Funding Retention and Charging Policy

Paddington Development Trust

Version 1.0 | July 2026 | Approved by: Board of Trustees 01/07/26 | Review date: July 2028

1. Purpose

Paddington Development Trust (PDT) secures grants and contracts from a wide range of statutory, trust and corporate funders to deliver community development activity across London. Every award PDT accepts generates real organisational costs beyond the direct costs of delivery: it must be managed, governed, accounted for, reported on, and staffed by people who are properly trained.

This policy sets out exactly how PDT calculates the amount it retains from each grant or contract to cover five categories of legitimate organisational cost: management, governance, financial compliance, building and office costs, and key staff training. Its purpose is to ensure that cost recovery is consistent, transparent, defensible to funders and auditors, and sufficient to keep PDT financially sustainable, in line with Charity Commission guidance and the principles of full cost recovery endorsed by the Charities SORP.

2. Scope

This policy applies to all restricted grants, contracts for services, commissioned programmes and pass-through funding arrangements entered into by PDT and its trading subsidiaries, including activity delivered through Grand Junction and PDT-managed venues. It applies at three stages:

- Bid stage – when budgets are constructed for funding applications and tenders;
- Award stage – when grant agreements or contracts are negotiated and signed;
- Delivery stage – when retained amounts are journalled, monitored and reported.

It does not apply to unrestricted donations, or to PDT's own reserves, which are governed by the Reserves Policy.

3. Principles

- Full cost recovery: PDT seeks to recover the full cost of delivering funded activity, comprising direct costs plus a fair and proportionate share of organisational overheads. Underfunded awards effectively subsidise funders from PDT's unrestricted reserves and are accepted only by exception (Section 8).
- Transparency: retention rates are disclosed within bid budgets wherever the funder's format permits, and are available to funders, auditors and delivery partners on request.

- Consistency: the same calculation methodology applies to every award, so that no funder or programme is arbitrarily advantaged or disadvantaged.
- Proportionality: rates are tiered so that the charge reflects the genuine organisational effort each award creates.
- Compliance first: where a funder's published rules cap or define eligible overheads, the funder's rules take precedence (Section 7).

4. Definitions

- **Direct costs:** costs incurred solely because the funded activity exists – delivery staff salaries and on-costs, sessional workers, venue hire, materials, participant costs, marketing and evaluation specific to the programme.
- **Retained amount (the “retention”):** the portion of an award which PDT charges to the funded budget to cover management, governance, financial compliance, building and office costs, and key staff training, calculated under Section 5. It may appear in funder budgets as “management fee”, “core cost contribution”, “overheads” or “indirect costs” – the methodology is identical regardless of the label.
- **Annual funding value:** the total award value divided by the number of years (or pro-rated part-years) of the delivery period, used to determine the applicable rate band.
- **Pass-through funding:** funds PDT receives as Lead Delivery Partner or accountable body and passes to Sub-Partners under back-to-back agreements.

5. How the retention is calculated

Step 1 – Determine the annual funding value

Divide the total award value by the length of the delivery period in years. This annualised figure determines which rate band applies, so that a large multi-year award is not treated as a small annual one, or vice versa.

Step 2 – Apply the standard retention rate

PDT applies the following standard rates to the total award value:

Annual funding value	Standard retention rate	Notes
Up to £50,000	15%	Smaller awards carry proportionately higher set-up, governance and compliance effort.
£50,001 – £250,000	12%	Standard rate for most grants and contracts.

Annual funding value	Standard retention rate	Notes
£250,001 – £750,000	10%	Reflects economies of scale on larger programmes.
Over £750,000	8% (minimum)	Subject to a bespoke cost model approved by the Chief Executive and reported to the Risk, Audit and Finance Sub-committee.

The rates above are PDT's standard rates. They are reviewed annually by the Risk, Audit and Finance Sub-committee against PDT's audited core cost base, so that the percentages remain evidence-based rather than arbitrary: total central costs (management, governance, finance and training) are divided by total charitable expenditure to produce PDT's actual overhead ratio, and the banded rates are set around it.

Step 3 – Adjust for delivery model

Where PDT does not deliver the whole award directly, the rate is applied differentially:

Arrangement	Retention basis
PDT delivers directly	Full standard rate applied to total award value.
PDT is Lead Delivery Partner passing funds to Sub-Partners under back-to-back agreements	Standard rate on the element PDT delivers directly, plus a partnership management charge of 5 - 7% on funds passed through, covering due diligence, contracting, monitoring, MI collation and funder reporting.
PDT acts solely as accountable body / fund-holder	Fund-holding charge of 4 - 6% of funds administered, reflecting financial compliance, audit and grant administration only.

Pass-through charges are always disclosed to Sub-Partners in their grant agreements and deducted before onward payment, so that Sub-Partner budgets are stated net and no hidden deduction occurs.

Step 4 – Check against funder rules

Compare the calculated retention with any cap, flat rate or eligible-cost definition in the funder's guidance (Section 7). The lower of the two figures is applied unless a shortfall exception is approved under Section 8.

Step 5 – Record and journal

The approved retention is written into the programme budget at award stage, coded to the correct nominal codes in Xero against the restricted fund, and released to core funds in equal instalments across the delivery period (or in line with the funder's payment profile where materially different). The retention is never journalled in full at the start of an award.

Worked example

Worked example (illustrative)	Basis	Amount
Total grant awarded (24 months)		**£180,000**
Annualised value	£180,000 ÷ 2	£90,000
Applicable standard rate (band £50,001–£250,000)	12%	
PDT retention over the life of the award	£180,000 × 12%	**£21,600**
Available for direct programme delivery	£180,000 − £21,600	**£158,400**

Figures are illustrative only and do not represent any actual PDT award.

6. What the retention covers

The retained amount is allocated across the five cost headings below. Indicative shares guide internal budgeting and reporting; the Finance team may flex them within a financial year to reflect the actual cost profile of the organisation, reporting any material variance to the Risk, Audit and Finance Sub-committee.

Cost heading	Indicative share of retention	What it pays for
Management	30%	A time-apportioned share of Chief Executive and senior management oversight, programme performance management, funder relationship management, and HR and line management of funded posts.
Governance	15%	Board of Trustees and sub-committee oversight (including the Risk, Audit and Finance Sub-committee), company secretarial duties, risk management, insurance, safeguarding oversight, policy maintenance and legal advice.

Cost heading	Indicative share of retention	What it pays for
Financial compliance	20%	Finance function costs apportioned to the award: bookkeeping and management accounts, restricted fund accounting, budget monitoring and reforecasting, MI and financial returns to funders, independent examination / external audit, and Charity Commission and Companies House filings.
Building / office costs	25%	A fair apportionment of the cost of the premises and office infrastructure from which the funded activity is managed and delivered, including The Stowe Centre and other PDT-managed venues: rent, service charges, business rates (net of charitable relief), utilities, cleaning, repairs and maintenance, buildings and contents insurance, security, IT systems, telephony, software licences, office equipment and consumables. Apportionment is by floor area occupied or workstation/headcount of funded posts, whichever most fairly reflects actual use.
Key staff training	10%	Mandatory and role-critical training for staff engaged on the funded activity, including safeguarding, first aid, Mental Health First Aid, data protection, health and safety, and funder-required accreditations, plus reasonable continuing professional development to sustain delivery quality.

The retention does not fund activity unrelated to the charitable delivery of the award, fundraising for other programmes, or trading activity of subsidiaries, which are costed separately.

7. Funder rules and negotiation

- Where a funder publishes a maximum overhead or management rate (for example a 10% flat rate on indirect costs), PDT applies the funder's rate and records the difference between that rate and the Section 5 calculation as an identified core-cost shortfall on the bid appraisal.

- Where a funder requires actual-cost apportionment rather than a percentage, the Finance team prepares an apportionment schedule using time allocation for staff costs and headcount or floor-area for premises and infrastructure costs, reconciled to the standard rate as a reasonableness check.
- Where a funder's budget template has no overhead line, eligible shares of management, finance, premises and training costs are itemised transparently within the budget lines the template provides. Costs are never concealed or double-counted.
- Contracts for services (as distinct from grants) are priced at full cost plus, where appropriate, a margin agreed by the Chief Executive, since contract income may lawfully generate a surplus applied to PDT's charitable objects.

8. Exceptions and approval

PDT may occasionally accept an award that does not achieve full cost recovery – for example where the activity is of exceptional strategic or community value. In such cases:

- Any award where the achievable retention falls more than 3 percentage points below the standard rate requires the prior written approval of the Chief Executive;
- Any award where the shortfall exceeds £15,000 over the life of the award, or where the retention is nil, requires approval of the Risk, Audit and Finance Sub-committee before submission or acceptance;
- All approved shortfalls are logged in a Core Cost Shortfall Register reviewed annually alongside the budget, so the Board can see the cumulative subsidy from unrestricted funds.

Retention rates above the standard bands may be applied only where genuinely justified by the award's complexity and disclosed to the funder.

9. Accounting, monitoring and audit

- Retained amounts are accounted for in accordance with the Charities SORP (FRS 102), with restricted funds credited and core funds debited through documented monthly journals in Xero, separately identifiable for each award and each entity (PDT and its trading subsidiaries).
- The Finance team reports retention income against budget in the quarterly management accounts presented to the Risk, Audit and Finance Sub-committee.
- Supporting calculations for each award (annualised value, rate applied, funder cap check, approval trail) are retained on the grant file for the life of the award plus six years, and made available to independent examiners, auditors and funders on request.

10. Roles and responsibilities

- **Board of Trustees:** approves this policy and any amendment to the standard rate bands.
- **Risk, Audit and Finance Sub-committee:** reviews the rates annually against the audited cost base, approves major shortfall exceptions, and monitors retention income and the Core Cost Shortfall Register.
- **Chief Executive:** approves rates on individual bids, minor shortfall exceptions and bespoke models for awards over £750,000.
- **Finance Team:** performs the Section 5 calculation for every bid, maintains journals, schedules and the grant file audit trail.
- **Bid leads and programme managers:** ensure every budget submitted to a funder includes the retention calculated under this policy before submission.

11. Review

This policy will be reviewed at least every two years, or sooner if there is a material change in PDT's cost base, funder requirements, or accounting standards. The next scheduled review is July 2028.

Version	Date	Detail
1.0	July 2026	Policy considered by the PDT Risk, Audit and Finance Sub-committee and approved by the PDT Board of Trustees on 01 July 2026.