



National Audit Office

Briefing

for the House of Commons

International Development Committee

Briefing to support the International Development Committee's inquiry into the Department for International Development's Annual Report and Accounts 2012-13

DECEMBER 2013

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Introduction

Aim and scope of this briefing

1 This briefing complements the Departmental Overview the National Audit Office (NAO) published in December 2013. The Departmental Overview summarises the Department for International Development's (the Department's) recent performance based primarily on its 2012-13 Annual Report and Accounts¹ and NAO work. The Departmental Overview covers: the Department's responsibilities, its financial management and reported performance.²

2 This briefing covers specific topics of particular interest to the International Development Committee. It examines:

- trends in the Department's expenditure and total UK Official Development Assistance (Part One);
- the Department's progress in managing the delivery of the government's target to spend 0.7 per cent of gross national income on UK Official Development Assistance in 2013 (Part Two);
- the Department's approach to improving value for money from its bilateral spending through multilateral organisations (Part Three);
- the controls over the Department's operating costs and their impact (Part Four); and
- the Department's workforce (Part Five).

3 This briefing draws on material provided by the Department in response to our specific requests and on publicly available information. We have discussed the material provided with the Department and checked its reasonableness. However, we have not had the opportunity to carry out the breadth of examination or level of validation of information we would normally undertake for a full audit examination. The Department has had the opportunity to comment on the factual accuracy and presentation of material included in this briefing.

¹ Department for International Development, *Annual Report and Accounts 2012-13*, June 2013.

² NAO, *Departmental Overview: The performance of the Department for International Development 2012-13*, December 2013.

Part One

Trends in the Department's expenditure and total UK Official Development Assistance

Main messages

Trends in the Department for International Development's (the Department's) expenditure

- *The Department's total expenditure in 2012-13 (£7,671 million) was similar in cash values to 2011-12 and 2010-11 levels, and there was little change in the proportions going to bilateral aid (54 per cent in 2012-13) and multilateral aid (43 per cent) (paragraph 1.2).*
- *The Department's funding of the European Union and World Bank Group together accounted for almost 65 per cent of its 2012-13 multilateral programme which, at £3,281 million, was £23 million (1 per cent) higher than in 2011-12 (paragraph 1.3).*
- *The composition of the Department's bilateral aid programme changed during 2012-13, with reductions in the cash value of bilateral funding going through multilateral organisations (reduction of £330 million) and in budget support (£127 million). Spending on humanitarian assistance, technical cooperation and 'other financial aid' all increased by over £100 million, each reaching their highest level of cash spending in the period from 2008-09 (paragraphs 1.4 and 1.5).*
- *The proportion of the Department's non-humanitarian country-specific bilateral aid going to low income countries rose by 2 percentage points to 67 per cent (£1,642 million) in 2012-13. There was also an increase in the proportion of this aid going to the least developed countries from 56 per cent to 60 per cent (£1,484 million), its highest level in the period from 2008-09 (paragraph 1.6).*

The Department's spending by its development policy priorities ('pillars')

- *In 2011 the Department began to move towards allocating and reporting its expenditure by five development policy priorities ('pillars'). These five pillars reflect the priority areas set out in the Department's business plan (paragraph 1.7).*
- *In our December 2012 briefing on the Department's 2011-12 Annual Report and Accounts we reported that there were some large variations*

between the Department's final estimates for 2011-12 and actual spend by pillar (paragraph 1.8).

- *In 2012-13, the variations between the Department's supplementary (or final) estimates and outturn were mostly 10 per cent or less. However, there were large variations between the Department's main estimates made at the start of the year and its supplementary estimates (paragraph 1.9).*
- *The Department has explained that the large variances between the main and supplementary estimates were in part due to weakness in the data used to generate the main estimates which had come from an 'off-line' departmental system. By the end of 2012-13 the Department was using its core finance system to monitor pillar budgets and to inform the setting of values for its supplementary estimates (paragraph 1.10).*
- *During 2012-13, the Department increased its spending on: the direct delivery of the Millennium Development Goals; climate change; and wealth creation. It reduced its spending on the other two pillars: governance and security, and global partnerships (paragraph 1.11).*

The composition of UK Official Development Assistance

- *Total UK Official Development Assistance grew in cash terms by 1.6 per cent in 2012 to £8,766 million; equivalent to 0.56 per cent of gross national income. The Department accounted for 87 per cent of total Official Development Assistance in 2012, down from 90 per cent in 2011 (paragraph 1.12).*
- *After falling in 2011, non-DFID Official Development Assistance grew in 2012 by £267 million (29 per cent) to £1,173 million. The increase in 2012 spending was driven by growth in bilateral spending by the Foreign & Commonwealth Office (up £105 million), the Department of Energy & Climate Change's spending (up £100 million), and increases in development spending by the Foreign & Commonwealth Office and the Ministry of Defence via the Conflict Pool (up £49 million) (paragraphs 1.13 and 1.14).*
- *The Department's region-specific bilateral Official Development Assistance is more focused on low income countries than other government departments' bilateral Official Development Assistance (paragraph 1.15).*

1.1 This part covers:

- trends in the Department's expenditure by type of aid;
- its spending by its development policy priorities (referred to as 'pillars'); and
- the composition of total UK Official Development Assistance.

Trends in the Department's expenditure

1.2 The Department's total expenditure in 2012-13 (£7,671 million) was similar in cash values to 2011-12 and 2010-11 levels, and there was little change in the proportions going to bilateral aid (54 per cent in 2012-13) and multilateral aid (43 per cent) (Figure 1 overleaf). Data made available by the Department, on its website at the end of November 2013, shows that in cash terms its total expenditure of £7,671 million was £13 million (0.1 per cent) lower than in 2011-12 and £18 million lower than in 2010-11.³ Bilateral expenditure reduced by £35 million to £4,169 million in 2012-13. Multilateral expenditure, which covers the Department's core funding⁴ of multilateral organisations, increased by £234 million to £3,281 million.

1.3 The Department's funding of the European Union and World Bank Group together accounted for almost 65 per cent of its 2012-13 multilateral programme which, at £3,281 million, was 1 per cent higher than in 2011-12. The Department gave £1,086 million to the European Union (down by £134 million, 11 per cent from 2011-12) and £1,025 million to the World Bank Group (down by £14 million, 1 per cent from 2011-12) (Figure 2 overleaf). The Department's data shows that in 2012-13 it gave an increase of £28 million (50 per cent) to the United Nations Development Programme, restarted funding the International Fund for Agricultural Development (£34 million) and the Consultative Group on International Agricultural Research (£32 million), and provided funding for the IMF Poverty Reduction and Growth Facility (£32 million).⁵

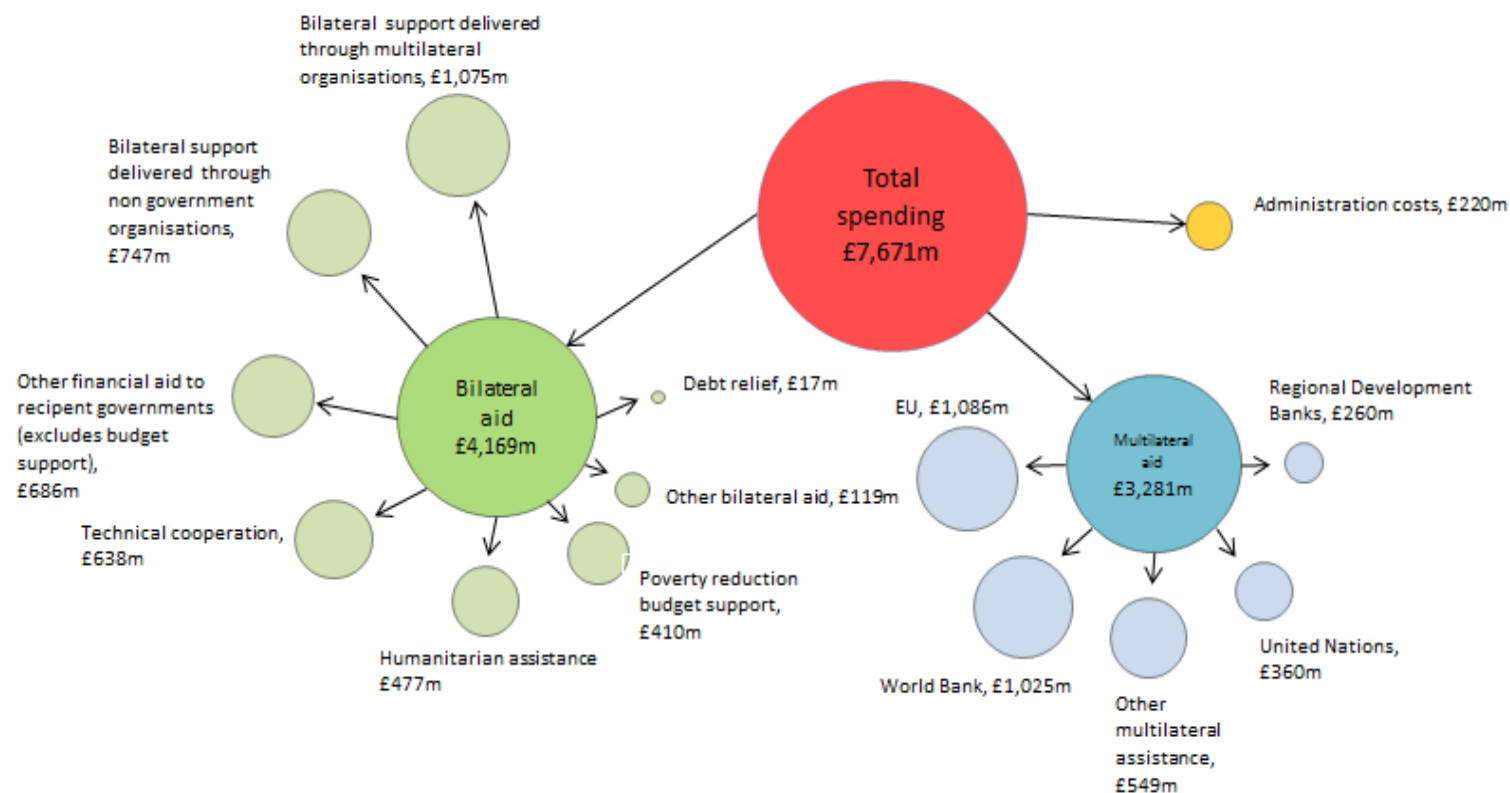
³ Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, available at: www.gov.uk/government/publications/statistics-on-international-development-201213-gpex-tables. Figures in the Department's Statistics on International Development are not directly comparable to values included in the Department's Annual Report and Accounts. The Department's Accounts record expenditure as it is incurred, not when it is paid out. The Accounts include non-cash charges such as depreciation and capital charges. The Department's Statistics on International Development is produced on a cash basis in line with international aid reporting practices.

⁴ The Department applies the international definitions of multilateral aid as determined by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD). Core funding is not earmarked for a specific purpose and, instead, its use is determined by the management and board of the multilateral organisation, within objectives agreed by all members.

⁵ The Department's data also shows that funding for 'other multilaterals' increased by £110 million to £240 million in 2012-13. The composition of 'other multilaterals' was not set out in the Department's statistics. See <https://www.gov.uk/government/publications/statistics-on-international-development-201213-gpex-tables>, Table 11

Figure 1

The Department's spending in 2012-13 (£ million)



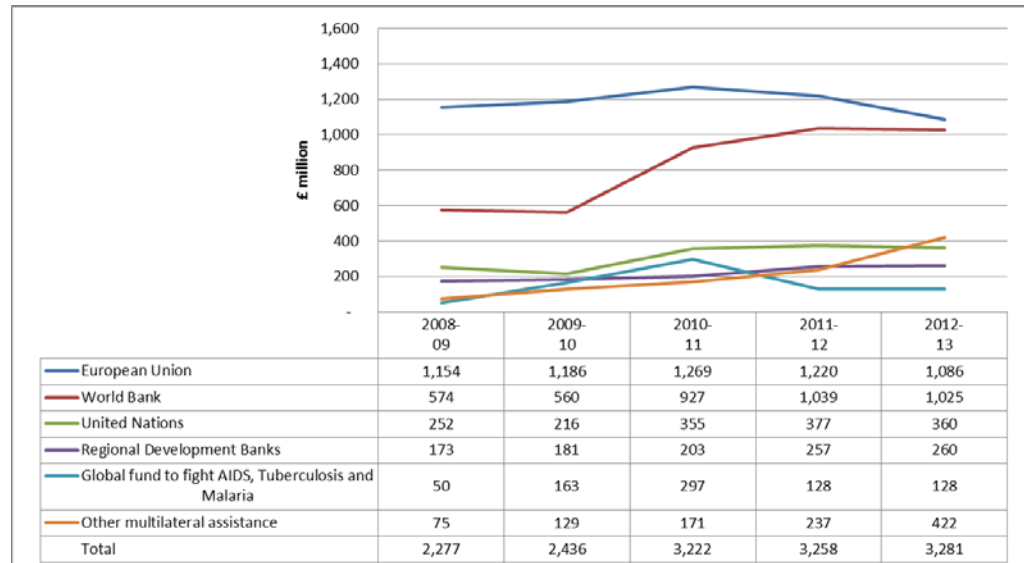
Notes

1. Administration costs presented in the Department's Statistics on International Development are not the same as those presented in the Department's accounts due to the differences in definitions and methodology.
2. Within other multilateral assistance, the largest amount went to the Global Fund to Fight AIDS, TB and Malaria (£128 million).
3. Due to rounding, the sum of the components may not be exactly the same as the total.

Source: NAO presentation of data from the Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, Table 2

Figure 2

The Department's multilateral expenditure 2008-09 to 2012-13 (£ million)

**Note**

1. All values in cash terms.

Source: NAO presentation of data from the Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, Table 11

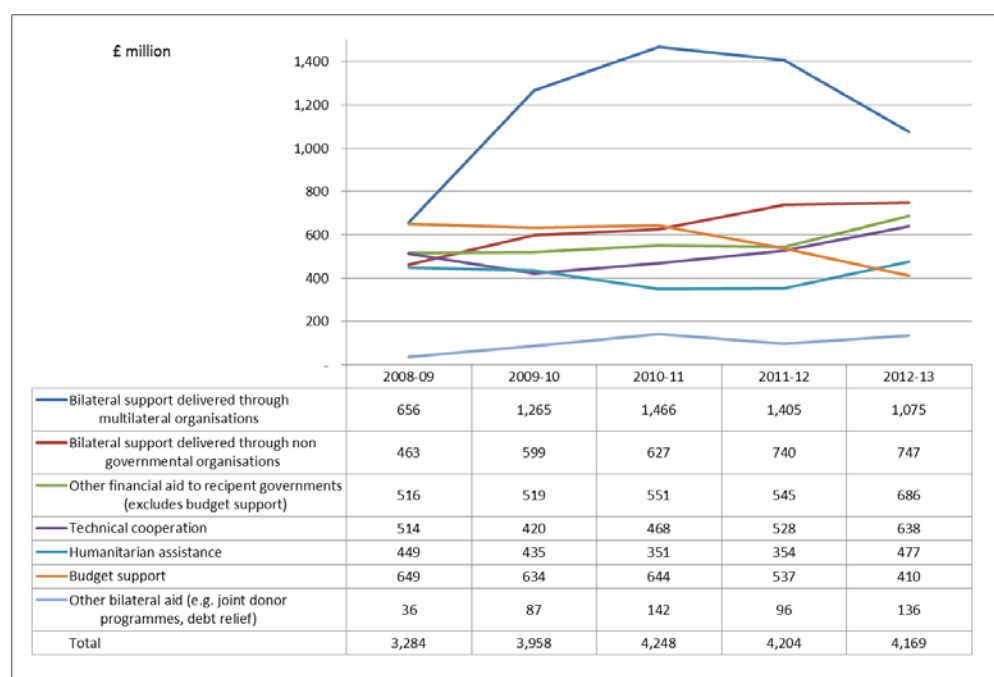
1.4 The composition of the Department's bilateral aid programme changed during 2012-13, with reductions in the cash value of bilateral funding going through multilateral organisations (reduction of £330 million) and in budget support (£127 million). Spending on humanitarian assistance, technical cooperation and 'other financial aid' all increased by over £100 million, each reaching their highest level of cash spending in the period from 2008-09 (see Figure 3 overleaf). In paragraphs 3.2 and 3.3 we discuss the composition of the Department's bilateral spending through multilateral organisations. As we reported last year, the Department's spending on budget support has been declining for some years.⁶ In 2012-13, total spending on general and sector budget support was £410 million, some £127 million (24 per cent) lower than in 2011-12, and £239 million (37 per cent) lower than in 2008-09. The reductions in 2012-13 were driven by cuts to the general budget support provided to Rwanda (£29 million) and Vietnam (£20 million), as well as cuts to the sector budget support provided to Ghana

⁶ NAO, *Briefing to support the International Development Committee's inquiry into the Department for International Development's Annual Report and Accounts 2011-12*, December 2013, p. 9.

(£36 million) and Mozambique (£19 million).⁷ General and sector budget support combined accounted for 10 per cent of the Department's 2012-13 bilateral aid compared with 20 per cent in 2008-09.

Figure 3

The Department's bilateral expenditure by type of aid, 2008-09 to 2012-13 (£ million)



Notes

1. Budget support in 2012-13 comprised £167 million of general budget support and £243 million of sector budget support. Other financial aid includes projects and programmes not classified as general or sector budget support.
2. All values in cash terms.

Source: NAO presentation of data from the Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, Table 2.

1.5 The Department's cash spending on humanitarian assistance rose by £123 million (35 per cent) in 2012-13 to £477 million. Almost half of the Department's humanitarian spending in 2012-13 was in five countries: Syria (£55 million), Democratic Republic of Congo (£49 million), South Sudan (£49 million), Sudan (£39 million) and Somalia (£36 million).⁸ The cash value of spending on 'other

⁷ Two countries had increases in funding: Malawi (increase of £20 million in general budget support and £5 million in sector budget support) and Zambia (£8.1 million in general budget support).

⁸ Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, Table 7.

financial aid' provided to partner governments for projects and programmes (but not budget support) had been relatively stable in the period 2008-09 to 2011-12, but grew by £141 million (26 per cent) in 2012-13. The cash value of spending on technical cooperation in 2012-13 (£638 million) was much higher than in any of the previous four years (Figure 3).

1.6 The proportion of the Department's non-humanitarian country-specific bilateral aid going to low income countries rose by two percentage points to 67 per cent (£1,642 million) in 2012-13. There was also an increase in the proportion of this aid going to the least developed countries from 56 per cent to 60 per cent (£1,484 million), its highest level in the period from 2008-09.⁹ The proportion of the Department's non-humanitarian bilateral aid going to low income countries¹⁰ fell sharply in 2011-12 following the reclassification of a number of the Department's priority countries as lower middle income countries in 2012 (**Figure 4** overleaf). Since 2012 there have been no further income level reclassifications affecting the Department's priority countries. Most least developed countries are low income countries but some are lower middle income countries.

The Department's spending by its development policy priorities ('pillars')

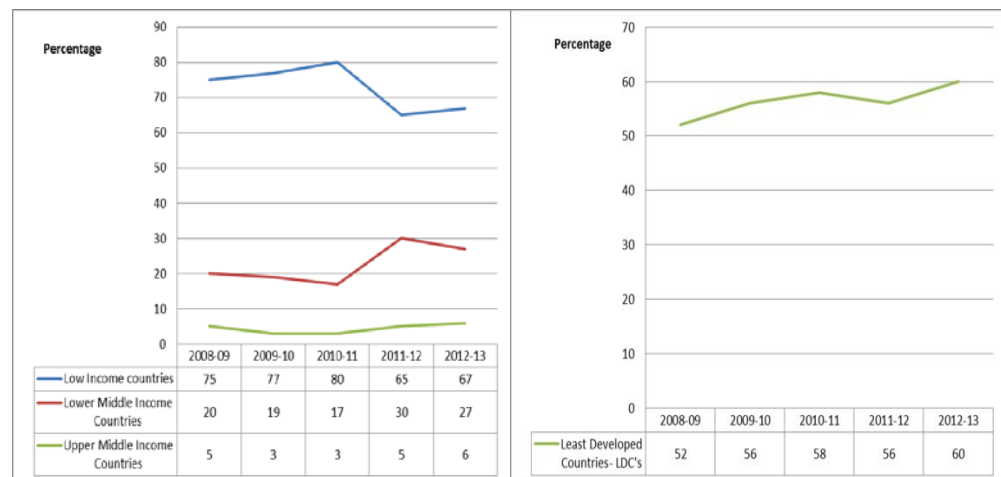
1.7 In 2011 the Department began to move towards allocating and reporting its expenditure by five development policy priorities ('pillars'). These five pillars reflect the priority areas set out in the Department's business plan. The pillars are: wealth creation; combating climate change; governance and security; the direct delivery of the Millennium Development Goals; and global partnerships. The latter covers most of the Department's core funding of multilateral organisations. The Department wanted the change in its allocation process to encourage internal competition with different parts of the organisation bidding for resources under each pillar, including those parts that provide core funding to multilateral organisations and those that manage bilateral country programmes.

⁹ Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, Table 10.

¹⁰ Low income countries are defined by the World Bank as having gross national income per capita in US\$ lower than \$1,035 in 2012; lower middle income, \$1,036 - \$4,085; upper middle income, \$4,086 - \$12,615 (see: <http://data.worldbank.org/about/country-classifications>). The categorisation of least developed countries is defined by the United Nations, and includes an income measure of poverty, but is also based on human resources and economic activity.

Figure 4

The Department's bilateral aid (excluding humanitarian assistance) by country income group and development status

**Notes**

1. The reduction in the percentage of the Department's aid going to low income countries in 2011-12 followed the reclassification of a number of the Department's priority countries as lower middle income countries. None of the Department's priority countries have since been reclassified.
2. The Department provides only very small amounts of aid to high income countries (£5 million in 2012-13, the equivalent of 0.2 per cent of the Department's total bilateral aid (excluding humanitarian assistance)).
3. Between the production of the 2011-12 and 2012-13 data, one of the Department's priority countries - Zambia – was taken out of the least developed country category. Zambia accounted for 2 per cent of the Department's non-humanitarian country-specific bilateral aid in 2012-13. There were no changes in classification in the previous period.

Source: NAO presentation of data from the Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, Table 10

1.8 In our December 2012 briefing on the Department's 2011-12 Annual Report and Accounts we reported that there were some large variations between the Department's final estimates for 2011-12 and actual spend by pillar.¹¹ In its report on the Department's 2011-12 Annual Report and Accounts, the International Development Committee concluded that: "The Department should either improve the accuracy of its planned spending so that it can take well-informed decisions about the overall shape of its programme or cease to use the present system of estimating spending by pillar."¹²

¹¹ NAO, *Briefing to support the International Development Committee's inquiry into the Department for International Development's Annual Report and Accounts 2011-12*, December 2012, p.15.

¹² International Development Committee, *Department for International Development's Annual Report and Accounts 2011-12, Ninth Report of Session 2012-13*, January 2013, p.1.

1.9 In 2012-13, the variations between the Department's supplementary (or final) estimates and outturn were mostly 10 per cent or less. However, there were large variations between the Department's main estimates made at the start of the year and its supplementary estimates (Figure 5 overleaf). The largest variance was for its resource spending on global partnerships (supplementary estimate £541 million, or 57 per cent, more than the main estimate). For all pillars the variance was 15 per cent or more.

1.10 The Department has explained that the large variances between the main and supplementary estimates were in part due to weakness in the data used to generate the main estimates which had come from an 'off-line' departmental system. By the end of 2012-13, the Department was using its core finance system to monitor pillar budgets and to inform the setting of values for its supplementary estimates. The Department provided a memorandum to the International Development Committee on its 2012-13 supplementary estimates. This explained:

"During 2012/13 the Department made good progress in embedding [its thematic or pillar approach to budgeting], establishing a system to monitor budgets against [the five] themes and building better understanding across the organisation about the approach and the data which informs it. [The 2012/13] supplementary estimate is shaped by information on forecast spending derived from the core finance system. As the main estimate was based on an off-line exercise to allocate budgets some of the variance between the main estimate and this supplementary estimate is driven by weaknesses in this off-line data."

Figure 5

Variance between the Department's main estimates, supplementary estimates and outturn, by pillar for 2012-13 (£ million)

	Main estimate £m	Supplementary estimate £m	Outturn £m	Increase (decrease) between main and supplementary estimate		Variance between supplementary estimate and outturn	
				£m	%	£m	%
Resource expenditure							
Wealth Creation	485	413	419	(72)	(15%)	(6)	(1%)
Climate Change	362	277	269	(85)	(24%)	8	3%
Governance and Security	602	731	697	129	21%	35	5%
Direct Delivery of MDGs	2,734	2,227	2,389	(506)	(19%)	(161)	(7%)
Global Partnerships	941	1,481	1,334	541	57%	148	10%
Capital expenditure							
Wealth Creation	130	166	194	36	28%	(28)	(17%)
Climate Change	114	75	54	(39)	(34%)	20	27%
Governance and Security	14	12	14	(2)	(16%)	(2)	(16%)
Direct Delivery of MDGs	142	69	70	(72)	(51%)	(1)	(1%)
Global Partnerships	1,104	1,328	1,316	224	20%	12	1%

Note

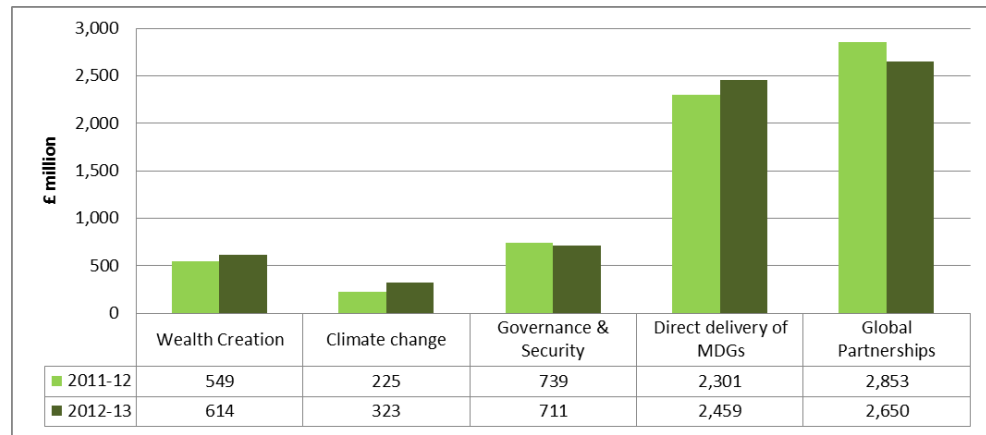
1. The difference between estimates and outturn may not exactly equal variances due to rounding.

Source: NAO presentation of departmental data

1.11 During 2012-13, the Department increased its spending on: the direct delivery of the Millennium Development Goals; climate change; and wealth creation. Direct delivery of the Millennium Development Goals benefited from the largest cash increase in spending (£158 million, 7 per cent), but the newer priority areas, climate change (£98 million, 44 per cent) and wealth creation (£65 million, 12 per cent) received larger percentage increases (**Figure 6**). Spending on global partnerships fell by 7 per cent and governance and security by 4 per cent.

Figure 6

The Department's spending by 'pillar', 2011-12 and 2012-13 (£ million)



Note

1. Values are the total for resource and capital expenditure. Values in cash terms.

Source: NAO presentation of departmental data

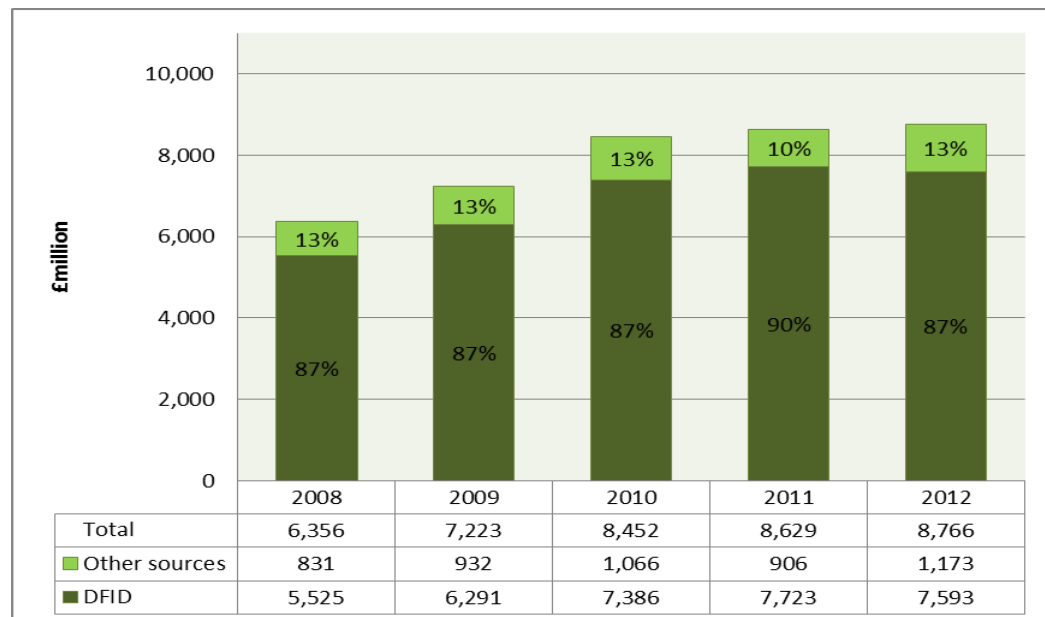
The composition of UK Official Development Assistance

1.12 Total UK Official Development Assistance grew in cash terms by 1.6 per cent in 2012 to £8,766 million; equivalent to 0.56 per cent of gross national income. The Department accounted for 87 per cent of total Official Development Assistance in 2012, down from 90 per cent in 2011. Official Development Assistance¹³ is reported on a calendar year basis. It grew rapidly in the two years to 2010 (at around 15 per cent per annum in cash values), but in the two years to 2012 it grew more slowly (at around 2 per cent per annum) (**Figure 7**). Over the past five years the Department has accounted for between 87 per cent and 90 per cent of total Official Development Assistance.

Figure 7

Official Development Assistance: split between the Department's spending and other sources (£ million)

Official Development Assistance grew rapidly in the two years to 2010, but growth in the two years to 2012 was much slower.



Source: NAO presentation of data from the 2013 Statistics on International Development

¹³ Official Development Assistance is the internationally agreed standard definition of aid as set by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD).

1.13 After falling in 2011, non-DFID Official Development Assistance grew in 2012 by £267 million (29 per cent) to £1,173 million. The increase in 2012 spending was driven by three main factors (**Figure 8** overleaf).

- After showing modest growth in the two years to 2011, Foreign & Commonwealth Office bilateral Official Development Assistance increased by £105 million (67 per cent) in 2012 to £261 million (or 3.0 per cent of total Official Development Assistance). As well as its own spending on programmes and aid-related frontline diplomacy, the Official Development Assistance values for the Foreign & Commonwealth Office include relevant spending by the British Council.
- The Department of Energy & Climate Change's bilateral Official Development Assistance spending increased by £100 million to £244 million in 2012 (close to the £255 million it spent in 2010, and equal to 2.8 per cent of 2012 Official Development Assistance). The Department of Energy & Climate Change's spending includes its contributions to the International Climate Fund and Environment Transformation Fund.
- Development spending by the Foreign & Commonwealth Office and the Ministry of Defence via the cross-government Conflict Pool increased by £49 million (39 per cent) to £176 million in 2012 (2.0 per cent of Official Development Assistance).¹⁴ The Conflict Pool is the principal mechanism by which the government allocates joint resources in support of its commitments to prevent and tackle conflict, as set out in the Building Stability Overseas Strategy.¹⁵

1.14 Gift Aid also increased by £26 million (40 per cent) to £91 million in 2012 (see **Figure 8** and **Figure 9** on page 17).

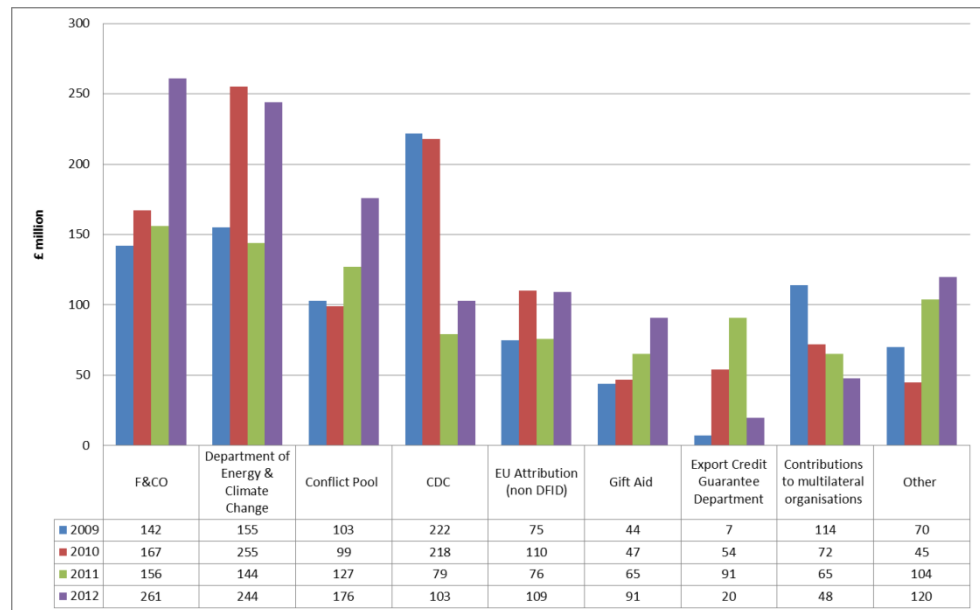
¹⁴ The value excludes the contributions made by DFID to the Conflict Pool.

¹⁵ Department for International Development, the Foreign & Commonwealth Office and the Ministry of Defence, *Building Stability Overseas Strategy*, July 2011.

Figure 8

Composition of non-DFID Official Development Assistance: bilateral assistance by department and contributions to multilateral organisations 2009 to 2012 (£ million)

The majority of non-DFID Official Development Assistance, has been accounted for by the Foreign & Commonwealth Office, Department of Energy & Climate Change, Conflict Pool and CDC



Notes

1. Other includes: Department for Work & Pensions, Home Office; Department of Health; Department for Environment, Food & Rural Affairs; Department for Culture, Media & Sport; Department for Business, Innovation & Skills; Scottish Government; Welsh Government; Colonial Pensions; Ministry of Defence.
2. In addition to sums attributed to the Department, some Official Development Assistance eligible spending by the European Union is attributed to other government departments by HM Treasury.

Source: NAO presentation of data provided by the Department and data taken from Statistical Releases issued between 2010 and 2013 providing Official Development Assistance values

Figure 9

The Department's estimation of Gift Aid

The Department continues to develop the approach it uses to estimating Gift Aid, with its latest approach contributing to the £26 million (40 per cent) increase in the value of Gift Aid between 2011 and 2012. The Department reported that until 2010 it used a conservative approach to estimating Gift Aid. For its 2011 estimate, the Department undertook a survey of 30 of the largest civil society organisations active in development in 2012. This approach contributed to an increase of £18 million (38 per cent) over its estimate of 2010 levels of Gift Aid. For its 2012 estimate, the Department, working with HM Treasury, revised its survey approach asking fewer simpler questions of a larger number of organisations. This approach increased the number of responses it received to the survey it ran in 2013 to 59. The Department drew on the responses from both its 2012 and 2013 surveys, and HM Revenue & Customs data, to estimate the 2012 value of Gift Aid. The Department set down its approach to estimating Gift Aid in a methodology note.

Notes

1. The methodology note can be accessed online at:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/248648/gift-aid-methodology-note.pdf
2. The Department discussed its previous approaches to estimating Gift Aid in *Statistics on International Development 2007-08 – 2011-12*, October 2012, p.117.

Source: NAO

1.15 The Department's region-specific bilateral Official Development Assistance is more focused on low income countries than other government departments' bilateral Official Development Assistance. In 2012, the Department spent around £3,000 million of its Official Development Assistance in a specific country.¹⁶ Of this £3,000 million, 68 per cent went to low income countries and 27 per cent to lower middle income countries, and 5 per cent to upper middle income countries. Other government departments spent almost £500 million in a specific country in 2012. Of this, 35 per cent went to low income countries, 39 per cent to lower middle income countries and 26 per cent to upper middle income countries.

¹⁶ Analysis based on data in Table 7 of Department for International Development, *Statistics on International Development 2013*, October 2013:

Part Two

The Department's management of its programme spending and the government's target for the level of Official Development Assistance

Main messages

The main controls and targets covering the Department for International Development's (the Department's) programme spending

- *The Department faces the twin challenges of living within its budget for financial year programme expenditure and managing the delivery of the government's calendar year target for Official Development Assistance (paragraph 2.2).*
- *The Department's programme budget has been set at a level which should enable the UK to achieve the government's target for total UK Official Development Assistance in 2013 (paragraph 2.3).*
- *The Department tracks the level of non-DFID managed Official Development Assistance during the year and, where it considers necessary, adjusts its spending with the aim of ensuring the UK meets, but does not significantly exceed, the targeted level of aid spending (paragraph 2.4).*

Managing the delivery of the 2013 Official Development Assistance target: Overview

- *At the middle of December 2013, it looked likely that the government's 2013 Official Development Assistance target would be met. The Department has made delivery of the target a priority and has managed its expenditure accordingly. From spring 2013, the Department's 'best estimate' had been that non-DFID managed Official Development Assistance could be significantly short of the values estimated when budgets were set during the 2010 Spending Review. The Department's teams were also spending at a slower rate than expected. From May 2013 the Department therefore took action to increase its spending levels (paragraph 2.5).*
- *In November and December 2013, the Department received information from other departments and CDC which indicated that non-DFID*

managed Official Development Assistance would be higher than previously forecast. The Department was also forecasting that its own spending would be higher. As a result, the Department was confident that the Official Development Assistance target would be met despite its estimated value of the target increasing to reflect improving UK growth (paragraph 2.6).

Target level of Official Development Assistance

- *The Department's 'best estimate' of the level of spending required to meet the Official Development Assistance target has varied across the year as forecasts of gross national income have changed (paragraph 2.7).*

Non-DFID managed Official Development Assistance

- *For most of 2013 the Department was expecting that non-DFID managed Official Development Assistance would be at least £200 million below the value set when budgets were agreed during the 2010 Spending Review. However, by the middle of December 2013, the Department's 'best estimate' was that non-DFID Official Development Assistance would be £50 million (2.5 per cent) higher than the value set during the Spending Review (paragraph 2.8).*
- *The main causes of uncertainty around expected values for non-DFID managed Official Development Assistance have been the levels of spending by the Department of Energy & Climate Change and the net value of CDC's investments (paragraph 2.9).*
- *By the middle of December 2013, the Department was expecting that the only large shortfall in non-DFID managed Official Development Assistance would arise from the sums attributed for the European Union's development spending. The Department's 'best estimate' was that outturn would be around £200 million lower than the £955 million estimate included in the 2010 Spending Review (paragraph 2.10).*

The Department's Official Development Assistance

- *Throughout the nine months to September 2013 the Department's own spending had been at a slower rate than anticipated at the start of the year (paragraph 2.11).*
- *As a result of the initial reductions and delays to planned non-DFID managed Official Development Assistance and DFID spending, the Department has, since spring 2013, been identifying options for increasing its spending during 2013 (paragraph 2.12).*
- *The Department has, in the second half of 2013, also taken two major decisions which will have a significant impact on its spending in 2013.*

- *In summer 2013 the Department decided to increase by £390 million over two years its commitment to the Syria humanitarian response. Together with funding agreed in 2012-13, this took its total commitment close to £500 million, over half of which is likely to be spent in 2013.*
- *In September 2013, ministers considered the options for the Global Fund to Fight AIDS, TB and Malaria's 2014-2016 replenishment and decided that the Department would provide a total of £1,000 million. The business case considered by Ministers identified a number of programme and policy benefits of making a substantial contribution in 2013 towards the 2014-2016 replenishment. The Department decided to make a contribution of £415 million in December 2013 (paragraphs 2.13 to 2.16).*

The impact of targets and controls on the profile and composition of the Department's programme expenditure

- *The controls and targets over the Department's programme expenditure are contributing to an uneven profile of spending, with the Department having to spend most of its 2013-14 budget in the first three quarters of the financial year, leaving a small amount to meet requirements in the period January to March 2014 (paragraph 2.17).*
- *The Department is expecting that, to live within its 2013-14 programme budget, it will have to defer around £300 million of planned programme spend from the first three months of 2014 into the financial year starting in April 2014 (paragraph 2.18).*
- *The Department is seeking to increase its non-fiscal spending by around £500 million in 2013-14 in response to a new HM Treasury control over the composition of its spending. The Department sees the impact of this new HM Treasury control, introduced in spring 2013, as consistent with the direction of its new business model. Implementation of the model will see the Department making greater use of capital investment programmes that aim to achieve development results and realise financial returns. Such programmes are likely to be classified as non-fiscal spending as they should lead to the creation of an asset. Non-fiscal spending, unlike fiscal spending, does not impact on net public sector debt (paragraphs 2.19 to 2.21).*

2.1 The government is aiming to achieve the target for total Official Development Assistance to equal 0.7 per cent of gross national income for the first time in 2013. This part covers:

- the controls over the Department's programme spending, which accounts for the majority of Official Development Assistance;
- the Department's management of the 2013 target for Official Development Assistance; and
- the impact on the profile and composition of the Department's programme spending of the 2013 Official Development Assistance target, and a new HM Treasury control that encourages the Department to increase its 'non-fiscal' spending.

The main controls and targets covering the Department's programme spending

2.2 The Department faces the twin challenges of living within its budget for financial year programme expenditure and managing the delivery of the government's calendar year target for Official Development Assistance. The Department's programme budget is split between the capital and resource expenditure the Department directly manages, and sums that are attributed to it by HM Treasury to reflect the UK's contribution to expenditure by the European Union on relevant development activities. The Department is responsible for ensuring the government's targets for total Official Development Assistance are met. As the Department's spending accounts for the majority of Official Development Assistance, it must carefully manage its calendar year as well as financial year spending (**Figure 10** overleaf).

2.3 The Department's programme budget has been set at a level which should enable the UK to achieve the government's 2013 target for total UK Official Development Assistance. For each year of the 2010 Spending Review period, HM Treasury set that part of the Department's programme budget which the Department manages at a level which it judges should be sufficient to cover the difference between its estimates of:

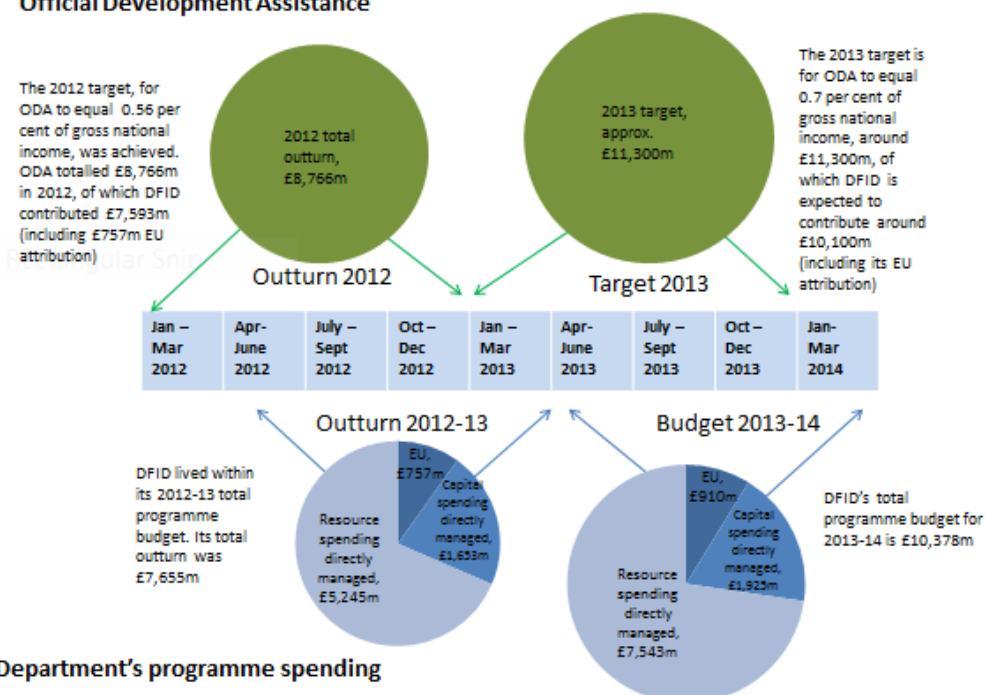
- the level of total spending required to hit the government's target for Official Development Assistance;
- the level of Official Development Assistance it expects to arise from spending the Department does not manage. Non-DFID managed Official Development Assistance includes:
 - aid spending by other government departments;
 - the UK's share of the European Union's External Assistance Budget which is spent on relevant aid activities (this is attributed in the main to DFID but some EU spending is attributed by HHM Treasury to other government departments); and
 - Gift Aid paid by HM Revenue and Customs to charities that are active in international development (paragraph 1.14).

Figure 10

The main controls and targets affecting the Department's programme spending

Targets for Official Development Assistance are set for calendar years, and thus do not align with the Department's financial year programme budget. DFID's programme budget includes amounts for resource and capital expenditure it directly manages and for EU spending attributed to it by HM Treasury.

Official Development Assistance



Department's programme spending

Notes

- The Department's programme budget includes three elements. The first two cover expenditure the Department directly incurs and manages. For 2013-14, the Department was allocated £9,468 million to directly manage (excluding depreciation and administration costs but including the conflict pool). The total allocation has been split £7,543 million for resource expenditure and £1,925 million for capital expenditure (the Department is likely to request a transfer from its resource budget to its capital budget as part of the 2013-14 supplementary estimates). The third element covers sums that are attributed to the Department by HM Treasury to reflect the UK's contribution to expenditure by the European Union on relevant development activities. For 2013-14, the Department's budget included £910 million to cover EU attribution.
- Other government departments are also attributed sums to reflect expenditure of by the European Union on other development activities (see Figure 8).
- In spring 2013, HM Treasury informed the Department that it should cut its planned fiscal expenditure by £500 million. As consequence, if the Department is to utilise its full 2013-14 budget, it will have to increase its planned non-fiscal spending by at least £500 million to a minimum of £1,660 million (see paragraph 2.19).
- The Department is also responsible for ensuring that by 2014-15 at least 30 per cent of total UK Official Development Assistance goes to fragile and conflict-affected states.

Source: NAO presentation of departmental data

2.4 The Department tracks the level of non-DFID managed Official Development Assistance during the year and, where it considers necessary, adjusts its spending with the aim of ensuring the UK meets, but does not significantly exceed, the targeted level of aid spending. Each month the Department forecasts final outturn for Official Development Assistance. Its forecasts comprise a 'best estimate', an 'upper estimate' and a 'lower estimate'. The estimates are provided to its Executive Management Committee as part of monthly finance reports.

Managing the delivery of the 2013 Official Development Assistance target

Overview

2.5 At the middle of December 2013, it looked likely that the government's 2013 Official Development Assistance target would be met. The Department has made delivery of the target a priority and has managed its expenditure accordingly. From spring 2013, the Department's 'best estimate' had been that non-DFID managed Official Development Assistance could be significantly short of the values estimated when budgets were set during the 2010 Spending Review. The Department's teams were also spending at a slower rate than expected. From May 2013 the Department therefore took action to increase its spending levels.

2.6 In November and December 2013, the Department received information from other departments and CDC which indicated that non-DFID managed Official Development Assistance would be higher than previously forecast. The Department was also forecasting that its own spending would be higher. As a result, the Department was confident that the Official Development Assistance target would be met despite its estimated value of the target increasing to reflect improving UK growth forecasts. Figure 11 overleaf shows how the Department's 'best estimates' of the value of the Official Development Assistance target and spending have changed over 2013.

Figure 11
The Department's 'best estimates' of the 2013 Official Development Assistance target and spending, selected months during 2013 (£ million)

Until November 2013, the Department's 'best estimate' had been that Official Development Assistance would fall short of the target based on spending plans in place at the time of the estimates

	Date of estimate					
	March 2013	May 2013	July 2013	Sept 2013	Nov 2013	Dec 2013
1. Total Official Development Assistance required to meet target	11,300	11,170	11,227	11,227	11,317	11,337
2. Non-DFID managed Official Development Assistance	1821	1,748	1,751	1,739	1,913	2,067
3. DFID directly managed spend required to meet target (row 1 less row 2)	9479	9,422	9,476	9,488	9,404	9,270
4. Forecast DFID directly managed spend based on plans in its financial management system at that time	9059	8,940	9,133	9,052	9,471	9,532
5. Excess (shortfall) against target (row 4 less row 3)	(420)	(482)	(343)	(436)	68	262 (Note 1)

Notes

1. The Department was planning to manage its actual expenditure during December 2013 so as to minimise any excess above the level required to hit the Official Development Assistance target value. The Department sets the target value at the level required to deliver 0.703 per cent of gross national income thus providing a margin of error.
2. The value for non-DFID managed Official Development Assistance includes a total of £744 million for sums the Department expects that HM Treasury will attribute to both the Department and other government department's to reflect the UK's share of the European Union's External Assistance Budget which is spent on relevant aid activities.
3. The value for DFID directly managed spend excludes sums the Department expects to be attributed for European Union expenditure.
4. Due to rounding, the values of the components may not be exactly the same as the derived values in rows 3 and 5.

Source: NAO presentation of departmental data

Target level of Official Development Assistance

2.7 The Department's 'best estimate' of the level of spending required to meet the Official Development Assistance target has varied across the year as forecasts of gross national income have changed. In the 2013 Budget, HM Treasury cut the Department's 2013-14 budget reflecting lower UK growth forecasts. Following the 2013 Budget, the Department cut its 'best estimate' of the level of total Official Development Assistance needed to meet the target by £130 million to £11,170 million. The Department subsequently revised this value up to £11,337 million as the prospects for UK growth have improved.¹⁷

Non-DFID managed Official Development Assistance

2.8 For most of 2013 the Department was expecting that non-DFID managed Official Development Assistance would be at least £200 million below the value set when budgets were agreed during the 2010 Spending Review. However, by the middle of December 2013, the Department's 'best estimate' was that non-DFID Official Development Assistance would be £50 million (2.5 per cent) higher than the value set during the Spending Review. However, there remained some uncertainty around the 'best estimate'. Between May and October 2013 the Department's 'best estimate' of non-DFID managed Official Development Assistance was quite steady, at around £240 million short of the estimated value of £1,982 million used in the 2010 Spending Review. By the middle of December 2013, the Department's 'best estimate' of the level of non-DFID managed Official Development Assistance had increased by over £300 million, largely as a result of increases in the expected net value of CDC investments and increases in spending by the Conflict Pool.

2.9 The main causes of uncertainty around expected values for non-DFID managed Official Development Assistance have been the levels of spending by the Department of Energy & Climate Change and the net value of CDC's investments.

- **By the end of November 2013 the Department of Energy & Climate Change had spent £90 million, but was expected to contribute a further £324 million in December 2013.** By the middle of December, the Department of Energy & Climate Change had confirmed that this remaining allocation had now all been spent.

¹⁷ The Department set its target value at the level required to deliver 0.703 per cent of gross national income

- **When CDC, the UK's development finance institution, makes an investment it counts as Official Development Assistance. And when that investment ends, the proceeds that are returned to the UK count as negative Official Development Assistance. These flows are inherently difficult to forecast and manage.** From the end of October the Department has improved the quality of information it has to estimate CDC's likely impact on 2013 Official Development Assistance by requesting and receiving weekly updates from CDC on its estimate of its ODA contribution for 2013.

2.10 By the middle of December 2013, the Department was expecting that the only large shortfall in non-DFID managed Official Development Assistance would arise from the sums attributed for the European Union's development spending.¹⁸ The Department's 'best estimate' was that outturn would be around £200 million lower than the £955 million estimate included in the 2010 Spending Review. The Department told us the lower value reflected a number of factors including downward pressure on the European Union's total budget and reductions in some European Union development activities, such as the food facility which ended in 2011.¹⁹

The Department's Official Development Assistance

2.11 Throughout the nine months to September 2013 the Department's own spending had been at a slower rate than anticipated at the start of the year. As in previous years, the Department has found it difficult to achieve its forecast levels of programme spending as some planned activities have been delayed or stopped. For example, in the six months to September 2013 the Department's expenditure was 14 per cent lower than the planned level of around £4,000 million.²⁰

2.12 As a result of the initial reductions and delays to planned non-DFID managed Official Development Assistance and DFID spending, the Department has, since spring 2013, been identifying options for increasing its spending during 2013. In May 2013 a paper was submitted to the Executive Management Committee setting out options. The Committee agreed that each Director-General should agree to an aggregate level of forecast spending that they would achieve across their divisions by the end of the calendar year. In this context, divisions were asked to look at activities that could be brought forward from 2014 into 2013.

¹⁸ Most relevant EU activities are attributed to DFID, but some are attributed to other government departments. The values in this paragraph are the totals of the amounts attributed to DFID and other government departments.

¹⁹ The facility was established by the European Union in December 2008 and "contributed EUR 1 billion in response to the food and financial crisis that struck the planet from 2007 onwards".

²⁰ Data are not available for the period January to September 2013.

2.13 The Department has, in the second half of 2013, also taken two major decisions which will have a significant impact on its spending in 2013. These decisions are summarised in paragraphs 2.14 to 2.16.

2.14 In summer 2013 the Department decided to increase by £390 million over two years its commitment to the Syria humanitarian response. Together with funding agreed in 2012-13, this took its total commitment close to £500 million, over half of which is likely to be spent in 2013. In 2012-13 the Department spent £79 million on the Syria response. A business case approved by the Department in summer 2013 proposed £150 million of spending in both 2013-14 and 2014-15, plus a £90 million contingency. The Department now expects to utilise the large majority of its contingency in 2013-14 as humanitarian needs in Syria and the region continue to grow more quickly than expected. As of the middle of November 2013, the Department's best estimate was that its 2013 calendar year spending on Syria and the region would be between £250 million and £270 million.

2.15 In September 2013, ministers considered the options for the Global Fund to Fight AIDS, TB and Malaria's 2014-2016 replenishment and decided that the Department would provide a total of £1,000 million.²¹ The business case considered by Ministers identified a number of programme and policy benefits of making a substantial contribution in 2013 towards the 2014-2016 replenishment. The Department decided to make a contribution of £415 million in December 2013. The benefits identified in the business case of a substantial contribution were:

- enabling the Global Fund to plan with greater certainty and thus accelerate its activity and results;
- maintaining UK leadership of the Fund;
- increasing the chances of leveraging in larger contributions from the US as Congress requires US funding not to exceed a third of the total going to the Global Fund;
- assisting the Department to contribute to at least halving malaria deaths in at least ten high-burden countries by 2014-15, and to meet its target to spend up to £500 million on malaria by 2014-15; and
- providing a good value for money option to increase Official Development Assistance.

²¹ The Department's £1,000 million commitment to the Global Fund to Fight AIDS, Tuberculosis and Malaria comprises the remaining £105 million of the Department's total planned contribution to the Global Fund for 2008 to 2015, plus £895 million of new money. The Department has put in place a cap on the UK's share of the Global Fund's budget for 2014-2016 of around 10 per cent (the actual percentage will vary depending on movements in exchange rates). The Department will therefore cut planned funding in 2015 if other donors do not provide adequate funding.

2.16 The Department's contributions to the Global Fund are made via promissory notes, a type of IOU.²² The Department records a payment when it issues a promissory note but cash is paid over in line with encashment schedules agreed between the Department and the Global Fund. The Department told us that (subject to final agreement) a series of promissory notes will be deposited over the course of 2013-2015 for the total funding of £1,000 million. The promissory note which it deposited in December 2013 for £415 million will enable the Global Fund to take forward its activities. The Department told us that the encashment schedule for the promissory note was agreed between the Department and the Global Fund based on an assessment of funding needs.

The impact of targets and controls on the profile and composition of the Department's programme expenditure

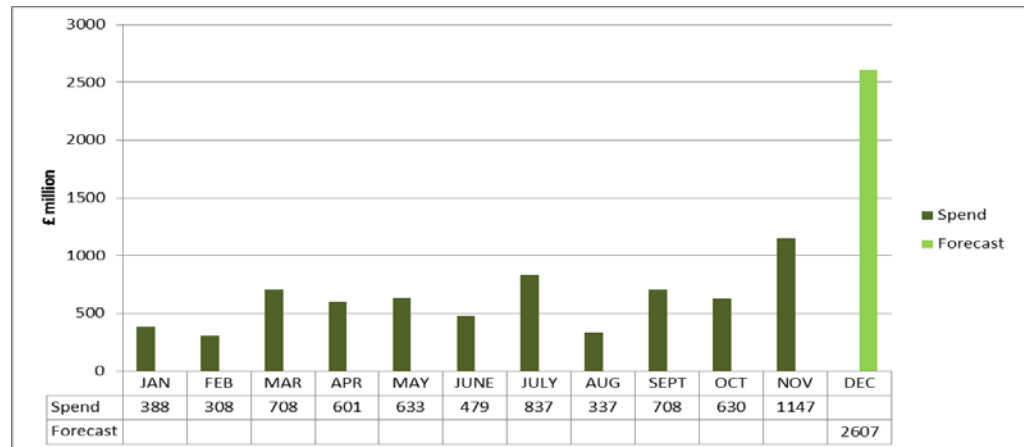
2.17 The controls and targets over the Department's programme expenditure are contributing to an uneven profile of spending, with the Department having to spend most of its 2013-14 budget in the first three-quarters of the financial year, leaving a small amount to meet requirements in the period January to March 2014. In the middle of December 2013 the Department was expecting that almost 40 per cent of its 2013 calendar year programme spending would occur in the last two months (**Figure 12**). In 2012 the equivalent value was 32 per cent. The increase in spending rate at the end of 2013 in part reflects the action the Department is taking to increase its activity to compensate for the lower than expected sums attributed to the UK for the European Union's development spending (see paragraph 2.10). It also reflects some large fixed payments which must be made in December (such as to the European Development Fund). The Department told us that, as such, its spending in December is always high (£2,600 million in 2012).

²² A promissory note is a written undertaking to pay money, up to a specified limit, to a named beneficiary. Promissory notes are beneficial in allowing institutions to have certainty over future inflows. They are not cash transfers. The Department uses promissory notes as a way of routing funding to a number of multilateral organisations.

Figure 12

The Department's actual and forecast monthly Official Development Assistance expenditure in 2013, as at end November 2013 (£ million)

The Department's expenditure is set to increase rapidly at the end of the calendar year



Note

1. Values exclude sums attributed to the Department for European Union expenditure (see paragraph 2.2).

Source: NAO presentation of departmental data

2.18 The Department is expecting that, to live within its 2013-14 programme budget, it will have to defer around £300 million of planned programme spend from the first three months of 2014 into the financial year starting in April 2014.

The headroom in the Department's 2013-14 budget is much tighter than expected for two main reasons: the recent improvements in forecast UK growth have increased the level of departmental spending required to hit the 2013 Official Development Assistance target; and the Department has also needed to increase its 2013 spending as a result of the lower levels of European Union attribution. To compensate for the latter, the Department had requested a transfer of £196 million from that part of its budget that covers the European Union attribution to that part which covers the programme expenditure it directly incurs and manages. In the middle of December 2013, the Department was not expecting the request to be approved by HM Treasury. It was therefore progressing with its plans to reduce spending in January to March 2014 from around £1,700 million (the equivalent of 16 per cent of its full year budget) to around £1,400 million (13 per cent).

2.19 The Department is seeking to increase its non-fiscal spending by around £500 million in 2013-14 in response to a new HM Treasury control over the composition of its spending. The Department sees the impact of this new HM Treasury control, introduced in spring 2013, as consistent with the direction of its new business model. Implementation of the model will see the Department making greater use of capital investment programmes that aim to achieve development results and realise financial returns. Such programmes are likely to be classified as non-fiscal spending as they should lead to the creation of an asset. Non-fiscal spending, unlike fiscal spending, does not impact on net public sector debt. In spring 2013, HM Treasury required the Department to reduce its fiscal spending by £500 million below planned levels for 2013-14. As a consequence, the Department can only use this part of its 2013-14 budget if it can increase the value of its non-fiscal transactions by £500 million above the £1,160 million it had planned when HM Treasury announced its new control. All of the planned non-fiscal spending of £1,160 million was to go as core funding to multilateral development banks.

2.20 During 2013-14 the Department has taken action to increase its non-fiscal spending. By the middle of December 2013, the Department's 'best estimate' was that non-fiscal transactions would total around £1,630 million in 2013-14; an increase of around £470 million above its original plans, and thus just below the level necessary to fully offset the fiscal reduction of £500 million. The planned increase of £470 million increase comprised:

- restructuring planned funding totalling around £220 million to the Private Infrastructure Development Group in 2013-14 with the aim of reclassifying it as non-fiscal spending;
- increasing planned funding to multilateral development banks by around £180 million in 2013-14; and
- providing around £70 million of funding to capital investment projects that were being designed, or had just been approved, around the time HM Treasury introduced its new control.

2.21 The Department expects the value of new capital investment projects will grow considerably in future years as it implements its new business model. HM Treasury now requires that £1,948 million of the Department's 2015-16 budget be used for non-fiscal transactions.²³

²³ HM Treasury has yet to specify an equivalent figure for 2014-15.

Part Three

Improving the value for money of the Department's bilateral spending through multilateral organisations

Main messages

Overview

- *The Department for International Development (the Department) has to tailor its procedures when it decides to engage a multilateral organisation to deliver bilateral projects. Most multilateral organisations do not ordinarily compete for work and the Department does not have full freedom to specify how projects will be managed (paragraph 3.4).*
- *The Department has, since 2012, substantially increased the attention it has given to managing bilateral spending that goes through multilateral organisations, putting in train a number of actions which aim to improve the value for money of this spending (paragraph 3.5).*

The Department's bilateral spending through multilateral organisations

- *The Department's bilateral spending through multilateral organisations declined in 2012-13 but remains the largest element of its bilateral programme (paragraph 3.2).*
- *Over the last four years around 45 per cent of bilateral spending through multilateral organisations has been accounted for by World Bank organisations, with a further 30 per cent accounted for by four United Nations agencies (paragraph 3.3).*

Controls over selecting multilateral organisations for bilateral projects

- *The Department's business case procedures, first introduced at the start of 2011, encourage staff to invest more time in looking at alternative ways of delivering all types of projects, including alternatives to delivery by multilateral organisations (paragraph 3.6).*
- *Due diligence procedures introduced across the Department at the start of 2013, are leading to further departmental scrutiny of all delivery partners' capability and capacity. The Department has streamlined its approach to applying due diligence procedures to multilateral organisations to better reflect their decentralised structure and to*

address feedback from its staff and multilateral organisations (paragraphs 3.7 to 3.9).

Negotiating with multilateral organisations

- *The Department is encouraging its in-country staff to adopt a more commercially focused approach to dealing with multilateral organisations with the aim of securing cost reductions (paragraphs 3.10 and 3.11).*
- *At the middle of November 2013, the Department was renegotiating long-standing framework arrangements it has with the headquarters of three United Nations organisations. The arrangements are important as they set down the parameters within which the organisations' country teams work with the Department on the ground (paragraphs 3.12 to 3.14).*

Developing partnership working and assisting multilateral organisations to improve their capability

- *The Department aims to use its Multilateral Aid Review to promote reform of multilateral organisations and thus improve their performance (paragraph 3.15).*
- *The Department has reviewed the procurement and commercial capability of the headquarters of eight multilateral organisations with the aim of improving their practices, as procurement is often a key driver of value for money. The Department would now like to develop its approach by working with those multilateral staff that are responsible for procurement and commercial activities undertaken by country based teams (paragraphs 3.16 to 3.18).*
- *In 2013, the Independent Commission for Aid Impact found that there was little central oversight of the Department's overall relationship with the United Nation Children's Fund (UNICEF). In response, the Department is undertaking separate reviews of the full portfolio of the bilateral projects it has with UNICEF and three other key delivery partners (paragraphs 3.19 to 3.21).*

Actions to improve the value for money the Department gets from World Bank trust funds

- *The Department has taken a number of actions in response to the Independent Commission for Aid Impact's 2012 recommendation that it should improve its oversight of the World Bank's trust funds (paragraphs 3.22 and 3.23).*

3.1 Around 30 per cent of the Department's total bilateral funding goes through multilateral organisations so that they can undertake specified projects or programmes in a particular country or region.²⁴ This part covers:

- trends in the value and composition of the Department's bilateral spending through multilateral organisations;
- the range of actions being taken by the Department to improve the value for money of this spending in the round. The actions aim to have an impact at three levels:
 - Ensuring multilateral organisations are only selected when they are the best delivery route.
 - Negotiating with multilateral organisations to control costs, and improve access and the flow of information.
 - Working with multilateral organisations to develop partnership working and improve their capability, with the aim of raising their performance in delivering projects.
- the particular actions the Department is taking to improve its oversight of World Bank trust funds.

The value and composition of the Department's bilateral aid delivered through a multilateral organisation

3.2 The Department's bilateral spending through multilateral organisations declined in 2012-13 but remains the largest element of its bilateral programme.

Expenditure data published on its website by the Department at the end of November 2013,²⁵ show that the Department categorised £1,075 million of its 2012-13 bilateral spending as through a multilateral organisation.²⁶ This was down by £330 million (23 per cent) from the level in 2011-12, and the lowest level since 2008-09 (see Figure 3 on page 8 of this briefing).

²⁴ As explained in paragraph 1.3, the Department also gives core funding to multilateral organisations.

²⁵ Department for International Development, *Statistics on International Development 2012-13: GPEX tables*, November 2013, Table 2.

²⁶ In addition to sums categorised as bilateral funding through a multilateral organisation, some other categories of bilateral expenditure, such as humanitarian assistance and debt relief, are channelled via multilateral organisations. In 2011-12, a total of £244 million categorised as other forms of bilateral aid was channelled via multilateral organisations. The Department has not reported an equivalent value for 2012-13.

3.3 Over the last four years around 45 per cent of bilateral spending through a multilateral organisation has been accounted for by World Bank organisations, with a further 30 per cent accounted for by four United Nations agencies.

The Department provided us with data showing the ten multilateral organisations receiving the highest levels of bilateral funding in each of the four years to 2012-13. The World Bank Group received the highest level of funding in each of those years. There was, however, a sharp fall from the £627 million the Bank received in 2011-12 to the £343 million it received in 2012-13. The large majority of bilateral funding to the Bank goes through the trust funds it manages.²⁷ Four other organisations also appeared in the top ten in each of the last four years:

- The United Nations Development Programme (UNDP) received an average of £116 million in each of the four years to 2012-13, the equivalent of 9 per cent of the Department's total bilateral funding through multilateral organisations in this period.
- The United Nations Children's Fund (UNICEF) received an average of £108 million, 8 per cent of total bilateral funding through multilateral organisations.
- The World Health Organization (WHO) received an average of £78 million, 6 per cent of total bilateral funding through multilateral organisations.
- The United Nations Population Fund (UNFPA) received an average of £61 million, 5 per cent of total bilateral funding through multilateral organisations.

Overview of the Department's actions to improve value for money

3.4 The Department has to tailor its procedures when it decides to engage a multilateral organisation to deliver bilateral projects. Most multilateral organisations do not ordinarily compete for work and the Department does not have full freedom to specify how projects will be managed.

Multilateral organisations are usually set up by intergovernmental agreement to enable national governments to work together, including on development and humanitarian issues. Most multilateral organisations have a headquarters function that sets policies that are followed by local country based offices. The policies are relevant to the Department, as they cover areas such as cost recovery rates, reporting arrangements and audit arrangements for projects. Most multilateral organisations do not ordinarily compete for work, and, where the Department decides to use them, a memorandum of understanding rather than a contract is usually established.

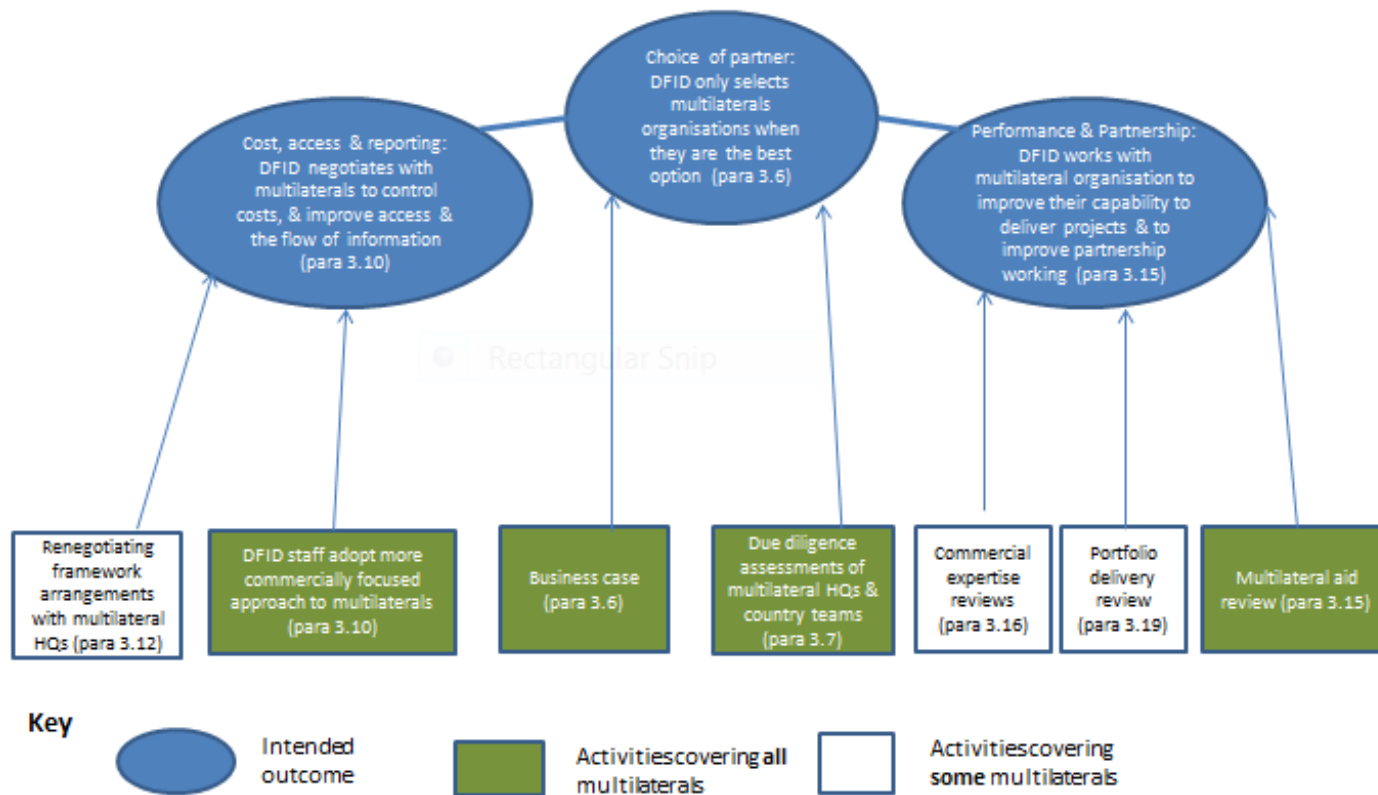
²⁷ Trust funds are vehicles for funding specific programmes in particular policy areas, regions or countries through a trustee organisation such as the World Bank. Trust funds can allow donors greater say over how funds are used, results can be easier to track and donors can pool resources and take advantage of the reach and expertise of the multilateral organisation.

3.5 The Department has, since 2012, substantially increased the attention it has given to managing bilateral spending that goes through multilateral organisations, putting in train a number of actions which aim to improve the value for money of this spending. These actions sit alongside other initiatives to improve the value for money the Department gets from all of its spending. We did not identify a plan or strategy which brought together all of the actions the Department is taking to improve its management of bilateral funding that goes through multilateral organisations, or indeed set down when their impact would be evaluated. **Figure 13** provides our overview of the main generic actions the Department is taking which are relevant to its management of bilateral funding that goes through multilateral organisations. A number of the actions are specific responses to issues raised, and recommendations made, by the Independent Commission for Aid Impact (**Figure 14** on page 37). The remainder of this part summarises the nature and coverage of the actions, with paragraphs 3.22 and 3.23 covering the particular actions the Department is taking with respect to the World Bank.

Figure 13

The Department's actions to improve the value for money of its bilateral funding through multilateral organisations

The Department has put in train a range of actions which aim to improve value for money



Notes

1. This chart shows the generic actions that the Department is taking which apply to a number of multilaterals. The specific actions the Department is taking for the World Bank are described in paragraphs 3.22 to 3.23.
2. Commercial advisers (see paragraph 5.7) provide support to the Department's staff engaging with multilateral organisations (see paragraphs 3.7 and 3.11).

Source: NAO

Figure 14

Key points from the Independent Commission for Aid Impact's reports on multilateral organisations

The Independent Commission for Aid Impact has identified scope for the Department to improve aspects of its approach to managing its bilateral spending through multilateral organisations

Key points arising from ICAI reports written since the start of 2012 include:

1. The Department should improve its oversight of the World Bank trust funds it is financing and develop a corporate strategy for allocating resources to trust funds (report on the World Bank).
2. The Department should continue to push multilateral organisations for greater transparency and clarity over their administration costs (report on UNICEF).
3. The Department needs to understand multilateral organisations strengths and capabilities at a local level before committing bilateral funding (report on the Asian Development Bank).
4. The Department could provide greater support during implementation for those projects it joint funds (report on the Asian Development Bank).
5. The Department should manage major multilateral organisations like the key strategic delivery partners they are. In doing so, the Department should maintain regular oversight of an organisation's portfolio as a whole and focus on results and value for money (report on UNICEF).

Source: NAO summary of Independent Commission for Aid Impact reports, *The Effectiveness of DFID's Engagement with the World Bank*, March 2012 p. 1; *The Effectiveness of DFID's Engagement with the Asian Development Bank*, July 2012, p.1; *DFID's work through UNICEF*, March 2013, p.1; and *Annual Report to the House of Commons International Development Committee 2012-13*, June 2013, pp. 11-19.

Ensuring multilateral organisations are only selected when they are the best option for delivering a bilateral project

3.6 The Department's business case procedures, first introduced at the start of 2011, encourage staff to invest more time in looking at alternative ways of delivering all types of projects, including alternatives to delivery by multilateral organisations. The business case process requires the Department's staff to identify a number of options for delivering a project's objectives and then compare their value for money. In 2012, the Department strengthened the appraisal and commercial sections of its business case by requiring information on capacity and capability to deliver, including at country level. The aim of the change was to ensure that plans to use multilateral organisations were properly considered and assessed alongside alternatives, such as direct procurement by the Department or a combination of direct and multilateral provision. The Department's staff looking for alternative options to delivery by multilateral organisations, can often draw on the advice of the increasing number of commercial advisers the Department is employing (see paragraph 5.7).

3.7 Due diligence procedures introduced across the Department at the start of 2013, are leading to further departmental scrutiny of all delivery partners' capability and capacity. The Department has streamlined its approach to applying due diligence procedures to multilateral organisations to better reflect their decentralised structure and to address feedback from its staff and multilateral organisations. Through due diligence, the Department aims to assess a potential partner's capacity and capability to deliver effectively a specific DFID project or programme of work. Due diligence involves assessing a partner's: systems of governance and control; ability to deliver; financial stability; and management of downstream partners.

3.8 As can be the case with the introduction of a new policy and process, there have been some internal and external concerns around the implementation of due diligence. Some of the Department's staff consider due diligence as a centrally imposed requirement and multilateral organisations have been concerned about the additional burdens due diligence may place on their staff.

3.9 The Department has taken, and continues to take, a range of actions which seek to address these concerns, including:

- developing a two-tiered due diligence approach to multilateral organisations. Central assurance assessments of an organisation's headquarters function are now being undertaken by the Department's central teams. The Department's country teams can then draw on the central assessments when they conduct focused project-specific assessments;
- providing training, support and improved guidance for country teams on how to apply due diligence procedures; and
- conducting a review of the Department's overall approach to due diligence with the intention of having a streamlined framework in place early in 2014.

Negotiating with multilateral organisations to control costs, and improve access and the flow of information

3.10 The Department is encouraging its in-country staff to adopt a more commercially focused approach to dealing with multilateral organisations with the aim of securing cost reductions. The Department wants its staff to challenge the project costs proposed by multilateral organisations. To assist its staff to do so, the Department has prepared guidance which:

- helps them understand the approaches adopted by multilateral organisations to cost recovery. These approaches vary from organisation to organisation and can be complex. For example, costs can include fixed elements set by an organisation's executive board (of which the UK is usually a member) as well as negotiable elements.

- encourages staff to consider how they can reduce costs, for example by identifying activities that can be removed or reduced, and by scrutinising elements of multilateral organisations' costs which can be higher than necessary, such as procurement, staff costs and travel.

3.11 In their negotiations with, and management of, multilateral organisations the Department's staff can often draw on the advice of commercial advisers (paragraph 5.7). A key element of a commercial adviser's role is to help the Department's staff adopt more of a strategic relationship and performance management approach to the Department's main multilateral partners, similar to the 'key supplier management' approach the Department has been adopting with its main commercial suppliers.

3.12 At the middle of November 2013, the Department was renegotiating long-standing framework arrangements it has with the headquarters of three United Nations organisations. The arrangements are important as they set down the parameters within which the organisations' country teams work with the Department on the ground. Together the three organisations (UNDP, UNICEF and UNFPA) accounted for 22 per cent of the Department's bilateral spending through a multilateral organisation between 2009-10 and 2012-13. The arrangements do not cover cost-recovery rates which are negotiated centrally within the United Nations.

3.13 The existing framework arrangements require updating to reflect the Department's new corporate requirements and policy priorities. The Department has requested nine key changes to the clauses in the framework arrangements, which include UNDP, UNICEF and UNFPA:

- putting in place stronger controls to prevent and detect fraud and corruption, cooperating on the investigation of fraud and corruption, and returning defrauded funds;
- cooperating with the Department's due diligence assessments; and
- providing better and more regular, results-based and financial reporting.

3.14 The Department told us in November that the negotiations, which started in April 2013, were expected to be concluded by the end of 2013.

Working with multilateral organisations to develop partnership working and improve their capability with the aim of raising their performance in delivering projects

3.15 The Department aims to use its Multilateral Aid Review to promote reform of multilateral organisations and thus improve their performance. The Department undertook the Multilateral Aid Review in 2011 to examine the strengths and weaknesses of multilateral organisations. Following the Review, the Department communicated its key reform priorities to each multilateral organisation. The purpose of many of the reforms, if implemented, is to improve the way organisations deliver projects on the ground. The Department conducted an update of the Review in 2013 to assess how organisations were making progress against the priority reforms it had identified.²⁸

3.16 The Department has reviewed the procurement and commercial capability of the headquarters of eight multilateral organisations with the aim of improving their practices, as procurement is often a key driver of value for money. The Department would now like to develop its approach by working with those multilateral staff that are responsible for procurement and commercial activities undertaken by country based teams. The commercial expertise reviews, which have been led by the Department's procurement group, cover: how the organisation's procurement policies and strategies are developed; the professionalism of the organisation's procurement function; the degree to which actual procurement cycles reflect good practice; and the organisation's overall commercial awareness.

3.17 Following the reviews, the Department's procurement group makes recommendations for both the multilateral organisation and the Department. The procurement group told us that the benefits of the reviews include:

- helping the multilateral organisation to improve their procurement practices, improve value for money and their commitment to collaboration; and
- improving the Department's understanding of the organisation's procurement capacity and commitment. This understanding can be utilised when the Department is designing bilateral projects and choosing its partners.

3.18 All the reviews to date have covered the head offices of multilateral organisations.²⁹ The Department is looking for opportunities to undertake similar reviews with multilateral staff responsible for country-level procurement.

²⁸ The Department for International Development, *Multilateral Aid Review Update: Driving reform to achieve multilateral effectiveness*, December 2013

²⁹ United Nations Development Programme, United Nations Children's Fund, United Nations Population Fund, World Food Programme, International Organization for Migration, CERF, the Global Fund to Fight AIDS, Tuberculosis and Malaria and the World Health Organization.

3.19 In 2013, the Independent Commission for Aid Impact found that there was little central oversight of the Department's overall relationship with UNICEF.³⁰ In response the Department is undertaking separate reviews of the full portfolio of the bilateral projects it has with UNICEF and three other key delivery partners.³¹ Each review aims to improve the Department's strategic oversight of its relationship with the multilateral organisation and identify actions that the two parties can take to improve the performance of projects.

3.20 As part of the 2013 UNICEF review, the Department: identified its country offices that are most reliant upon UNICEF to implement programmes; analysed the key points arising from the annual reviews the Department's staff had conducted on projects run by UNICEF; and obtained the views of some of its staff about UNICEF. The Department then prepared a report with recommended actions which was discussed with senior staff at UNICEF. The report identified actions that the Department and UNICEF should take to improve project design, project management and the accountability of downstream partners. The report also flagged action UNICEF should take to improve its recruitment and retention of staff.

3.21 The reviews for UNDP and UNFPA will be completed by February 2014 and May 2014 respectively.

The action the Department is taking to improve the value for money it gets from using World Bank trust funds.

3.22 The Department has taken a number of actions in response to the Independent Commission for Aid Impact's 2012 recommendation that it should improve its oversight of the World Bank's trust funds.³² The Department's actions have included the following:

- Providing greater support and guidance to its country teams and other teams that are, or are considering, funding a World Bank managed trust fund. The Department has established a set of key principles that should be applied by all its teams. The Department has also created, within the central team that manages its relationship with the World Bank, a new post. The role of the post holder includes supporting the Department's staff dealing with trust funds.

³⁰ Independent Commission for Aid Impact, *DFID's work through UNICEF*, March 2013 ,p.1.

³¹ United Nations Development Programme, United Nations Population Fund and the World Health Organization.

³² Independent Commission for Aid Impact, *The Effectiveness of DFID's Engagement with the World Bank*, March 2012, p.1.

- More frequent and structured engagement with the World Bank. For example, the Department now has regular contact with the team responsible for the Bank's policy on trust funds. As at the middle of November 2013, the Department was also in the process of completing a central assurance assessment of the World Bank as part of its new due diligence procedures (see paragraph 3.7).
- Conducting a review of the performance and costs of its portfolio of World Bank trust funds. The Department's central team responsible for managing its relationship with the World Bank now obtains information on the performance and cost of all the World Bank trust funds the Department supports. The central team has used this data, along with interviews of staff in the Department's teams that use the World Bank, as inputs into a review of the Department's portfolio of World Bank trust funds. The Department told us the portfolio review, which it was finalising at the middle of November 2013, will be used to look at whether the Department's new approach to managing World Bank trust funds is proving successful.

3.23 In its May 2013 Annual Report, the Independent Commission for Aid Impact said that, in respect of Trust Funds:

"DFID has designed a coherent policy response that balances the need for central oversight of trust funds with DFID's devolved management model."³³

³³ Independent Commission for Aid Impact, *Annual Report to the House of Commons International Development Committee 2012-13*, June 2013, p.51.

Part Four

The controls over the Department's operating costs and their impact

Main messages

The controls over the size and composition of the Department for International Development's operating costs

- *Over the period covered by the 2010 Spending Review the Department's operating costs are likely to grow by around a tenth in real terms up to a limit of £233 million, but will fall as a proportion of its total budget, to around 2.3 per cent (paragraphs 4.2 and 4.3).*
- *The Department's 2010 Spending Review settlement put in place controls which require the Department to cut administration costs by a third in real terms over the four years to 2014-15, but allow the Department to almost double its spending on front line delivery in real terms (paragraph 4.4).*

The operating cost budgets of the Department's teams

- *The Department's aid programmes are managed by its country and regional teams and its policy and international teams. Over the 2010 Spending Review period, the operating cost budgets of these teams are due to grow at a similar rate to the Department's programme budget. As a consequence, the ratio of the operating costs of these teams to programme costs - an indicator of the Department's capacity - is due to remain relatively stable (paragraph 4.5).*
- *Teams in the Department's Corporate Performance Group are due to see the cash value of their operating cost budgets cut by almost a fifth (paragraph 4.6).*

The Department's progress in reducing its administration costs

- *The Department is expecting to cut its administration costs by a third in real terms by 2014-15, largely through cutting employee and property costs (paragraphs 4.7 and 4.8).*
- *The Department expects to live within its 2013-14 administration budget of £103 million. To do so it has had to cut teams' bids for funding and meet cost pressures emerging in the year by using its small contingency*

and making internal reallocations (paragraphs 4.9 and 4.10).

- *Half of the Department's reductions in administration costs are due to be made by one of its five divisions - the Corporate Performance Group. Within this Group large reductions are being made to the budgets of a number of teams including, Human Resources Division and Business Solutions Department (responsible for DFID's IT and communications technology) (paragraph 4.11).*
- *The Department is introducing a new Human Resource system with the aim of improving process efficiency, thereby enabling it to reduce the size of its Human Resources Division and at the same time improve the value of the services that the team provides (paragraphs 4.12 and 4.13).*
- *The Business Solutions Department has contributed to reductions in the Department's expenditure on IT and communications technology services, but the team's declining budget has reduced both its capacity to develop systems and the on-going support it provides to other teams (paragraphs 4.14 and 4.15).*

The growth of the Department's front line delivery costs

- *The growth of the Department's front line delivery budget is enabling it to more than double its spending on front line staff over the 2010 Spending Review period (paragraph 4.16).*

The impact of the cost control regime on the Department's teams managing programme budgets: Overview

- *We spoke to eight teams who manage programmes about how they managed their operating costs and the impact of cost controls, including on the balance between those activities undertaken in-house and those undertaken by contractors and implementing partners (paragraph 4.17).*
- *The teams gave examples of where the cost control regime had placed some limits on the way they operated or their staff numbers, which in most cases were growing. Teams had taken account of cost controls when structuring their programmes or their approach to delivery, including what services or support to obtain from contractors or implementing partners. However, controls were not the prime driver behind such decisions. Most teams had increasing front line delivery budgets and they told us this was improving their capacity to manage their programme spend (paragraph 4.18).*

The impact of the cost control regime on the Department's policy and international teams

- *The four policy and international teams we spoke to told us that since 2010 they had changed their role or aspects of their approach to*

delivery. Teams said they had taken account of operating cost controls, but the controls were not the main impetus for the changes made (paragraph 4.19).

- *Three of the four teams had let contracts since the start of 2012, including for the provision of specialist advice for the Department's staff. Teams told us that they contracted for services when justified on value for money grounds (paragraph 4.20).*

The impact of the cost control regime on the Department's country and regional teams

- *The four country and regional teams we spoke to told us they were able to live within their smaller administration budgets, but that further reductions below levels planned for 2014-15 would be difficult to achieve. Teams had controlled their operating costs through a mix of:*
 - *reducing employee costs through making greater use of more junior staff and locally engaged staff;*
 - *closer working with the Foreign & Commonwealth Office to reduce costs, such as property and maintenance;*
 - *making use of in-house expertise to reduce training costs; and*
 - *reducing travel costs by applying new tighter central guidance and controls (paragraphs 4.21 and 4.22).*
- *The teams told us that the increase in the number of advisers they were able to fund from their front line delivery budget had improved their capacity to design programmes, thus reducing the need for external contractors (paragraph 4.23).*
- *Teams told us that, where appropriate, they were looking to rationalise their portfolio of projects and focus on a smaller number of larger interventions to improve impact and also generate efficiencies (paragraph 4.24).*
- *Teams told us they had sufficient resources to monitor existing programmes (paragraph 4.25).*

How the costs of operating the UK's aid programme compares to other donor countries

- *The best available evidence indicates that the costs of delivering UK aid are low compared to other donor countries (paragraph 4.26).*

4.1 The Department's operating costs comprise administration costs and front line delivery costs. During Spending Review 2010, HM Treasury put in place a cost control regime requiring the Department to cut its administration costs over the four years to 2014-15, and limit the growth of its total operating costs. This part covers:

- the controls over the size and composition of the Department's operating costs;
- the operating cost budgets of the Department's teams;
- the Department's progress in reducing its administration costs;
- the composition of the Department's front line delivery costs;
- the impact of operating cost controls on teams; and
- how the costs of operating the UK's aid programme compares to other donor countries.

In preparing this part of the Briefing we examined the Department's financial data, including divisional budgets³⁴, and spoke to ten of the Department's teams about how they managed their operating costs and the impact of cost controls.³⁵

³⁴ At the middle of November 2013, the Department was reviewing indicative allocations for operating costs for 2014-15 in the light of emerging cost pressures, particularly in its administration budget (see paragraph 4.9), and so it is likely that final budgets for individual divisions will be somewhat different from those presented within this brief.

³⁵ We spoke to two teams from Corporate Performance Group (Human Resources Division and Business Solutions Group, who are responsible for IT and communications technology), four country and regional teams (Asia Regional, Sudan, Mozambique and Bangladesh) and four policy and international teams (Evaluation Department, Civil Society Department, United Nations and Commonwealth Department and Conflict, Humanitarian and Security Department).

The controls over the size and composition of the Department's operating costs

4.2 Over the period covered by the 2010 Spending Review the Department's operating costs are likely to grow by around a tenth in real terms up to a limit of £233 million, but will fall as a proportion of its total budget, to around 2.3 per cent. The Department's operating cost budget was agreed in the 2010 Spending Review (**Figure 15** overleaf).³⁶ The Review used a baseline figure of £200 million for 2010-11. After the baseline was set in autumn 2010, the Department took action to reduce its operating costs, and actual outturn for 2010-11 was lower at £189 million. The Department's 2014-15 operating cost budget of £233 million represents a 7 per cent real terms increase over the 2010-11 baseline it agreed with HM Treasury, or a 14 per cent real terms increase over 2010-11 outturn.³⁷

4.3 The Department's operating costs are expected to grow at a slower rate than its programme expenditure, which is due to increase by 24 per cent in real terms in the four years to 2014-15.³⁸ As a consequence, the Department's operating costs are due to fall from 2.5 per cent of its total budget in 2010-11, to 2.3 per cent in 2014-15.

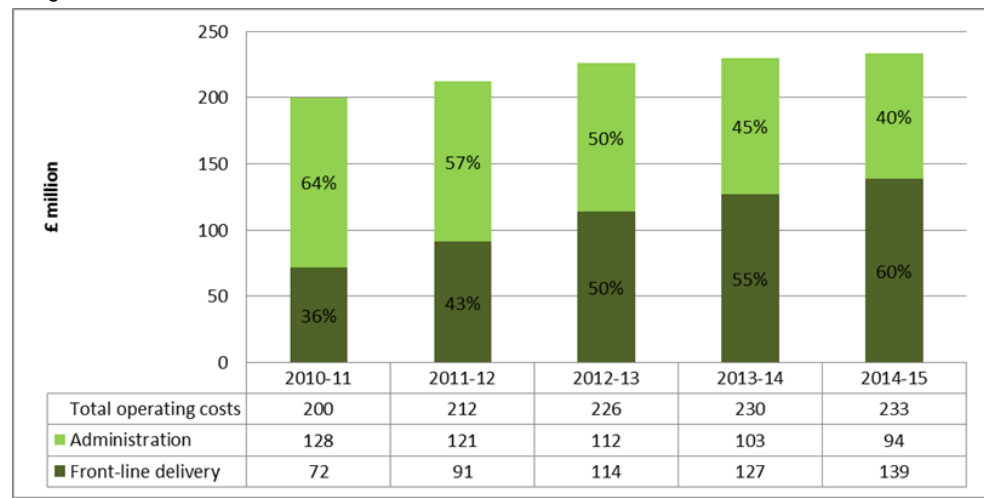
³⁶ HM Treasury has made a number of reductions to the Department's total programme budget since Spending Review 2010 to reflect lower than expected levels of economic growth. However, HM Treasury has not changed the Department's operating cost budgets.

³⁷ In paragraphs 4.2 and 4.4, where we discuss the growth of Department's overall funding and budget, we have included values showing real terms growth. Elsewhere in this part our commentary focuses on the funding and budgets given to individual teams or groups of teams. In these paragraphs we focus on nominal (i.e. cash) values to maintain consistency with values used by the Department, and because blanket application of the UK GDP deflator to individual teams risks being misleading. The effective inflation rate experienced by the Department's teams operating overseas will vary by country, reflecting movements in local prices and exchange rates.

³⁸ We have used 2010-11 outturn as our baseline for this calculation. If the Department's 2010-11 budget is used then the increase is 23 per cent.

Figure 15**The composition of the Department's operating cost budget (£ million)**

The cash value of the Department's operating cost budget grows over the 2010 Spending Review period, as reductions in its administration budget are more than offset by increases in its front line delivery budget

**Notes**

1. These budgets were set during Spending Review 2010 and have not been revised since.
2. Actual administration costs (£124 million) and actual front line delivery costs (£65 million) in 2010-11 were lower than the baselines agreed with HM Treasury in October 2010.
3. Front line delivery costs are funded from the Department's programme budget.
4. All values in cash terms.

Source: NAO presentation of material from the Department for International Development and from HM Treasury, *Spending Review 2010*, Cm 7942, October 2010

4.4 The Department's 2010 Spending Review settlement put in place controls which require the Department to cut administration costs by a third in real terms over the four years to 2014-15, but allow the Department to almost double its spending on front line delivery in real terms with:

- the Department's **administration budget** falling to £94 million in 2014-15 (Figure 15).³⁹ The budget covers the cost of back-office functions, such as finance and human resources, and includes UK accommodation costs. The budget is net of income and is for resource expenditure.⁴⁰
- the **front line delivery**⁴¹ budget increasing to £139 million in 2014-15 (Figure 15). The front line delivery budget covers the cost of front line staff, including pay, travel costs and training, as well as the costs of overseas offices. HM Treasury increased this budget to enable the Department to increase the number of staff it had to manage its programme budget.

The operating cost budgets of the Department's teams

4.5 The Department's aid programmes are managed by its country and regional teams and its policy and international teams. Over the 2010 Spending Review period the operating cost budgets of these teams are due to grow at a similar rate to the Department's programme budget. As a consequence, the ratio of the operating costs of these teams to programme costs - an indicator of the Department's capacity - is due to remain relatively stable. The reductions in the administration budgets of these teams over the 2010 Spending Review period are more than offset by increases in their front line budgets (**Figure 16** on page 51).

- The total operating cost budgets of the Department's country and regional teams are due to increase by 48 per cent in cash terms over the 2010 Spending Review period to £140 million (Figure 16). These teams are largely based overseas and manage the majority of the Department's bilateral spending. In 2010-11, the total operating costs of these teams was equal to 3.0 per cent of their programme expenditure. Based on current budgets, the equivalent value in 2014-15 will be 3.2 per cent.⁴²

³⁹ As part of the 2010 Spending Review settlement, the Department and HM Treasury agreed redefinitions of administration and front line delivery costs. The new definitions were reflected in the baselines set at the time and are shown in Figure 1. The new definition saw some costs previously categorised as administration, such as staff based in the UK (for example for security reasons) who manage country or regional bilateral programmes and the costs of security in the Department's overseas offices, reclassified as front line delivery.

⁴⁰ The administration budget excludes administration capital expenditure and depreciation, which are covered by other budgets or controls. As the administration budget excludes depreciation it is not on the same basis as the values for administration costs that appear in the Department's Accounts.

⁴¹ Front-line delivery costs were previously called programme support costs.

⁴² The 2014-15 budget figures are based on the indicative allocations agreed at January 2013.

- The total operating cost budgets of the Department's policy and international teams are due to increase by 25 per cent to £45 million in the four years to 2014-15. These teams are largely based in the UK. They include those that develop policy on issues such as climate change and governance, and teams that manage the Department's relationship with the headquarters of multilateral organisations. In 2010-11, the total operating costs of these teams was equal to 0.8 per cent of their programme expenditure. Based on current budgets the equivalent value in 2014-15 will be 0.9 per cent.⁴³

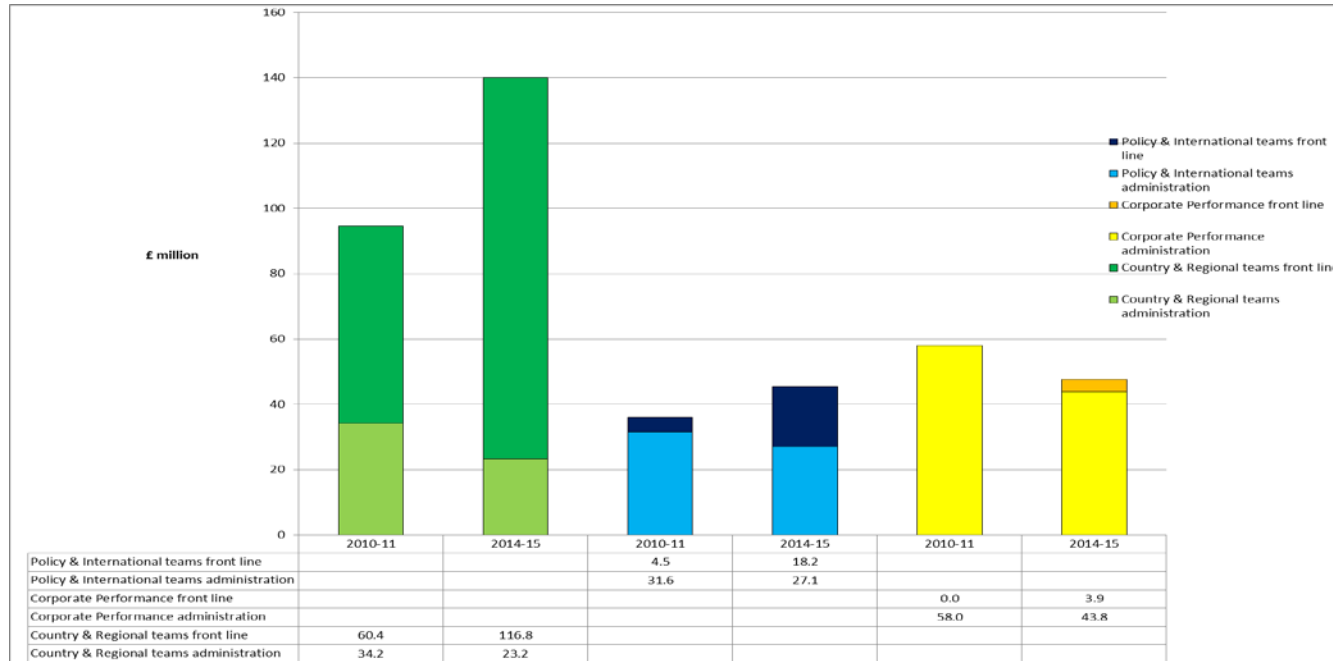
4.6 Teams in the Department's Corporate Performance Group are due to see the cash value of their operating cost budgets cut by almost a fifth. These teams include Human Resources Division and Business Solutions Department (responsible for the Department's IT and communications technology). The total operating cost budgets of teams in the Department's Corporate Performance Group are due to fall by 18 per cent to £48 million by 2014-15.

⁴³ The low ratio of operating costs to programme expenditure for these teams, in part, reflects that some of them oversee large sums of core funding to multilateral organisations.

Figure 16

Operating costs by category of team (£ million)

The operating costs of country & regional teams and policy & international teams are due to increase in cash terms, whilst the operating costs of those in Corporate Performance Group are being reduced



Notes

1. All values in cash terms.
2. Values for 2014-15 are based on the indicative allocations agreed at January 2013

Source: NAO presentation of departmental data

The Department's progress in reducing its administration costs

4.7 The Department is expecting to cut its administration costs by a third in real terms by 2014-15, largely through cutting employee and property costs. In 2011-12, the Department reduced its administration costs by £21 million (17 per cent) to £103 million (**Figure 17**). Employee costs, the largest component of administration expenditure, accounted for £13 million of the reduction in 2011-12 (Part Five discusses the Department's workforce). There were also significant reductions in communications and information technology and consultancy, service and supply costs which continued in 2012-13. Over the two years to 2012-13, the costs of communications and information technology reduced by a total of £4.1 million (48 per cent) and consultancy, service and supply costs by £2.7 million (57 per cent) (**Figure 18** overleaf).

4.8 The Department's administration costs remained at £103 million in 2012-13. It forecasts costs will be at a similar level in 2013-14, and then fall so that it lives within its 2014-15 budget of £94 million. The Department expects to achieve the cost reduction in 2014-15 by halving its property costs to £11 million.

- The relocation of the Department's London headquarters to 22-26 Whitehall in early 2013 is expected to deliver savings of around £6.5 million in 2014-15.⁴⁴ As we reported last year, the relocation was expected to put the Department at the heart of government and thus improve joint working with other departments. With 22-26 Whitehall smaller than the Department's previous London office, the Department has taken the opportunity to adopt flexible working practices to improve the efficiency and cost-effective utilisation of space. Some posts were relocated to East Kilbride, thus boosting the variety of posts in Abercrombie House.⁴⁵
- The Department is planning to relinquish a lease when it expires next year and which it has held under an agreement since the 1980s on a property in Chatham, which is expected to reduce net costs by around £3.4 million in 2014-15. Currently, the Department does not use the property, which costs around £8.7 million per annum, so it sub-leases it, receiving income of around £5.3 million per annum.⁴⁶

⁴⁴ The relocation took place in early 2013. In 2013-14, on-going savings from the move are being offset by one-off costs associated with the move and the property it had occupied in Palace Street. The Department has now disposed of the Palace Street lease.

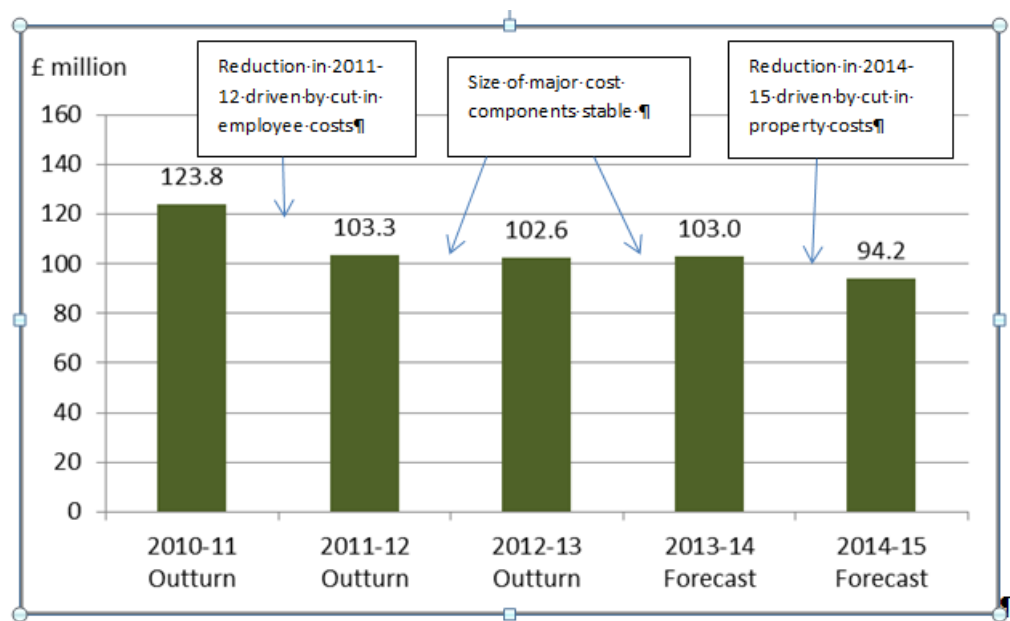
⁴⁵ NAO, *Briefing to support the International Development Committee's inquiry into the Department for International Development's Annual Report and Accounts 2011-12*, June 2012, p 27

⁴⁶ The site is wholly used by the University of Greenwich.

Figure 17

The Department's administration costs (£ million)

The cash value of the Department's administration expenditure is due to fall by £30 million in the four years to 2014-15.



Note

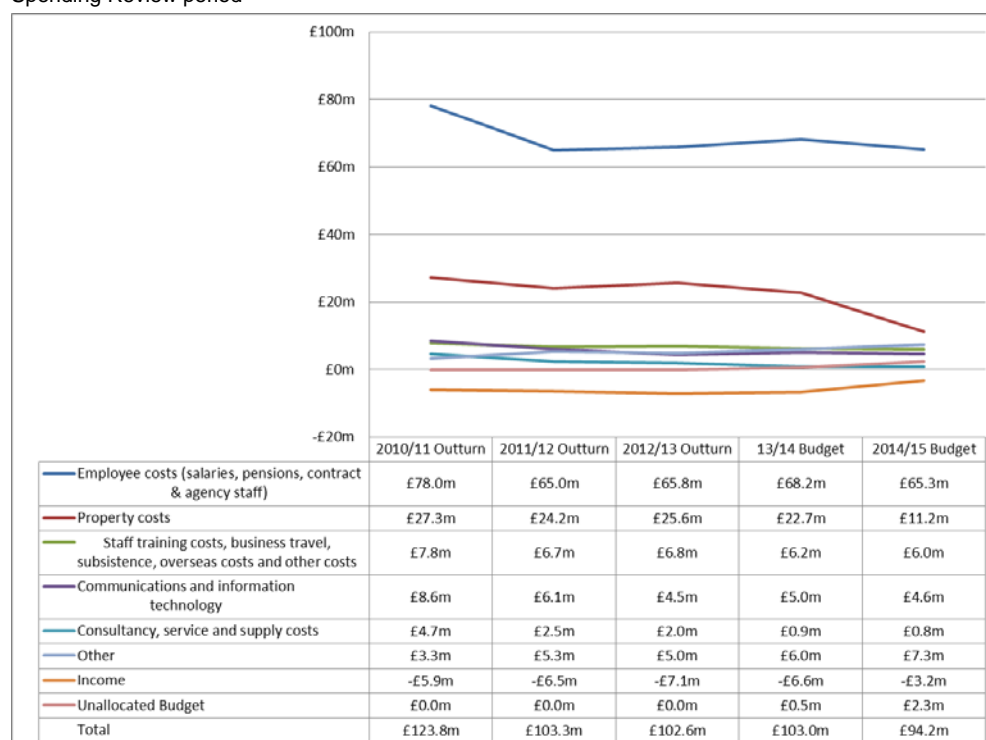
1. All values in cash terms

Source: NAO presentation of Department data

Figure 18

The composition of the Department's administration cost budget (£ million)

Employee costs and property costs - the largest components of the Department's administration expenditure - are expected to deliver most of the cash savings the Department must make over the 2010 Spending Review period



Notes

1. 'Other' covers a wide range of items including office equipment and health services.
2. The values for total administration expenditure in 2010-11 and 2011-12 are consistent with those presented in the NAO's 2012 briefing on the Department's 2011-12 Annual Report and Accounts. However, to enable consistent presentation with budget data for 2013-14 and 2014-15 some components are different from the previous briefing.
3. All values in cash terms.
4. Values for 2014-15 are based on the indicative allocations agreed at January 2013.

Source: NAO presentation of departmental data

4.9 The Department expects to live within its 2013-14 administration budget of £103 million, but to do so it has had to cut teams' bids for funding and meet cost pressures emerging in the year by using its small contingency and making internal reallocations. In autumn 2012 teams made bids for resources for 2013-14 and 2014-15. Bids exceeded the administration budget by around 10 per cent for both years.⁴⁷ The Department addressed the budget shortfall by reducing the bids of all teams, with the largest reductions made to those teams whose overall operating costs had grown in the two years to 2012-13.

4.10 The Department decided to hold a small central contingency of £0.5 million for 2013-14. The contingency has not been able to cover all emerging pressures, such as increased security and staff costs in both Afghanistan and Pakistan, and the budget required for the Department's new Syria team.⁴⁸ The Department had therefore met some of the cost pressures by using funds released in-year by other teams. At the middle of November 2013 the Department was forecasting an overspend of £0.9 million for 2013-14. It therefore reviewed the spending plans of its divisions for the remainder of the year; and by the middle of December 2013 the forecast overspend had fallen to £0.4 million.

4.11 Half of the Department's reductions in administration costs are due to be made by one of its five divisions - the Corporate Performance Group. Within this Group large reductions are being made to the budgets of a number of teams including, Human Resources Division and Business Solutions Department (responsible for DFID's IT and communications technology). We spoke to both teams to understand their approaches to cost reduction. Both had undertaken a fundamental review of their functions in order to identify areas for savings.

4.12 The Department is introducing a new Human Resource system with the aim of improving process efficiency, thereby enabling it to reduce the size of its Human Resources Division and at the same time improve the value of the services that the team provides. The new HR Passport system was being introduced as we conducted our research for this brief. The system, which is costing around £5 million, aims to simplify and 'e-enable' human resource processes such as payroll and the generation of data on staff absence. The Department estimates the system will generate savings of over £1 million per annum from 2014-15, the majority of which will come from reducing the size of the Human Resources Division. Additional savings are expected to be generated across the Department by improving self-service functionality, thereby reducing or removing transactional activity, improving processes and providing better access to guidance and management information.

⁴⁷ For front line delivery, bids exceeded the 2013-14 budget by £4.9 million (3.8 per cent) but were £2.1 million (1.5 per cent) less than the 2014-15 budget.

⁴⁸ The Department's new Syria team has also created pressure on the 2013-14 front line delivery budget.

4.13 During 2013-14, the Human Resources Division is undertaking a significant change programme at the same time as the HR Passport system is introduced. The Division is reducing in size by around 30 per cent but will have a more senior grade profile. This change will enable more strategic engagement with the rest of the Department, with the aim of the Division directly contributing to the achievement of the Department's goals.

4.14 The Business Solutions Department has contributed to reductions in the Department's expenditure on IT and communications technology services, but the team's declining budget has reduced both its capacity to develop systems and the on-going support it provides to other teams. In the two years to 2012-13, the Department cut its expenditure on its overseas telecommunications infrastructure from £4.5 million per year to £3.2 million per year; this includes a £1 million pound reinvestment for additional bandwidth to support the Department's growth overseas and provide additional capability and improved resilience. The Business Solutions Department has also cut costs by renegotiating licence fees on software.⁴⁹

4.15 The Business Solutions Department told us that it was applying 'Agile techniques'⁵⁰ to help it focus resources on the activities and projects that will deliver the most value to the organisation, It said that, although still relatively immature in the Department, the adoption of 'Agile techniques' was facilitating faster delivery and a stronger user focus. However, cuts to the Business Solutions' budget and staffing are impacting on some of the services it provides to the wider business.⁵¹ In particular:

- The Business Solutions Department no longer has the developer capacity to work on major developments concurrently. For example, it has supported the HR Passport system but has had to delay its plans to improve the Department's document management system and its finance, procurement and project management system (ARIES).
- Business Solutions' helpdesks now meet, rather than exceed, service levels agreed with the wider business. The team told us that before 2011-12 it had regularly exceeded service levels. It had therefore reduced staffing, including external contractors, to the level required to meet agreed service levels, saving around £1 million per annum.

⁴⁹ For example, the removal of MS Office product assurance from the Enterprise License Renewal saved £0.5 million over three years

⁵⁰ 'Agile techniques' or the 'Agile methodology' is an approach to software development which seeks to help business to manage the unpredictability they face when developing new systems.

⁵¹ In addition to its resource administration budget referred to in paragraph 4.11, Business Solutions Department also has a capital administration budget which includes the cost of staff developing new systems. The team's capital budget is also being cut over the 2010 Spending Review period.

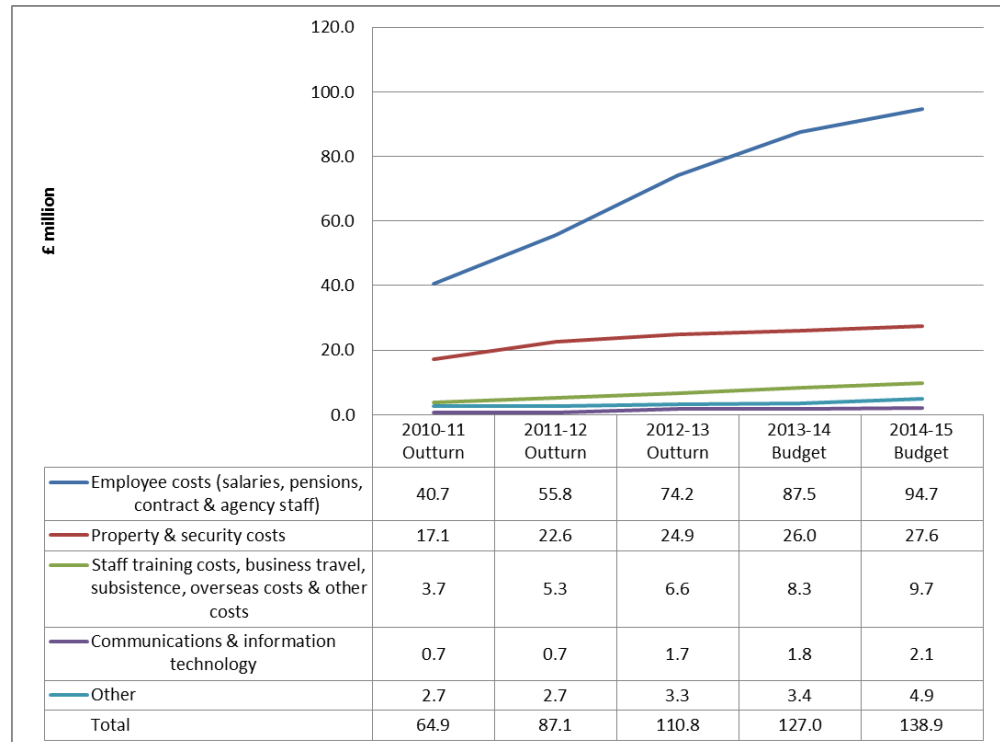
The growth of the Department's front line delivery costs

4.16 The growth of the Department's front line delivery budget is enabling it to more than double its spending on front line staff over the 2010 Spending Review period. Around two-thirds of the Department's front line budget goes on employee costs, with the majority of the remainder going on property costs. In the two years to 2012-13 spending on employee costs increased by £33 million (80 per cent) to £74 million. A further increase of £21 million is expected by 2014-15 (**Figure 19**). The employee costs of UK civil servants in front line delivery posts are increasing from £32 million in 2010-11 to an expected £78 million in 2014-15. The employee costs of staff appointed in country are also increasing from £9 million in 2010-11 to an expected £16 million in 2014-15.

Figure 19

The composition of the Department's front line delivery budget (£ million)

Employee costs account for around two thirds of front line delivery costs



Notes

1. All values in cash terms.
2. Values for 2014-15 are based on the indicative allocations agreed at January 2013.

Source: NAO presentation of departmental data

The impact of the cost control regime on the Department's teams managing programme budgets

Overview

4.17 We spoke to eight teams who manage programmes about how they managed their operating costs and the impact of cost controls, including on the balance between those activities undertaken in-house and those undertaken by contractors and implementing partners. The costs of contractors and partners, such as multilateral organisations, fall to programme budgets if their work will have a direct impact on international development.⁵²

4.18 The teams gave examples of where the cost control regime had placed some limits on the way they operated or their staff numbers, which in most cases were growing. Teams had taken account of cost controls when structuring their programmes or their approach to delivery, including what services or support to obtain from contractors or implementing partners. However, controls were not the prime driver behind such decisions. Most teams had increasing front line delivery budgets and they told us this was improving their capacity to manage their programme spend. Front line budgets had enabled teams to increase the number of specialist advisers whose roles often included designing projects and engaging with partners. Two of the teams said, however, that due to limits on their operating cost budget they did not have advisers to cover all of the sectors they were working in or wished to work in.

Policy and international teams

4.19 The four policy and international teams told us that since 2010 they had changed their role or aspects of their approach to delivery. Teams said they had taken account of operating cost controls, but the controls were not the main impetus for the changes made. All four teams had conducted a review of their role or their role had been significantly affected by wider developments.

⁵² We spoke to four country and regional teams (Asia Regional, Sudan, Mozambique and Bangladesh) and four policy and international teams (Evaluation Department, Civil Society Department, United Nations and Commonwealth Division and Conflict, Humanitarian and Security Department). We categorised the Conflict, Humanitarian and Security Department as a policy and international division because its programme includes a number of elements - such as its advisory and policy role - which differentiates it from the Department's teams that focus on a particular country or region.

- Following the creation in 2011 of the Independent Commission for Aid Impact (ICAI), the role of the DFID's Evaluation Department changed from commissioning evaluations to supporting and quality assuring evaluations conducted by operational teams with the aim of complementing the functions of ICAI. As a consequence, the Evaluation Department's budget and staffing were cut in 2011-12.⁵³
- The operating cost budget and staffing of the Conflict, Humanitarian and Security Department has been increased since 2010-11. The increases reflect additional responsibilities the team had acquired as a result of the 2011 Humanitarian Emergency Response Review⁵⁴ and the Government's Building Stability Overseas Strategy.⁵⁵
- In 2013 the United Nations and Commonwealth Department decided that the best way to improve DFID's influence was to locate more staff in key locations where UN organisations were headquartered, rather than in East Kilbride. The United Nations and Commonwealth Department told us that to control the cost of salaries and allowances it decided to recruit locally engaged staff, as experience had shown that they could recruit high-quality staff in the local market in New York and Geneva. The team also decided to focus its attention on a smaller number of priority reform areas.
- In 2010 the Civil Society Department carried out a portfolio review to assess the scale and impact of all of DFID's work with civil society. The review identified that costs could be reduced, and risks better managed, if funding was rationalised into a smaller number of schemes. The Department has adopted this approach, with the Civil Society Department rationalising the number of central funding schemes it manages while retaining the capacity to make grants to smaller non-governmental organisations.⁵⁶ The team also told us that it had employed more specialist staff, including economists and evaluators. The role of these staff includes work with non-governmental organisations to improve their efficiency and effectiveness and lesson learning within the Department and across the UK civil society sector.

⁵³ In addition to the establishment of ICAI, the Department has since April 2011 increased the number of advisers in its evaluation cadre.

⁵⁴ *Humanitarian Emergency Response Review*, Chaired by Lord Ashdown, March 2011, available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/67579/HERR.pdf

⁵⁵ Department for International Development, the Foreign & Commonwealth Office and the Ministry of Defence, *Building Stability Overseas Strategy*, July 2011

⁵⁶ For example, the Department's Global Poverty Action Fund has two components, one of which provides funding for small UK-based organisations.

4.20 Three of the four teams had let contracts since the start of 2012, including for the provision of specialist advice for the Department's staff. Teams told us that they contracted for services when justified on value for money grounds.

The contracts let by the teams included the following.

- The Conflict, Humanitarian and Security Department manages a number of contracts, including two call-down contracts with a total value of £2.3 million that give DFID staff access to specialist advice. One of these contracts enables staff to get advice on how to address violence against women and girls in their programmes. The second enables staff to get advice on improving approaches to results, value for money and evaluation of conflict, security and justice programmes. The Conflict, Humanitarian and Security Department told us that help desks both improve staff access to expertise and help to manage 'lumpy' demand for advice.
- In 2012 the Evaluation Department let a contract to provide staff in DFID's operational teams with greater access to advice on the planning and design of evaluations. The Evaluation Department also established a framework agreement with suppliers able to deliver evaluations (see **Figure 20**).
- The Civil Society Department team had prior to the 2010 Spending Review period employed contractors to conduct a range of tasks, such as undertaking due diligence on non-governmental organisations, managing some funds and carrying out evaluations. In 2012 the team re-let the contract for managing the final phase of one of its funds. The team told us that it had negotiated a cost reduction of around 19 per cent (or £0.4 million per annum). The team also told us that as its expertise and capacity increases its use of contractors is likely to decline.

The fourth team, the United Nations and Commonwealth Department, told us that it had not used contractors in 2012-13 or in the first six months of 2013-14.

Figure 20

Summary of the contract and framework agreement for evaluation services established by the Evaluation Department in 2012

Contract: In December 2012, the Evaluation Department agreed a three-year contract (with the potential for a one-year extension) worth £832,000 for the provision of expert advice on evaluation planning and design, on a demand led basis. This Specialist Evaluation and Quality Assurance Service (SEQAS) assists staff in DFID's operational teams to choose from the range of methods, approaches and designs for monitoring reviews and evaluations, including impact evaluations. SEQAS also undertakes quality assurance of the terms of reference generated by DFID staff and inception and final reports prepared by those undertaking evaluations. Such quality assurance is a DFID mandatory requirement. For the International Climate Fund, SEQAS's services can also be accessed by the Department of Energy & Climate Change and the Department for Environment, Food & Rural Affairs. The Evaluation Department expects the need for such support to reduce over time as DFID's own evaluation capacity and capability increases. It is possible, however, that there will continue to be a small demand for external specialist skills.

Framework agreement: The Evaluation Department established the Global Evaluation Framework Agreement (GEFA) in August 2012, which will run for two years with the possibility of up to two extensions of one year each. The purpose of the GEFA is to provide staff in DFID's operational teams with access to a panel of 27 pre-qualified suppliers able to deliver evaluations, across a wide range of thematic areas, which adhere to the Quality Standards for Development Evaluation set by the Organisation for Economic Co-operation and Development's Development Assistance Committee. The GEFA is also available to programmes funded through the International Climate Fund, jointly managed by DFID, the Department of Energy & Climate Change and the Department for Environment Food & Rural Affairs. There is no value attached to the GEFA itself as a financial value is awarded to each individual call-down contract. The GEFA's terms of reference quoted the potential level of business to be around £150 million based on an analysis of what DFID and the International Climate Fund may decide to evaluate. As at October 2013, 23 contracts had been let with a total value just over £19 million. There are also a further 20 live competitions under way with a total value of around £17 million, with a further seven call-downs due to be actioned, with a value of around £5 million.

Source: NAO

Country and regional teams

4.21 We asked the four country and regional teams how they managed their operating costs and the impact of the cost control regime on the design and management of their projects.

4.22 The teams told us they were able to live within their smaller administration budgets, but that further reductions below levels planned for 2014-15 would be difficult to achieve. Two or more teams said they were taking the following actions to control their operating costs.⁵⁷

- **Teams were reducing employee costs through making greater use of more junior staff and locally engaged staff which cost less than home civil servants.** Mozambique had reduced costs by combining posts and appointing a lower graded member of staff as a team leader. Sudan and Bangladesh had employed more locally engaged staff.
- **The three teams based exclusively overseas were reducing some costs, such as property and maintenance, through closer working with the Foreign & Commonwealth Office.**⁵⁸ Sudan told us closer working with the Foreign & Commonwealth Office had improved joint working as well as generated savings. Mozambique had made savings through using British High Commission housing and jointly contracting for health and security services. Bangladesh had also made savings by sharing teams covering estates, transport and communications with other government departments located in Dhaka. In November 2013, the DFID team in Dhaka moved into an office in the British High Commission.
- **The three teams based exclusively overseas were increasingly using local training and making use of in-house expertise to reduce training costs.**
- **Teams' travel costs had declined as a result of applying new tighter central guidance and controls** such as using economy flights.

4.23 The teams told us that the increase in the number of advisers they were able to fund from their front line delivery budget had improved their capacity to design programmes, thus reducing the need for external contractors. The business case procedure introduced in 2012 has required more time to be spent designing projects. Typically, teams use their own advisers to design projects and prepare business cases with input from other team members and advisers in other teams.⁵⁹ Bangladesh, Sudan and Asia Region told us that the increase in advisers had reduced the input they needed from contractors in designing programmes.

⁵⁷ See paragraph 4.17 for the details of the teams we spoke to.

⁵⁸ The majority of staff in the fourth team, Asia Regional, are based in the UK.

⁵⁹ All advisers are encouraged to spend 10 per cent of their time assisting other teams.

Bangladesh also said that improved sharing of information within the Department had reduced the need for contractors.

4.24 Teams told us that, where appropriate, they were looking to rationalise their portfolio of projects and focus on a smaller number of larger interventions to improve impact and also generate efficiencies. Three teams told us they wanted to increase the size of some of their projects, including:

- Sudan is moving to larger, longer-term relationships with fewer partners to reduce transaction costs and encourage partners to work together.
- Bangladesh has moved to a strategic funding relationship worth £223 million over five years with a large Bangladesh-based non-governmental organisation. The team had been impressed by the organisation's performance in previous years. It sees the new relationship as similar to budget support.⁶⁰

4.25 Teams told us they had sufficient resources to monitor existing programmes. Asia regional said that cost controls might, over time, limit its capacity to monitor programmes, but there was no evidence that had happened yet. Sudan said that obtaining government approval was the main barrier to conducting sufficient field visits.

How the costs of operating the UK's aid programme compares to other donor countries

4.26 The best available evidence indicates that the costs of delivering UK aid are low compared to other donor countries. Care needs to be taken in comparing costs with other donor countries as: there are difficulties in obtaining comparable data due to differences in definition; data are only available on a national rather than an agency basis; and differences in the way in which donors spend aid will impact on delivery costs. Latest figures available from the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) indicate that, for the UK as a whole, the cost of delivering aid accounted for 2.5 per cent of total UK Overseas Development Assistance in 2012; this was over 2 percentage points lower than the average for all OECD donors. For the ten largest donors, delivery costs averaged 5.2 per cent, with Germany (3.1 per cent) having the next lowest delivery costs to the UK.⁶¹

⁶⁰ DFID Bangladesh is jointly funding the Bangladesh-based non-governmental organisation with AusAid, and has thus been able to share the costs of due diligence and monitoring.

⁶¹ Organisation for Economic Co-operation and Development, the Development Assistance Committee, International Development Statistics (IDS) online databases accessed 22 November 2013 <http://stats.oecd.org/Index.aspx?datasetcode=TABLE1>

Part Five

The Department's workforce

Main messages

The growth, location and seniority of the Department's workforce

- *The Department for International Development's (the Department's) workforce grew by 20 per cent between March 2011 and September 2013. The Department expects that over the period to March 2015 its workforce will grow at a much slower rate or indeed remain stable (paragraphs 5.2 and 5.3).*
- *Increasingly the Department's staff are based overseas with a smaller proportion based in the UK (paragraph 5.4).*
- *The percentage of the Department's staff in senior roles has increased since March 2011, with East Kilbride experiencing the largest increase (paragraph 5.5).*

The growth of the Department's cadre of advisers and programme managers

- *By summer 2013 the Department had some 850 accredited professional advisers, around double April 2011 levels (paragraph 5.6).*
- *To develop its commercial capacity, the Department introduced a new role of commercial adviser in late 2010. As at November 2013 the Department had 13 commercial advisers, with plans to increase numbers to 17 by early 2014 (paragraphs 5.7 and 5.8).*
- *During 2012-13 the Department increased the attention it gave to developing its programme management capability, which the Independent Commission for Aid Impact has identified as a key area for improvement (paragraphs 5.9 and 5.10).*
- *A key element of the Department's approach to developing its programme management capability is the establishment of a cadre of programme managers (paragraph 5.11).*

The length of postings of home civil servants to overseas locations

- *Home civil servants are usually posted to country offices for an initial three-year tour, but there are shorter postings to six of the Department's priority countries and four other locations (paragraphs 5.12 and 5.13).*

The Department's strategy for staffing posts in fragile states

- ***The Department is developing a new strategy to address the challenges it faces in staffing its offices in fragile states such as Pakistan. It wants to manage the number of posts in fragile states, prioritise deployment to those posts, encourage staff to work in fragile locations and support them to do so (paragraph 5.14).***

5.1 This part updates the briefing we prepared last year which discussed changes to the Department's workforce. It covers the:

- growth, location and seniority of the Department's workforce;
- growth of the Department's cadre of advisers and its new programme management cadre;
- length of postings of home civil servants to overseas locations; and
- the Department's strategy for staffing posts in fragile states.

The growth, location and seniority of the Department's workforce

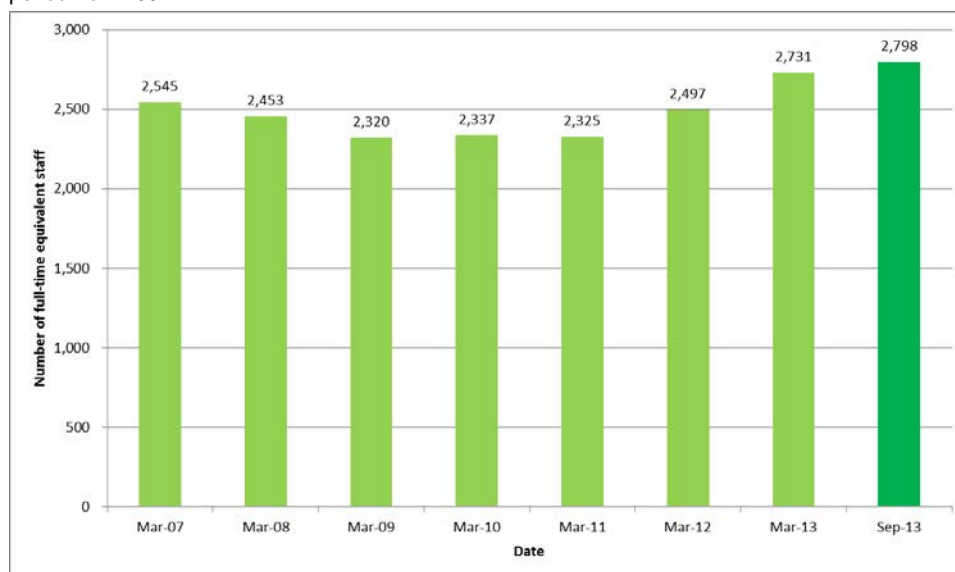
5.2 The Department's workforce grew by 20 per cent between March 2011 and September 2013. The Department expects that over the period to March 2015 its workforce will grow at a much slower rate or indeed remain stable. We reported last year that the Department's workforce was due to grow by 23 per cent over the four-year period covered by the 2010 Spending Review.⁶² In the period April 2011 to September 2013 the Department's workforce increased by 473 full-time equivalents to reach to 2,798. **Figure 21** overleaf shows the Department's workforce at September 2013 was larger than at any time in the period from 2007.

5.3 The Department's latest workforce plans prepared by its divisions in September 2013 indicate a desire to increase the number of posts by around 5 per cent in 2014-15. However, as at the middle of November 2013, the Department's administrative and front-line delivery budgets do not provide the necessary funding for these posts (see paragraph 4.9). The Department was therefore doing further work before setting final operating cost budgets for 2014-15.

⁶² NAO, *Briefing to support the International Development Committee's inquiry into the Department for International Development's Annual Report and Accounts 2011-12*, December 2012, p.29.

Figure 21**Number of staff employed by the Department,**

The number of full-time equivalent staff at September 2013 exceeded the number at any time in the period from 2007

**Notes**

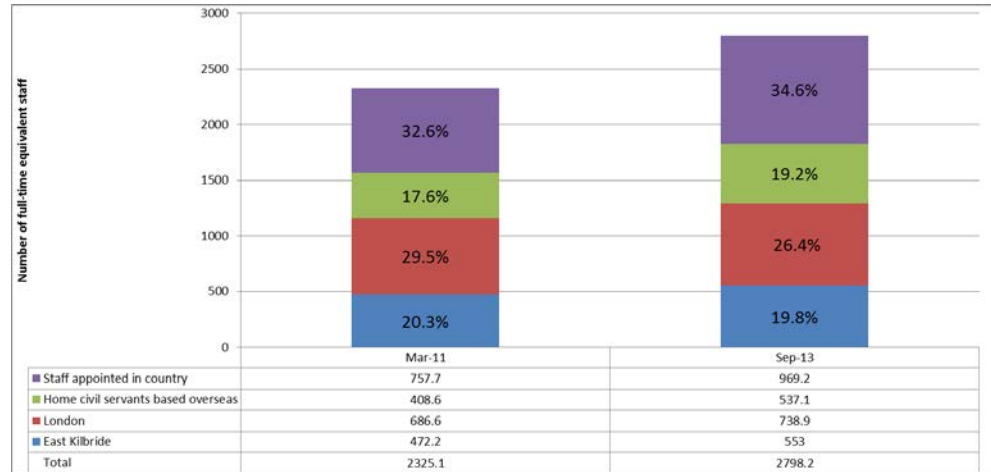
1. The overall numbers represent a breakdown of all staff on headcount and paid by the Department. The numbers exclude those paid by other organisations, staff who are on unpaid maternity or discretionary leave and those who are in graduate or development scheme placements.

Source: NAO presentation of departmental data

5.4 Increasingly the Department's staff are based overseas with a smaller proportion based in the UK. The Department's country offices are staffed by home civil servants on overseas tours and staff appointed in-country. Between March 2011 and September 2013 the percentage of the Department's staff based overseas rose by 4 percentage points to 54 per cent, with staff appointed in-country and home civil servants based overseas each accounting for about 2 percentage points of that growth (**Figure 22**). The percentage of staff based in London has fallen by 3 percentage points while the percentage in East Kilbride has fallen by half a percentage point.

Figure 22**Location of the Department's staff**

The proportion of the Department's staff located overseas has grown between March 2011 and September 2013 while the proportion based in London has fallen

**Notes**

1. Breakdown of location is against overall numbers for March 2011 and September 2013 presented in Figure 21.

Source: NAO presentation of departmental data

5.5 The percentage of the Department's staff in senior roles has increased since March 2011, with East Kilbride experiencing the largest increase.

By September 2013, staff from the top two bands (Senior Civil Servants and Band A staff) made up 51 per cent of total staff posts; up 4 percentage points on the level at March 2011. The increasing seniority of staff, and the overall growth in staff numbers, has been driven by the rapid increase in Band A staff reflecting the growth in the number of advisers employed by the Department (see paragraph 5.6). The number of Band A staff had risen by a third to 1,349 between March 2011 and September 2013 (Figure 23 overleaf). Over the same period, the percentage of staff based in East Kilbride in Band A or Senior Civil Service posts rose by 10 percentage points to 50 per cent, while the percentage in London rose by 6 percentage points to 65 per cent. A Band A post is the most senior that staff appointed in-country can hold.⁶³ Between March 2011 and September 2013, the percentage of staff appointed in-country in Band A posts rose by 4 percentage points to 22 per cent.⁶⁴

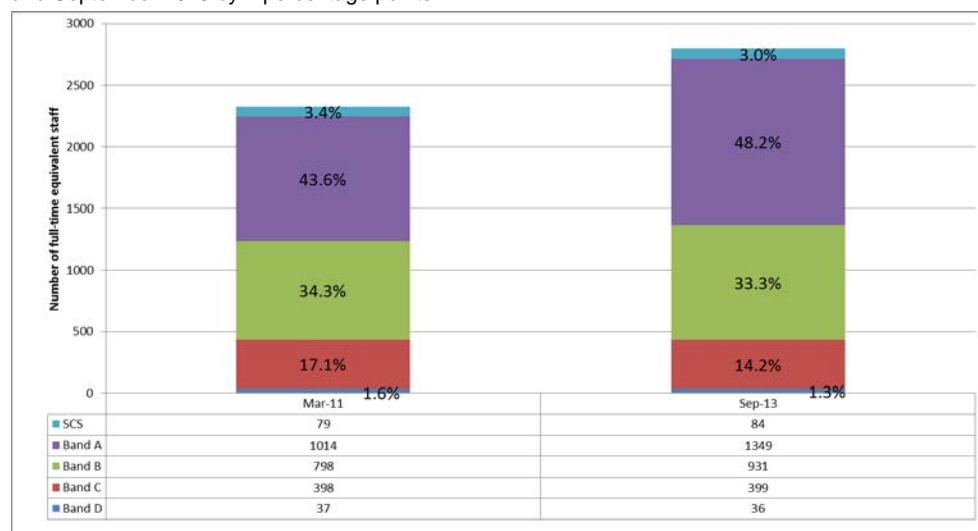
⁶³ Staff appointed in-country must become home civil servants if they are to progress to the senior civil service.

⁶⁴ The percentage of UK civil servants based overseas in senior posts (87 per cent) did not change between March 2011 and September 2013.

Figure 23

The proportion of the Department's staff in each grade

The proportion of the Department's staff in the two most senior grades increased between March 2011 and September 2013 by 4 percentage points.



Notes

1. Breakdown of grade is against overall numbers for March 2011 and September 2013 presented in Figure 21.
2. There are four bands of staff below Senior Civil Service, with Band A being the most senior. Band A staff includes advisers (experts in specific sectors) and Band B includes staff in the Civil Service Fast Stream. There are no Band D staff in the UK.

Source: NAO presentation of departmental data

The growth of the Department's cadre of advisers and programme managers

5.6 By summer 2013 the Department had some 850 accredited professional advisers, around double April 2011 levels. In 2010-11 the Department identified the need to increase substantially the number of specialist advisers it employs overseas and in the UK to help manage its increasing programme budget. The latest data, collected prior to the introduction of its new human resource system (HR Passport, see paragraph 4.12), shows that at July 2013 the Department had around 850 accredited professional advisers across its cadres.⁶⁵ The workforce plans prepared by the Department's teams in September 2013 show that they would like to see further growth in adviser capacity for 2014-15. In particular, the teams would like to see expansion of the humanitarian cadre (by around 20 posts, which would almost double the current complement) and the private sector development cadre (around 20 posts,

⁶⁵ Some of the accredited staff will be working in 'generalist' or other non-adviser posts.

an increase of around a third). In our previous briefing we reported that the Department had encountered problems in filling private sector adviser posts.⁶⁶

5.7 To develop its commercial capacity, the Department introduced a new role of commercial adviser in late 2010. As at November 2013 the Department had 13 commercial advisers, with plans to increase numbers to 17 by early 2014. The Independent Commission for Aid Impact has found problems with the Department's mobilisation of contractor-run projects, and is supportive of the Department's plans to expand its network of commercial advisers as one way of mitigating this issue.⁶⁷ Commercial advisers report to the relevant country office or UK based team they support, and have a professional development and coordination relationship with the Department's Procurement Group. They advise and train the Department's other staff on: the commercial aspects of programme design; tendering and supplier management; and approaches to improving the value for money of bilateral funding provided to multilateral organisations and non-governmental organisations.

5.8 By the start of 2014 the Department would like to have ten commercial advisers located overseas, providing support to 17 of the Department's priority countries.⁶⁸ It also wants to have seven staff located in East Kilbride supporting the Department's UK based teams and its other country teams. The Department's plans require it to recruit four new staff, at least three of whom are likely to be located overseas, and retain those already employed. Previous recruitment campaigns have not secured all the staff the Department had wanted as it can be difficult to find people that have both the right mix of commercial skills and development knowledge, and have the appetite to work overseas.

5.9 During 2012-13 the Department increased the attention it gave to developing its programme management capability, which the Independent Commission for Aid Impact has identified as a key area for improvement. Since 2011, the Department's priority has been developing its adviser capacity. Advisers are involved in managing aid programmes but much of the work is undertaken by the Department's less senior programme managers, typically Band B staff. In the last 12 months the Department has run new training courses on programme management for adviser staff and programme managers, reviewed its systems for managing programmes and begun establishing a cadre of programme managers. The Department has also established, at Band A level, a new post of head of profession

⁶⁶ NAO, Briefing to support the International Development Committee's inquiry into the Department for International Development's Annual Report and Accounts 2011-12, December 2012, p.47

⁶⁷ The Independent Commission for Aid Impact, *Annual report 2012-13*, July 2013, p.15.

⁶⁸ Some commercial advisers cover more than one country team. For example, the post in Nigeria also supports the Ghana country team. The Department has also established a regional hub in South Africa where two advisers support the five country teams in the region.

for programme management. Improving programme management is identified as one of the Department's priorities in its 2013 Improvement Plan.⁶⁹

5.10 In May 2013 the Independent Commission for Aid Impact reported that the new head of profession for programme management will face a significant challenge as programme management has not been nurtured as a core skill within the Department. The Commission questioned the adequacy of the support budget for the head of profession which it understood was likely to be around £90,000 per annum. It recommended that the Department develop a resource plan for improving its programme management capability.⁷⁰ The head of profession is currently developing a costed plan for developing programme management in the Department. The plan is to be submitted to the Department's Executive Management Committee early in 2014.

5.11 A key element of the Department's approach to developing its programme management capability is the establishment of a cadre of programme managers. Around 300 to 400 staff are expected to be part of the cadre, which aims to improve the professionalism of project managers and improve the transfer of good practice within the Department. The Department is currently revising its programme management competency framework and this will be used to accredit staff to the cadre.

The length of postings of home civil servants to overseas locations

5.12 Home civil servants are usually posted to country offices for an initial three-year tour, but there are shorter postings to six of the Department's priority countries and four other locations. At September 2013, around 540 home civil servants (30 per cent of the total) were located overseas. The International Development Committee, the Independent Commission for Aid Impact and the National Audit Office have all commented that breaks in staff continuity bring risks to delivery and can make it difficult for staff to build and sustain key business relationships.⁷¹ The Department has not collected aggregate data on the length of time staff are actually in posts overseas (this data should be easier to obtain under the new HR Passport system - see paragraph 4.12). We therefore asked the Department for its policy on postings.

⁶⁹ Department for International Development, *DFID Improvement Plan*, June 2013, p.17.

⁷⁰ The Independent Commission for Aid Impact, *DFID's Use of Contractors to Deliver Aid Programmes*, May 2013, p.1, and p.13.

⁷¹ International Development Committee, *The Independent Commission for Aid Impact's Annual Report 2012–13*, October 2013, p.12 and p.13. The Independent Commission for Aid Impact, *DFID's Use of Contractors to Deliver Aid Programmes*, May 2013, p.1. National Audit Office, *Department for International Development: Bilateral Support to Primary Education*, June 2010, p. 35.

5.13 Postings to most locations are for a three-year period, with scope for extensions under certain conditions. Tours can be extended by a year if management and staff wish this to happen. Longer extensions are possible if, for example, a member of staff is promoted or if there is a need for staff continuity on an important project. Postings to locations in fragile states can be shorter than the three-year norm. Currently tours to three of the Department's priority countries are for two years, with the possibility of a one-year extension. For three other priority countries, tours are for one year, with the possibility of a one-year extension in two of those countries (**Figure 24**). The Department told us that it applied its postings policy flexibly, taking into account factors such as the requirements of the role and the security situation. It said in reality staff can remain at some, but not all, of these locations for three years or more.

Figure 24

Locations where the tour length is less than the standard three years.

Postings to six of the Department's 28 priority countries and to four other locations are less than the three-year standard

Locations in the Department's priority countries	Length of tour
Afghanistan	1 year + option of 1 more
Pakistan	2 years + option of 1 more
Somalia	1 year + option of 1 more
South Sudan	2 years + option of 1 more
Sudan	2 years + option of 1 more
Yemen	1 year
Other locations	Length of tour
Libya	1 year
Jerusalem	2 years
Jordan/Lebanon	2 years
Egypt	2 years + option of 1 more

Source: The Department

The Department's strategy for staffing posts in fragile states

5.14 The Department is developing a new strategy to address the challenges it faces in staffing its offices in fragile states such as Pakistan. It wants to manage the number of posts in fragile states, prioritise deployment to those posts, encourage staff to work in fragile locations and support them to do so. The Department has found posts in fragile states the most difficult to fill with good quality staff. As the Department's bilateral programme increasingly focuses on fragile environments the challenge of filling posts in these countries could become more difficult. In 2013 the Department began developing a strategy which aims to do three things.

- **Manage demand for posts in fragile states and prioritise deployment to those posts.** The Department is considering how it might reduce the number of staff it locates in fragile environments by, for example, making greater use of regional hubs, staff located in the UK or external providers. It is also looking at how posts in fragile states can be prioritised when decisions on staff deployment are taken.
- **Improve supply by encouraging staff to work in fragile environments.** The Department wants to change incentives, so that its staff expect to work in fragile locations during their career. The Department is also considering how it can recruit staff who are positive about working in fragile environments.
- **Improve support, leadership and recognition for staff who work in fragile environments.** The Department wants to improve the assistance it gives to individuals and their families so they are better able to manage the transition to working in fragile environments. Support includes good quality information and financial allowances for families. In making revisions to family allowances, the Department will need to take account of changes under the One HMG overseas agenda which is seeking to harmonise the allowances paid by different departments. The Department also wants to give greater recognition and value to the competencies that staff develop by working in fragile environments. It has worked with the Foreign & Commonwealth Office to define the competencies 'engaging internationally' and 'demonstrating resilience'. The competencies will be implemented by both departments by April 2014.



National Audit Office
