 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 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 Organisation 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.

3.13.5. 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**.

3.13.6. Contingency

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

3.13.7. 'Sitting' payments

Defra will not pay 'sitting' cost to supplement salaries for individuals to attend workshops. However, Defra will pay *per diem* costs (receipted expenses up to a maximum daily amount) 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.

4. Financial capacity and capability

4.1. Financial obligations and 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, on a minimum quarterly basis or more frequently if requested**, during lifetime of the grant arrangement.
- Comply with the **Terms and Conditions** of the grant.

4.2. Lead Organisation

For Community Grants, Lead Organisation's need to provide evidence of their current financial situation through submitting accounts for the last 2 years. Audited or independently examined accounts for the last 2 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.

For Partnership Grants, Lead Organisation's need to provide evidence of their current financial situation through submitting audited or independently examined accounts for the last 3 years.

The review of financial capacity and capability will be based on the following questions. If there are reservations on any of these areas, you will not automatically be rejected, but additional checks may be required.

- 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?
- 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 for Community Grants and three years for Partnership Grants sufficient to demonstrate you could manage the level of funding you are applying for?

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 5).

The maximum annual value of funds requested should not exceed 50% of the Lead Organisation's average annual turnover/income for the previous 2 years for Community Grants and 3 years for Partnership Grants. 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 £250,000 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.

4.3. Submitting your organisation's accounts

Accounts do not need to be submitted in English – although it would be preferred and include the following:

- **Community Grants:** the last two separate sets of annual accounts, independently examined where possible and signed.
- **Partnership Grants:** the last two separate sets of full formally audited/independently examined and signed accounts with comparative figures provided for two FYs (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.
- 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, upload an explanation (PDF format) and email the zipped files to applications@oceangrants.org.uk. **Do not send hard copies or links to websites as these will not be considered a valid submission.**

5. Standard payment procedure

Ensure that the standard payment process described here is compatible with how your organisation works before you apply.

Projects will make three quarterly advance claims for payments based on forecasted figures, 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 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 FY, 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. Two payment dates will be set per quarter 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.

5.1. Forecasting

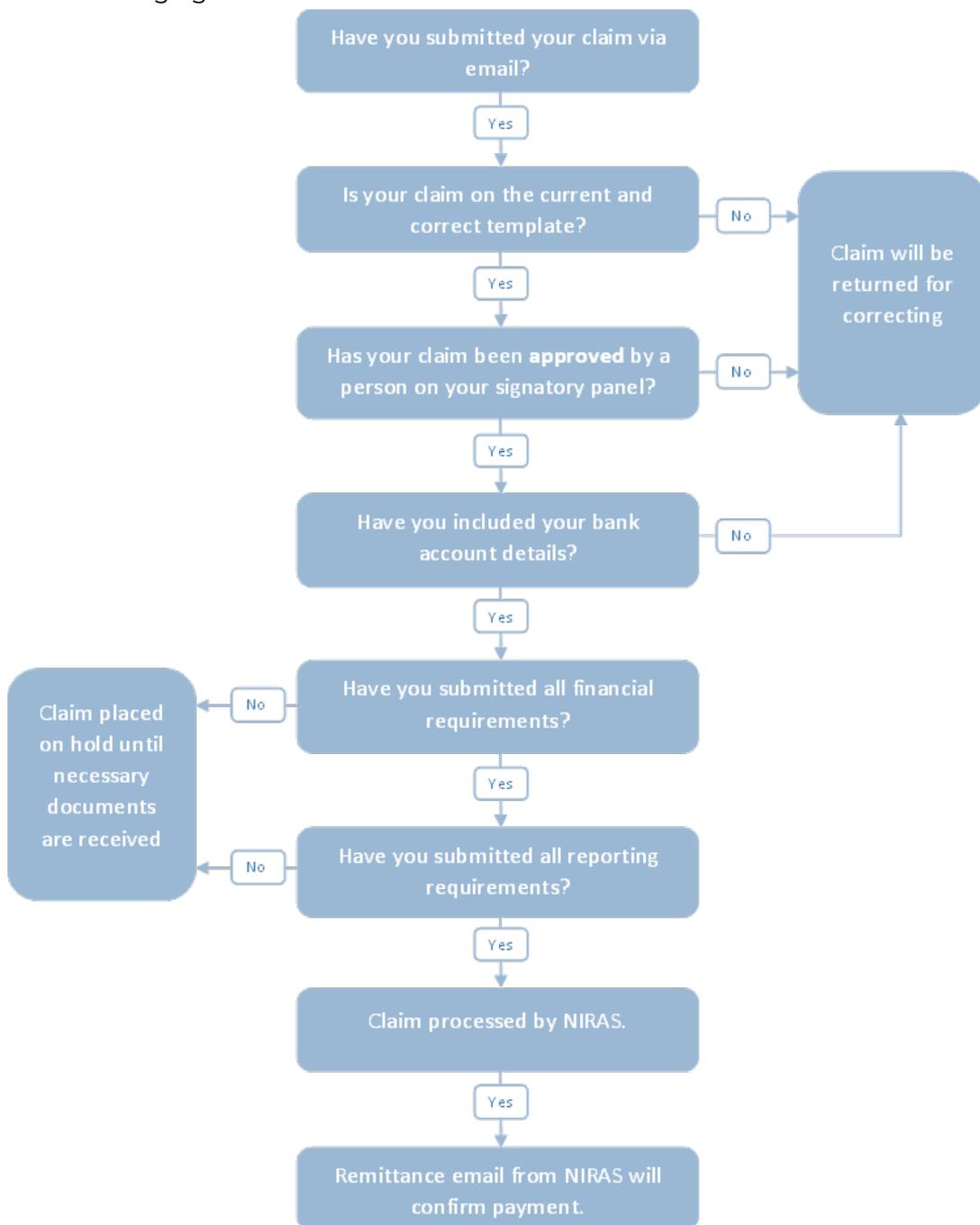
A forecast is a prediction or estimate of project expenditure that is likely to be incurred over any given time period, predicting and planning for cash flow requirements as well as aiding resource planning. **Forecasting is important:**

- **For Lead Organisations:** 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 OCEAN Grants Administrator:** Every month, the OCEAN Grants Administrator 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.

Defra requires projects to undertake a forecasting exercise each project year and provide an update on this during each quarterly claim. The annual forecasting exercise will happen in November/ December and will coincide with the 31 December deadline for Change Requests. As part of this process, you will be required to provide an accurate estimate of your total projected spend for the full upcoming FY.

5.2. How the claim process works

Review the following figure:



5.3. Payment schedules

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

Awards will be payable **in quarterly instalments**. Projects will be required to forecast their quarterly instalments for the upcoming FY upon grant award and at the start of each FY. As part of the quarterly claims process, projects will be required to confirm whether their forecast remains accurate, and, if not, provide an updated forecast for the remainder of the FY.

The first three quarters will be paid in advance inline with forecasted amounts. **The 4th quarter will be paid in arrears. Quarterly advance claims should be submitted as follows:**

Claim	Amount	Covering the period	Submission period
FY Quarter 1 – Advance Claim	Q1 Forecasted Amount	1 st April to 30 th June	1 st – 30 th April
FY Quarter 2 – Advance Claim	Q2 Forecasted Amount	1 st July to 30 th September	15 th June to 31 st July
FY Quarter 3 – Advance Claim	Q3 Forecasted Amount	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.

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 total actual expenditure for the year less the advance claims paid; this is referred to as the Actual claim. **You must submit an Actual Claim, even where no additional funds are claimed.** Projects will be required to report total actual spend from their previous quarter as part of the quarterly claims process to provide assurances regarding expenditure of advance claims.

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.

5.3.1. 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. 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.**

5.3.2. 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.

Quarterly payments may be put on hold at any time where issues of probity, governance or control are discovered.

5.3.3. Claims from and payments to non-UK bank accounts

Lead Organisations 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. **All recipients** should fully and accurately complete '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 Euros or USD to suit your account if requested. However, the amount received will be calculated based on a payment made in GBP at the prevailing rate on the day of the payment.

6. 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. Projects will be required to confirm their quarterly forecast remains accurate or provide an update to forecasted claim amounts when submitting each claim form.

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 including quarterly forecast for the FY. From Year 2: Annual Grant Acceptance Form including quarterly forecast for the FY. Advance Claim	n/a
FY Q2 1 st July – 30 th September Advance Claim	15 th June – 31 st July	Year 1: Q1 Total expenditure reported in Claim Form From Year 2: Verified Q4 Actual Claim (from previous FY) even if no outstanding funds to claim. Q1 Total expenditure reported in Claim Form	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	Q2 Total expenditure reported in Claim Form	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

7. Managing your budget

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

7.1. Good practice

All Lead Organisations 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 Organisation.

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.**

Lead Organisations 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 Project 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 OCEAN Grants Administrator should be made aware of the need to adjust budgets as far in advance as possible. If Lead Organisation reports budget variances only during annual reports, then they are at risk of the OCEAN Grants Administrator 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.

7.2. Spend relating to Financial Years (FYs)

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 including through accurate quarterly forecasting.

- You can operate with some flexibility **between budget lines within a FY (<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 FY, prior agreement** from Defra is required, noting that approval is not guaranteed.
- You **cannot apply any informal/internal transfers between different FYs** 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 FYs 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 FY may not be possible.

In addition to the quarterly forecasting exercise, 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 7.3) as soon as possible.

7.3. Project change requests

Any significant budgetary (>10% change to any budget line) or technical project changes must receive prior approval. This is not only important for **proposed financial changes between budget years and significant technical change**, but also for 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**, **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 involves movement of budget between FYs 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.

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.

7.4. 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.**

Ensure that **at least monthly exchange rate records are maintained** throughout the project and that any exchange rates used are appropriate. You may be asked to provide evidence of the exchange rate used as part of a project spot audit to ensure it has been appropriately calculated.

7.5. 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.

8. 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 OCEAN 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

9. Annex B: Value for Money

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 **all**. 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, 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 OCEAN?
- 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-vmf>