National Audit Office

Report
by the Comptroller
and Auditor General

Department for International Development

Managing the Official Development Assistance target

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Key facts

£11,462m

UK 2013 spending on aid – Official Development Assistance (ODA)

0.71%

2013 ODA as a percentage of the UK's gross national income

4

OECD countries that spent more than 0.71% of their gross national income on ODA in 2013

33%	growth of the Department for International Development's (the Department's) budget from £7,862 million in 2012-13 to £10,439 million in 2013-14
88%	the proportion of total 2013 UK Official Development Assistance (ODA) spent by the Department
17%	growth of the Department's workforce to 2,731 in the 2 years to March 2013
36%	the proportion of the Department's 2013-14 spending it chose to give as core funding to assist multilateral organisations to deliver their objectives, up 3 percentage points on 2012-13
87%	growth in the Department's bilateral humanitarian spending from £476 million in 2012-13 to £891 million in 2013-14

Summary

1 In 2013, the UK provided £11,462 million in overseas aid, equal to around 0.7% of its gross national income, the level the United Nations has said developed countries should aim to achieve. Only 4 of the other 27 national members of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee spent more than 0.7% of their national income on aid, or Official Development Assistance (ODA), in 2013.

2 In 2010, the coalition government committed to spend 0.7% of UK gross national income on overseas aid from 2013 onwards. The government therefore allocated a larger budget to the Department for International Development (the Department) at a time when it was reducing the budgets of most other departments.

3 The Department manages delivery of the government's target to spend 0.7% of gross national income on ODA. It accounts for most of the UK's ODA – 88% in 2013. It also monitors spending by other departments, such as the Foreign & Commonwealth Office and the Department of Energy & Climate Change, that falls within the OECD's definition of ODA.

4 The OECD's definition requires that aid spending should promote economic development and the welfare of developing countries as its main objective. The definition is quite wide ranging. It includes, for example, support for civilian nuclear energy. OECD requires countries to report ODA on a calendar year basis, and, in general, record spending when payments are made, which may be different from when the related activity takes place.

Our report

5 The government's commitment to spend 0.7% of gross national income on ODA from 2013 led to a 33% increase in the Department's budget from £7,862 million in 2012-13 to £10,439 million in 2013-14. And the commitment has seen the Department's budget set at around £10,000 million in 2014-15. The commitment therefore provides an opportunity for the Department to increase its impact on poor people in developing countries.

6 The government's ODA target is for aid spending to hit, but not significantly exceed, 0.7% of gross national income every year. The Department began its preparations to meet the target in 2010. It developed both its capacity and business systems, including its approaches to allocating resources, specifying the results it would deliver in developing countries and its approach to measuring progress.

7 This report supports the International Development Committee's inquiry into the Department's 2013-14 Annual Report and Accounts. It explains how the Department responded to the challenges it faced in meeting the ODA target. It covers the Department's management of:

- the ODA target (Part One); and
- the large increase in its budget (Part Two).

The report examines how the Department managed and responded to the ODA target. We examined the risks the Department faced in scaling up its activities. We did not assess the value for money of individual changes the Department made to its planned programme in 2013 to meet the target. The report focuses on the Department's systems and spending; it does not cover how other government departments manage ODA spending.

8 Appendices One and Two explain our audit approach and evidence base. Appendix Three explains the definition of ODA, including possible changes. We give an overview of the composition of, and trends in, UK ODA in Appendix Four.

Findings

9 The following paragraphs set out our findings and suggest issues that the International Development Committee might wish to consider during its inquiry.

The Department's management of the 2013 ODA target

10 The Department met the 2013 ODA target when judged against its original assumptions. ODA was 0.71% of gross national income calculated using an approach broadly consistent with the basis on which HM Treasury had set the Department's budget and the basis of the data available to the Department in 2013. The Department accounted for 88% of 2013 UK ODA which totalled £11,462 million. The Department also managed its 2013-14 expenditure so that it was within the financial year control totals set by HM Treasury (paragraphs 1.20 to 1.22 and Figures 1 and 4).

11 Assessing whether the Department has met the target is made more difficult by changes in the calculation of gross national income. In October 2014, the Department published 4 values for the ratio of ODA spending to gross national income, ranging from 0.67% to 0.72% depending on how gross national income is calculated. In 2011, the Office for National Statistics announced that it would be revising its approach to calculating gross national income. In September 2014, it published data using its revised approach for the first time. The ODA target's specification meant the Department could not report final performance for 2013 until the autumn of 2014 (paragraphs 1.6, 1.20 to 1.22 and Figure 4).

12 **The government's specification of its aid target and international reporting rules present the Department with challenges for managing its budget and spending.** The requirement to hit, but not significantly exceed, aid spending equal to 0.7% of gross national income every calendar year means the Department has to hit a fairly narrow target against a background of considerable uncertainty. In addition, it has to manage its finances around a December and a March year end; use latest economic forecasts to predict the level of ODA required to meet 0.7%; monitor and forecast other departments' ODA; and adjust its spending to reflect changing forecasts (paragraphs 1.2 to 1.6).

13 **The Department's spending forecasts for 2013 had weaknesses, making it more difficult for the Department to manage delivery of the ODA target.** The Department has been strengthening its approach to forecasting which helped it manage its spending at the end of 2013 within the small margin needed to achieve the ODA target. However, its systems are primarily designed to manage spending on an accruals basis for a financial year ending in March. As a consequence, the Department does not produce detailed profiles of its calendar year spending until at least 4 months into the year, over a third of the way through the period over which ODA spend is assessed. Furthermore, the Department's 2013 forecasts did not take sufficient account of the uncertainties it faced in managing its programme. Its forecasts proved optimistic, with actual spending to October 2013 lower than forecast, and 40% of spending occurring in November and December 2013 (paragraphs 1.26 to 1.28, 1.31 and Figures 6 and 7).

14 **To achieve the target and manage its budget the Department had to quickly add some activities to its 2013 plans but delay others set for 2014, making it more difficult to achieve value for money.**

- **The Department added activities at short notice in 2013 which constrained choice.** In May 2013, the Department identified that the 2013 target was unlikely to be met from its planned programme. It had to increase its 2013 expenditure by up to 10%. Given the uncertainty of the environment in which it operates, the Department has experience of changing its plans at short notice and responding to changes in priorities. The Department applied its standard assessment procedures to the activities it added in 2013. These procedures aim to ensure that approved activities offer good value for money. Given the limited time available the Department could only choose activities where funds could be paid out during 2013. It may therefore have missed opportunities to get the best outcomes from this spending (paragraphs 1.8 to 1.13).

- **The activities the Department added in 2013 reduced its available budget at the start of 2014, and contributed to the delay of some of its planned activities.** To live within its 2013-14 financial year budget, the Department rescheduled £250 million (around 15%) of planned activity for the first 3 months of 2014, into 2014-15. The rescheduling is likely to have delayed some of the benefits those activities were designed to provide. However, any delays would generally have been short, and most rescheduled activities were part of multi-year programmes that were due to continue into 2014-15 (paragraphs 1.11 and 1.38 to 1.39).

15 The limited flexibility in the target led to the Department rescheduling payments in 2013, first to increase outturn, and then to reduce it:

- **The Department phased its contributions to 2 key multilateral organisations to increase 2013 ODA.** The Department has used the flexibility it has over when it issues promissory notes to fund some multilateral organisations to help manage ODA. In line with OECD rules the notes count as ODA when they are issued, which is typically 2 years before they are cashed. The need to increase spending was a factor the Department considered when it decided in autumn 2013 on the size of promissory notes it subsequently issued in December 2013 to the World Bank's International Development Association and to the Global Fund to Fight AIDS, Tuberculosis and Malaria. The Department's decision to issue more notes to both organisations in 2013 did not alter the total value of notes it planned to provide them and did not affect the content and timing of the programmes (paragraphs 1.24 and 1.33).
- **The Department worked with its development finance institution, CDC, to reduce CDC's contribution to 2013 ODA.** At the start of December 2013, the Department forecast that ODA might exceed its target. The Department worked with CDC to delay payment of £50 million to one of its fund managers until the start of 2014 thus reducing 2013 ODA (paragraphs 1.15 and 1.16).

16 The Department's 2013 ODA included £1,863 million of new commitments to fund organisations to meet the cost of future activity. Promissory notes accounted for 19% of the Department's ODA in 2013, similar to the level in 2012. Uncashed notes can enable multilateral organisations to enter into commitments with those who will deliver activity (paragraphs 1.23 and 1.24).

Issues the International Development Committee might wish to consider:

- Whether alternative, more flexible, ways of specifying the ODA target, such as a rolling three-year average would make the Department's financial management easier and reduce the risks that arise from having to carefully manage both its calendar year and financial year spending.
- How the Department can make sure its forecasts of gross national income are based on the best available information.
- How the Department can improve its spending forecasts.
- How the Department can reduce the calendar year end peak in its spending when it often has to bring forward activity to achieve the ODA target.
- How the Department should prepare for the possibility of having to respond to slippage in its planned programme or the need to increase its programme at short notice.
- How the Department's rescheduling of its programme to hit the ODA target impacts on its delivery partners and its beneficiaries.
- Whether the Department's rescheduling of its programmes to hit the ODA target leads to the suboptimal allocation of resources.

The challenges of delivering the 2014 and 2015 ODA targets

17 **To deliver the 2014 target the Department had to make further changes to its programme and has asked HM Treasury to consider increasing its 2014-15 budget.** In spring 2014, the Department identified that 2014 ODA was likely to fall short of the target primarily due to a reduction in forecast non-Department-managed ODA. As a first step to closing the gap, the Department brought forward £450 million of spending into 2014, requiring it to minimise its activities in January to March 2015. The Department and HM Treasury also worked with other departments and CDC to increase their 2014 ODA where possible. Because a gap in 2014 ODA remained, the Department brought forward an additional £300 million of activity into the end of 2014 from 2015-16 and asked HM Treasury to consider providing further funding for 2014-15. Any changes to the Department's 2014-15 budget will be set out in Supplementary Estimates (paragraphs 1.41 to 1.45).

18 **The Department's plans for delivering the 2015 ODA target require it to rapidly increase its investments, which could be difficult for it to achieve.** To make full use of its 2015-16 budget, the Department's investments in multilateral development banks and those bodies that lend to the private sector such as the Private Infrastructure Development Group must be a minimum of £692 million. The Department plans that around £400 million to £500 million of the £692 million will support lending to the private sector. In 2013-14, it wanted to make £290 million of such investments, but only made £102 million, suggesting it will find its plans for 2015-16 challenging to deliver. If the Department fails to increase its investments, then it may have to bring forward spending into 2015 it had planned to undertake in 2016 if it is to meet the 2015 ODA target (paragraphs 1.46 to 1.48).

Issues the International Development Committee might wish to consider:

- How only spending a small proportion of its budget in the last quarter of the financial year impacts on the Department and its programme.
- How well placed the Department is to develop a larger portfolio of private sector investments, and how it will respond if the portfolio falls short of required levels.

The Department's management of its larger budget

19 **The Department took positive steps to prepare for the 33% increase in its budget in 2013-14.** The Department's preparations included:

- Improving its approach to allocating resources, including undertaking major reviews of its bilateral and multilateral aid programmes in 2010-11, and improving its approach to designing projects with teams setting intended outputs and outcomes (paragraphs 2.4 and 2.8 to 2.9).
- Strengthening its approach to measuring its results. The Department's teams specified in public plans the results they would deliver in the period to 2014-15 and the Department selected 28 key outputs and outcomes that could be aggregated and tracked across the organisation. For 18 of these it set target values. It judges it is on track to deliver the large majority of these targets (paragraphs 2.14 and 2.15).
- Increasing the size, and changing the composition, of its workforce in readiness for the increase in its budget in 2013-14. The Department's workforce grew by 17% to 2,731 in the 2 years to March 2013 (paragraphs 2.16 to 2.17).

20 **It was not until 2014 that the Department had sufficient project proposals to provide choice, leaving less opportunity to consider value for money.** The Department created some competition and choice as its teams bid for resources as part of the 2010-11 reviews of its multilateral and bilateral aid programmes. Between 2011 and 2013, the Department increased the absolute value of its programme of projects. However, over that period, the value of approved projects and those designed fell short of the Department's budget. By spring 2014, the Department had developed a sufficient number of projects in most parts of its business creating competition. Gaps remained however in parts of its capital programme (paragraphs 2.4 to 2.7 and Figure 10).

21 **In 2011, the Committee of Public Accounts warned that the Department's multilateral aid might increase because it did not have the capacity to manage bilateral aid.** The Committee said the Department must be able to demonstrate that any increase in funding to multilaterals represented better value for money than bilateral alternatives. In 2013-14, the Department chose to give multilateral organisations 43% more in core funding than it did in 2012-13, compared to a 33% increase in bilateral aid. The Department has made a commitment to Parliament to increase its use of comparisons of bilateral and multilateral aid where feasible (paragraphs 2.21 to 2.22 and Figure 12).

22 **In 2013-14, the Department gave a greater proportion of its bilateral aid as humanitarian assistance than in any of the 4 previous years.** Humanitarian assistance is now one of the Department's 3 highest priorities and it has responded to a number of severe crises. Between 2009-10 and 2012-13 humanitarian assistance accounted for between 8% and 11% of bilateral aid. In 2013-14, humanitarian assistance was 16% of the Department's bilateral aid (£891 million). A third of this spending – £283 million – went on responding to the increasing humanitarian needs in Syria and the surrounding region (paragraphs 2.24 to 2.25).

23 **The Department has embarked on a radical set of changes to improve its project management performance.** By spring 2014, it had revised responsibilities for project management, simplified rules for project design and management, enhanced programmes to develop staff capability and began work to improve management information. It is too early to tell whether these changes will improve the Department's project and commercial management. The Department is also considering how to develop its workforce to meet future needs, such as influencing the international response to issues facing developing countries (paragraphs 2.10 to 2.13 and 2.18).

Issues the International Development Committee might wish to consider:

- Whether the Department's discretionary multilateral programme grew in 2013-14 because it did not have the capacity to manage its larger budget.
- How the Department can manage the risk that emerging humanitarian crises could impact on planned development activities, now its budget is no longer growing.
- How the Department will assess whether the changes it is making have improved its project management.
- How the Department will develop its workforce to meet its changing priorities.

Conclusion

24 Based upon the methodology in place for calculating the size of the UK economy in 2013, the Department met the government's target to spend 0.7% of gross national income on overseas aid for the first time in 2013. The target was met, in part, by an increase in budget in 2013-14 by one third. The Department worked hard to manage this very substantial increase in its budget, completing preparatory work to strengthen many of its business processes, increasing the capacity of its workforce, and improving its focus on capturing the results of its spending.

25 Ninety-nine per cent of the Department's spending counts towards the ODA target. However, the target is for cash expenditure in a calendar year, while the Department continues to account on an accruals basis to a March financial year end. This difference is likely to represent more than an accounting difficulty because of the need to deliver such a large cash expenditure target with little or no flexibility, causing significant decisions to be made late in the year and at relatively short notice.