National Audit Office

BRIEFING FOR THE HOUSE OF COMMONS INTERNATIONAL DEVELOPMENT COMMITTEE

OCTOBER 2011

Department for International Development

Briefing to support the International Development Committee's inquiry into the Department for International Development's Annual Report and Accounts 2010-11 and Business Plan 2011-15

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Contents

The National Audit Office study team consisted of: Tim Bryant, Richard Clarke, Rosie Fraser and Jenny George under the direction of Mark Andrews.
This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:
National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

Introduction

Aim and scope of this briefing

1. In October 2011 the NAO published Departmental Overviews for the Department for International Development (the Department) and for all other government departments. These Overviews were intended to provide select committees with a summary of the work of the NAO on each Department since June 2010. They cover: the Department's responsibilities, its financial management, use of information and service delivery.

2. This briefing complements the Departmental Overview for the Department for International Development[1] and covers specific topics of particular interest to the Committee. The following Parts examine:

   - the Department's structure and trends in its expenditure (Part One);
   - the Department's Multilateral and Bilateral Aid Reviews and its approach to delivering its results (Part Two);
   - the Department's approach to reducing its administration costs by a third in real terms over the Spending Review period and limiting its total operating costs (Part Three);
   - the restructuring of the Department's workforce (Part Four); and
   - the Department's expenditure on technical cooperation and research (Part Five).

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

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[1] NAO, *Departmental Overview: A summary of the NAO's work on the Department for International Development 2010-2011,* September 2011.

Part One

The Department's structure and trends in its expenditure

Key Messages

Trends in the Department's expenditure

- In 2010-11 the Department provided £3,222 million to multilateral organisations, up £800 million from the previous year. This funding represented 42 per cent of the Department's total expenditure in 2010-11, up five percentage points since 2009-10 (paragraph 1.3).
- In 2010-11 the Department spent £4,254 million through its bilateral programme, up £300 million on 2009-10. Over the last five years the fastest growing element of this programme has been bilateral support delivered through a multilateral (excluding aid types such as debt relief), which has tripled to £1,466 million in 2010-11 (paragraph 1.3).
- The Department's bilateral expenditure of £351 million on humanitarian assistance in 2010-11, was its lowest in the last five years. This amount accounted for 4.6 per cent of the Department's expenditure in 2010-11 (paragraph 1.3).
- The Department's contractual commitments to provide funding in the future have almost quadrupled to £3,237 million over the five years to March 2011. The largest increase in these commitments arose in 2010-11, and accounted for £1,000 million of the Department's expenditure in that year (paragraphs 1.4 - 1.5).
- The Department leads the UK efforts to meet the Government's commitment to devote 0.7 per cent of Gross National Income to Official Development Assistance. In 2010 UK Official Development Assistance was £8,452 million, representing 0.57 per cent of Gross National Income. The Department contributed 87 per cent of this expenditure (paragraph 1.7).

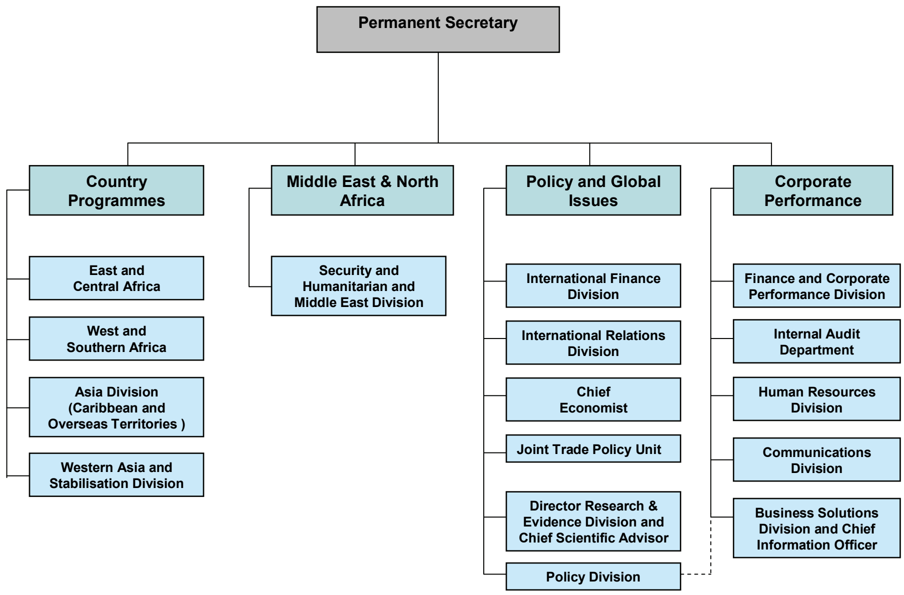
1.1 In this Part we briefly set out the structure of the Department and then examine trends in the Department's expenditure, and latest figures on total UK Official Development Assistance.

Structure of the Department

1.2 During 2010 the Department reduced its directorates from four to three by merging responsibility for international relations with policy and research. In July 2011, the Department took the decision to return to four directorates, by creating a new directorate for the Middle East and North Africa. The Department's current structure is set out in **Figure 1**.

Figure 1

The Department's four directorates



Source: The Department for International Development

Trends in the Department's expenditure

1.3 In 2010-11 the funding given to multilateral organisations increased as a proportion of the Department's expenditure, whilst the proportion going to humanitarian aid through the bilateral programme fell. The Department's Statistics on International Development show how its spending, which totalled £7,689 million in 2010-11, is distributed between the different forms of aid that it provides (**Figure 2**). The Department's latest reported Statistics, published in October 2011, show that:

- in 2010-11 the Department's multilateral programme increased by £800 million (32 per cent) to £3,222 million compared with 2009-10 figures. In comparison, its bilateral programme rose by £300 million (7 per cent) to £4,254 million over the same period. As a consequence, multilateral aid spending accounted for 42 per cent of the Department's total expenditure in 2010-11, its highest proportion in any of the last six years and up 5 percentage points on 2009-10. The Department's multilateral programme as a proportion of total expenditure has fluctuated in recent years, largely as it is heavily influenced by agreed funding schedules[2];

- in addition to the Department's core funding of multilateral organisations (covered by its multilateral programme), the Department also spent £1,466 million of its bilateral programme in 2010-11 through multilaterals to undertake specific projects and programmes and to operate in specific countries. This represented a tripling of expenditure since 2006-07. In addition to expenditure classified as bilateral support through a multilateral, other elements of the bilateral programme, such as humanitarian assistance and debt relief, include sums channelled through multilateral organisations. In total, £1,883 million[3] (44 per cent) of the Department's bilateral programme was channelled through multilateral organisations in 2010-11; and

- the Department's £351 million bilateral expenditure on humanitarian assistance was lower in 2010-11 than in any year since 2006-07. Bilateral humanitarian assistance accounted for 4.6 per cent of the Department's spending in 2010-11, down from 7.6 per cent in 2006-07.

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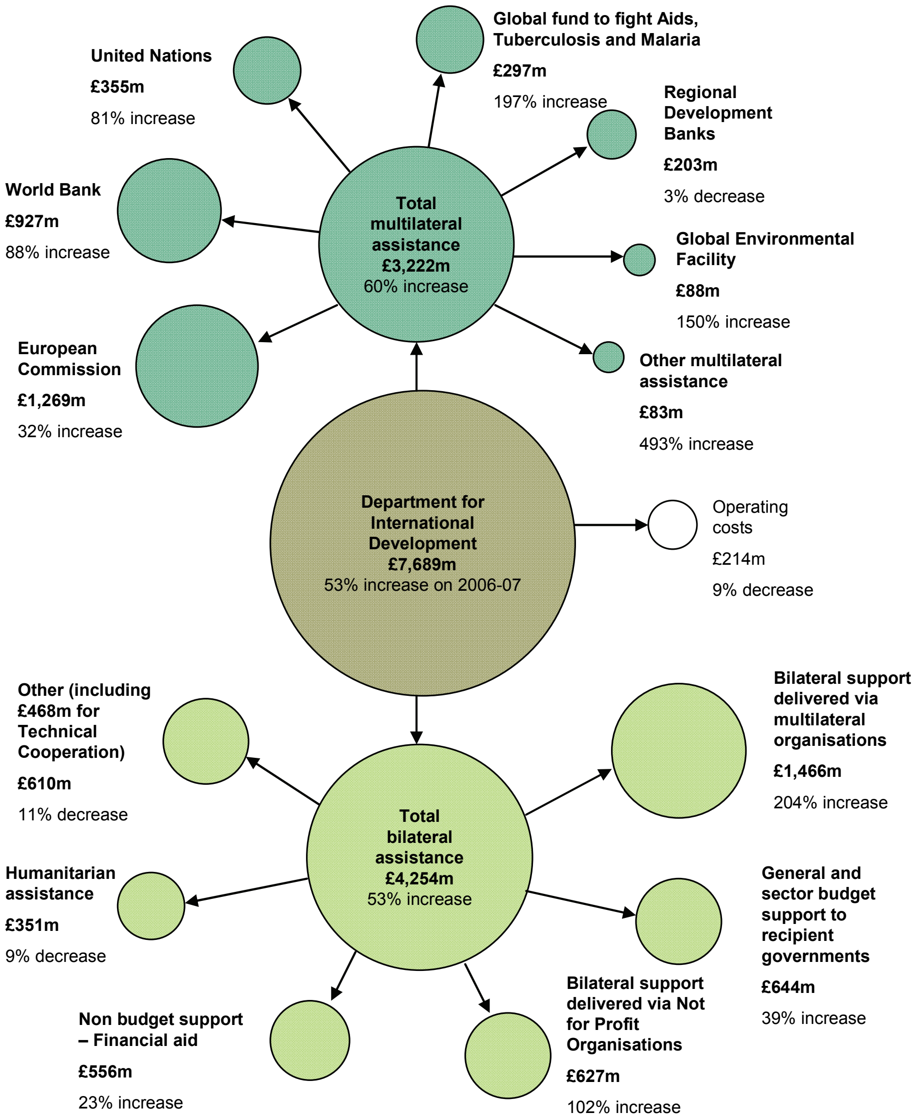
[2] Multilateral expenditure expressed as a proportion of total expenditure in recent years was: 2005-06: 36 per cent, 2006-07: 40 per cent, 2007-08: 38 per cent, 2008-09: 39 per cent, 2009-10: 37 per cent, 2010-11: 42 per cent.

[3] The first year the Department reported on **total** bilateral support channelled through multilateral organisations including elements such as humanitarian assistance and debt relief was 2009-10, when the value was £1,676 million.

Figure 2

How the Department spent its money in 2010-11, and changes in the level of spending since 2006-07



NOTES

1. In total £1,883 million of the bilateral programme was channelled through multilateral organisations. In addition to the £1,466 million identified in this Figure, other elements of the bilateral programme, such as humanitarian assistance and debt relief, include sums distributed through multilaterals.
2. The values for the individual components of the aid programme do not sum exactly to total Departmental expenditure because of rounding.
3. The total for the European Commission comprises an £833 million share of development spending by the European Commission's external assistance budget, and £436 million given directly by the Department to the European Development Fund.
4. The Department has applied international reporting practices when calculating the values in this Figure. The practices differ from those used to prepare the Department's Accounts, and so values are not directly comparable to

those in the Department's 2010-11 Accounts. The main difference is the treatment of the £833 million share of the European Commission's external assistance budget which is reflected above but not included in the Department's Accounts as it is paid from the Consolidated Fund. Also the values above are produced on a cash basis (i.e. they reflect when payments are made), where as the Department's Accounts are produced on a resource basis (i.e. the period when expenditure is incurred). The Department's budgets are also on a resource basis and thus the value for total expenditure above is not the same as total outturn against the Department's budgets as shown in the NAO's Departmental Overview for the Department for International Development, September 2011 (Figure 1, page 6).

5. In its Statistics on International Development 2006-07 to 2010-11, the Department uses the term administration costs rather than operating costs.
6. The large percentage increase in "other multilateral assistance" is due to two main factors. In 2010-11, £33 million went to the International Finance Facility for Immunisation. In 2006-07, the International Finance Facility for Immunisation was not on the OECD Development Assistance Committee list of multilateral organisations and thus its funding was classified as bilateral rather than multilateral aid. In 2010-11 the Department provided £31 million to the Consultative Group on International Agricultural Research, up from £4 million in 2006-07.

Source: NAO presentation of data from the Department for International Development, *Statistics On International Development 2006-07 – 2010-11*, October 2011

1.4 The Department's commitments to fund in the future bodies which provide aid have grown in each of the five years to 2010-11. Following agreed accounting principles, the Department recognises these commitments as both liabilities and expenditure in its Annual Accounts in the year in which the Department becomes party to relevant contracts.[4] The Department's main liabilities are promissory notes which have been issued to multilateral organisations but not yet cashed. These notes are the standard way that donors fund some multilaterals, such as the World Bank's International Development Association. The Department also has to make provisions for other liabilities, which at March 2011 were mainly related to the Global Alliance for Vaccines and Immunisations (Figure 3).

1.5 In the five years to March 2011, uncashed promissory notes and provisions almost quadrupled, and stood at £3,237 million in March 2011 (**Figure 4** on page 11). **Figure 5** on page 12 shows how the growth of uncashed promissory notes and provisions has contributed to the Department's expenditure in each of the last five years. Although there is significant fluctuation in the size of annual contributions, the general trend is upwards. Uncashed promissory notes and provisions accounted for at least £999 million[5] (14 per cent) of the Department's total expenditure as reported in its 2010-11 Annual Accounts.

[4] Department for International Development, *Annual Report and Accounts 2010-11: Volume II: Accounts*, July 2011, p49. The Department adopts a similar approach in preparing its Statistics on International Development (see page 123 of *Statistics On International Development 2006-07 – 20010-11*, October 2011).

[5] The £999 million is the increase in the balance of provisions and promissory notes. The amount charged to expenditure is potentially greater than £999 million, since the increase in balance will be net of any provisions utilised or promissory notes encashed in-year.

Figure 3

The main liabilities in the Department's Accounts are uncashed promissory notes and contractual commitments to the Global Alliance for Vaccines and Immunisation

A promissory note is a written undertaking to pay money on demand, up to a specified limit, to a named beneficiary. For the Department, a promissory note represents a routine way of routing money to certain beneficiaries such as development banks or a development fund set up by a development bank. The promissory notes enable recipient organisations to enter into formal commitments with the certain knowledge that the funding will be available. The Department deposits the written undertaking with the Bank of England and the beneficiary can then "encash" the notes and receive funds as they need them.

At the end of March 2011, the value of promissory notes issued, but not yet cashed, reached £2,244 million. The largest item in this balance was uncashed notes issued to World Bank's International Development Association which increased in 2010-11 by £340 million to £1,127 million. This increase reflects new promissory notes issued by the Department in respect to the World Bank's International Development Association's latest call for funding. Under this call, the Department needed to issue new notes between July 2008 and June 2011. These notes are scheduled to be cashed over an eight year period from 2009 to 2017, based on when cash resources will be required by the International Development Association.

In addition to promissory notes, the Department also makes provisions for other commitments which are not covered by promissory notes. At March 2011, these provisions totalled £993 million, of which £959 million (97 per cent) comprised commitments made to the Global Alliance for Vaccines and Immunisation. The figure of £959 million included the value of:

- committed payments to cover the UK share of bonds issued by the International Finance Facility for Immunisations which is managed by the Global Alliance for Vaccines and Immunisations; and
- the UK's share of agreements entered into by the Global Alliance for Vaccines and Immunisations with suppliers of vaccines.

Source: NAO presentation of Department for International Development material including material taken from its *2010-11 Annual Report and Accounts*, July 2011 and its website,

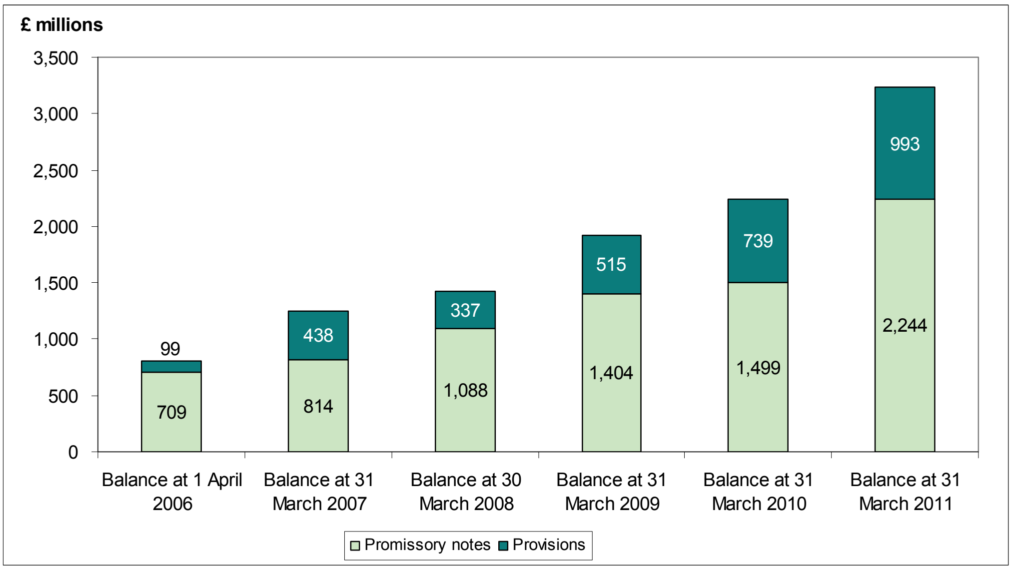
http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/About-DFID/Finance-and-performance/blue-book/Blue-Book-index-A-to-C/C9/

1.6 The Department has, since the end of 2010-11, increased its future commitments to the Global Alliance for Vaccines and Immunisations. In June 2011, the Department committed up to an extra £815 million over the next five years to assist the Global Alliance to reach its targets for vaccinating children. This commitment will translate into a liability and be charged as expenditure in the Department's accounts as the Global Alliance signs relevant contracts with suppliers of vaccines.[6]

[6] Department for International Development, *Annual Report and Accounts 2010-11: Volume II: Accounts*, July 2011, pg 79, 93.

Figure 4

Value of uncashed promissory notes and other liabilities 2006 to 2011



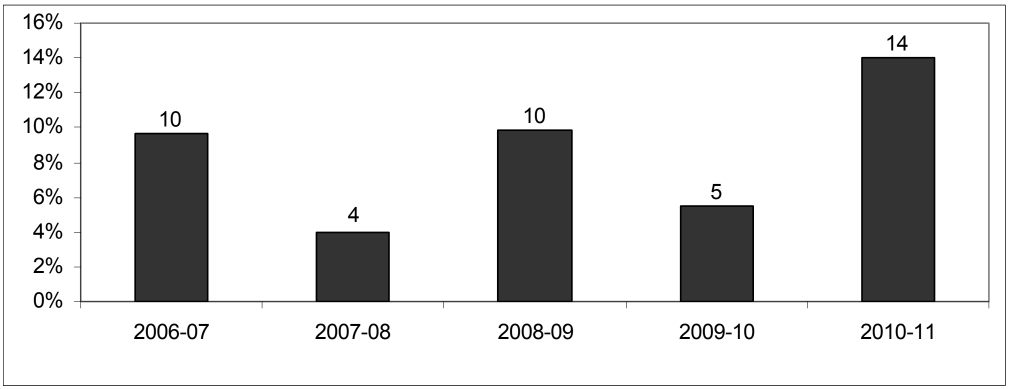
NOTE

All values in cash terms.

Source: NAO presentation of data from the Department for International Development's Annual Accounts for 2006-07, 2007-08, 2008-09, 2009-10 and 2010-11

Figure 5

The percentage of the Department's expenditure accounted for by growth in uncashed promissory notes and provisions, 2006-07 to 2010-11



NOTE

The Department's total expenditure as stated in its Annual Accounts increased from £4,600 million in 2006-07 to £7,100 million in 2010-11 (the value for 2006-07 has been adjusted for cost of capital charges so it is on the same basis as the 2010-11 value). Note 4 to Figure 2 explains why expenditure reported in the Department's Accounts differs from values included in its Statistics on International Development.

Source: NAO presentation of Department for International Development data

The UK's aid spending

1.7 The Government is committed to achieving by 2013 the United Nations' target for donor countries to devote 0.7 per cent of their Gross National Income to Official Development Assistance. The Department leads the Government's efforts on this commitment. Final figures for 2010 show that the UK's Official Development Assistance was £8,452 million, which represents 0.57 per cent of UK Gross National Income.[7] The Department contributed 87 per cent of this expenditure, and this percentage is expected to rise over the Spending Review period to reach

[7] The final figures for total Official Development Assistance, Official Development Assistance as a percentage of Gross National Income, and the percentage of total Official Development Assistance accounted for by the Department, differ slightly from the provisional figures given in the NAO's Departmental Overview for the Department, September 2011, (paragraph 17). The source of the final figures is the Department for International Development, *Statistical Release, Statistics on International Development*, October 2011. Page 1 of the Release explains that the increase in 2010 Official Development Assistance as a percentage of Gross National Income from 0.56 per cent to 0.57 per cent was mainly the result of a change to previously published Gross National Income figures by the Office for National Statistics.

91 per cent.[8] In 2010, the main elements of the remaining 13 per cent of Official Development Assistance were:

- expenditure of £255 million (3.0 per cent of total Official Development Assistance) by the Department of Energy and Climate Change. £250 million of this expenditure went to the international Environmental Transformation Fund. The Fund also received £250 million from the Department for International Development in 2010;
- net investments of £218 million (2.6 per cent) by CDC Group plc[9], the UK's development finance institution;
- expenditure of £99 million (1.2 per cent) by the Foreign and Commonwealth Office and the Ministry of Defence on the conflict pools; and
- additional expenditure of £167 million (2.0 per cent) by the Foreign and Commonwealth Office, which includes £76 million of expenditure on the British Council.[10]

[8] NAO, *Department for International Development: Financial Management Review*, HC 820, 2010-12, page 14.
[9] This sum represents CDC Group plc reinvesting returns it has earned from investments oversees. It is not new funds provided by the Department.
[10] Department for International Development, *Statistical Release, Statistics on International Development*, October 2011.

Part Two

The Department's aid reviews and its new approach to delivering results

Key Messages

The Department's aid reviews

- In 2010-11, the Department reviewed all of the countries and multilateral organisations that it funds in order to decide how to allocate its increasing resources (paragraph 2.2).
- The Department's Bilateral Aid Review aimed to improve the value for money of UK bilateral aid by allocating resources according to the results that can be delivered by each country programme (paragraph 2.2).
- The Department's Multilateral Aid Review set out to assess the value for money that different multilateral organisations offer for UK aid. It was the first comprehensive overview by the Department of the strengths and weaknesses of the multilateral system (paragraph 2.2).

Bilateral expenditure

- The Department's provisional figures show that it intends to increase bilateral expenditure by at least £1.6 billion over the Spending Review period. The Department has allocated £5.6 billion to bilateral expenditure in 2014-15, around 41 per cent more than it spent in 2010-11. This total does not include operating cost allocations and future Challenge Fund allocations. The Department will provide bilateral aid in fewer countries (paragraph 2.3).
- The Department plans to substantially increase funding to a number of countries. Eleven countries have planned increases in funding of over 50 per cent including three countries (Pakistan, Kenya, and Nigeria) where funding is planned to more than double over the Spending Review period (paragraph 2.5).
- The level of funding that the Department allocates to each country per poor person living there varies substantially between programmes. The Department plans to give around £11 per poor person in Pakistan in 2014-15, compared with £0.6 in India (paragraph 2.6).
- With greater spending in fragile states, the Department will need to manage

the risks associated with operating in these environments (paragraph 2.7).

Multilateral expenditure

- The Department's provisional figures show that multilateral funding is likely to increase to £4.6 billion in 2014-15. Funding to multilateral organisations included in the Multilateral Aid Review will increase by 27 per cent by 2014-15, although funding levels will first fall before rising rapidly in later years (paragraph 2.8).
- The majority of the Department's multilateral funding (74 per cent in 2010-11) goes to organisations the Department rates as 'good' or 'very good' value for money (paragraph 2.9).
- The nine organisations that the Department has rated as 'poor' value for money received only two per cent of core multilateral spending in 2010-11 (paragraph 2.10).
- The Department will use the findings from the Multilateral Aid Review to inform its ongoing approach to engaging with multilateral organisations. It will review funding decisions in two years' time, and will be looking for evidence that multilateral organisations are improving results and making progress on key reform priorities (paragraph 2.11).

Challenge Funds

- The Department has held back £1.5 billion to be used as a 'Challenge Fund' over the course of the Spending Review. The Challenge Fund will provide the Department with the financial flexibility to help it meet key commitments, to increase expenditure on policy priorities, and to take new opportunities which arise over the Spending Review period (paragraph 2.12).

Managing and reporting results

- The Department is currently finalising the headline results indicators it will use to aggregate, measure and report its performance. These are based around the impact indicators that the Department has included in its Business Plan and the commitments it made when it announced the results of the bilateral and multilateral aid reviews. There will be around 25-30 headline bilateral indicators, and a number of headline multilateral results indicators (paragraph 2.13).
- The Department is developing a plan for how it will track progress in delivering the results that it is aiming to achieve, and how it will take action where necessary if these are not on target. It will use updated forecasts as part of the annual budget cycle to identify programmes where it may need to adjust spending if it is to achieve results (paragraph 2.15).

- Many of the Department's headline results commitments are reliant on progress in a relatively small number of countries. For a significant number of indicators, five countries cover over 80 per cent of the results (paragraph 2.16).
- India, Ethiopia and Nigeria are responsible for a high proportion of all of the Department's results (paragraph 2.17).

2.1 In this Part we summarise the Department's major reviews of its bilateral and multilateral aid programmes undertaken in 2010-11. We also explain that the Department has established a Challenge Fund which gives it some financial flexibility at the end of the Spending Review period. Finally we examine the Department's plans for managing and reporting on the results it aims to deliver.

The Department's aid reviews

2.2 The Department has reviewed all of the countries and multilateral organisations that it funds[11] in order to decide how to allocate its increasing resources. In 2010 the Government established reviews of the UK's aid spending with the aim of making it as focused and effective as possible. The reviews covered the Department's bilateral programmes in developing countries (55 per cent of the Department's expenditure in 2010-11[12]), and the UK's aid funding to multilateral organisations (42 per cent of total expenditure in 2010-11)[13]. Spending allocations across the Spending Review period were based on these reviews, which were published in March 2011:

- **The Department's Bilateral Aid Review (BAR) aimed to improve the value for money of UK bilateral aid by allocating resources according to the results that can be delivered by each country programme**. Decisions on which countries to fund were based on a number of factors including development need, the likely effectiveness of assistance and strategic fit with UK government priorities. The Department decided the level of funding to each country programme based on the projected results that each country office stated that it could achieve. In previous years bilateral resources were allocated through a top-

[11] The review covered all thirty-five multilateral organisations which the Department regularly gives £1 million or more of core aid funding, as well as all four multi-donor trust funds which receive fully flexible funding from the Department, three international financial institutions, which operate using their own capital, and one other humanitarian organisation that the Department was considering funding in future. (Multilateral Aid Review, p15).

[12] The proportion of bilateral and multilateral expenditure is based on the 2010-11 Statistics for International Development; see Figure 2 for more information. However, all other analysis in this section is based on the Department's Annual Report and future budget allocations, and are therefore not directly comparable with the Statistics for International Development (see footnote 12).

[13] In addition, 3 per cent of the Department's expenditure was spent on operating costs (see Figure 2).

down process focused on money, using a formula based on country need and the likely effectiveness of assistance;

- **The Department's Multilateral Aid Review (MAR) set out to assess the value for money that different multilateral organisations offer for UK aid. It was the first comprehensive overview by the Department of the strengths and weaknesses of the multilateral system.** The Department assessed the value for money of each multilateral organisation based on how closely aligned the organisation was with the UK's development priorities and its organisational strengths. The Department has used the results of the review as the basis for subsequent decisions on how much core funding to give multilateral organisations.

Bilateral expenditure

2.3 Indicative future year allocations agreed at 31 March 2011 show that the Department intends to increase bilateral expenditure by at least 41 per cent over the Spending Review period, but will spend this in fewer countries. Bilateral expenditure will rise to £5.6 billion in 2014-15 from £3.9 billion in 2010-11[14]. By 2016, the Department will close its bilateral programmes in 16 countries.[15] These are generally smaller programmes, but include one, Vietnam, where it spent £50 million in 2010-11 and four countries where it spent between £10 million and £15 million in 2010-11 (Burundi, Iraq, Indonesia, and Cambodia). Whereas previously the Department had bilateral programmes in around 40 countries[16], and focused on 22 priority countries, it will now focus on 28 countries[17] (see Appendix One for full list). It is ending funding to two countries which were previously priority countries, Vietnam and Cambodia, because the Department has assessed that they are sufficiently developed that they no longer need the UK's development assistance. The Department's 28 countries include Burma, Central Asia (Kyrgyzstan and Tajikistan),

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[14] We discussed with the Department the best way of obtaining consistent data for 2010-11 and 2014-15. Data in this paragraph for 2010-11 has been taken from Table B6 of the Department's 2010-11 Annual Report. Data for 2014-15 is based on the Department's internal budget allocations. The allocations have been adjusted to reflect bilateral expenditure within multilateral departments, and vice versa. These budget allocations are indicative and are subject to change, and do not currently include operational costs or Challenge Fund resources that are yet to be allocated. These data are on a different basis from the values included for bilateral expenditure in Figure 2 which are drawn from the Department's Statistics on International Development. The figures in the paragraph show the budget of, or actual expenditure by, the Department's country offices. The Statistics on International Development include all the Department's expenditure in a country, which might include, for example, humanitarian expenditure which falls to other teams within the Department.

[15] Angola, Bosnia, Burundi, Cameroon, Cambodia, China, the Gambia, Indonesia, Iraq, Kosovo, Lesotho, Moldova, Niger, Russia, Serbia and Vietnam.

[16] The Department's Statistics for International Development (section 4 paragraph 3) states that in 2010-11 the Department gave funding to 78 countries, including 37 that received direct financial assistance. Funding to many of these countries consisted of humanitarian funding which was not part of a country programme, which explains the difference between the number of countries worked in and the number of country programmes.

[17] The number of countries was originally 27, but it is now 28 because South Sudan is now an independent state. In addition, the Department will also focus on three Overseas Territories, and three regional programmes.

Liberia, the Occupied Palestinian Territories, Somalia and South Africa, which were not previously priority countries.

2.4 The Department spends around 30 per cent of its total bilateral funding in its five largest country programmes (**Figure** 6). In 2010-11 the largest programmes were India, Ethiopia, Pakistan, Bangladesh and Tanzania. In 2014-15 the Department anticipates that Nigeria will become the third largest programme, from being the sixth largest in 2010-11 and Tanzania will fall to being the ninth largest programme in 2014-15.

Figure 6

The proportion of the Department's actual and planned expenditure going to its five largest country programmes

Five largest programmes 2010-11			Five Largest programmes 2014-15		
Country	Actual Expenditure 2010-11 (£m)	Percentage of total bilateral spending	Country	Planned Expenditure 2014-15 (£m)	Percentage of total bilateral spending
India	283	7%	Pakistan	446	8%
Ethiopia	242	6%	Ethiopia	390	7%
Pakistan	206	5%	Nigeria	305	5%
Bangladesh	177	5%	Bangladesh	300	5%
Tanzania	148	4%	India	280	5%
Total Top 5	1,055	27%	Total Top 5	1,721	31%
Total bilateral expenditure		3,919	Total planned bilateral expenditure (£m)		5,570

NOTE

1. Data for 2010-11 is based on Table B6 of the Department's Annual Report. Data for 2014-15 is based on the Department's allocated programme budgets. 2014-15 expenditure does not include operating costs, as these have yet to be allocated. Total bilateral expenditure includes all bilateral expenditure, not just country allocations.

Source: NAO analysis of Department for International Development data

2.5 The Department plans to substantially increase funding to a number of countries. Levels of funding to three countries (Pakistan, Kenya, and Nigeria) are planned to more than double over the Spending Review period. A further eight countries have planned increases in funding of over 50 per cent (Appendix One). Viewed over 10 years, the Department's planned expenditure in Pakistan will be 18 times higher in 2014-15 than 2004-05; whilst spending in Yemen will be 13 times higher. In contrast, India, the Department's largest country programme in 2010-11, has a slight reduction in the absolute size of its funding by 2014-15. As a consequence, India is expected to be the Department's fifth largest programme by 2014-15, and the proportion of the Department's bilateral expenditure going to India is expected to fall from 8 per cent in 2010-11 to 5 per cent in 2014-15.

2.6 The level of funding that the Department allocates to each country per poor person[18] living there varies substantially between its five largest programmes (Appendix Two). The Department plans to give around £11 per poor person in Pakistan in 2014-15, compared with £12 in Ethiopia, £4 in Bangladesh, £3 in Nigeria and £0.6 in India. The Department's allocations to individual countries reflect a range of priorities, including level of need, contribution to results, a commitment to working in fragile states and an assessment of how well placed the UK is to have a significant impact.

2.7 With greater spending in fragile states, the Department will need to manage the increased risks that come from operating in these environments. The Government committed in the Strategic Defence and Security Review[19] to spend 30 per cent of Overseas Development Assistance in fragile and conflict affected states. In total, 21 out of the Department's 28 new priority countries are fragile or conflict affected, including Nepal, Afghanistan, Ethiopia, Sudan, South Sudan, and Yemen.[20] All eleven countries where the Department plans to increase its spending by more than 50 per cent[21] over the next four years have a score lower than 3.0 in the Transparency International index (from zero which represents 'highly corrupt' to 10.0 which represents 'very clean') (**Figure 7**). Governance in these countries is therefore challenging and the Department needs to manage fraud and other risks if it is to spend its money effectively[22]. The Department uses risk assessments to identify such risks and takes them into account when designing programmes, including when deciding on the most appropriate funding or delivery mechanism.

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[18] NAO analysis, calculated using most recent data on number of people living on less than $1.25/day (World Bank), and population size.

[19] *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, October 2010

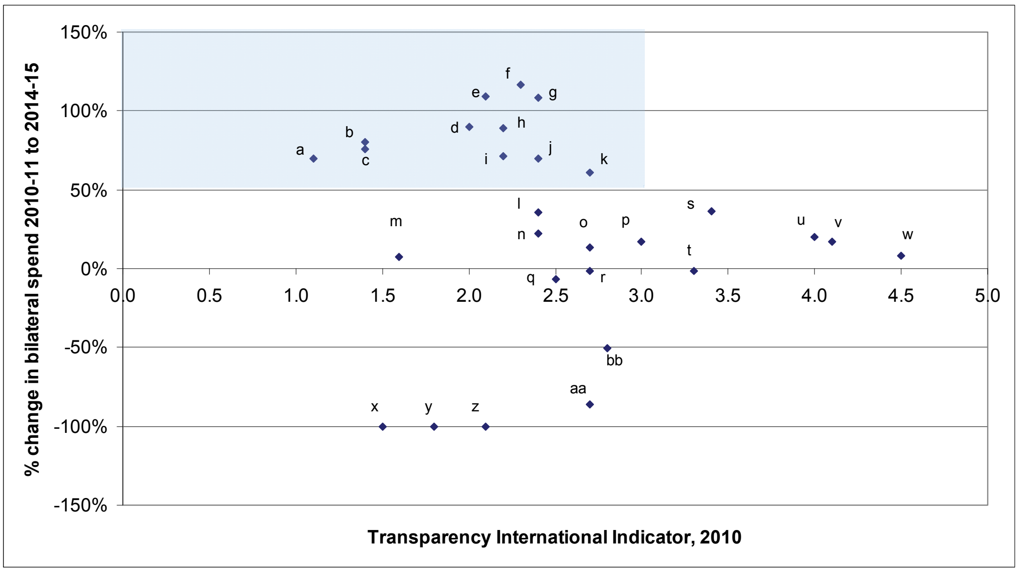
[20] Source: Governance and Fragile States division Operational Plan; September 2011.

[21] Based on comparison of the Department's future spending allocations (which do not include operating costs) and data in the Table B6 of the Department's 2010-11 Annual Report.

[22] National Audit Office, *Department for International Development: Financial Management Review*, HC 820, 2010-12, paragraph 3.17

Figure 7

The Department's spending plans for countries compared with the Transparency International corruption perceptions index 2010



Key: a: Somalia, b: Burma, c: Afghanistan, d: Democratic Republic of Congo, e: Kenya, f: Pakistan. g: Nigeria h: Yemen, i: Nepal. j: Bangladesh, k: Ethiopia, l: Zimbabwe, m: Tanzania, n: Sierra Leone, o: Tanzania, p: Zambia, q: Uganda, r: Mozambique, s: Malawi, t: India, u: Rwanda, v: Ghana, w: South Africa, x: Iraq, y: Burundi, z: Cambodia, aa: Vietnam, bb: Indonesia

NOTES

1. Tajikistan (score 2.1) and Kyrgystan (score 2.9) are excluded as data is not available separately- the total allocations to these countries are set to remain unchanged between 2010-11 and 2014-15. Transparency International ratings are not available for Occupied Palestinian Territories, Overseas Territories and the regional programmes, including Caribbean, Africa Regional, and Asia Regional
2. The scale runs from zero, which represents 'highly corrupt', to 10.0 which represents 'very clean'.
3. The figure includes countries that the Department plans to withdraw from by the end of 2014-15.

Source: National Audit Office analysis, based on the Department's spending allocations announced in the Bilateral Aid Review and the Transparency International corruption perceptions index 2010. This spending analysis is based on updated spending analysis (2010-11 data from the Department's Annual Report, and the 2014-15 data from the Department's budget allocations), and so the figure appears slightly different to the analysis previously presented in the Financial Management Report.

Multilateral expenditure

2.8 The Department's provisional figures show that its multilateral funding is likely to increase to at least £4.6 billion by 2014-15 from £3.6 billion in 2010-11, an increase of 28 per cent[23]. The Department's spending on the multilateral organisations it assessed in its multilateral aid review is due to rise by 27 per cent over the Spending Review period, although funding levels will first fall before rising rapidly in later years. Expenditure on these multilateral organisations[24] is predicted to increase from £3.4 billion in 2010-11[25] to £4.3 billion in 2014-15[26]. Funding is predicted to first fall by 12 per cent in 2011-12 before increasing substantially in the next two years, by 20 per cent in 2012-13 and 16 per cent in 2013-14 (**Figure 8**). The precise level of multilateral funding in any one year is dependent on final agreement of funding profiles. Based on the Department's current plans the five multilaterals that will receive the most funding from the Department are the World Bank, the European Commission, the European Development Fund (EDF), The Global Alliance for Vaccines and Immunisations (GAVI) and The Global Fund for Aids, Tuberculosis, and Malaria (GFATM).

[23] This is based on the Department's budget allocations. It has not been calculated on the same basis as the Statistics for International Development figure, although it is broadly comparable. The Statistics for International Development uses the Organisation for Economic Co-operation and Development's Development Assistance Committee definition of bilateral and multilateral aid, which means that some aid to multilateral organisations is classed as bilateral aid.

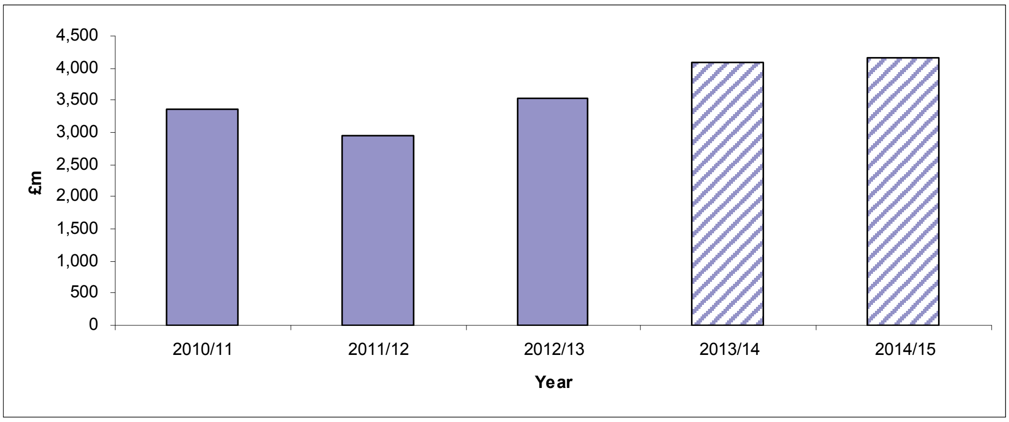
[24] This expenditure covers 39 organisations. Of the 43 that were included in the Multilateral Aid Review, the Department is not giving additional funding to the European Bank for Reconstruction and Development (EBRD) or International Finance Corporation (IFC), and the Climate Investment Fund (CIF) and Global Environment Facility (GEF) are not included in this comparison as they are not counted as funding allocations for future years have not been set and are not counted as multilateral aid. Not all core funding to multilateral organisations counts as multilateral aid according to Organisation for Economic Co-operation and Development's Development Assistance Committee definitions. Funding to UNITAID, the Education For All Fast Track Initiative (FTI) and the International Committee of the Red Cross (ICRC) is classed as bilateral aid, and a proportion of aid to the Food and Agriculture Organisation (FAO), United Nations Educational, Scientific and Cultural Organisation (UNESCO), the Office for the High Commissioner of Human Rights (OHCHR) and World Health Organisation (WHO) is not counted as Overseas Development Aid as it is not all spent in developing countries.

[25] This figure is calculated using data from table B6 from the Department's Annual Report, and gives total expenditure to multilateral organisations, not total multilateral expenditure- as expenditure on organisations is most comparable to future expenditure plans. Note: this is not directly comparable with the figure in the Department's Statistics for International Development, which is calculated on a different basis. The Statistics for International Development states that total core multilateral expenditure in 2010-11 was £3,222m. As outlined in footnote 23, this difference is due to definitions of what counts as multilateral and bilateral aid according to Organisation for Economic Co-operation and Development definitions.

[26] This figure includes £90 million of performance funding that has not currently been allocated to organisations. The Department's total multilateral expenditure is higher than this figure, because other expenditure that counts as multilateral expenditure such as debt relief is not included.

Figure 8

Projected spending by the Department on multilateral organisations included in the Multilateral Aid Review



NOTE

Spending decisions for 2013-14 and 2014-15 are provisional. Decisions about future levels of spending to different organisations will be made in 2013.

Source: NAO analysis of Department for International Development spending allocations (as agreed 31 March 2011)

2.9 The majority of the Department's multilateral funding is going to organisations it rates as 'good' or 'very good' value for money. The Department assessed all 43 multilateral organisations that the UK gives significant core funding to against nine criteria, dividing organisations into four categories: 'poor', 'adequate', 'good' and 'very good' value for money (**Figure 9** overleaf). In 2010-11, 74 per cent of the Department's core funding went to organisations rated as 'good' or 'very good' value for money. Multilateral organisations that are rated as 'very good' value for money will have the biggest increase in spending over the Spending Review period. Funding to these nine organisations is planned to increase by 32 per cent by 2014-15 compared with 2010-11, from £2.0 billion to £2.6 billion per annum. In total the Department plans that £9 billion will go to 'very good' organisations across the Spending Review period, 61 per cent of all core funding to multilaterals. A further 14 per cent of all core funding is planned to go to organisations that are rated 'good'. The Department's plans show that funding to organisations assessed as 'adequate' will be 10 per cent higher in 2014-15 than 2010-11. The 'adequate' category is dominated by the European Commission, which accounts for around a fifth of the Department's total multilateral spending.

Figure 9

Funding outcomes from the Multilateral Aid Review, with multilateral organisations grouped by the Department's value for money assessment

MAR performance category	Number of organisations (Percentage)	Total spend 2010-11 (£m)	Proportion of spend 2010-11	Estimated spend 2014-15 (£m)	Proportion of estimated spend 2014-15	Percentage change in funding 2010-11 to 2014-15
Very good	9 (21%)	1953	58.2%	2583	62.0%	32.3%
Good	13 (33%)	534	15.9%	632	15.2%	18.2%
Adequate	9 (22%)	801	23.9%	884	21.2%	10.3%
Adequate excluding EC Budget	8 (20%)	59	1.8%	70	1.7%	18.6%
Poor	9 (22%)	69	2.1%	66	1.6%	-4.3%

NOTES

1. Proportion of spend shows the proportion of spending on organisations funded by the Department included in the Multilateral Aid Review. The Climate Investment Fund and Global Environment Facility were covered by the Review but are not included in this Figure as the allocations for 2014-15 are not yet decided, and their inclusion would mean the analysis would not be on the same basis.
2. The European Commission budget contribution is determined by Treaty obligation, and cannot be changed outside these negotiations. We have therefore shown separately volumes for those 'adequate' organisations which the Department has a choice over whether to fund.
3. Not all of the funding by these multilateral organisations counts as multilateral aid according to Organisation for Economic Co-operation and Development definitions – some is counted as bilateral.
4. Estimated expenditure figures for 2014-15 do not include possible performance-related funding of £90 million.

Source: NAO analysis of Department for International Development documents outlining current and future spending

2.10 The nine organisations that the Department has rated as 'poor' value for money are largely small organisations; they received 2 per cent of the Department's core multilateral funding in 2010-11. The Department has stated that it will cease funding to four of these organisations[27] and put four others in 'special measures'[28], whilst one is being re-established as a different entity[29]. The Department gave £9 million in 2010-11 to the four organisations that it is stopping funding; around 0.3 per cent of total core multilateral funding. Funding for organisations in 'special measures' will fall by over 50 per cent in 2011-12, but is budgeted to increase again to just below the 2010-11 level by 2014-15 if those organisations improve their performance.

2.11 The Department will use the findings from the Multilateral Aid Review to inform its ongoing approach to engaging with multilateral organisations. It intends to work with other member countries and multilateral organisations to develop results and reform strategies in areas that are currently weak and need improvement[30]. It also intends to make future funding contingent on commitments to specific results and reform. It has stated, particularly for 'adequate' or 'poor' organisations, that it will review funding decisions in two years time, and will be looking for evidence that multilateral organisations are improving results and progress on key reform priorities.

Challenge Fund

2.12 The Department has held back £1.5 billion to be used as a 'Challenge Fund' over the course of the Spending Review, in addition to a contingency budget. The Challenge Fund will provide financial flexibility to help the Department meet key commitments, to increase expenditure on policy priorities, and to take new opportunities for reducing poverty that arise over the course of the Spending Review. £800 million is held for Challenge Fund in 2013-14 and £600 million in 2014-15. Decisions on the distribution of the Challenge Fund will affect the relative size of the bilateral and multilateral aid programmes. The Department's current spending plans for 2014-15 will lead to 51 per cent of its budget (excluding operating costs) going to the bilateral programme, 42 per cent to the multilateral programme, with 7 per cent unallocated as Challenge Fund or as contingency (**Figure 10** overleaf).

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[27] The United Nations Settlement Programme (UN HABITAT), the United Nations Industrial Development Organisation (UNIDO), International Labour Organisation (ILO) and the United Nations International Strategy for Disaster Reduction (UN ISDR).

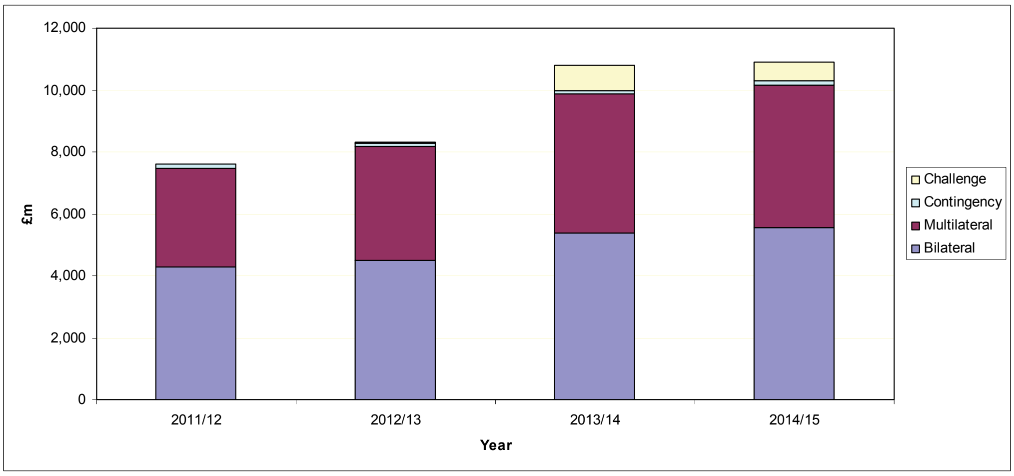
[28] The United Nations Educational Scientific and Cultural Organisation (UNESCO), International Organisation for Migration (IOM), Food and Agriculture Organisation (FAO) and Commonwealth Secretariat

[29] The other organisation, the United Nations Development Fund for Women (UNIFEM) has been re-established as the United Nations Entity for Gender Equality and the Empowerment of Women (UNWOMEN). The Department is planning to increase funding to this new organisation.

[30] The Department has identified seven areas for improvement amongst multilateral organisations (Taking forward the Findings of the Multilateral Aid Review, Department for International Development, March 2011): Accountability for results; Delivery of efficiency savings and value for money in programming; Human resource management; Transparency and accountability; Delivering for women and girls; Working in fragile contexts; Partnership behaviour.

Figure 10

Growth of planned bilateral and multilateral expenditure over the Spending Review period, including Challenge Fund



NOTES

1. Challenge Fund refers to money that is currently unallocated, but is held back to meet future priorities. Contingency is money held back for unforeseen events that may occur in-year.
2. In addition, the Department has set aside £90 million of 'performance funding' for multilateral organisations for 2013-14 and 2014-15.

Source: Department for International Development's Allocated Programme Budgets (as at 31 March 2011)

Managing and reporting results

2.13 The Department is currently finalising the results indicators it will use to aggregate, measure and report its performance. These include the impact indicators that the Department set out in its Business Plan[31] and the 25 commitments it made when it announced the results of the bilateral and multilateral aid reviews – the 'We will' statements in 'UK Aid: Changing Lives'. These commitments will be supplemented by measures to improve the coverage of key business areas and the coverage of results to be delivered by the multilateral organisations the Department funds. The Department is planning to have around 25-30 headline bilateral indicators to measure the Department's results. It will also report progress against a number of headline multilateral results indicators. In addition, operational plans set out the full set of results that the Department is aiming to achieve.

[31] For more information see paragraphs 40-42 (p15) of the NAO's Departmental Overview of the Department for International Development, September 2011.

2.14 The Department's framework for managing delivery of results consists of four levels: progress on development outcomes; results attributable to the Department (see paragraph 2.13); operational effectiveness (which leads to better delivery of results and greater value for money) and organisational efficiency (improvements in internal corporate processes). The Department will track and report publicly on key Millennium Development Goal indicators to help assess whether the Department's outputs are leading to intended development outcomes. It also is planning to assess its costs against indicators of organisational efficiency and operational effectiveness used by multilateral organisations.

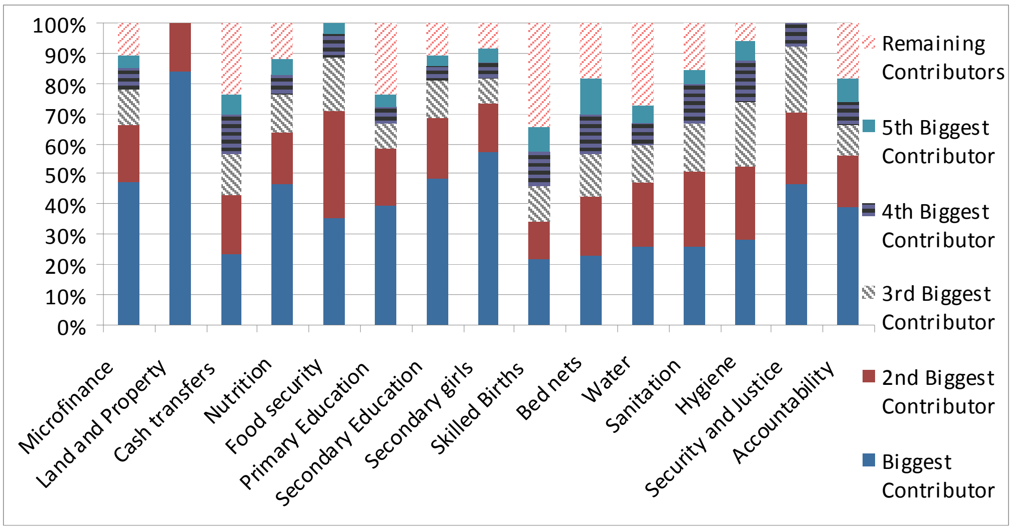
2.15 The Department is developing a plan for how it will track progress in delivering results, and how it will take action where necessary if these are not on target. The Department has designed a reporting cycle whereby it will report publicly on its progress against a subset of its Business Plan indicators in April and against a more complete set of results in its Annual Report in July. The Department will require country offices and other spending departments to update their forecasts of results at the mid-point of the year (September – October), as part of its financial planning round. These reports will be used internally to assess the Department's overall progress. Decisions will then be made on whether there is a need to adjust funding to certain programmes to improve results.

2.16 Many of the Department's results commitments are reliant on progress in a relatively small number of countries. The Department assessed the coverage and concentration of fifteen indicators in different countries in May 2011, based on provisional results offers from the operational planning round[32]. It found that for 11 of these 15 indicators over 80 per cent of the results are contributed by just five countries (**Figure 11** overleaf). For instance, Rwanda is responsible for 84 per cent of results in 'Land and property', India will be responsible for around half of the Department's secondary education results, Malawi will be responsible for nearly half of results in 'Security and Justice'. The Department is planning to use this information to help it understand the risks to delivery and to focus attention on the most important countries for achieving results.

[32] These results are current estimates and are subject to change based on future design of business cases and implementation of the programme.

Figure 11

Number of countries responsible for contributing to the Department's main results indicators



NOTE

This Figure is based on analysis first presented to Department for International Development's Management Board in June 2011. The analysis was based on provisional data.

Source: Department for International Development analysis of estimated contribution to results by country

2.17 Most country programmes contribute to the Department's main results indicators, but the spread of results is not even, or necessarily proportional to the size of the programmes. We examined the results promised by the Department's five largest country programmes for 15 indicators (**Figure 12**). India and Ethiopia will be responsible for more than 10 per cent of results for nine indicators, and Nigeria for seven. However, Pakistan only contributes more than 10 per cent of results for three of these indicators, despite being the largest programme. Bangladesh also contributes over 10 per cent of results for three indicators.

Figure 12

The contribution to results of the Department's five largest country programmes for 15 indicators

Expenditure Rank (2014/15)	Country	Number of indicators that country contributes >10% of results to	Average contribution to results across selected indicators (Average %)	Highest contribution (%)	Highest contribution category
1	Pakistan	3	5.5	39.7	Primary children
2	Ethiopia	9	10.8	21.8	Security and Justice
3	Nigeria	7	12.3	47.2	Microfinance
4	Bangladesh	3	5.3	23.4	Cash Transfers
5	India	9	17.7	57.4	Secondary girls

NOTE

This Figure is based on analysis first presented to Department for International Development's board in June 2011- based on provisional data

Source: Department for International Development analysis of estimated contribution to results by country

Part Three

The Department's approach and progress in reducing its administration costs and limiting its total operating costs

Key Messages

The Department's targets for cost reduction and trends in reported costs

- Over the Spending Review period the Department is required to cut its administration costs by a third in real terms, from a baseline of £128 million in 2010-11 to £94 million by 2014-15. It is also limited to an overall six per cent real terms increase in its total operating costs over the Spending Review period, whilst its total budget is set to increase by a third in real terms (paragraphs 3.2 -3.4).
- Changes in the definition of administration and operating costs in recent years make it difficult to obtain fully comparable trend information on costs. However, administration costs fell in absolute terms in 2009-10 and 2010-11. A combination of reductions in the Department's internal costs together with an increasing programme budget, has resulted in the cost of delivering the Department's programmes falling from 5.2 per cent of total expenditure in 2006-07 to 2.8 per cent in 2010-11 (paragraphs 3.5 - 3.7).

The Department's approach to achieving cost reductions

- The Department has taken a largely devolved approach to delivering administration cost reductions. Planned cost reductions have been built into business unit budgets and units are responsible for managing and monitoring the delivery of savings. Business units have established project boards to take forward specific cost reduction measures. Given this devolved approach, the Department has decided not to maintain a central inventory of the value or timing of likely savings across all its business units over the Spending Review period but does report in-year administrative costs and trends to its Management Board (paragraphs 3.8 - 3.9).

The Department's progress to-date

- The Department has reported that it is making good progress in reducing its administration costs. It is forecasting expenditure of £112 million for 2011-12, comfortably within its 2011-12 budget of £121 million. It has ringfenced a contingency sum for accommodation costs arising from its current review. Cost reductions achieved in 2010-11 were driven by reductions in consultancy expenditure and staff business travel and training. Forecast savings in 2011-12 include reductions in spending on basic pay and allowances (paragraphs 3.10 - 3.11).
- Some broader schemes to reduce administration costs are planned to deliver towards the end of the Spending Review period, including plans to improve communications systems, human resources and office accommodation. Some of these projects will involve some up-front costs (paragraph 3.12).

Comparing costs with other donors

- The cost of delivering UK aid is low compared to most other major donor countries. At 3.5 per cent of total UK Overseas Development Assistance in 2009, the cost of delivering UK aid was one percentage point lower than the average for all donors (paragraph 3.13).

3.1 In this Part we set out the Department's approach to managing its internal costs, and present information on the Department's budgeted and actual costs. Our commentary has been informed by the NAO's 2010 Short Guide to Structured Cost Reduction,[33] and lessons learned from NAO audits of other departments' cost reduction programmes, such as the importance of: senior ownership and strong governance; clear financial baselines; pursuing both savings arising from ambitious strategic changes and tactical savings; building planned savings into budgets; having dedicated resources to invest in, and monitor savings; and allowing adequate contingency in savings plans.

3.2 The Department is required to make the same percentage level of administration cost reductions as other departments over the Spending Review period.[34] However, it has agreed with HM Treasury that its total internal costs (known as operating costs and previously as running costs[35]) can rise so that it can increase the number of front-line staff it has to manage its increasing programme budget.

[33] NAO, *A short guide to structured cost reduction*, June 2010 www.nao.org.uk/publications/1011/structured_cost_reduction.aspx
[34] HM Treasury, *Spending Review 2010*, October 2010, Cm 7942, page 88.
[35] Running costs was the term used when HM Treasury announced the Spending Review settlement in October 2010. It is also the term we used in the NAO Departmental Overview for the Department for International Development, September 2011, page 7.

The Department's targets for administration costs and total operating costs

3.3 Over the Spending Review period the Department is required to cut its administration costs by a third in real terms and stay within limits on its total operating costs. The Department's Spending Review settlement enables its operating costs to increase by 6 per cent in real terms from a baseline agreed with HM Treasury of £200 million in 2010-11 to a cash figure of £233 million in 2014-15 (see **Figure 13**). The increase in the Department's operating cost budget is much smaller than the increase in the Department's total budget which, over the Spending Review period, is due to grow by 33 per cent. As a consequence the Department's operating costs should fall from around 2.6 per cent of its total budget in 2010-11, to 2.1 per cent in 2014-15.

3.4 Operating costs comprise the Department's:

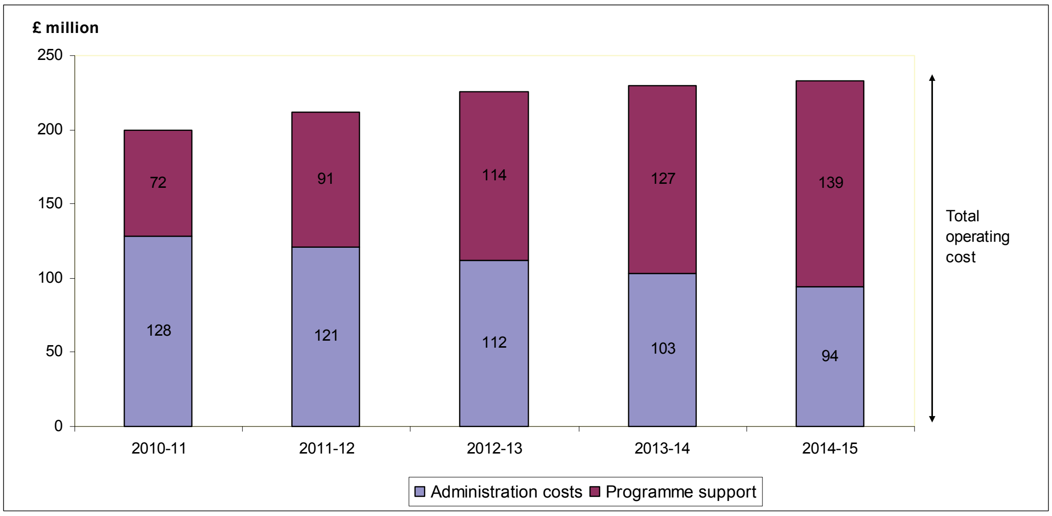
- **programme support budget (also known as front-line delivery costs).** This budget includes the cost of front-line staff, including pay, accommodation costs, travel costs and training, as well as the costs of overseas offices. The Department's programme support budget increases by 76 per cent in real terms which will see its costs rise in cash terms from a baseline of £72 million in 2010-11 to £139 million in 2014-15. This increase in budget provides the Department with the capacity to increase its front-line staffing to manage its increasing programme budget (see Part Four); and

- **administration budget**. The administration budget for all government departments reduces by a third in real terms over the Spending Review period. For the Department for International Development this real terms reduction will see its administration costs fall in cash terms from a baseline of £128 million in 2010-11 to £94 million in 2014-15. The administration budget has to date included the cost of the majority of the Department's staff as well as back office functions. The Department's Spending Review settlement provided for some of its costs to be reclassified from 2011-12 as part of its programme support budget rather than administration. The Department estimated that these costs, which include the costs of UK based staff who deliver advice direct to recipient countries and the security costs of the Department's operations overseas, total £10 million per annum. This narrowing of the definition of administration has been offset by a lowering of the 2010-11 baseline for the Department's cost reduction target to £128 million. The baseline is £10 million below the Department's original[36] administration budget for 2010-11 of £138 million.

[36] The administration cost reduction target excludes depreciation. The Department's initial administration budget for 2010-11 was £155 million, which included £17 million to cover depreciation charges for the use of fixed assets such as property, plant and equipment. The 2010-11 budget net of depreciation was therefore £138 million. The original budget changed during 2010-11 due to net transfers from other government departments of £3 million. A figure of £158 million therefore appeared in the Department's 2010-11 Annual Accounts as its final administration budget including depreciation.

Figure 13

Budgets for the Department's administration costs and total operating costs over the Spending Review period



NOTES

1. The values for 2010-11 are the baselines agreed by the Department with HM Treasury In October 2010. Actual outturn for operating costs in 2010-11 was £195 million.
2. Programme support costs are funded from the Department's overall programme expenditure budget.
3. Administration costs do not include depreciation and are thus on a different basis from the administration costs included in the Department's Accounts.
4. The Department's Spending Review settlement sets out an operating cost cap for each year of the Spending Review period. The cap is equal to 2.70 per cent of the Department's total Departmental Expenditure Limit (less its allocation to the conflict pool) in 2011-12, 2.63 per cent in 2012-13, 2.08 per cent in 2013-14 and 2.09 per cent in 2014-15. The equivalent figure for 2010-11 was 2.64 per cent.
5. 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

Trends in the Department's costs

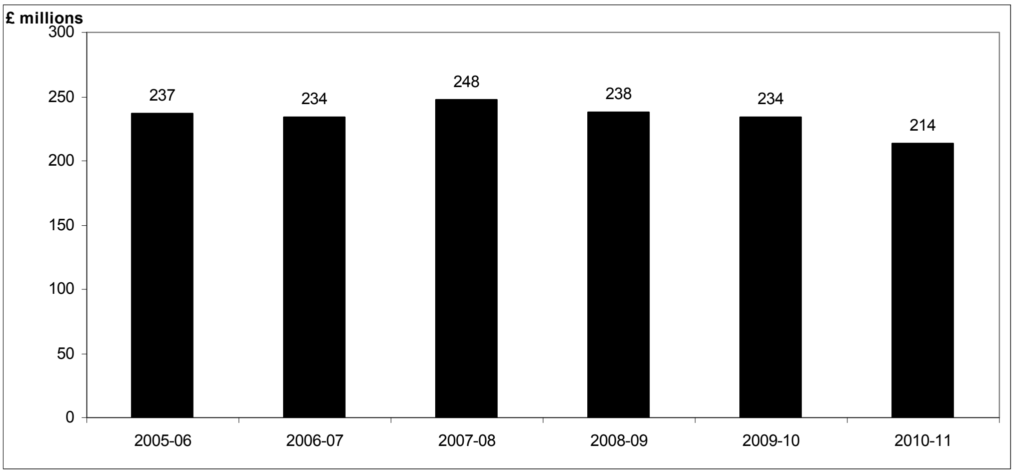
3.5 Changes in definitions in recent years make it difficult to track trends in the Department's costs. Over the last six years there have been several changes to the definition of administration costs and programme support costs, with an increasing proportion of the Department's operating costs being classified as programme support. For example, the proportion of the Department's total staff salary and pay costs classified as programme support rose from 5 per cent in 2006-07 to 32 per cent in 2010-11. As a result of these change in definitions, it was not possible for the Department to provide fully comparable data we would have needed to undertake a full analysis of trends in expenditure.

3.6 There is, however, evidence that the Department's internal costs have fallen in recent years. Whilst there has been some fluctuation in administration costs over the past five years, the Department's Annual Accounts show that administration costs fell by 4.2 per cent and 5.6 per cent in 2009-10 and 2010-11.

3.7 As part of its Statistics on International Development, the Department tracks the total cost of delivering its programmes, including all of the Department's staff, as well as consultants, travel, rents and communications. We confirmed with the Department that this data set is broadly similar to the Department's operating costs, as defined for budgetary control purposes, as the Statistics include the key elements covered by the Department's administration and programme support budgets. The Department's Statistics show that the total cost of delivering its programmes was £214 million in 2010-11, £23 million lower than in 2006-07 (**Figure 14**). As a percentage of the Department's total expenditure, the cost of delivering the Department's programme has fallen from 5.2 per cent in 2006-07 to 2.8 per cent in 2010-11 due to rapid increases in the Department's total expenditure as well as reductions in its costs.

Figure 14

The cost of delivering the Department's programmes, 2005-06 to 2010-11



NOTES

These figures are taken from the Department's Statistics on International Development. The Department does not reconcile these values to those included in its Annual Accounts for operating costs. The differences between the two sets of figures include that the Department's Statistics are produced on a cash basis (i.e. they reflect when payments are made), whereas the Department's Accounts are produced on a resource basis (i.e. the period when expenditure is incurred).

All values in cash terms.

Source: NAO presentation of data taken from the Department for International Development's *Statistics on International Development 2006-07 to 2010-11*, October 2011

The Department's approach to achieving cost reductions

3.8 The Department has taken a largely devolved approach to delivering savings with administration reductions built into the budgets of business units for 2011-12 and 2012-13. In autumn 2010 the Management Board decided on an initial apportionment of cost reduction across the organisation which was then translated into specific budgets for each business unit, consistent with the Department's savings targets. The business units which comprise the Department's Corporate Performance Directorate are expected to make the biggest contributions to the Department's savings targets. Each of the Department's business units is responsible for delivering the savings necessary to achieve its administration budget, including managing risks and putting in place project teams to deliver specific savings. There is a small central team which tracks progress on major corporate reforms, including some of the saving schemes being taken forward by the Department's business units.

3.9 As a result of the Department's devolved approach, the Department does not currently maintain a central inventory of the value or timing of all administrative savings across all its business units. The Management Board receives detailed expenditure reports for key administrative costs on a monthly basis. In autumn 2010, the Department prepared a list of potential savings which informed the 2011-12 and 2012-13 budgets set for each business unit. The list covered tactical savings, such as reducing spend on consultants employed to advise the Department, and more ambitious proposals to deliver savings by altering Departmental processes and reducing transaction costs. In total the autumn 2010 list identified potential savings equal to 93 per cent of the savings the Department needs to make over the Spending Review period. Although the Department's central team tracking corporate reforms currently has a list of major reforms (see paragraph 3.8), details such as the likely scale and timing of any future savings is held by the individual project boards. Centrally, the Department monitors forecasts of savings to be delivered in the current year and sets budgets for business units which are consistent with achieving its overall savings targets. The Department told us that it will review its administration budget performance including savings delivery as part of the annual budget cycle which will validate or amend 2012-13 budgets but responsibility for local planning and delivery remains with business units.

The Department's progress to date

3.10 The Department's finance team has reported to the Board that the Department is making good progress in reducing its administration costs. For 2011-12, the Department's total administration budget of £121 million has been split between the Department's business units (£112 million) and a central contingency (£9 million). The Department's finance team forecasted in September 2011 that the Department would spend £112 million on administration in 2011-12 (**Figure 15**) but it is ring fencing the £9 million underspend to meet potential additional costs which may arise from the current review of cross government property strategies, as the timing and value of these costs is currently uncertain. Nevertheless, if the forecast is reasonably accurate the Department should be well-placed for its 2012-13 budget of £112 million. The Department's finance team also forecasted in September 2011 that at the end of the financial year the Department was likely to be around £7 million below the 2011-12 limit on its total operating costs.

Figure 15

Administration budget and savings required over the Spending Review period and forecast outturn for 2011-12

	2011-12	2012-13	2013-14	2014-15
Budget	121	112	103	94
Forecast outturn	112			
Net savings still to be found based on the Department's latest forecast outturn for 2011-12 being robust and the forecast cost reduction sustained		0	9	18

NOTE

All values in cash terms and exclude depreciation.

Source: NAO presentation of Department for International Development's data

3.11 The reduction in the Department's administration costs in 2010-11 was driven by cutting spending on consultants and staff training and travel. The Department is forecasting a reduction in the costs of basic pay and allowances of administration staff in 2011-12. The level of forecast administration spending for 2011-12 reflects:

- action taken to reduce costs in 2010-11. The Department's administration costs in 2010-11 were £4 million lower than its final budget and £8 million lower than in 2009-10. During the year the Department significantly cut spending on consultants[37] (from £6.2 million in 2009-10 to £1.4 million**)** and staff business travel and training (from around £9 million in 2009-10 to £4 million). These reductions were partially offset by increases in other costs including pay related costs. Salaries where subject to a pay inflation freeze but total pay related costs increased by £1.5 million as, for example, staff progressed through salary scales; and
- further forecast cuts in administration costs during 2011-12. The Department's latest forecasts shows that it expects that spending on basic pay and allowances will be around £5 million lower than in 2010-11.

[37] The values cover expenditure on consultants providing advice and/or guidance on the strategy, structure, management or operations of the Department in pursuit of its purpose and objectives. The values exclude expenditure on specific specialist pieces of work in areas such as IT and Human Resources.

3.12 The Department has initiated schemes which are planned to deliver savings during the Spending Review period, but some of these will take time to implement and will involve upfront costs. If the Department achieves and sustains its latest forecast outturn of £112 million for administrative expenditure in 2011-12 (Figure 15), it will need to find a further £18 million of net savings over the Spending Review period. We selected three of the Department's current large savings schemes, which were at different stages of maturity, and covered different types of savings including reducing staff numbers, cutting estates costs and cutting costs of services provided by external providers. We discussed the status and progress of each project with relevant teams (**Figure 16**). One of the schemes – to change the Department's telecommunications and telephony services - was already yielding savings. All three of the schemes were forecasting significant steady state savings from 2013-14 onwards, although each of the three schemes have some upfront costs. Their contributions to the Department's savings targets will need to take account of their upfront costs. Some of these upfront costs will be charged to other budgets, such as capital expenditure where an asset is being created which should deliver longer term benefits, as in the case of the planned HR Passport system.

Figure 16

Status and progress of selected saving schemes

HR Passport. A new system which aims to streamline human resources processes and reduce the number of human resources staff. The Department signed a contract with a supplier in September 2011. The system is expected to deliver steady state savings of £1.0 million per annum from 2013-14 but is likely to have upfront costs of around £3.8 million.

Office accommodation in London. The Department is planning to move from its current leasehold accommodation in London to lower cost freehold accommodation. It is in discussion with key parties, including the owner of its current accommodation. The move could save the Department around £6.5 million per annum by 2013-14, but there are likely to be substantial upfront costs to terminate the lease and renovate the building the Department plans to move to. In the case of termination, the costs are uncertain and commercially sensitive.

Telecommunications and telephony services. The Department has changed its provider of these services for its overseas offices. The Department's roll-out of new services which began at the start of 2011 should be complete by autumn 2012. The Department estimates the steady-state savings from the new scheme will be £1.6 million per annum. The Department expects the total cost of transitioning to the new services will be £2.8 million.

Source: NAO presentation of Department for International Development material

How the UK's costs compare to other donor countries

3.13 The best available evidence indicates the cost of delivering UK aid is low compared to other donor countries. Care needs to be taken in comparing costs with other donors as: there are difficulties in obtaining comparable data due to differences in definition; data are only available on a national rather than agency specific basis; and differences in the way in which donors spend aid will impact on costs. Latest figures available from the Development Assistance Committee of the Organisation for Economic Co-operation and Development indicate that, for the UK as a whole, the cost of delivering aid accounted for 3.5 per cent of total UK Overseas Development Assistance in 2009; this was 1 percentage point lower than the average for all donors. For the ten largest donors, the average delivery costs were 4.3 per cent, and of these donors only Germany had a lower ratio (2.2 per cent) than the UK.[38]

[38] Organisation for Economic Co-operation and Development website, *'ODA by Sector'*, http://stats.oecd.org/Index.aspx?DatasetCode=ODA_SECTOR. OECD uses the term 'administration costs" rather 'operating costs'. We have confirmed with the Department that the terms are consistent.

Part Four

Restructuring the Department's workforce

Key Messages

Trends in the Department's staffing levels

- Over the last four years the number of staff employed by the Department has fallen by nine per cent to 2,325 at March 2011, mainly as a result of a reduction in junior grades. The split between overseas and UK offices has remained largely the same over this period (paragraph 4.2).

The Department's workforce plans

- The Spending Review settlement will lead to a large increase in the number of front-line staff but administration posts are expected to fall by around the same number by 2014-15 (paragraph 4.3)
- Detailed workforce plans prepared by the Department in April 2011 forecast that frontline staff posts will grow by about 310 posts (14 per cent) in 2011-12 but then fall by around 50 posts (two per cent) in 2012-13 (paragraphs 4.4).
- Two thirds of the net growth of staff posts by March 2013 is expected to be overseas. Adviser posts are also planned and expected to account for two-thirds of net growth. Adviser posts, are fairly senior positions, and will thus push up the overall seniority of the Department's staff (paragraph 4.4).
- The number of adviser posts is planned to increase by 38 per cent to around 630 in 2011-12 and then remain at that level in 2012-13. The size of all cadres of advisers will increase, with the biggest increases in the humanitarian cadre (137 per cent), and the health and private sector cadres (49 per cent increase in each) (paragraph 4.5).
- The main reductions in administrative posts are planned to take place in the last two years of the Spending Review period, with many dependent on the successful introduction of new systems, including a new human resource system. The largest reductions of administrative posts are expected to be in the business units covering human resources, security and facilities and finance and corporate performance (paragraphs 4.6 – 4.7).

Progress in filling new adviser posts

- The Department is making progress against its plans to recruit over 170 new advisers in 2011-12 and thus increase the total number of advisers to around 630 by March 2012. As at the middle of October 2011 it had identified 147 potential new recruits to the Department, of which 44 were in post and 52 had been matched to posts but were completing the recruitment process (paragraph 4.9).
- Some of the Department's business units had expected quicker progress in filling front-line posts and internal management reports identify these delays as a risk to the Department's development of new projects (paragraph 4.11). The use of short term contract staff has been approved pending the arrival of the new permanent staff.

4.1 This Part examines how the Department's workforce will change over the Spending Review period as it expands front-line staffing to manage its increasing programme budget and, at the same time, reduces administration staff as part of cutting its administration costs by a third.

Trends in the numbers of staff employed by the Department

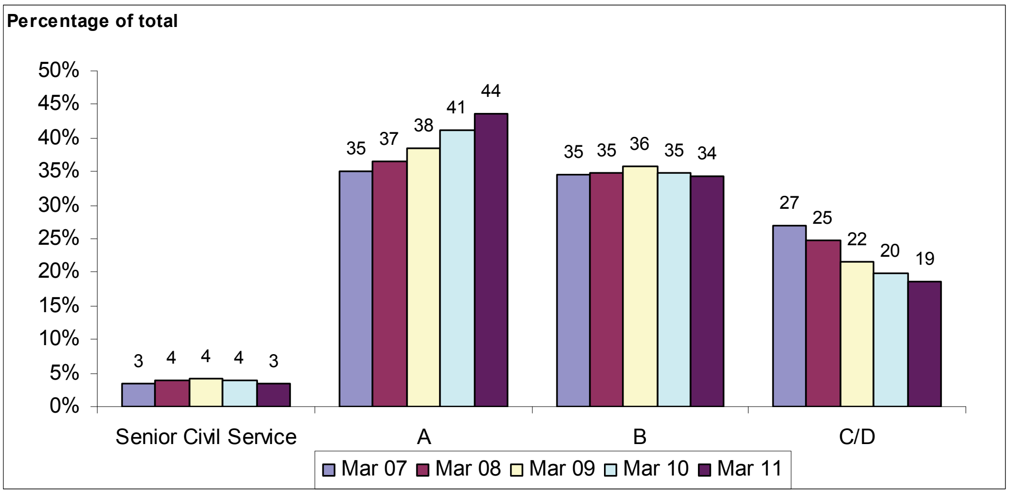
4.2 Over the last four years the number of staff employed by the Department has fallen mainly as a result of reductions in the most junior grades – the split between London, East Kilbride and overseas has not changed significantly. Data[39] provided to us by the Department (see Appendix Three for full data) show that:

- between March 2007 and March 2009 the **total number of permanent staff employed** by the Department fell by nine per cent to 2,320; since then staff numbers have levelled off and stood at 2,325 at March 2011;
- the **geographical split** of the Department's staff has remained largely unchanged over the last four years with around 30 per cent located in London, 20 per cent in East Kilbride and 50 per cent overseas; and
- the proportion of staff in the lowest **grades** (Bands C and D) fell by eight percentage points over the four years to March 2011, which was more than matched by a nine per cent increase in Band A staff (**Figure 17** overleaf). Band A staff are the highest grade below the Senior Civil Service and include advisers.

[39] This data shows fulltime equivalent staff employed by the Department. The data do not take account of vacancies or posts filled by temporary staff. The data are therefore not comparable with data on the number of posts used in paragraphs 4.3 to 4.7.

Figure 17

The Department's workforce by groups of grades, March 2007 to March 2011



NOTE

The order of seniority is from the left to right. Senior civil service is the most senior, then Band A, then Band B, then Band C/D.

Source: NAO presentation of Department for International Development data

The Department's workforce plans

4.3 The Spending Review settlement will lead to a large increase in the number of front-line staff, although overall staffing numbers are unlikely to change significantly. Front-line staff include those who manage aid programmes or deliver advice directly to recipient countries. In November 2010, the Department told the Committee that the increase in its programme support budget would in theory enable it to hire an additional 300 to 400 front-line staff.[40] In March 2011, each of the Department's business units were asked to make an initial assessment of the number of posts they would need by 2014-15 given the outcome of the Bilateral and Multilateral Aid Reviews, the Humanitarian Emergency Response Review and the Department's wider business plan. These reports indicated that although the total number of posts might remain at around 2,270 to 2,280, the number of front-line posts is expected to rise by about 400 to around 1,040, with the number of administration posts falling by around the same number. Such changes would increase the

[40] International Development Committee, *Department for International Development Annual Report and Resource Accounts 2009-10*, Third Report of Session 2010-11, January 2011, page 29.

proportion of the Department's posts classified as front-line from approximately 30 per cent to 45 per cent and should increase its capacity to manage its increasing budget (**Figure 18**).

Figure 18

Predicted growth in the number of staff posts and growth in the Department's programme budget, 2010-11 to 2014-15

Total posts, *of which*	Broadly unchanged falling from around 2,280 to around 2,270
Front-line posts	Increase by 60 per cent to around 1,040
Administration posts	Reduce by 25 per cent to around 1,230
Programme budget	Increase by 35 per cent in real terms to £11.5 billion

Source: NAO presentation of Department for International Development data

4.4 In April 2011 the Department prepared detailed workforce plans that forecast that frontline staff posts will grow by around 310 (14 per cent) in the first year of the Spending Review and then fall by around 50 posts (2 per cent) in 2012-13 (Figure 19). During April 2011, internal budgets were set and the Department's business units were asked to use these to prepare detailed workforce plans specifying the number and type of frontline posts they wanted at March 2012 and March 2013. The plans show that over the two years to March 2013:

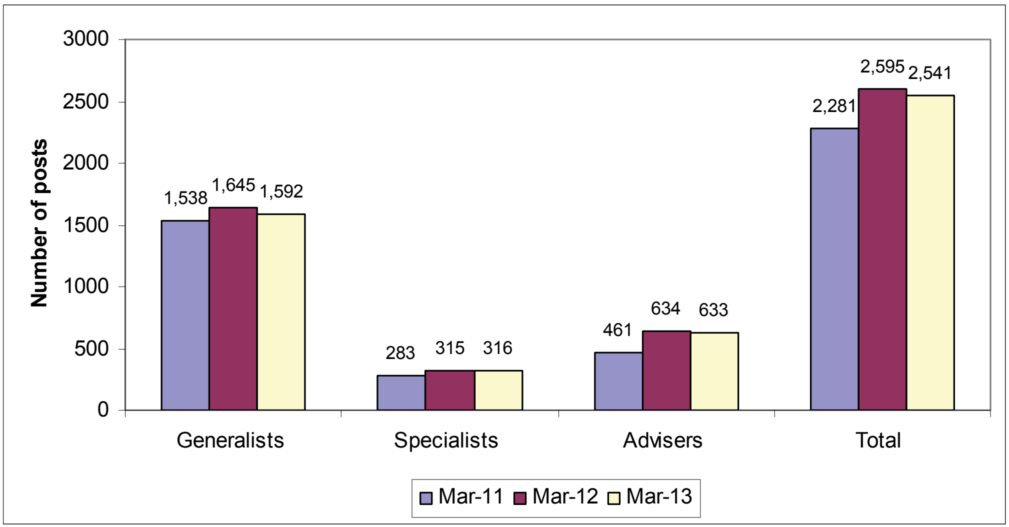
- two thirds of the planned net growth of around 260 posts are expected to be created **overseas**;
- two thirds of the planned net growth are expected to be in **adviser posts** (i.e. experts in sectors such as governance and education). Advisers are usually Band A posts;
- in total Band A posts are expected to account for around 80 per cent of net growth. This change will drive an increase in the **seniority** of the Department's staff. The proportion of the Department's staff in the most senior groups of grades – Senior Civil Servants and Band A - will increase by around four percentage points to around 50 per cent; and

- the number of **generalists** is expected to rise by seven per cent in 2011-12 to around 1,645 at March 2012 before declining by four per cent in 2012-13 (Figure 19).

The Department plans to re-run its workforce planning exercise later this year, extending it to 2013-14 or to 2014-15.

Figure 19

Planned change in the number of posts by broad role of staff, March 2011 to March 2013



NOTES

Advisers are members of professional cadres. Figure 20 lists the Department's cadres of advisers.

Specialists include professional staff in corporate functions such as finance, human resources and IT.

Generalists cover all other groups of staff, including those who manage projects in the Department's country offices.

Source: NAO presentation of Department for International Development data

4.5 The number of adviser posts is planned to increase by 38 per cent to around 630 in 2011-12 and then remain at that level in 2012-13 (Figure 19). All cadres of advisers are planned to increase by at least 15 per cent, with the largest increases in humanitarian (137 per cent), then in the health and private sector cadres (both 49 per cent) (**Figure 20**). The economics (112 posts) and governance cadres (111 posts) are expected to remain the largest.

Figure 20

Planned growth and size of each adviser cadre March 2011 to March 2013

	Percentage growth March 2011 to March 2013	Planned size of cadre
Humanitarian	137	22
Health	49	67
Private sector	49	48
Social development	46	63
Statistics	44	37
Education	39	44
Conflict	37	34
Economics	31	112
Governance	30	111
Infrastructure	29	26
Climate and environment	19	36
Rural	15	31

NOTE

This Figure excludes evaluation staff as these staff are classified by the Department as specialists rather than advisers. During the two years to March 2013 the number of evaluators is expected to grow by 72 per cent to 28.

Source: National Audit Office presentation of Department for International Development data

4.6 The Department’s workforce plans indicate that the number of posts funded from the administration budget is not expected to start declining until 2012-13. The main reductions in the number of administration posts are likely to take place in the last two years of the Spending Review period. The largest reductions will be in the Corporate Performance Directorate and many of these are dependent on the development and introduction of new systems. The Department’s workforce plans indicate that there will be 2 per cent growth in administration funded posts in 2011-12, principally due to increases in Conflict, Humanitarian and Security operations department. This growth will be followed by a matching fall in 2012-13, with large reductions to take place in the next two years[41]. The latest financial forecast information shows underspending against the plan in 2011-12 (paragraph 3.11) The Department expects the 515 posts currently within the Corporate Performance Directorate to reduce by between 140 and 175 over the Spending Review period, of which around 27 reductions are planned to be made by March 2013 and the remainder to be delivered in the last two years of the plan.

[41] The finance team’s forecast of a reduction in spending on basic pay and allowances in 2011-12 (paragraph 3.11) indicates that the small increase in administration posts in 2011-12, as predicted by the Department’s April 2011 workforce planning exercise may not happen.

4.7 Figure 21 shows how the reductions will fall across the Corporate Performance Directorate's business units. The largest planned reductions are in the Human Resources, Security and Facilities Division. These reductions are dependent in part on the new HR-Passport system (see paragraph 3.12) and the benefits the Department obtain from the cross-government next generation HR project. The next generation HR project aims to professionalise Civil Service human resource management and reduce costs, in part, by greater working across government and increasing standardisation.[42]

The Department's progress in filling new adviser posts

4.8 The Department has established a pool of advisers to fill immediate and high-priority posts, mainly in fragile and conflict-affected countries. At the end of 2010 the Department's Management Board agreed that a pool of advisers should be established to fill current and new vacancies. The Department initiated its first recruitment campaign in March 2011 which was focused on posts categorised by business units as immediate and high-priority when they prepared their workforce plans. The majority of these posts are in fragile and conflict-affected countries. As part of the recruitment process, the Department has therefore required candidates to demonstrate their willingness to work in difficult environments. The Department has found it difficult to encourage some of its experienced advisers to take up such posts.

4.9 The Department is making progress against its plans to recruit over 170 new advisers in 2011-12[43] and thus increase the total number of advisers to around 630 by March 2012 (see Figure 19, page 43). As at the middle of October 2011, the Department's adviser pool included 26 people who had or were planning to transfer from other government departments, 121 people who had or were being externally recruited and 10 existing Departmental staff. This gives a total of 157 individuals, of which 147 were potentially new to the Department. Of the 147:

- 32 external recruits and 12 staff from other government departments were in post as at the middle of October 2011;
- 48 external recruits and four staff from other government departments had been matched to posts but were completing the recruitment process, such as having security checks undertaken;
- 41 external recruits and 10 staff from other government departments had not been matched to posts because, for example, they could not be released from their existing jobs for a number of months.

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[42] Civil Service website, http://www.civilservice.gov.uk/networks/hr/nghr,
[43] It is difficult to predict the exact number of new advisers the Department needs to recruit as it will depend in part on the number of existing advisers who leave adviser posts or leave the Department.

Figure 21

The Department's assessment of the scale and timing of reductions in administration staffing across its Corporate Performance Directorate

Business unit	Current location of staff	Key drivers	Likely reduction in jobs over the Spending Review period from 2010-11 baseline		Timeframe
			Percentage (approx)	Number (likely range)	
Human Resources, Security and Facilities Division	London East Kilbride	Next Generation HR HR Passport	34 to 54 per cent	45 – 65 posts	Main reductions by 2013-14
Finance and Corporate Performance Division	London East Kilbride	Finance reform programme	24 to 27 per cent	37 – 42 posts	Gradual reductions during 2011-12 to 2013-14 and higher reduction in 2014-15
Business Solutions Division	London East Kilbride Overseas	Changing the supplier of telecommunications and telephony services for the Department's overseas offices Review of corporate networks for sharing knowledge and information	20 to 25 per cent	36 – 41 posts	Gradual reductions over the Spending Review period
Communications Division	London	Not provided	15 to 24 per cent	9 – 14 posts	Reductions over 2012-13 to 2014-15
Other including Internal Audit	London East Kilbride	Not provided	30 per cent	13 posts	Reductions over the Spending Review period

Source: Department for International Development

4.10 The Department was at October 2011 in the process of completing two further recruitment campaigns and a fourth may be run in 2012. The Department told us that the first recruitment campaign led to sufficient recruits to fill immediate and some high-priority posts in most cadres, but it did not attract adequate numbers to fill immediate vacancies in private sector development, governance and evaluation. The Department therefore ran a second recruitment campaign for these cadres. As at the middle of October 2011 the Department was interviewing and assessing applicants and, in the case, of the governance cadre had identified 13 new advisers.[44] The Department was also processing applications in response to a third recruitment campaign which it was running to fill vacancies across its cadres for priority posts, as well as to fill remaining immediate and high-priority vacancies. When these two exercises are completed the Department plans to take stock, and use the results of the planned re-run of its workforce planning exercise mentioned in paragraph 4.4 to decide whether a further exercise is required in 2012.

4.11 Some of the Department's business units had expected quicker progress in filling front-line posts and internal management reports identify these delays as a risk to the Department's development of new projects. Each month the Management Board receive a finance report which is based on returns received from the Department's Business Units. The reports prepared in August and September 2011 said that delays in front-line recruitment, (often associated with notice periods from previous employers and time taken to obtain necessary medical or security clearances), were creating pressure for business units in building-up the pipe-line of development projects which will be needed for the Department to make good use of its increasing programme budget. Use of short term contract staff has been approved pending the arrival of new permanent staff.

[44] These 13 advisers are excluded from the aggregate values set out in paragraph 4.9 as successful candidates have not yet accepted positions.

Part Five

The Department's expenditure on technical cooperation and research

Key Messages

Technical cooperation

- The Department spends around £450 million per annum (the equivalent to around 10 per cent of its total bilateral programme) on technical cooperation (paragraphs 5.2 - 5.3).
- The Department uses providers of technical cooperation in a number of ways, including to: enhance the knowledge, skills and capability of people in recipient countries; assist the provision of services in developing countries; and manage, on the Department's behalf, large strategic programmes (paragraph 5.4).
- The majority of the Department's technical cooperation expenditure is country programme specific and, of this, most is focussed on five countries where the Department has large bilateral aid programmes. The Department's programme in Nigeria is dominated by technical cooperation (paragraphs 5.5 and 5.6).
- The Department uses technical cooperation in 11 sectors, with around half of its expenditure going to the government and state building sector and the health sector (paragraph 5.7).
- The Department uses a large number of contractors to provide technical cooperation, with its largest supplier accounting for nine per cent of the Department's technical cooperation expenditure in 2010-11 (paragraph 5.8).

Research

- Over the period 2008-09 to 2014-15 spending on research by the Department's Research and Evidence Division is expected to grow by 150 per cent, from £125 million to a forecasted £320 million (paragraph 5.10).
- In the period 2008-09 to 2010-11, human development and agriculture have

consistently been the areas of greatest research spend each accounting for over a third of total spend. Spending on climate change is the fastest growing, up from 2 per cent (£3 million) of total spending in 2008-09 to a forecasted 16 per cent (£52 million) in 2014-15 (paragraph 5.11).

5.1 The Department's bilateral programme includes funding external organisations to provide technical cooperation and undertake research.[45] This Part sets out the Department's reasons for undertaking these activities and analyses the level and composition of expenditure.

The Department's expenditure on technical cooperation

5.2 The Department spends around £450 million per annum on technical cooperation. The Department has two data sets for spending on technical cooperation (also referred to as technical assistance). The Department's Statistics on International Development reflect all expenditure coded as technical cooperation by the Department's business units. The latest Statistics show that spending categorised as technical cooperation was £468 million in 2010-11.[46]

5.3 The Department's procurement team also generates data on those technical cooperation services which are covered by the Department's procurement and contracting systems. These data, which exclude technical cooperation services covered by memoranda of understanding,[47] are used by the Department to answer public inquiries on technical cooperation. It shows that expenditure on contracts let for technical cooperation:

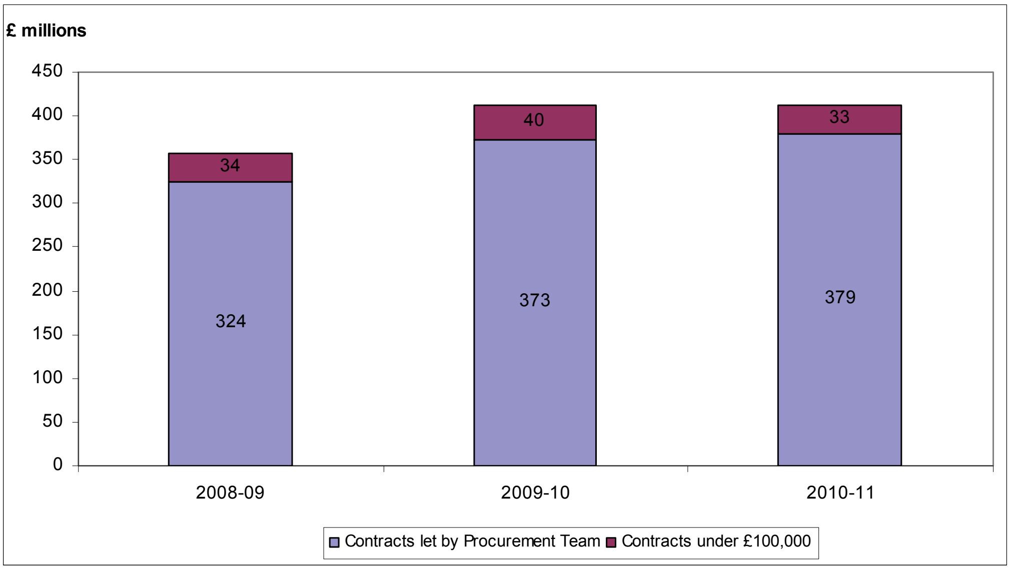
- totaled £412 million in 2010-11 (around 10 per cent of the Department's total bilateral programme). This comprised £379 million of payments made on contracts let through the Department's central procurement team and a further £33 million of expenditure on smaller value contracts (under £100,000) which are let locally by the Department's country offices;[48]
- did not change significantly in 2010-11, following a £55 million (15 per cent) rise in 2009-10 to £413 million (see **Figure 22**).

[45] The NAO has received cash fees directly from the Department for programme-related projects. These have primarily related to overseas technical cooperation work supporting the development of other audit institutions. These direct fees totalled £192,000 in 2010-11 and £86,000 in 2009-10.The NAO also received cash fees indirectly from the Department, via other organisations to which it is a sub-contractor. Indirect fees totalled £120,000 in 2010-11 and £186,000 in 2009-10. The NAO staff preparing this briefing had no involvement in either direct or indirect activities.
[46] Department for International Development, *Statistical Release, Statistics on International Development*, October 2011, page 12.
[47] Memoranda of Understanding are typically used when the Department engages a multilateral organisation to provide technical cooperation.
[48] Country offices have delegated authority for low value purchasing activity. The Department's central procurement team are not involved in letting these contracts.

We have used the data from the procurement system rather than the Development Statistics in paragraphs 5.5 to 5.8, as it can support a greater level of analysis.

Figure 22

The Department's expenditure on providers of technical cooperation as captured by its procurement and contracting system, 2008-09 to 2010-11



NOTES

1. The Department does not have comparable data for the years before 2008-09.
2. All values in cash terms.

Source: National Audit Office presentation of Department for International Development data

5.4 The Department uses technical cooperation in a number of ways but neither of its information systems enables it to identify expenditure by purpose. The Department told us that typically providers of technical cooperation were used to:

- undertake activities to enhance the knowledge, intellectual skills, technical expertise or the productive capability of people in recipient countries;
- help deliver direct impacts on poor peoples' lives through assisting the provision of services in developing countries;
- provide assistance in the form of training for persons from recipient countries, including through scholarship schemes;

- contribute to the design of some of the Department's projects and programmes; and
- manage large strategic programmes on the Department's behalf, for example the Global Poverty Action Fund worth £120 million.[49]

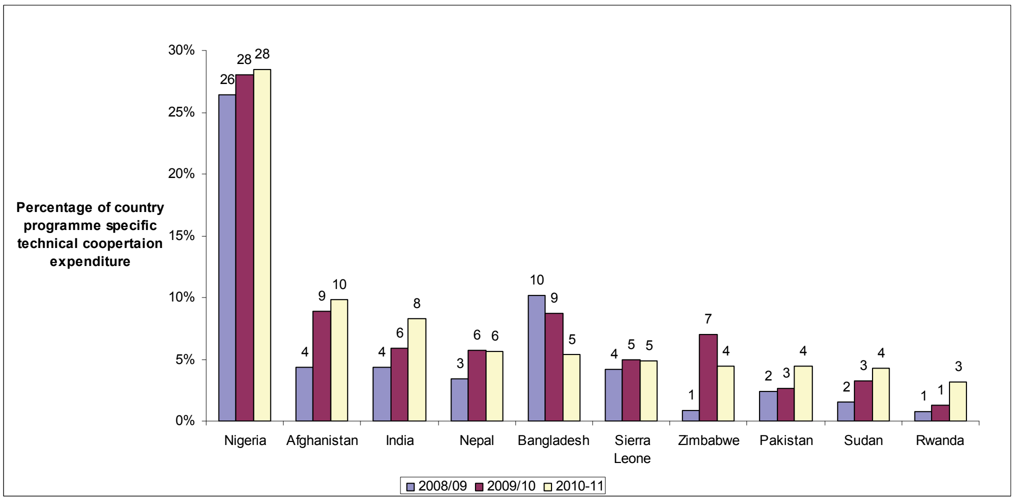
5.5 Eighty per cent of the Department's 2010-11 expenditure on technical cooperation through its procurement system was specific to a country programme. The remainder comprised regional programme expenditure (5 per cent) and technical cooperation expenditure allocated to one of the Department's UK based business units (15 per cent). The latter covers expenditure on a range of technical cooperation activities and includes activities which benefit overseas programmes, such as the British Overseas Territories, and humanitarian assistance programmes.

5.6 The Department's country programme technical cooperation spending is focused on a small number of countries, with technical cooperation dominating the Department's programme in Nigeria. Five countries accounted for 57 per cent of the Department's country specific expenditure in 2010-11[50]. Nigeria alone accounted for 28 per cent of spending[51]. There is some stability in the country spending profile, with Nigeria, Bangladesh, Afghanistan and India in the top five countries in each of the last three years (**Figure 23**). The Department has large programmes in each of these countries. In both India and Bangladesh, technical cooperation accounted for around 10 per cent of their overall 2010-11 budgets. In contrast, technical cooperation accounted for 61 per cent (82 per cent in 2009-10) of the Department's bilateral spending in Nigeria. The Department's 2011-15 operational plan for Nigeria states that "technical support and innovation by DFID projects can leverage much greater changes in the quality of government, infrastructure, health and education services." It also says that no UK aid will go through government budgets, to protect against corruption and avoid substituting Nigerian public resources. Technical cooperation can be more tightly managed than most financial aid provided to partner governments. **Figure 24** overleaf summarises how technical cooperation is used by the Department in Nigeria. In addition to Nigeria, there were three other country programmes where technical cooperation accounted for more than a quarter of the Department's programme in 2010-11 – Afghanistan (31 per cent), Sierra Leone (29 per cent) and Nepal (27 per cent).

[49] The Global Poverty Action Fund is a demand-led fund which the Department uses to support projects focused on poverty reduction and pursuit of the Millennium Development Goals through tangible changes to poor people's lives.
[50] The five countries are Nigeria, Afghanistan, India, Nepal and Bangladesh.
[51] This analysis excludes the Technical Cooperation expenditure which the Department allocates to the UK or to its regional programmes.

Figure 23

The Department’s technical cooperation expenditure by country programme, 2008-09 to 2010-11



NOTE

1. This Figure covers the ten country programmes which spent the most on technical cooperation in 2010-11.

Source: NAO presentation of Department for International Development data

Figure 24

How the Department uses technical cooperation in Nigeria

The Department sees the main development challenge in Nigeria as using aid to secure better use of Nigerian resources. It therefore aims to use technical cooperation to leverage better use of Nigeria's public funds at state and federal level. Examples include:

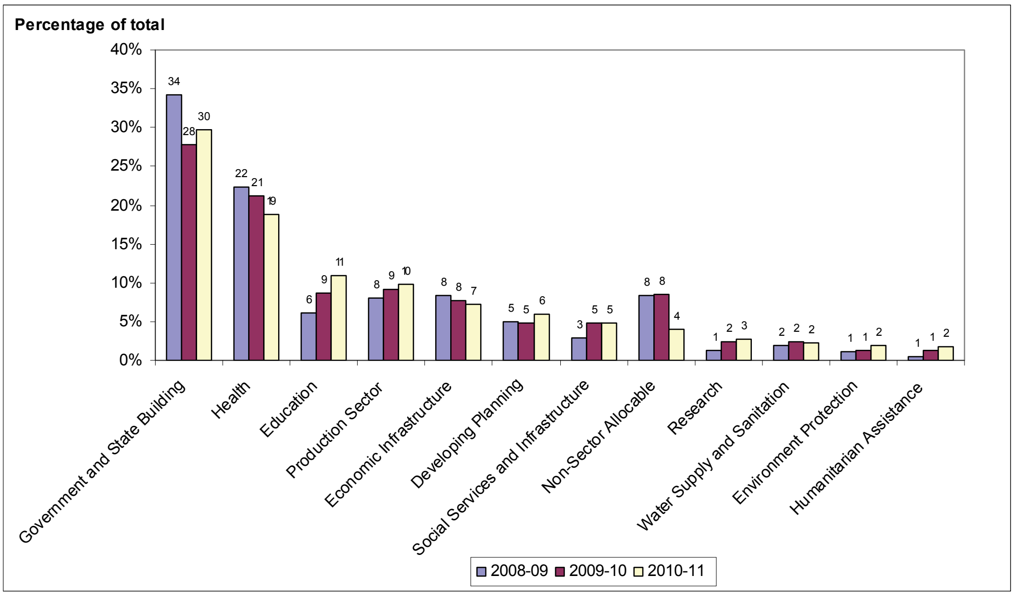
- Nigeria Infrastructure Advisory Facility programme, which aims to provide technical expertise to privatise the power sector, and create public-private investment partnerships in critical infrastructure, such as roads;
- Programmes on governance, which aim to improve the budgeting and use of funds made available from debt relief secured by the Nigerian Government. These funds are spent through a grant scheme which has delivered the following results in the last three years: provided five million people with access to safe water and bed nets; trained 290,000 teachers; and deployed 2,500 more midwives;
- Assistance on service delivery programmes. For example, technical cooperation funded community outreach teams to improve vaccination rates (resulting in significant increases in the proportion of children who are fully immunized); and
- Programmes which aim to improve public financial management and levels of investment in health and education in the Department's focus Nigerian states.

Source: NAO presentation of Department for International Development material

5.7 Around half of the Department's technical cooperation goes to the government and state building sector and the health sector. The Department uses technical cooperation in a total of 11 sectors (**Figure 25**). Over the last three years government and state building has accounted for around 30 per cent of spending and health some 20 per cent. Education has been the sector which has grown the most. In 2010-11, it accounted for 11 per cent of the Department's total spend on technical cooperation, up five percentage points on 2008-09.

Figure 25

The Department's technical cooperation expenditure by sector, 2008-09 to 2010-11



Source: NAO presentation of Department for International Development data

5.8 The Department uses a large number of contractors to provide technical cooperation, with its largest supplier accounting for nine per cent of the Department's technical cooperation expenditure. In 2009-10, the Department made payments in excess of £100,000 to 190 providers. In 2010-11, the Department made payments in excess of £100,000 to some 182 providers. A list of the top 20 providers for 2010-11 is provided in Appendix Four. The Department's largest providers were[52]:

- Adam Smith International Ltd (£37 million, 9 per cent of total technical cooperation expenditure). It has contracts covering the government and state building sector. In 2011-12 it was contracted by the Department to assist the Iraqi Cabinet Office and the Finance Committee of the Iraqi Parliament;

[52] The procurement system shows that Crown Agents Bank received £21 million in 2010-11. However, we excluded this organisation from the list of the largest providers as this payment includes the value of funds transferred to third parties by the Bank on the Department's behalf, as well as fees paid to the Bank.

- The Crown Agents for Overseas Governments and Administrations Limited (£25 million, 6 per cent). Its engagements include acting as a procurement agent for large health programmes within Africa;
- GRM International Limited (£23 million, 6 per cent). Its engagements include assisting an enabling state programme in Nepal;
- British Council (£18 million, 4 per cent). It specialises in the government and state building sector; and
- Cambridge Education (£17.2 million, 4 per cent). It provides technical cooperation across the education and research sectors.

An increasing percentage of the Department's technical cooperation payments are going to its 20 largest providers. In 2010-11 these providers received 63 per cent of payments, up 8 percentage points on 2008-09.

The Department's expenditure on research

5.9 The Department's Research and Evidence Division accounted for 90 per cent of the Department's expenditure on research in 2010-11; the Division focuses on the production of global public goods. The Division has three main aims:

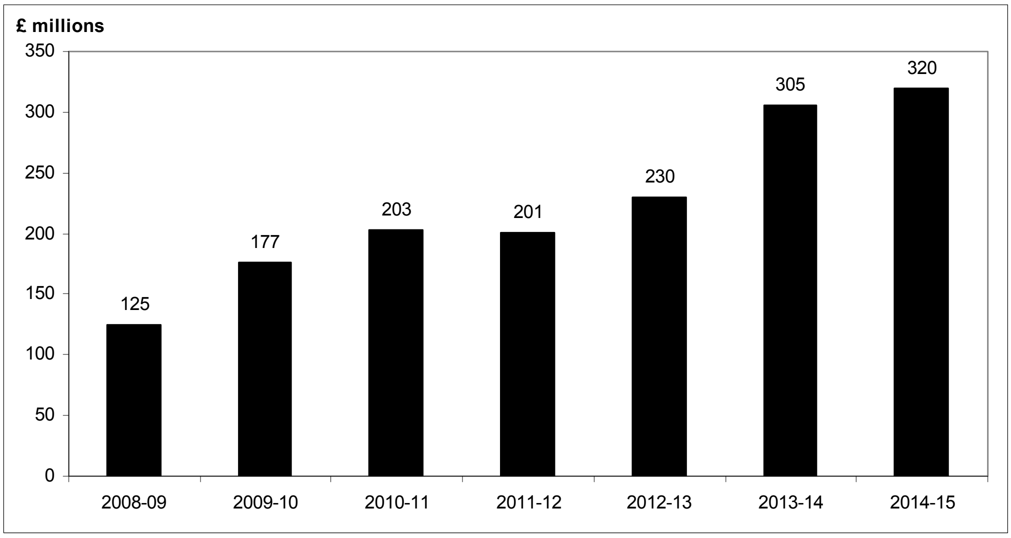
- to support the development of new technologies which would impact on poverty or the effects of poverty;
- to find better and more cost-effective ways of delivering aid and development assistance to those who need it; and
- to increase understanding of key development questions to support best policy choices.

In 2010-11 the Department's Research and Evidence Division spent £203 million on research. In the same year the Department's country teams spent £26 million on research they had commissioned.

5.10 Over the period 2008-09 to 2014-15 spending on research by the Research and Evidence Division is expected to grow by 150 per cent. Between 2008-09 and 2010-11 the Division's research spending grew from £125 million to reach £203 million. By the end of the Spending Review expenditure is expected to reach £320 million (**Figure 26**).

Figure 26

Research and Evidence Division research expenditure 2008-09 to 2010-11, and budget 2011-12 to 2014-15



NOTE

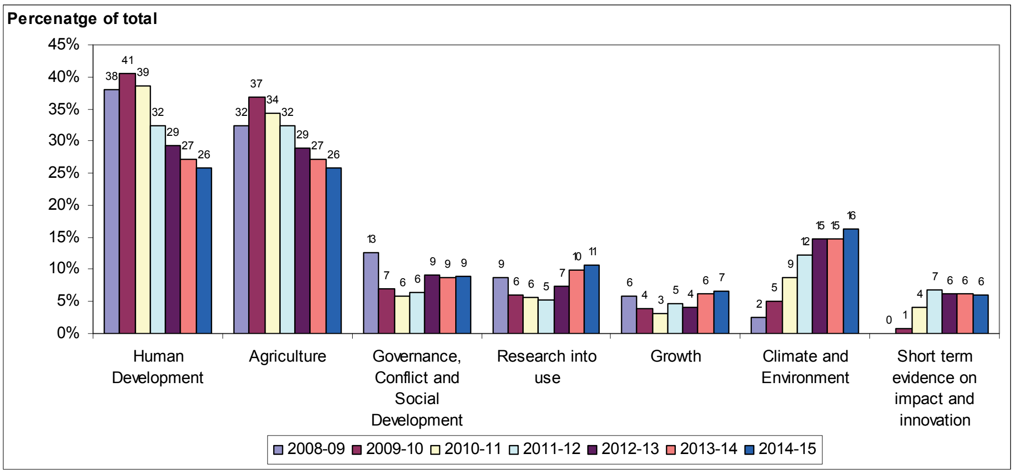
All values in cash terms.

Source: NAO presentation of Department for International Development data

5.11 Human development and agriculture have consistently been the areas of greatest research spend; whilst spending on climate change is the fastest growing. The Research and Evidence Division focuses on seven areas: agriculture; climate and environment; governance; conflict and social development; growth; health and education; short term evidence on impact and innovation; and promoting the use and uptake of research, including by governments. Of these, human development and agriculture have each accounted for over a third of total spending in the period 2008-09 to 2010-11**.** However, the future budget for these areas is set to decline as a percentage of overall spend. Expenditure on climate and environment has increased from two per cent of total research spend in 2008-09 (£3 million) to nine per cent in 2010-11 (£18 million) and is forecast to reach 16 per cent (£52 million) by 2014-15 (**Figure 27** overleaf).

Figure 27

Research and Evidence Division research expenditure 2008-09 to 2010-11, and budget 2011-12 to 2014-15, by area of research



NOTE

All values in cash terms.

Source: NAO presentation of Department for International Development data

Appendix One

The Department's funding levels 2010-11 (actual) and 2014-15 (planned) by country programme

Type	Name	2010-11	2014/15	% change 2010-11 to 2014-15
BAR priority countries	Afghanistan	101,105,853	178,000,000	76%
	Bangladesh	176,697,958	300,000,000	70%
	Burma	32,242,256	58,100,000	80%
	Central Asia	13,939,291	14,000,000	0%
	DR Congo	136,141,475	258,000,000	90%
	Ethiopia	241,881,379	390,000,000	61%
	Ghana	85,606,181	100,000,000	17%
	India	283,178,193	280,000,000	-1%
	Kenya	71,709,561	150,000,000	109%
	Liberia	(with Sierra Leone)	TBC	
	Malawi	71,732,924	98,000,000	37%
	Mozambique	86,201,527	85,000,000	-1%
	Nepal	60,146,272	103,400,000	72%
	Nigeria	146,547,101	305,000,000	108%
	Occupied Palestinian Territories (OPT)	74,532,717	88,367,000	19%
	Pakistan	205,591,655	446,000,000	117%
	Rwanda	74,790,415	90,000,000	20%
	Sierra Leone	63,004,780	77,000,000	22%
	Somalia	47,024,080	80,000,000	70%
	South Africa	17,562,584	19,000,000	8%
	Sudan	130,314,247	140,000,000	7%
	Tanzania	148,090,649	168,000,000	13%
	Uganda	96,102,596	90,000,000	-6%
	Yemen	47,513,102	73,890,000	56%
	Zambia	53,677,659	63,000,000	17%
	Zimbabwe	70,193,089	95,000,000	35%
Stopping funding	Cambodia	14,993,384	0	-100%
	Burundi	11,151,890	0	-100%
	Indonesia	10,175,247	5,932,000	-42%
	Iraq	11,113,948	0	-100%
	Vietnam	51,360,394	7,000,000	-86%
Regional	Africa Regional	90,982,583	220,000,000	142%
	Asia Regional	6,107,315	15,000,000	146%
	Caribbean	21,276,445	18,750,000	-12%
	Overseas Territories	55,457,097	96,200,000	73%

NOTES

Planned expenditure for Afghanistan appears to increase by 76%- however in the Department's original expenditure plans in the summary of the Bilateral Aid Review report, expenditure appeared to remain constant over the period. The expenditure in 2010-11 is not as high as was originally planned because of delays in approving £85m of expenditure for 2010-11. However, the expenditure originally set for 2010-11 may still be made using contingency allocations, subject to approval.

Spending plans for Liberia are due to be confirmed after elections in 2013

Central Asia comprises of Kyrgyzstan and Tajikistan. In addition, South Sudan is a new country separate from Sudan- although budget allocations come from before South Sudan's independence.

Source: NAO presentation of Department for International Development data

Appendix Two

The Department's planned funding levels per person living in poverty

Country	Aid rank 2014/15	Aid Rank 2010/11	Aid Level (2014/15)	Population (2010)	Poverty Headcount ratio at $1.25 a day (PPP) (% of population)	Date of Poverty data	Number of poor people	Spending per poor person
Pakistan	1	3	446,000,000	173,593,383	22.6	2006	39,232,105	11.37
Ethiopia	2	2	390,000,000	82,949,541	39	2005	32,350,321	12.06
Nigeria	3	6	305,000,000	158,423,182	64.4	2004	102,024,529	2.99
Bangladesh	4	4	300,000,000	148,692,131	49.6	2005	73,751,297	4.07
India	5	1	280,000,000	1,170,938,000	41.6	2005	487,110,208	0.57
DR Congo	6	7	258,000,000	65,965,795	59.2	2006	39,051,751	6.61
Afghanistan	7	9	178,000,000	34,385,068	No data			
Tanzania	8	5	168,000,000	44,841,226	67.9	2007	30,447,192	5.52
Kenya	9	18	150,000,000	40,512,682	19.7	2005	7,980,998	18.79
Sudan	10	8	140,000,000	43,551,941	No data			
				Source: http://data.worldbank.org/indicator/SP.POP.TOTL	Source: http://data.worldbank.org/indicator/SI.POV.DDAY			

Source: NAO presentation of Department for International Development and World Bank data

Appendix Three

The Department's staffing numbers, March 2007 to March 2011

	Home Civil Service (HCS)																				Staff Appointed In Country					DFID OVERALL					
	London					Scotland					Other					HCS TOTALS					Overseas					GRAND TOTALS					
Date and Job Band	SCS	A	B	C	Total	SCS	A	B	C	Total	SCS	A	B	C	Total	SCS	A	B	C	Total	A	B	C	D	Total	SCS	A	B	C	D	GRAND TOTAL
Mar 07	59.2	349.2	256.1	100.4	764.9	6	135.9	237.7	144.2	523.8	21	308.5	98.7	2	430.2	86.2	793.6	592.5	246.6	1718.9	100.6	286.8	407.1	32	826.5	86.2	894.2	879.3	653.7	32	2545.4
Mar 08	61.9	329.8	238.8	85.8	716.3	8	139.5	218.5	110	476	24	314.6	80.4	1	420	93.9	783.9	537.7	196.8	1612.3	114	313.9	368.4	44	840.3	93.9	897.9	851.6	565.2	44	2452.6
Mar 09	59	357.3	242.3	70.5	729.1	10	142.9	229	88	469.9	28	298.2	75	0	401.2	97	798.4	546.3	158.5	1600.2	93	284.4	304.3	38	719.7	97	891.4	830.7	462.8	38	2319.9
Mar 10	60	373	235	66.5	734.5	9	148.1	199.3	83.2	439.6	25	312	61	1	399	94	833.1	495.3	150.7	1573.1	132	318.3	274.5	39	763.8	94	965.1	813.6	425.2	39	2336.9
Mar 11	44.7	366.2	221.3	54.4	686.6	11	177.1	214.4	69.7	472.2	23	333.6	52	0	408.6	78.7	876.9	487.7	124.1	1567.4	137	310.3	273.4	37	757.7	78.7	1013.9	798	397.5	37	2325.1

Permanent staffing numbers by Full Time Equivalent (FTE)

Note: Job Bands:
SCS: Senior Civil Service
A= A1/Grade 6; A2/Grade 7; A2 (L)/Senior Executive Office (SEO)
B= B1(D)/ Fast stream, B1/Higher Executive Office (HEO), B2/Executive Officer (EO)
C= C1/Administrative Officer (AO), C2/Administrative Assistant (AA)

Source: NAO presentation of Department for International Development data

Appendix Four

Top 20 providers of technical cooperation to the Department in 2010-11

Rank	Organisation	Total expenditure 2010-11
1	ADAM SMITH INTERNATIONAL LTD	£37,072,810
2	THE CROWN AGENTS FOR OVERSEAS GOVERNMENTS AND ADMINISTRATIONS LIMITED	£25,479,565
3	GRM INTERNATIONAL LTD	£23,373,212
4	Crown Agents Bank	£21,113,310
5	ABT ASSOCIATES INC	£18,473,504
6	BRITISH COUNCIL	£17,534,878
7	Cambridge Education Limited	£17,272,674
8	WSP INTERNATIONAL LIMITED	£13,677,845
9	HTSPE LTD	£12,076,110
10	Society for Family Health	£9,723,766
11	BMB MOTT MACDONALD	£9,540,466
12	COFFEY INTERNATIONAL DEVELOPMENT LTD	£8,767,724
13	HLSP LIMITED	£8,475,585
14	PRICEWATERHOUSECOOPERS	£7,844,086
15	MALARIA CONSORTIUM	£7,384,887
16	HEALTH PARTNERS INTERNATIONAL	£6,968,290
17	KPMG EAST AFRICA LTD	£6,812,908
18	OPTIONS CONSULTANCY SERVICES LIMITED	£6,690,090
19	LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE Total	£6,654,374
20	TRADEMARK EAST AFRICA Total	£6,000,000

Source: NAO presentation of Department for International Development data

This report has been printed on Consort 155

Design & Production by
NAO Communications
DP Ref: 009765-001 | Printed by Precision Printing

NAO National Audit Office