National Audit Office

Report
by the Comptroller
and Auditor General

Department for International Development

Managing the Official Development Assistance target

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Department for International Development

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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Our report examines how the Department managed the ODA target and how it prepared for the large increase in its budget in 2013-14. We examine the risks the Department faced in scaling up its activities.

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Contents

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Key facts

£11,462m	0.71%	4
UK 2013 spending on aid – Official Development Assistance (ODA)	2013 ODA as a percentage of the UK's gross national income	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.

Part One

Managing the Official Development Assistance target

1.1 This part of the report examines:

- the link between the Official Development Assistance (ODA) target and the controls over the Department for International Development's (the Department's) spending;
- the Department's approach to managing its 2013 ODA target;
- the Department's forecasting of 2013 spending and the profile of its spending;
- the challenges faced by the Department living within its 2013-14 financial year controls and delivering the 2014 and 2015 ODA targets; and
- the management burden of the ODA target.

ODA and the Department's budget

1.2 The Department faces the twin challenges of managing the government's calendar year target for ODA and living within its financial year budget. It effectively has two year ends. By the end of December each year, the Department needs to manage its payments to meet the ODA target. By the end of March it must ensure its spending is within the control totals set by HM Treasury for its capital and resource expenditure (see **Figure 1** on pages 14 and 15). Around 99% of the Department's spending counts as ODA, which is the internationally agreed definition of aid.

1.3 The Department must also account for its spending in 2 ways. For the ODA target, the Department generally has to record expenditure as it is paid out (cash spending).[1] For its accounts, the Department must record expenditure when an activity occurs or when it passes control over funding to another organisation.

1.4 The design of the UK's ODA target means the Department must manage its calendar year spend carefully. The government has chosen to hit, but not significantly exceed, aid spending equal to 0.7% of gross national income each year. An annual target is consistent with OECD procedures requiring countries to report ODA on a calendar year basis. However, the 1970 UN resolution which said that developed countries should aim to achieve 0.7%, did not specify that this level should be achieved each year.[2] Thus a country could aim to achieve 0.7% over a longer time period.

1 Under OECD rules there are exceptions. For example, promissory notes count as spend when a donor issues a note to a multilateral organisation. As paragraph 1.24 explains promissory notes are legally binding promises to make payments at a future date.

2 UN General Assembly Resolution 2626 (XXV), 24 October 1970, paragraphs 42 and 43.

Figure 1
The Department has to manage the calendar year ODA target and live within its financial year controls

The ODA target overlaps 2 financial years. The Department's financial year budget includes amounts for resource and capital expenditure it manages directly and for EU spending attributed to it

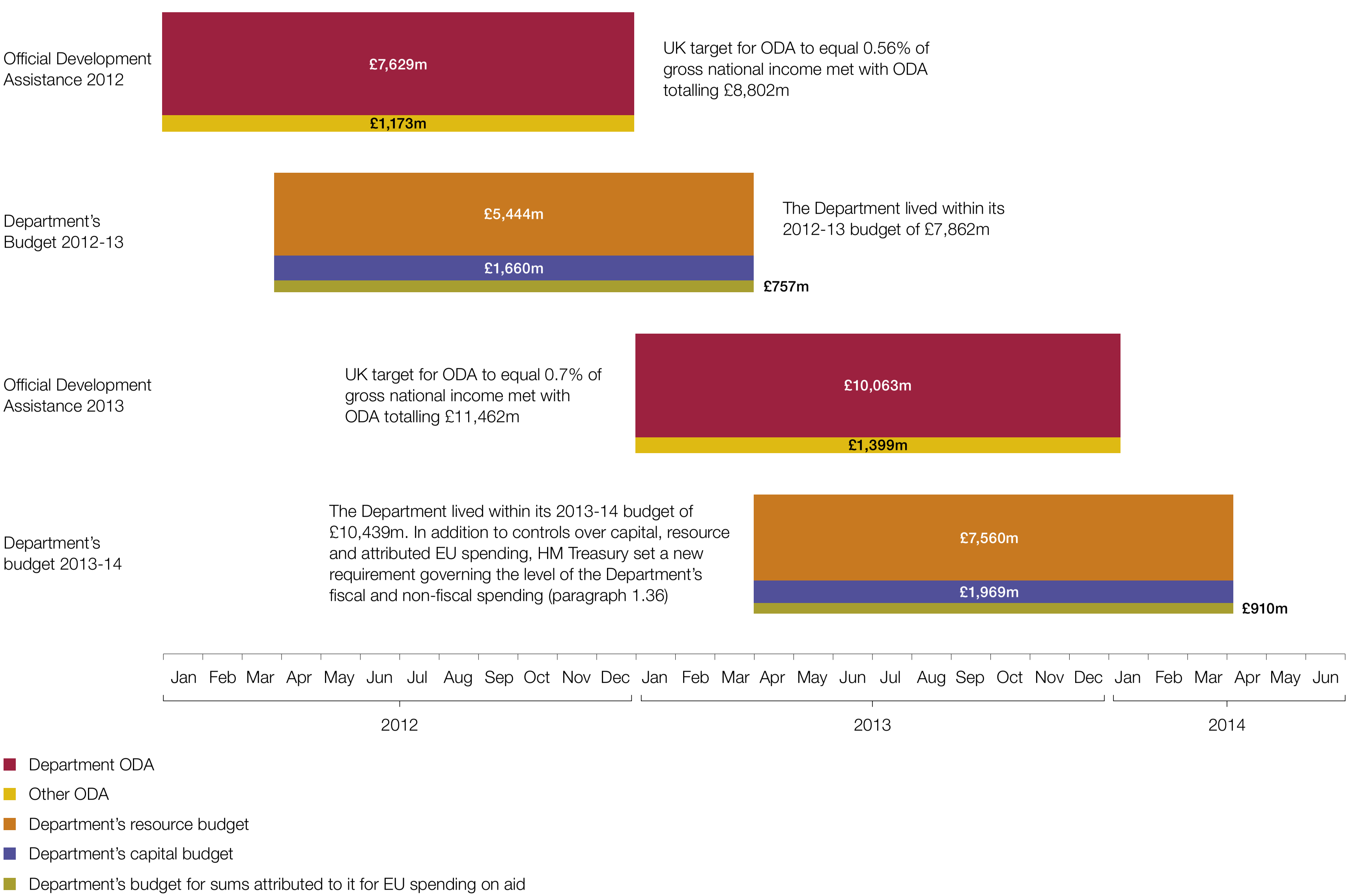


Figure 1 *continued*

The Department has to manage the calendar year ODA target and live within its financial year controls

Notes

1 Budget figures exclude the Department's budget for annually managed expenditure.

2 The majority of the Department's capital expenditure in 2012-13 and 2013-14 was accounted for by grants given to other organisations, such as the International Development Association, to spend on capital items.

3 For simplicity we have not shown separately the control over the Department's administration expenditure (£124 million in 2013-14) and its budget for the Conflict Pool (£27 million in 2013-14).

4 The Department has no role in managing the spending that is attributed to it by HM Treasury to reflect the UK's contribution to EU spending on aid.

5 HM Treasury also attribute sums to other government departments to reflect spending by the EU on other ODA relevant activities. These attributed sums are not part of other departments' budgets.

6 Figures shown are cash values and thus may differ from the ones we used in the Departmental Overview we published in December 2014 covering the performance of the Department in 2013-14, available at: www.nao.org.uk/report/departmental-overview-performance-department-international-development-2013-14/

Source: National Audit Office

1.5 Each month the Department forecasts the amount it needs to spend over the remainder of the year for the ODA target to be met, and adjusts its spending plans where it considers necessary. To do this, the Department estimates the target value using economic data and forecasts. The Department also tracks the level of non-Department-managed ODA which includes spending by other departments, such as the Foreign & Commonwealth Office, and sums attributed to departments to reflect the UK's contribution to EU spending on activities relevant to ODA.

1.6 In 2013, the Department aimed to meet 0.703% of its best estimate of gross national income, thus providing a small margin of around £50 million over the minimum required for 0.7%. The Department's estimates of the level of ODA needed to equal 0.703% of gross national income grew from £11,170 million in May to £11,420 million at the end of December. The Department could only confirm that UK ODA had exceeded the minimum required to meet the target – £11,355 million – in autumn 2014 when the Office for National Statistics published revised data for 2013 gross national income.

Delivering the 2013 ODA target

1.7 The Department started to prepare for its much larger 2013-14 budget from 2010-11. It improved its business procedures and the capacity of its workforce (see Part Two). At the start of 2013, the Department's financial management priority was managing within its 2012-13 budget. By spring 2013, the Department's financial management priority was delivering the 2013 ODA target and managing its 2013-14 budget. **Figure 2** on pages 16 and 17 provides a timeline of key events from spring 2013.

Figure 2

Main events from March 2013 as the Department managed delivery of the 2013 ODA target

Action by the Department's corporate centre

Worked with CDC, to reduce CDC's contribution to 2013 ODA by £50 million

Did not pay until 2014, £27.4 million of invoices submitted by its spending teams after 16 December, and did not seek to resolve gaps in documentation and approvals on other invoices totalling £33.5 million until 2014

On 20 December, the Office for National Statistics (ONS) published data indicating that 2013 gross national income was likely to be higher than previously forecast. The Department responded by increasing the ODA target value and spend. It also worked with ONS to ensure its forecasts of national income were based on best avaliable information (paragraphs 1.16 to 1.20)

Strategy for delivering 2013 ODA target agreed by the Department's executive management committee. The Department's best estimate of 2013 ODA was a shortfall of £482 million (paragraphs 1.8 and 1.10)

For the first time the Department's best estimate was for 2013 ODA to exceed 0.7% (Figure 3)

Due to emerging budgetary pressures, identified the need to delay some activities planned for last quarter of 2013-14 to live within financial year control totals. In total around £250 million of activity rescheduled (see entry for March 2014 and paragraphs 1.38 and 1.39)

Best estimate for 2013 calendar ODA was a shortfall of £420 million (Figure 3)

Calendar year spending targets set for each spending team (paragraph 1.10)

Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13

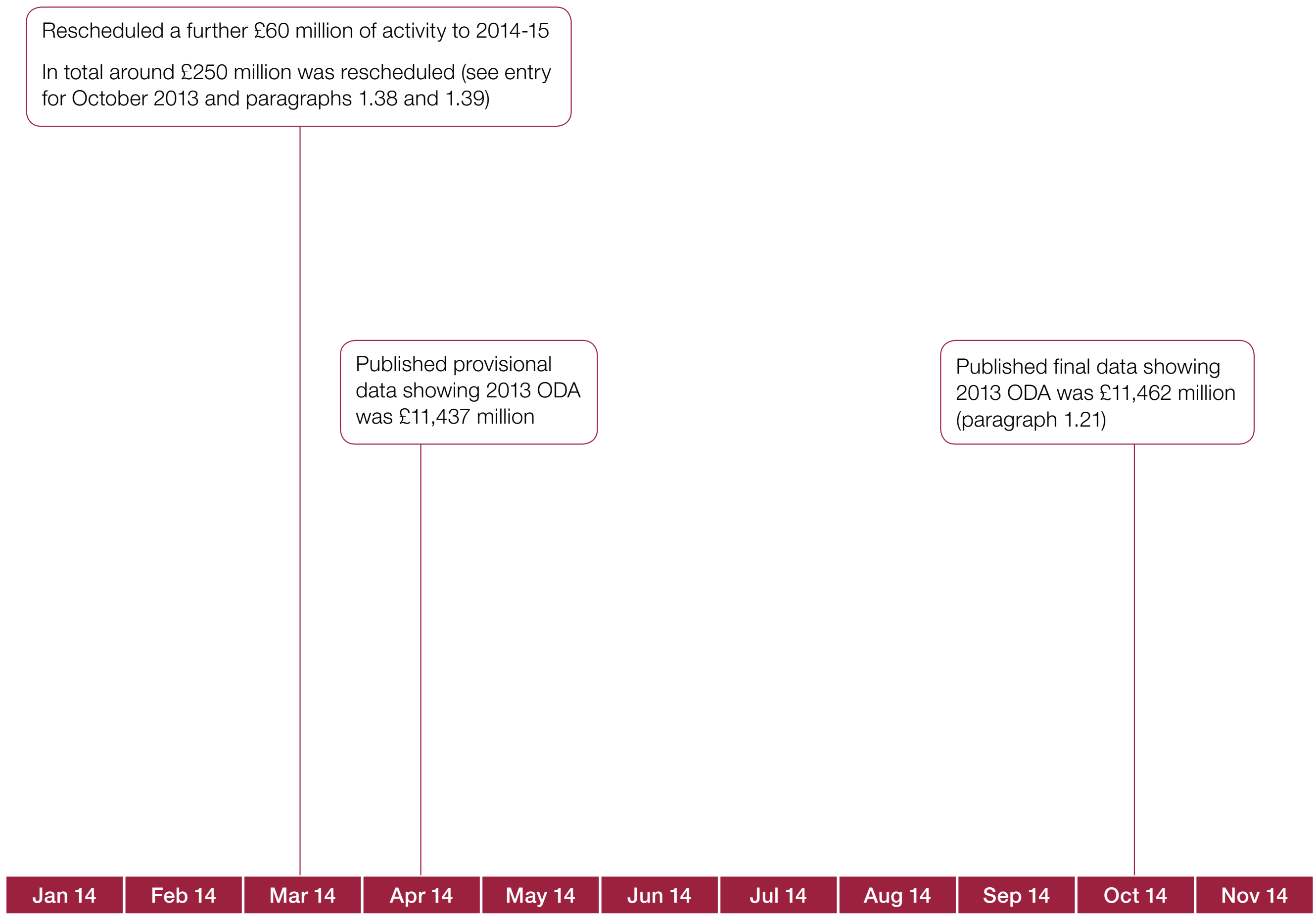
Action by the Department's spending teams

Started to develop options for increasing 2013 spending, including new projects, extending established projects and bringing forward planned activity (paragraph 1.11)

Started to consider options for reducing last quarter of 2013-14 spending (paragraph 1.39)

From July to December implemented approved additional spending options and monitored 2013 spending targets (paragraph 1.11)

Source: National Audit Office


Rescheduled a further £60 million of activity to 2014-15
In total around £250 million was rescheduled (see entry for October 2013 and paragraphs 1.38 and 1.39)
Published provisional data showing 2013 ODA was £11,437 million
Published final data showing 2013 ODA was £11,462 million (paragraph 1.21)
Jan 14
Feb 14
Mar 14
Apr 14
May 14
Jun 14
Jul 14
Aug 14
Sep 14
Oct 14
Nov 14

The position at spring 2013

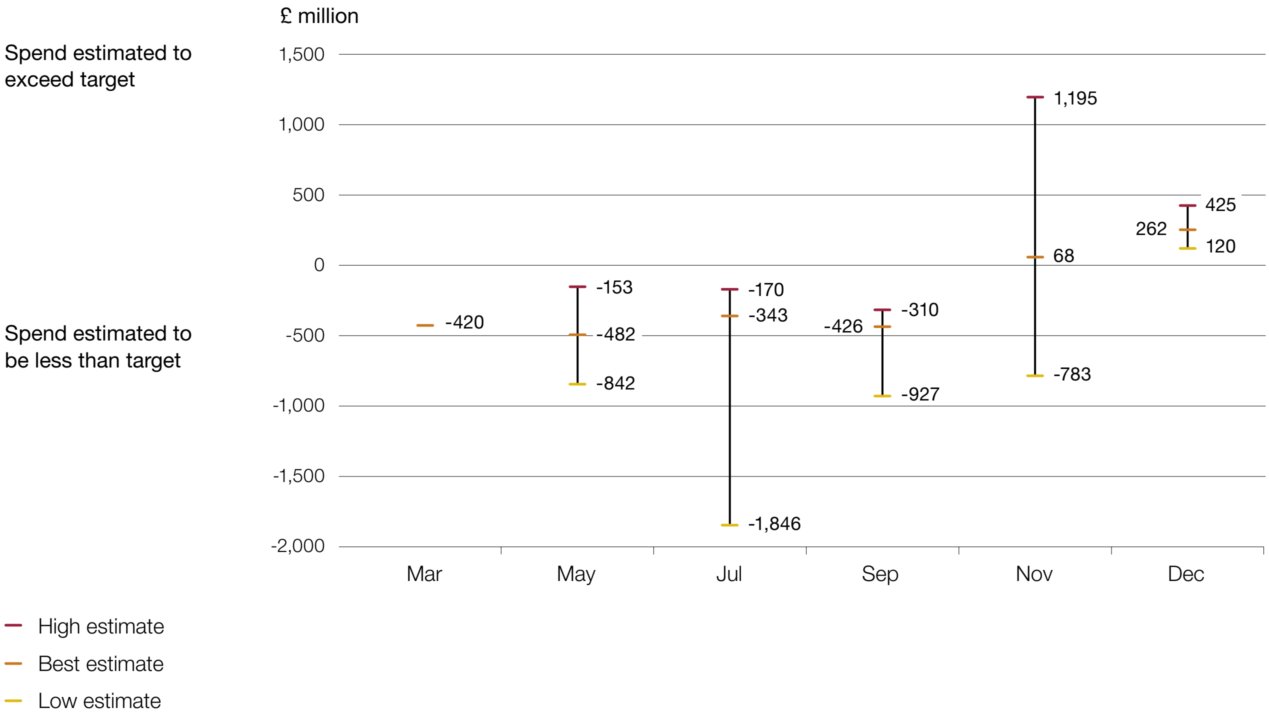
1.8 By May 2013, the Department's best estimate was a shortfall of £482 million against the ODA target, but it recognised the gap could be significantly greater (**Figure 3**). The Department's best estimate comprised a shortfall of £234 million in non-Department-managed ODA against expected levels and a shortfall of £248 million in its own spending. The Department's best estimate of the shortfall in its spending assumed that projects awaiting approval, and projects being designed by its teams at May 2013, would contribute around £936 million to 2013 ODA.

1.9 There were 2 reasons for the shortfall in the Department's 2013 spending. First, its spending teams were scheduling too much of their 2013-14 financial year spending into the start of 2014. Second, the teams' programmes of approved and planned projects were smaller than their budgets. It was taking spending teams longer than expected to get new projects designed, approved and implemented.

Figure 3

Until November 2013, the Department's best estimates indicated that UK aid spending might fall short of the ODA target

Forecast excess (shortfall) by date estimate made (selected months in 2013)



Source: National Audit Office presentation of Departmental data

1.10 In May 2013, the Department's executive management committee agreed an approach to increasing the Department's 2013 spending. The Department's corporate centre set, for the first time, each of its spending teams a target for calendar year spending. The Department judged that the targets could require teams to add around £950 million (around 10%) to their planned 2013 spending. The Department's corporate centre reiterated the importance of delivering the ODA target, but not at the expense of value for money. The Department's corporate centre also began to develop contingency plans.

The nature of additional spending

1.11 The Department's spending teams were responsible for managing their 2013 spending targets alongside their budgets for 2013-14 and delivering the results they had set out in their plans. We spoke to 12 teams who accounted for around half of the Department's budget. They told us they implemented £397 million of additional spending options during the second half of 2013. The options comprised a mixture of spending on new projects, extending established projects and bringing forward activities planned for future years. Some said the approach adopted in summer 2013 to revise spending plans was standard practice for achieving financial targets, and reflected the uncertain and fluid environments they work in. Based on the scale of the additional options implemented in 2013 by the 12 teams, we estimate the total value of all actions across the Department could have been in the region of £800 million.

1.12 We examined each of the options the 12 teams implemented that led to spending of at least £10 million in the second half of 2013. The options are summarised in Appendix Five.[3] The teams followed the Department's normal business processes when assessing whether to implement the additional spending options we examined, reducing the risks of having to spend quickly. For example, the teams prepared business cases for the 5 new projects and 4 project extensions that added new activities totalling £225 million.

1.13 The need to spend quickly limited the teams' choice of projects and delivery routes for the new and extended projects. For the 9 projects we looked at, around half of the total spending of £225 million went as humanitarian assistance, which is well above the norm.[4] Multilateral organisations delivered 8 of these projects and had a role in the other. Fewer choices make it more difficult to get the best value from spending. Since 2011, the Department has encouraged its staff to look at alternative ways of delivering projects to help secure value for money. This change has contributed to an increase in the proportion of the Department's bilateral spending through suppliers (up 5 percentage points to 21% between 2011-12 and 2012-13).[5] Procurement timescales made it unfeasible for the teams to consider suppliers for the additional spending options they introduced in the second half of 2013.

3 There were 14 options: 5 new projects; 4 project extensions; and 5 where activities were brought forward from 2014 or 2015.

4 In 2013-14, 16% of the Department's bilateral aid went as humanitarian assistance.

5 International Development Committee, Oral evidence, *the Department's Departmental Annual Report and Accounts 2012-13*, HC 693, 15 January 2014, Q48. Available at: http://data.parliament.uk/writtenevidence/WrittenEvidence.svc/EvidenceHtml/5355

The position at the end of 2013

1.14 Between May and December, the Department's best estimate of the target value increased by £250 million as the UK economy improved. But this increase was more than offset by a rise in the forecast level of ODA which was being boosted by the Department's teams introducing extra spending options and by a £300 million increase in non-Department-managed ODA. The latter was driven by an increase of £200 million in the expected net value of investments by CDC, the UK's development finance institution.[6] Forecasting CDC's net investments is inherently difficult. The value depends on decisions taken by CDC's range of fund managers who need some freedom to respond to market conditions.

1.15 At the start of December 2013 the Department was forecasting that ODA spending might be higher than needed (Figure 3). The Department took 2 actions which intentionally, or indirectly, resulted in lower ODA spending in December 2013.

- The Department supported CDC in delaying £50 million of payments until 2014.
- The Department's processing of invoices at year end increased the time taken to pay some suppliers with £61 million of invoices settled in January 2014.

1.16 During December, the Department worked with CDC to reduce its contribution to 2013 ODA. CDC rescheduled payments totalling around £50 million to one of its large fund managers from the last 2 weeks of December to 2 January 2014.

1.17 To help it manage its workload over the holiday period at the end of the calendar year, the Department's corporate centre sets a date for when its spending teams should submit invoices for payment processing. In 2013, the Department set and applied a cut-off of 16 December for non-urgent payments. As a consequence of the cut-off, the Department did not pay, until 2014, £27.4 million of invoices for non-urgent payments submitted after 16 December. Also the Department's corporate centre did not resolve until 2014 issues with the documentation or approval of non-urgent invoices totalling £33.5 million submitted by its teams by 16 December. Total unpaid invoices were equal in value to around 5% of the value of payments the Department made in December 2013.[7] The value of unpaid invoices at the end of 2012 had been much lower as there was a risk that ODA might fall short of the 2012 target and thus the Department's corporate centre processed non-urgent invoices it received after the payment cut-off.

6 When CDC makes an investment it counts as ODA. When an investment ends, the proceeds that are returned to the UK count as negative ODA.

7 The value of payments excludes promissory notes issued in December 2013.

1.18 The combination of the December 2013 payment cut-off, and some weakness in documentation and approvals, reduced the Department's invoice payment performance. The Department's general policy is to pay invoices within 5 days which is consistent with government policy encouraging prompt payment. In December 2013, the Department paid 73% of invoices in 5 days and in January 2014 59%. In each of the 30 previous months the Department had paid more than 80% of invoices in 5 days.

1.19 On 20 December 2013, the Office for National Statistics released new economic data. The data showed that 2013 gross national income was likely to be higher than the forecasts the Department had used at the start of the month to assess the amount it should spend in December.

1.20 The Department responded promptly to the new data. It increased the ODA target value and its own spending. In the last 10 days of December it made £95 million of payments in response to urgent need, including payments to fund its response to humanitarian emergencies in the Philippines and Yemen. In January 2014, the Department's best estimate was that 2013 ODA totalled £11,415 million, the equivalent of 0.703% of its estimate of gross national income, or £44 million above the minimum needed to hit 0.7%.

The final value for 2013 ODA

1.21 In October 2014, the Department reported a final figure for 2013 UK ODA of £11,462 million. It also reported 4 values for the ratio of final 2013 ODA to gross national income reflecting different ways of calculating the size of the UK economy. It explained that in 2014 the Office for National Statistics had implemented planned changes to its methodology for calculating the national accounts, and thus gross national income, to comply with international requirements (**Figure 4** overleaf). The ratios ranged from 0.67% to 0.72%.

1.22 The Department concluded that the 2013 ODA target was achieved as final ODA was 0.71% of gross national income when calculated using the approach that the Office for National Statistics had applied throughout 2013 (that was European System of Accounts 95 – using new data and methodological improvements but without reservations addressed see the second row of Figure 4). This approach was broadly consistent with the basis of the gross national income figures that were available when HM Treasury had set the Department's budget in 2010 and the basis of the data available to the Department in 2013. Only 4 of the other 27 national members of the OECD's Development Assistance Committee spent more than 0.7% of their national income on ODA in 2013 (**Figure 5** on page 23).

Figure 4

The 2013 ODA/gross national income ratios reported by the Department in October 2014

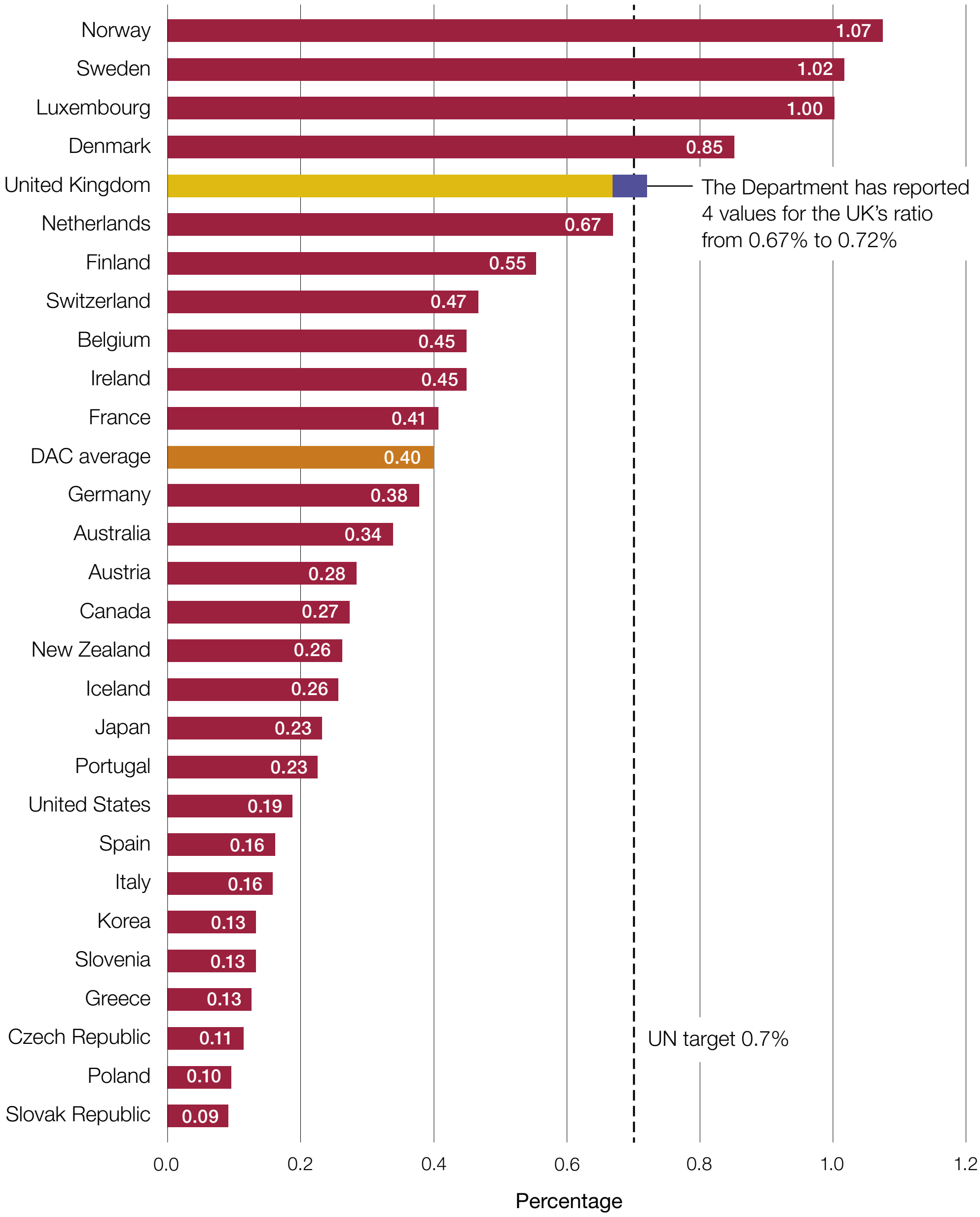
Method for calculating gross national income (GNI)	GNI (£m)	Final 2013 ODA as a percentage of GNI	Comment
European System of Accounts 95 using available data, and methods in place, at April 2014.	1,593,448	0.72	This GNI value was the one reported by the Office for National Statistics (ONS) in March 2014, and used by the Department to calculate the provisional 2013 ODA/GNI ratio it reported in April 2014.
European System of Accounts 95 using new data and methodological improvements made between April and September 2014.	1,622,166	0.71	It is standard ONS practice to update its forecasts as better data become available. The Department used this GNI value to conclude that the 2013 ODA target had been met.
European System of Accounts 95 as for previous row plus changes required to address 'reservations' identified by Eurostat.	1,667,761	0.69	ONS announced in 2013 that it was intending to improve its approach to calculating values for the European System of Accounts 95 and thus address reservations identified by Eurostat, the statistical office of the EU. ONS first reported values using this method in October 2014, as part of explaining the transition to the European System of Accounts 2010 (see next row).
European System of Accounts 2010, a new methodology required to comply with a revised international standard for national accounts.	1,700,170	0.67	ONS was required by the EU to introduce this new method by 2014. It is now the main way the ONS reports the national accounts. ONS announced in 2011 it would be making the change. In November 2013, it said the new method could add between 2.5% and 5.0% to gross domestic product. ONS first reported a GNI specific value using this method in September 2014.

Source: National Audit Office

Figure 5

In 2013, the UK was fifth in the ranking of donor countries by aid spending as a proportion of gross national income

ODA as a percentage of gross national income for members of the OECD's Development Assistance Committee (DAC), 2013



Notes

1 See Figure 4 for an explanation of the different values reported for the UK ratio.

2 There are 29 members of the Development Assistance Committee including the EU. The value shown for the DAC average is an unweighted average for the 28 national members.

3 Ratios are provisional.

Source: National Audit Office presentation of Departmental data

1.23 Appendix Four shows the composition of final 2013 ODA and explains trends in ODA over the last 5 years. The majority of the Department's 2013 ODA of £10,063 million arose from payments made during 2013. However, £1,863 million reflected promises it made in 2013 to pay some organisations for future activity.

1.24 The Department funds some organisations, mainly multilateral organisations such as the World Bank's International Development Association, by issuing promissory notes. The notes are legally binding promises to make payments in the future. In line with OECD rules the notes count towards the ODA target when they are issued which is typically 2 years before they are cashed. Uncashed notes can enable multilateral organisations to enter into commitments with those who will deliver activity.[8] In 2013, 19% of the Department's ODA was accounted for by promissory notes, up 2 percentage points on 2012. At March 2014, uncashed promissory notes issued by the Department totalled £3,520 million.[9]

Forecasting and the profile of the Department's spending

1.25 Our 2011 report on the Department's financial management, found that it historically managed its outturn close to budget through its scope to alter the timing of payments to partner organisations, rather than effective forecasting, leading to additional work for its finance staff to manage the impact. We also found the Department's approach had contributed to peaks in its year end spending.[10]

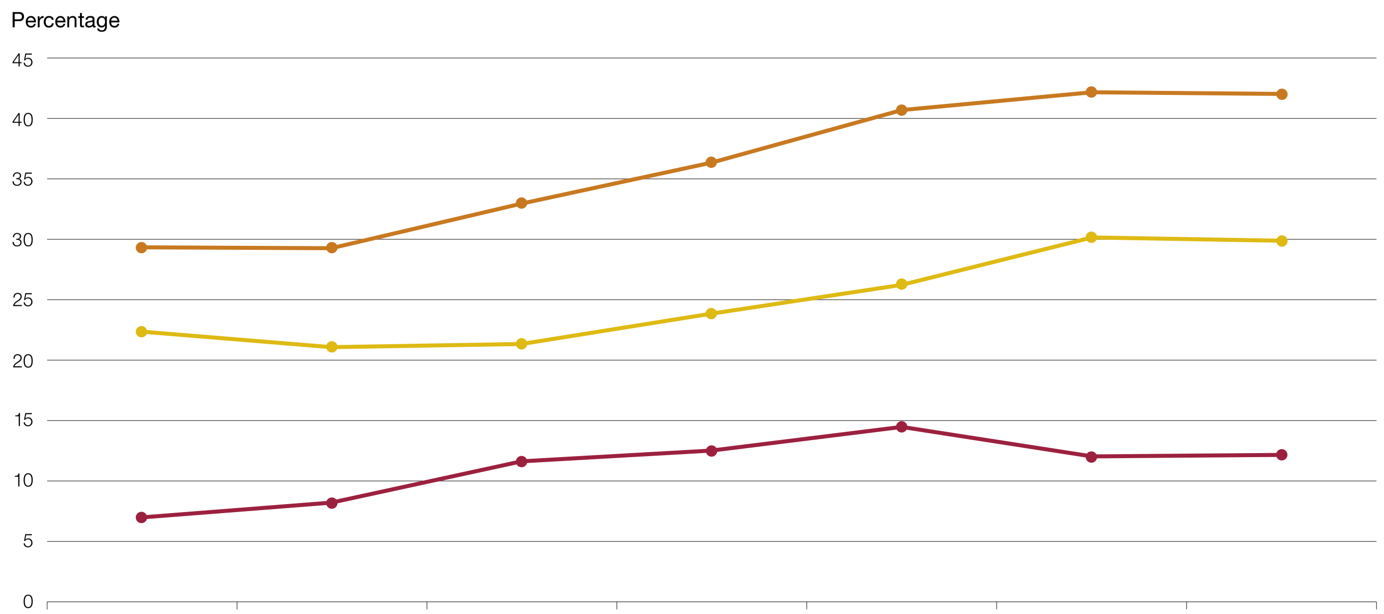
1.26 By 2013, the Department was part way through implementing a wider programme to strengthen its financial management, including its approach to forecasting. The programme includes increasing the numbers of finance professionals. The role of these professionals includes supporting and challenging staff that prepare spending forecasts.

1.27 There were weaknesses in the Department's forecasting of 2013 spending. As the Department's systems are set up to manage financial year spending, its teams were completing their detailed profiles of calendar year spending in spring 2013. Teams provided point forecasts for each month. Point forecasts do not provide an indication of the uncertainties the teams face in managing their programmes. Point forecasts can also encourage teams to enter higher values as they do not want to 'overspend'.

1.28 The 2013 spending forecasts made by the Department from spring 2013 proved optimistic. Actual spending in each month between June and October was lower than profiled by 8% to 34% (average 20%). In June, the Department was forecasting that 29% of its spending would fall in November and December. By October this had risen to 41% (**Figure 6**).

8 Promissory notes are usually paid in line with encashment schedules agreed when the notes are issued.
9 The Department reports the value of uncashed promissory notes in its annual accounts and thus we have provided a value for end March 2014.
10 Comptroller and Auditor General, *Department for International Development: Financial Management Report*, Session 2010–2012, HC 820, National Audit Office, April 2011, paragraphs 11 and 2.29.

Figure 6
The proportion of its 2013 spending that the Department forecast would fall in November and December, increased between June and November



	Forecast made in Jun	Forecast made in Jul	Forecast made in Aug	Forecast made in Sep	Forecast made in Oct	Forecast made in Nov	Forecast made in Dec
Forecast for Nov spend as a percentage of 2013 total spend	7.0	8.2	11.6	12.5	14.5	12.0	12.1
Forecast for Dec spend as a percentage of 2013 total spend	22.3	21.0	21.3	23.8	26.2	30.1	29.9
Forecast for combined Nov and Dec spend as a percentage of 2013 total spend	29.3	29.2	32.9	36.3	40.7	42.1	42.0

Notes

1 June 2013 was the first time the Department made detailed forecasts for the 2013 calendar year. The calendar year forecasts were derived from 2013-14 financial year spending profiles which the Department's teams first entered onto its finance system in May 2013.

2 For the forecast made in December, the actual value of spending has been used for November.

Source: National Audit Office analysis of Departmental data

1.29 Our 2014 report on forecasting in government to achieve value for money sets out some practices which could assist the Department in improving the quality and use of forecasting. It shows how one department had used league tables and awards to encourage its teams to improve spending forecasts, and had built-up aggregate forecasts on range estimates provided by its teams. By summer 2014, the Department had started to consider how it might introduce range estimates. Our 2014 report also highlights the importance of departments establishing a supportive culture for forecasting, having sufficient skills, providing sufficient time to prepare forecasts and undertaking informed challenge.[11]

1.30 Since 2009, the Department's spending has peaked at calendar year end rather than financial year end (**Figure 7**). Some of the Department's large payments to multilateral organisations, such as to the European Development Fund (£287 million in 2013), are scheduled for December and thus contribute to the calendar year end peak.

1.31 In 2013, the calendar year end peak grew. Some 40% (£3,773 million) of the Department's total 2013 spending fell in November and December – up 11 percentage points on 2012 and 4 points on 2011.[12] The increase in 2013 was due to the Department having to manage a much larger budget, optimistic forecasts of the amount it would spend in spring and summer, and action it took to increase spending in the second half of 2013. There will also be a calendar year end peak in the Department's spending in 2014. At November 2014, the Department was expecting that around 37% of its total 2014 spending would occur in November and December 2014.

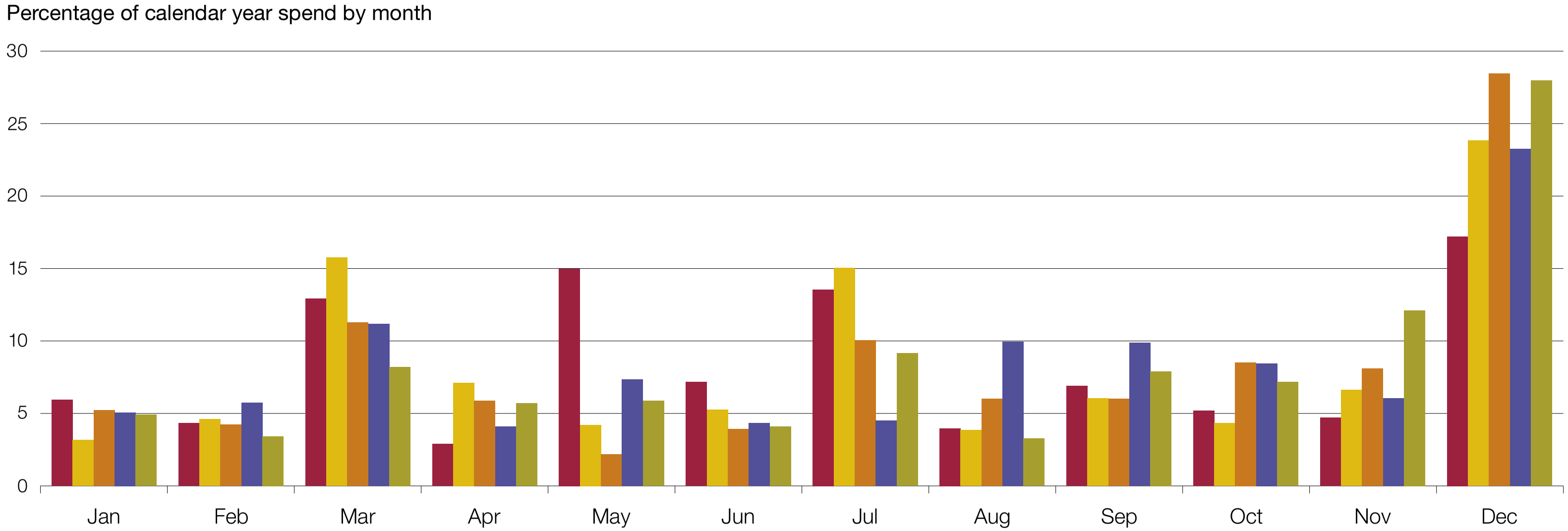
1.32 Spending on both the Department's bilateral and multilateral programmes peaked at the end of 2013 (**Figure 8** on page 28). The Department spent 36% of its bilateral aid in November and December 2013, up 12 percentage points on 2012. During the last 2 months of 2013, bilateral spending through multilateral organisations, budget support payments and humanitarian assistance were all much higher than the norm (see Appendix Six).

11 Comptroller and Auditor General, *Cross-government: Forecasting in government to achieve value for money*, Session 2013-14, HC 969, National Audit Office, January 2014.

12 These values exclude sums attributed by HM Treasury to the Department to reflect the UK's contribution to EU spending on aid as the Department has no role in managing or paying these sums.

Figure 7

Forty per cent of the Department's 2013 spending occurred in November and December, higher than previous calendar year end spending peaks



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	6.0	4.3	12.9	2.9	15.0	7.2	13.6	4.0	6.9	5.2	4.8	17.2
2010	3.2	4.6	15.7	7.1	4.2	5.3	15.1	3.9	6.1	4.4	6.6	23.8
2011	5.2	4.3	11.3	5.9	2.2	3.9	10.1	6.0	6.0	8.5	8.1	28.4
2012	5.1	5.7	11.2	4.1	7.4	4.4	4.5	10.0	9.9	8.5	6.1	23.2
2013	4.9	3.4	8.2	5.7	5.9	4.1	9.2	3.3	7.9	7.2	12.1	28.0

Source: National Audit Office analysis of Departmental data

Figure 8

Both the Department's bilateral and multilateral programmes peaked at the end of 2013

Type of aid	Spending Nov 2013 (£m)	Spending Dec 2013 (£m)	Spending Nov and Dec 2013 total (£m)	Percentage of total 2013 spending occurring in Nov and Dec 2013 (%)	Percentage of total 2012 spending occurring in Nov and Dec 2012 (%)
Bilateral aid	942	1,098	2,040	36	24
Multilateral aid	192	1,521	1,713	47	41

Source: National Audit Office analysis of Departmental data

1.33 The Department provided £1,713 million of core funding to multilateral organisations in November and December 2013; 47% of the total for 2013. The ODA target influenced the phasing and therefore the sizes of the two biggest core contributions the Department made in December 2013. In both cases, the Department issued promissory notes (see paragraph 1.24).

- To increase 2013 ODA, the Department altered the phasing of its funding of the World Bank's International Development Association by bringing forward the issue of a £220 million promissory note from March 2014 to December 2013. By changing the issue date, the Department did not alter the dates when its £220 million promise was due to be cashed. The Department also went ahead with its plan to issue a £444 million promissory note to the International Development Association in December 2013. In total the Department issued promises totalling £1,112 million during 2013; 42% of its total 3-year commitment of £2,644 million to the International Development Association's 16th replenishment.

- The ODA target was a consideration when the Department decided on the size of the £415 million promissory note it issued to the Global Fund to Fight AIDS, Tuberculosis and Malaria. In autumn 2013, the Department decided it would give £1,000 million to the Global Fund's 2014–2016 replenishment. The Department considered alternative options for phasing this total contribution. It decided that front-loading its contribution would have a number of policy benefits.[13] These included: enabling the Global Fund to accelerate activity and results; maintaining UK leadership; and increasing the chances of leveraging in larger contributions from other donors. The Department also considered that a large initial payment provided a good value for money option to increase ODA. In total, the Department gave the Global Fund £543 million in 2013, up from £128 million in 2012.[14]

13 The Department's £1,000 million commitment includes the final £105 million of its planned contribution to the Global Fund for 2008 to 2015, plus £895 million of new money. In 2013, the Department said it would cap the UK's share of the Global Fund's budget for 2014–2016 at around 10% (the actual percentage will depend on exchange rates). It now looks likely that the Department will have to apply the cap as total donor contributions are falling short of target levels.

14 In June 2013, the Department issued a £128 million promise as part of its contribution to the Global Fund's previous replenishment for 2008 to 2015.

1.34 The need to hit a hard calendar year spending target such as the ODA target could increase the risk of staff feeling pressure at year end to make payments which are in advance of need. The Department can make payments in advance, for example, to enable a partner to proceed with planned activities. The reasons for such payments should be properly documented and authorised. If payments are in advance of need they are irregular and contrary to HM Treasury rules.

1.35 The Department did not report problems with payments in advance of need in 2013 and we did not find such payments. The Department did not refer to payments in advance of need in the governance statement it included in its 2013-14 Annual Report and Accounts. As part of our audit of the Department's 2013-14 accounts we did not find any payments in advance of need. We did, however, find an instance of the Department not correctly accounting for £94 million of funding that it had provided in advance to a partner. As part of a 2014 value for money audit we also found that the Department had paid some money to the Private Infrastructure Development Group well before the funds were used. Between January 2012 and February 2014, an average of nearly £27 million of the Department's funding remained with the Group. The Department had kept its holdings with the Group under review but had been too optimistic about when the funds would be used.[15]

Living within the Department's 2013-14 financial year controls

1.36 In 2013-14, the Department sought to increase its non-fiscal spending by around £500 million in response to a new HM Treasury requirement governing the composition of its spending. The Department sees the impact of this new HM Treasury requirement, introduced in spring 2013, as consistent with the direction of its new business model. The Department has been increasing its activities to support economic development, including making greater use of capital investment programmes that aim to achieve development results and realise financial returns that can be reinvested. Such programmes are likely to be classified as non-fiscal spending as they should lead to the creation of an asset. Non-fiscal spending, unlike fiscal spending, does not impact on public sector net borrowing.[16]

1.37 By the end of 2013-14, the Department had increased its non-fiscal spending by £333 million. As a result it underspent its 2013-14 budget by £167 million.[17]

15 Comptroller and Auditor General, *Department for International Development, Oversight of the Private Infrastructure Development Group*, Session 2014-15, HC 265, National Audit Office, July 2014, paragraphs 3.33 to 3.36.
16 All the Department's spending can be categorised as fiscal or non-fiscal.
17 The Department achieved the increase in 2013-14 by making £102 million of new capital investments and increasing by £231 million its funding to multilateral development banks, including grant funding. From 2014-15, the Department will no longer count standard grant funding to multilateral development banks as non-fiscal spending. This change follows guidance issued by Eurostat and the Office for National Statistics.

1.38 The Department had more activity planned for January to March 2014 than it could afford. It therefore had to reschedule around £250 million (around 15%) of planned activity to 2014-15. The rescheduling was necessary as the Department was unable to increase its non-fiscal spending by the full £500 million and because of action it took to introduce new activities in the second half of 2013 to meet the ODA target (paragraph 1.11). From autumn 2013, its finance team worked with spending teams to delay around £190 million of activity planned for January to March 2014.[18] At the end of March 2014, the Department had to delay a further £60 million of activity.

1.39 The rescheduling of £250 million of activity is likely to have delayed some of the benefits those activities were designed to provide. However, delays were generally short, and most rescheduled activities were part of multi-year programmes that were due to continue into 2014-15.

Achieving the 2014 and 2015 ODA targets

1.40 The Department and HM Treasury decided that the 2014 ODA target value will be set using the approach the Office for National Statistics had used to calculate gross national income up until September 2014. As paragraph 1.22 explains, this approach – European System of Accounts 95 without reservations addressed – is broadly consistent with the basis of the gross national income figures that were available when HM Treasury had set the Department's 2014-15 budget. This approach is likely to yield a 2014 target value of around £11,800 million.[19]

1.41 By spring 2014, the Department had identified that achieving the 2014 ODA target and living within its 2014-15 budget would be challenging. At June 2014, it was predicting that 2014 ODA could be around £800 million short of the level needed to achieve 0.7%. £167 million of the shortfall was due to the Department being unable to use its full 2013-14 budget and thus having to reduce activity at the start of 2014. But the main factor was a forecast shortfall of around £400 million in non-Department-managed ODA against the level assumed when the Department's 2014-15 budget was set by HM Treasury.

1.42 During summer and early autumn the Department reduced the shortfall in 2014 ODA by £450 million by increasing the percentage of its 2014-15 budget it was due to spend in the first 9 months from 84% to around 90%. It increased its spending in 2014 by reviewing all payments over £2 million planned for January to March 2015. For each, it considered whether it could bring the payment into 2014. If not, it considered whether it could make the payment after March 2015, thus freeing up funding for projects that could spend in the first 9 months of 2014-15.

18 The Department had identified the pressure earlier in the year. It discussed with HM Treasury an option for increasing its budget but this was not approved.

19 If the 2014 ODA target was set using the European System of Accounts 2010 – the main way the Office for National Statistics now reports the national accounts – the target value could be around £500 million higher at £12,300 million.

1.43 During 2014, the Department and HM Treasury worked with other government departments to assess whether their ODA eligible spending was fully captured. And the Department worked with CDC to increase its contribution to 2014 ODA. At November 2014, the forecast shortfall in non-Department-managed ODA had reduced to around £350 million.

1.44 At autumn 2014, a spending gap against the 2014 ODA target remained. The Department therefore brought forward from 2015-16 to December 2014 £300 million of activity. The additional activity put pressure on the Department's 2014-15 budget. It therefore asked HM Treasury to provide further funding. Any changes to the Department's budget will be set out in Supplementary Estimates in February 2015.

1.45 At the middle of December 2014, the Department was expecting that the 2014 ODA target was likely to be achieved although a number of uncertainties remained, including over the target value as final data on 2014 gross national income will not be available until 2015. The Department's best estimate of outturn was around £50 million above its best estimate of the ODA target value of around £11,800 million.

1.46 The Department is also likely to face challenges in delivering the 2015 ODA target. If it successfully minimises activities scheduled for January to March 2015, it will have to spend the large majority of 2015 ODA in a period when it may be responding to the priorities of a new administration. The Department is also planning to increase its spending on economic development from £1,093 million in 2013-14 to £1,800 million in 2015-16. The Department also has to increase its non-fiscal spending to £692 million. If it is unable to do so it will not be able to make full use of its 2015-16 budget.

1.47 The Department's plans for increasing its non-fiscal spending to £692 million in 2015-16 depend on it being able to rapidly increase its capital investment programme (paragraph 1.36). The programme comprises loans and the purchase of equity. At November 2014, the Department was planning to make loans to, or purchase equity in, multilateral development banks of around £189 million in 2015-16. Around £400 million to £500 million of the Department's remaining non-fiscal spending was due to come from private sector returnable capital which the Department sees as particularly appropriate for achieving economic development objectives. Options the Department were considering included making new loans to the Private Infrastructure Development Group which invests in private sector companies.

1.48 The Department was unable to sufficiently increase its capital investment programme in 2013-14 which raises questions over whether it will be able to do so in 2015-16. So that it could fully utilise its 2013-14 budget, the Department had wanted to make around £290 million of investments in 2013-14, but was only able to make £102 million. The largest was a £50 million loan to part of the Private Infrastructure Development Group. The Department recorded a related asset on its March 2014 balance sheet with a value of £10 million. During our audit of the Department's 2013-14 accounts, we recommended that it undertake further work to clarify the nature and value of such payments to the Private Infrastructure Development Group before they can be classified as assets.

Additional management burden

1.49 The nature and breadth of the Department's business, and the locations where it works, mean it often needs to revise its planned programme. The Department needs strong systems to manage its programme and make good use of all of its financial resources. By effectively adding a second financial year end, the ODA target adds both to the Department's programme and its financial management challenge. For example:

- The requirement for the Department to deliver a minimum level of ODA in 2013 led to it rescheduling and adding extra activities to its planned 2013 programme (paragraph 1.11). During 2014, the Department rescheduled its planned 2014-15 programme due to a combination of the 2014 ODA target and its financial year controls (paragraph 1.38). Changing its planned programmes takes the time of staff in the Department's corporate centre and spending teams.

- OECD's Development Assistance Committee requires ODA to be reported on a calendar year cash basis. Therefore, the Department must augment its standard financial systems as these are designed to monitor financial year spending when activities occur, rather than cash as it is spent.

Part Two

Managing the increase in the Department's budget

2.1 This part of the report examines:

- how the Department for International Development (the Department) prepared for the large increase in its budget; and
- the changes in the composition of the Department's spending in 2013-14.

Preparing for the increase in the Department's budget

2.2 From 2010, the Department began to prepare for the large increase in its 2013-14 budget. By the start of 2013, the Department had developed a larger programme and changed how it designed projects and measured results. It had also changed the size and composition of its workforce.

Developing a larger programme

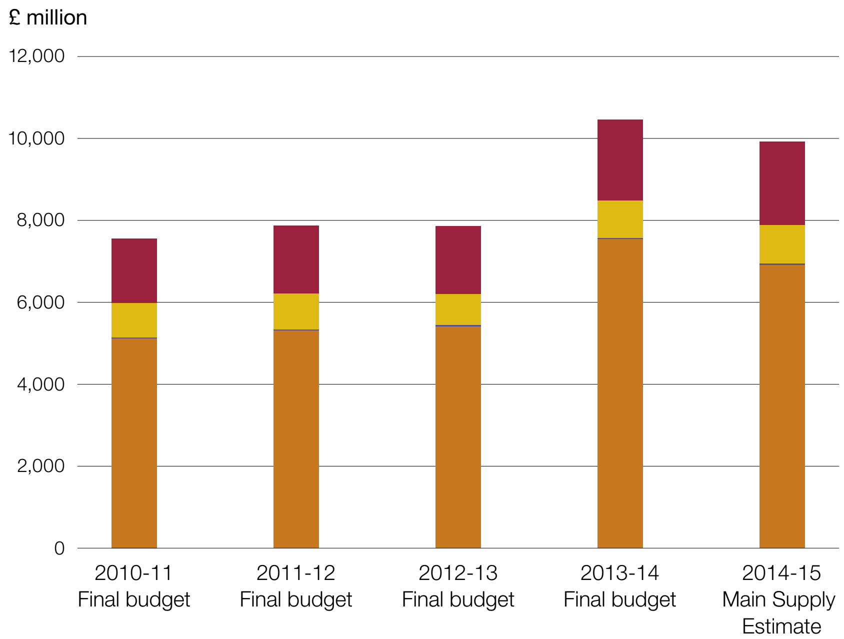
2.3 The 2010 Spending Review set the shape of the Department's budget for the period to 2014-15. The cash value of the Department's budget increased by 4% in the 2 years to 2012-13; a 1% real terms increase. The Department's budget then increased by a third in 2013-14 to £10,439 million (**Figure 9** overleaf). The 2013-14 increase reflected the government's commitment to achieve the UN's 0.7% Official Development Assistance (ODA) target in 2013.

2.4 The Department carried out major reviews of its bilateral and multilateral programmes in 2010-11 to inform the development of its plans and allocation of its resources to 2014-15. We have previously reported on the strengths of these reviews.[20] They improved the evidence the Department's corporate centre had to allocate resources and generated some competition between spending teams. Within the bilateral programme, country teams made bids for resources under each of the Department's objectives. The teams set out the results they could deliver and how those outputs would lead to development impacts.

20 Comptroller and Auditor General, *Department for International Development, Financial Management Report*, Session 2010–2012, HC 820, National Audit Office, April 2011 and Comptroller and Auditor General, *Department for International Development: Multilateral Aid Review*, Session 2012-13, HC 594, September 2012.

Figure 9

The Department's budget grew by 33% in 2013-14



	2010-11 Final budget	2011-12 Final budget	2012-13 Final budget	2013-14 Final budget	2014-15 Main Supply Estimate
Total budget	**7,545**	**7,867**	**7,862**	**10,439**	**9,913**
Capital budget	1,562	1,658	1,660	1,969	2,043
Budget to cover EU aid spending attributed to DFID	845	868	757	910	927
Conflict Pool	20	19	23	27	39
Resource budget	5,118	5,322	5,421	7,533	6,904

Notes

1 The ODA target is measured on a calendar year basis, whereas the Department's budget figures (as shown above) cover a financial year. The 2 are therefore not directly comparable.

2 All values in cash terms to maintain consistency with the values reported by the Department. If total budget values are converted to 2013-14 prices the values are: 2010-11 £7,970 million; 2011-12 £8,164 million; 2012-13 £8,029 million; 2013-14 £10,439 million (i.e. unchanged); and 2014-15 £9,709 million.

3 Values exclude the Department's budget for annually managed expenditure but include the Department's budget for the Conflict Pool (which will become the Conflict, Stability and Security Fund in 2015-16). The values included for the Conflict Pool relate only to the Department's portion of the total Conflict Pool settlement.

Source: National Audit Office presentation of Departmental data

2.5 In our 2011 review on the Department's financial management we stressed the importance of the Department actively managing its 'pipeline' of projects so it had enough well-designed projects to make good use of its increasing budget.[21] In its response to the subsequent report by the Committee of Public Accounts, the Department said it had a clear ambition to increase choice and contestability in its allocation process and saw this as one of the key mechanisms to increase value for money.[22] The Department's 2012 budget policy encouraged divisions to generate more actual and potential projects to provide choice and competition.

21 Comptroller and Auditor General, *Department for International Development: Financial Management Report*, Session 2010–2012, HC 820, National Audit Office, April 2011, paragraph 14, page 8.

22 HM Treasury, *Treasury Minutes, Government responses on the Fifty-second to the Fifty-fifth and on the Fifty-seventh to Sixty-first Reports from the Committee of Public Accounts*, Session 2010–2012, Cm 8305 February 2012, page 8.

2.6 Between spring 2011 and spring 2013, the Department developed a larger programme of projects but the programme remained smaller than its total budget. At spring 2011, its approved projects accounted for around 80% (£6,200 million)[23] of its 2011-12 budget.[24] The Department then improved its management information to track the value of projects in design. By the start of 2013-14, the Department's approved projects accounted for 76% (£7,760 million) of its 2013-14 budget. It also had projects awaiting approval or in design. These had indicative values for 2013-14 equal to 19% (£1,930 million) of its 2013-14 budget (**Figure 10** overleaf). If all these projects had been approved, 5% of the Department's budget would have remained unallocated. It was taking the Department's teams longer than expected to get new projects designed and approved.

2.7 The Department prioritised developing more potential projects during the remainder of 2013 to increase choice. By March 2014, the total values of approved projects and the indicative values of those awaiting approval or in design exceeded the Department's total budget for 2014-15 by £1,400 million (14%). The Department's pipeline of projects for resource spending was strong, but there were some gaps in its capital programme. By September 2014, the Department had to develop new projects worth at least £223 million to make full use of its 2014-15 capital budget.

Designing and managing projects

2.8 The Department invested heavily in improving its processes for approving projects. It aimed to strengthen its selection and design of projects ahead of the large increase in its budget in 2013-14. In 2011, the Department introduced a new business case approach, including tailoring the standard HM Treasury model to suit its needs. Its corporate centre required, for the first time, that all proposals should include an options appraisal drawing on relevant evidence. The Department's spending teams also had to articulate actual, rather than desired, outputs and outcomes for the project.[25]

2.9 In 2014, an operationally independent monitoring unit in the Department reported that the quality of business cases over £40 million had improved in both 2012 and 2013.[26] However, weaknesses remained, including in identifying options and using evidence to compare costs and benefits. The Department now wants to continue to improve the analysis in business cases while reducing unnecessary effort in documentation.

23 Precise value not available.

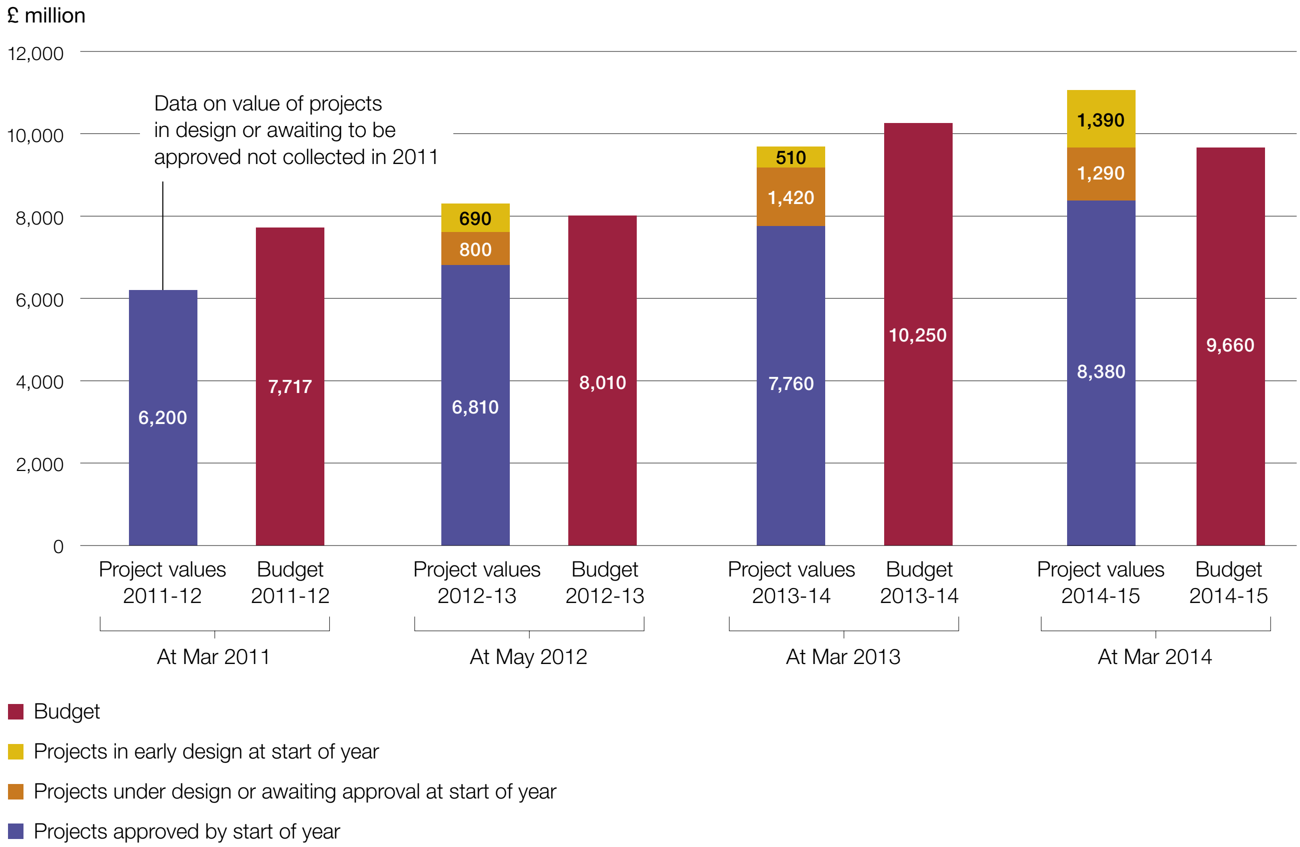
24 Comptroller and Auditor General, *Department for International Development, Financial Management Report*, Session 2010–2012, HC 820, National Audit Office, April 2011, paragraph 14.

25 Comptroller and Auditor General, *Department for International Development, Financial Management Report*, Session 2010–2012, HC 820, National Audit Office, April 2011, paragraph 3.15.

26 The unit was set up to review all business cases equal to, or over, £40 million, or that are technically novel or contentious.

Figure 10

From March 2011, the Department developed a larger potential programme of projects, and by March 2014 its programme exceeded its 2014-15 budget



Notes

1 The Department started collecting data on projects being designed in May 2012. We have therefore used the May 2012 value for 2012-13. Values for all other financial years are as at the March before the year starts.

2 All values in cash terms.

3 The budget values are different from those used in Figure 9. Differences include: the values above exclude the Department's operating costs; the values above are those at the start of the financial year and thus do not reflect any subsequent revisions.

Source: National Audit Office presentation of Departmental data

2.10 The Department also wants to develop the way it manages projects, and enable and incentivise its staff to spend more time on delivery. By spring 2014, it had introduced major changes to its approach to project management which involved:

- revising responsibilities for project management;
- simplifying and reducing rules and guidance;
- enhancing programmes to develop its staff's skills and capability; and
- improving management information.

2.11 The Department is also aiming to improve the way it selects and manages suppliers who deliver around £1,000 million of its programme every year. Capacity constraints within the central procurement team, and a new approval process, led to an increase of around 50 days (33%) in the time taken by the Department to let major contracts between 2012-13 and 2013-14. In 2013, the Independent Commission for Aid Impact concluded that the Department selected contractors that delivered positive results at competitive fee rates.

2.12 However, the Commission criticised the Department for the time it took to mobilise contractors once the Department had engaged them and for not learning from contractors.[27] The Department is working to improve its relationship with suppliers. It is also developing its commercial capacity by increasing the number of commercial experts it employs and improving commercial training for other staff.

2.13 It is too early to tell whether the major changes the Department is making will improve its project and commercial management. It recognises that embedding project management reforms, and the associated cultural changes, will be a key challenge. In June 2014, the Department welcomed the Independent Commission for Aid Impact's assessment that it was at the early stages of medium-term transformation programmes to improve both procurement and programme management capability.[28]

Measuring results

2.14 The Department has strengthened its approach to measuring its results. In 2011, all its teams specified results they would deliver in the period to 2014-15. The teams report progress when they update their publicly available operational plans. The Department selected 28 key results that could be aggregated and tracked across the organisation in the period to 2014-15. The Department chose key results that were directly attributable to its spending. The key results cover outputs and outcomes. As at spring 2014, the Department assessed that it was on track to deliver the large majority of the 18 key results where it had set target values.

2.15 The Department is considering how to develop its key results to cover more of its priorities. The current key results focus on the outputs of the Department's country and regional teams. The Department is looking to improve coverage of its multilateral programme and newer policy areas, including economic development, and open economies and societies.

27 Independent Commission for Aid Impact, *DFID's Use of Contractors to Deliver Aid Programmes*, May 2013, page 1.
28 House of Commons International Development Committee, *Department for International Development's Performance in 2012-13: the Departmental Annual Report 2012-13*: *Government Response to the Committee's Tenth Report of Session 2013-14 Second Special Report of Session 2014-15*, July 2014, HC 522, page 6.

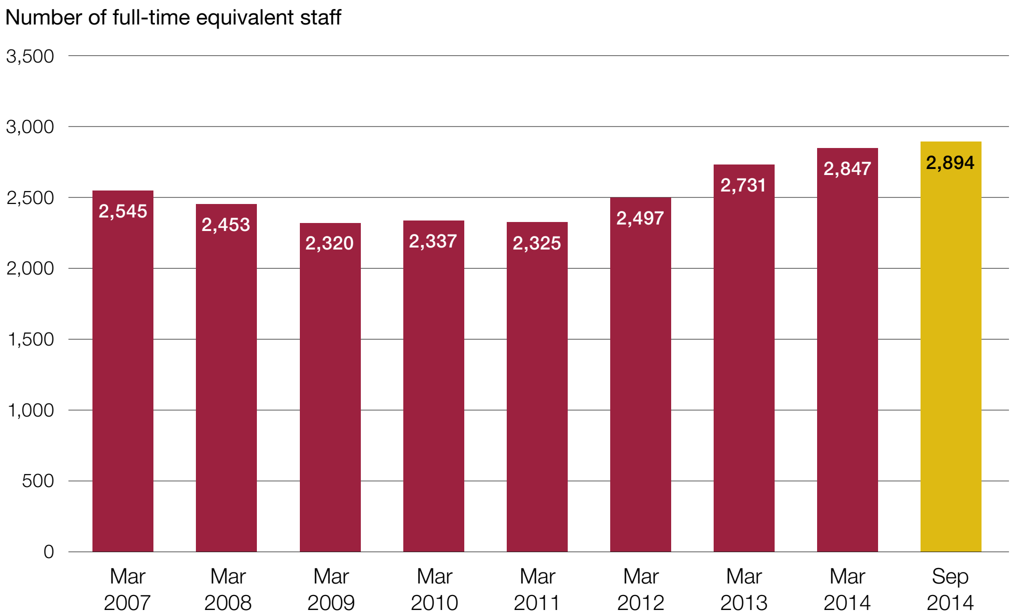
The Department's workforce

2.16 The Department changed the size and composition of its workforce as it prepared for the large increase in its 2013-14 budget. In 2011, the Committee of Public Accounts was concerned about the Department's capacity to manage its budget.[29] From 2010-11, the Department began to reshape its workforce. Staff numbers rose by 406 (17%) between March 2011 and March 2013 (**Figure 11**). Since March 2013, the growth of the Department's workforce has slowed, with numbers increasing by a further 163 in the 18 months to September 2014.

2.17 Advisers accounted for most of the growth in the Department's workforce. Advisers are experts in specific sectors or disciplines, such as education or evaluation. The number of adviser posts rose by around 70% (to around 780) between March 2011 and August 2014. The Department has also increased the number of finance professionals it employs as part of its programme to improve its financial management. Appendix Seven explains how the grade mix and location of the Department's staff has changed since 2011.

Figure 11

The Department's workforce grew by 17% in the 2 years to March 2013, and has continued to grow since, but at a slower rate



Notes

1 September 2014 shaded yellow as it is not a year end value.

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

Source: National Audit Office presentation of Departmental data

29 HC Committee of Public Accounts, *DfID Financial Management*, Fifty-second Report of Session 2010–2012, HC 1398, October 2011, page 5.

2.18 The Department is now considering how to develop its workforce to reflect its changing priorities, programme and environment. It needs, for example, to improve project delivery and develop its capacity to manage a larger economic development programme, including capital investments (paragraph 1.47). It also wants to develop its workforce to reflect the changing nature of aid and the increasing importance of understanding and influencing the international response to issues affecting developing countries. Our study of central government staff costs is examining how the Department and 3 other departments plan their workforce to meet future needs. We will publish a report in spring 2015.

Changes in the Department's programme

2.19 In Appendix Four we examine trends in total UK ODA. In this section we focus on the main changes in the Department's multilateral and bilateral aid programmes as its budget grew in 2013-14.

Multilateral programme

2.20 The Department's multilateral programme comprises 2 elements:

- sums attributed by HM Treasury to the Department to reflect the UK's contribution to development spending by the EU; and
- sums the Department chooses to provide in core funding to multilateral organisations.

2.21 In 2011, the Committee of Public Accounts warned that the Department might increase its multilateral aid programme because it did not have the capacity to spend its increased budget through its own bilateral programmes. 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.[30] The Department has committed to Parliament that it will increase its use of comparisons of bilateral and multilateral aid where feasible.[31]

30 HC Committee of Public Accounts, *DfID Financial Management*, Fifty-second Report of Session 2010–2012, HC 1398, October 2011, page 5.

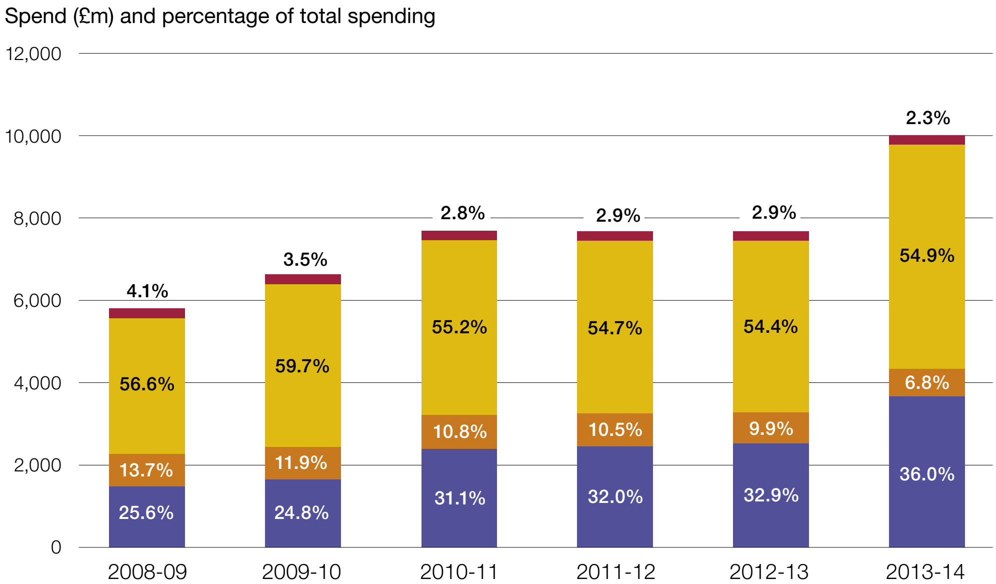
31 HM Treasury, *Treasury Minutes Progress report on the implementation of Government accepted recommendations of the Committee of Public Accounts – Sessions 2010–2012 and 2012-13*, Cm 8899 July 2014, page 190.

2.22 After modest growth in the 2 years to 2012-13, core funding the Department chose to give multilateral organisations increased by £1,095 million (43%) (**Figure 12**). The growth in this spending was 12 percentage points higher than the growth of the Department's total spending in 2013-14. As a consequence, core funding the Department chose to give multilateral organisations accounted for 36% of its total spending in 2013-14; 3 percentage points higher than in any of the previous 5 years. The increased contributions the Department made in 2013 to the Global Fund to Fight AIDS, Tuberculosis and Malaria accounted for much of the growth in core funding (paragraph 1.33).

2.23 The Department expects the increase in the proportion of its budget it chooses to give as core funding to be temporary. At August 2014, the Department forecasted that discretionary core funding was likely to account for around 30% of its 2014-15 spending.

Figure 12

The Department's core funding of multilateral organisations it chooses to fund increased rapidly in 2013-14



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Operating costs	238	234	219	220	220	227
Bilateral spend	3,284	3,958	4,248	4,204	4,169	5,524
Sums attributed to the Department reflecting EU spending on aid	794	789	833	803	758	689
Core funding to multilateral organisations the Department chooses to fund	1,484	1,647	2,389	2,455	2,523	3,618

Note

1 All values in cash terms to maintain consistency with values reported by the Department.

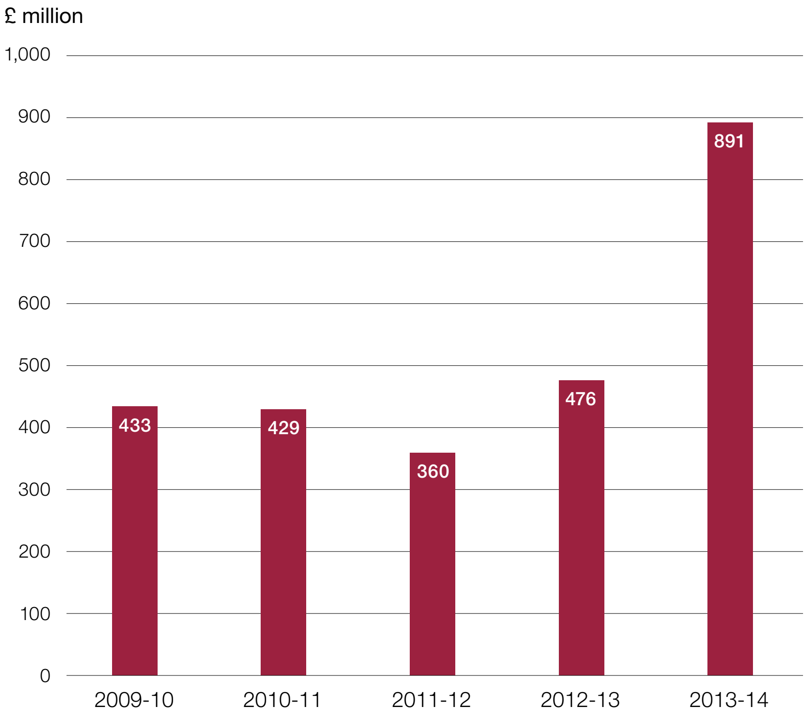
Source: National Audit Office presentation of Departmental data

Bilateral programme

2.24 Humanitarian assistance is now one of the Department's 3 highest priorities and is the sector of the Department's bilateral programme which has grown most since 2011-12. In 2011-12, humanitarian assistance accounted for 8% of the bilateral programme; by 2013-14, this had risen to 16%.[32] Spending grew by £415 million (87%) between 2012-13 and 2013-14 as the Department responded to a number of severe crises (**Figure 13**). Around half of the Department's 2013-14 spending went to 3 crises: Syria and the surrounding regions (£283 million); the Philippines (£76 million) and South Sudan (£71 million).

Figure 13

The Department's bilateral humanitarian spending rose sharply in 2013-14



Note

1 All values in cash terms to maintain consistency with values reported by the Department. If values are converted to 2013-14 prices the revised values are: 2009-10 £470 million; 2010-11 £453 million; 2011-12 £374 million; 2012-13 £486 million; 2013-14 £891 million (ie unchanged).

Source: National Audit Office presentation of Departmental data

32 The equivalent value for 2009-10 was 11%, for 2010-11 it was 10% and for 2012-13 it was 11%.

2.25 The UK is providing an increasing proportion of total humanitarian assistance given by Development Assistance Committee donors. Figures reported by Development Initiatives showed the UK accounted for around 13% of 2013 humanitarian spending by these donors.[33] This is around 4 percentage points up on the UK's average for the 5 previous years.[34] Best available UN figures indicate that in 2013 the UK accounted for 10% of all donor commitments to the Syria crisis. At February 2014, the UK was the largest contributor to the Philippines following Typhoon Haiyan, accounting for 21% of donor government contributions.[35]

2.26 Changes in the composition of the Department's budget may require it to choose between its humanitarian and development programmes. Humanitarian assistance is funded from the Department's resource budget. The Department's resource budget grew by 39% in 2013-14, but declined by 8% in 2014-15 (Figure 9).

2.27 The proportion of the Department's spending that was managed by its 28 priority countries reduced in 2013-14. In March 2011, the Department decided to rationalise its bilateral programme. It wanted to target its development assistance on countries where it judged it could make the biggest difference and where need was greatest. In 2013-14, the Department's programmes for its 28 priority countries accounted for 36% (£3,349 million) of its total spending – down from 42% (£2,854 million) in 2011-12 and from 41% (£2,826 million) in 2012-13. Around 2 percentage points of these reductions came from lower spending by the Department's India programme. This followed the Department's 2012 decision to change the nature of the UK's development relationship with India.[36]

2.28 The Department's priority countries will benefit from some of the spending of its regional programmes. Regional spending increased from £88 million in 2011-12 to £266 million in 2013-14 (3% of the Department's total spending). The Africa regional programme is the Department's largest and spent £184 million in 2013-14.

33 Value drops to 11% if all government donors are included.

34 Development Initiatives, *Global Humanitarian Assistance Report 2014*, September 2014, available at: www.globalhumanitarianassistance.org/wp-content/uploads/2014/09/GHA-Report-2014-interactive.pdf, and online country profile for the UK, available at: www.globalhumanitarianassistance.org/countryprofile/united-kingdom-2#tab-humanitarian-response accessed 22 December 2014.

35 Independent Commission for Aid Impact, *Rapid Review of the Department's Humanitarian Response to Typhoon Haiyan in the Philippines*, paragraph 1.6. Data collected by the Office for the Coordination of Humanitarian Affairs showed that at October 2014 UK remained the largest donor but its share had declined to 19%. Available at: http://fts.unocha.org/reports/daily/ocha_R24_E16439___1410100300.pdf accessed 10 October 2014

36 Values in this paragraph are for spending managed by the Department and therefore do not include sums attributed to it for EU spending on aid.

Appendix One

Our audit approach

1 Our report assesses how the Department managed the ODA target and how it prepared for the large increase in its budget in 2013-14. 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. Our focus was on the Department's role in managing the ODA target and its own spending. We did not examine how other government departments managed their ODA spending.

2 Our audit approach is summarised in **Figure 14** overleaf. Our evidence base is described in Appendix Two.

Figure 14
Our audit approach

Department's objectives

To deliver the government's target for ODA to equal, but not significantly exceed, 0.7% of gross national income from 2013.

How this will be achieved

To deliver the ODA target in 2013 the Department had to: use latest economic forecasts to predict the level of spending required to meet 0.7% of gross national income; monitor non-Department-managed ODA; and, adjust its calendar year spending plans. Prior to 2013, the Department had to develop its business processes and the capacity of its workforce, so that it could manage its larger 2013-14 budget.

Our study

We examined the Department's management of the ODA target in 2013 and the challenges it was facing in delivering the 2014 and 2015 targets. We also examined how it had prepared from 2010 for its larger 2013-14 budget.

Our evaluative criteria

DFID adequately managed delivery of the 2013 ODA target including by: accurately forecasting in-year spending; operating sound contingency arrangements; and minimising the management burden of managing and monitoring the calendar year ODA target.

DFID adequately prepared for the increase in its 2013-14 budget by:

1 Ensuring it had sound systems for allocating resources and for planning, designing, managing and monitoring its projects.

2 Developing the capacity of its workforce.

Our evidence

(see Appendix Two for details)

Interviews with the Department's central finance team and 12 spending teams.

Interviews with staff from 3 other government departments.

Review of key Departmental documents.

Analysis of Departmental data sets.

Review of past NAO work.

Interviews with the Department's staff responsible for developing its systems and capacity.

Review of key Departmental documents.

Analysis of Departmental data sets.

Our conclusions

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.

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.

Appendix Two

Our evidence base

1 We reached our conclusions on the Department's management of the ODA target and the large increase in its 2013-14 budget following our analysis of evidence collected between May 2014 and August 2014. We also tracked subsequent developments during September 2014 to December 2014.

2 Our audit approach is outlined in Appendix One. Our main evidence sources were:

- **Semi-structured interviews** with:
  - the Department's central finance team which is responsible for managing the ODA target.
  - finance and other staff responsible for the finances and operations of 12 of the Department's spending teams. These 12 teams accounted for half of the Department's spending in 2013-14.
  - the Department's staff responsible for developing its business processes and the capacity of its workforce. In each interview we covered: the position as at 2010-11; developments between 2010-11 and 2013; and action the Department was taking in 2014, or planning to take, to further develop its systems and capacity.
  - the Foreign & Commonwealth Office, Department of Energy & Climate Change and HM Treasury to discuss the Department's processes for managing the ODA target.
- **A review of key Departmental documents**, including: monthly finance reports; papers relating to the Department's development of its business processes and the capacity of its workforce; and papers supporting projects added or extended during the second half of 2013.
- **Analysis of Departmental data sets** including: 2013 spending forecasts; the composition and profile of actual spending in 2013; the composition of the Department's planned programme; and the composition of the Department's workforce.

- **Analysis of Departmental statistics**, in particular the 2014 Statistics on International Development.
- **A review of past NAO reports and work**, including published briefings for the International Development Committee and published reports on financial management and forecasting.

3 In this report, we generally use nominal (i.e. cash) values to maintain consistency with values used by the Department. In some cases where we present financial values over a number of years, we provide real as well as nominal values.

Appendix Three

The definition and modernisation of ODA

1 The Development Assistance Committee (DAC) of the OECD defines ODA as:

"those flows to countries and territories on the DAC list of ODA Recipients (available at www.oecd.org/dac/stats/daclist) and to multilateral development institutions which are:

- provided by official agencies, including state and local governments, or by their executive agencies; and
- each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; b) is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%)."

2 The DAC list of ODA recipients includes low-income and middle-income countries based on gross national income per capita as published by the World Bank, with the exception of any G8 members, EU members and countries with a firm accession date for entry into the EU. The DAC list also includes all of the least developed countries as defined by the UN.

3 The ODA definition is broader than the definition of development assistance included in the UK's International Development Act 2002. The Act established the legal basis for UK development assistance. It enables the Department to provide development assistance for sustainable development and welfare, providing that the assistance is likely to contribute to poverty reduction.

4 While important, ODA is just one of the financial flows to developing countries. Data published by OECD's Development Assistance Committee shows that member countries' ODA totalled $127 billion in 2012. This sum was equivalent to 27% of total financial flows of $474 billion from member countries to developing countries. Private flows from Development Assistance Committee countries accounted for $308 billion, or 65% of the total flows to developing countries.

5 The Development Assistance Committee has been looking at ways of improving the measurement of development finance in light of the changes in the size and nature of financial flows to developing countries. Issues it has considered include:

- How to develop a clear agreed, quantitative definition of 'concessional in character'. Currently the practices of donors differ. Current rules would allow donors to lend at 7.5% per annum to developing countries and count the loan as ODA. IMF now judges concessionality of loans against a 5% benchmark. In December 2014, the Development Assistance Committee agreed to modernise the reporting of concessional loans. Under the new system, a donor will score a higher level of ODA for making a grant rather than a loan and more concessional loans will earn greater ODA scores than less concessional loans. The Development Assistance Committee said its rules on ODA scoring would differ by country income groups, with the intention of incentivising lending on highly concessional terms to least developed countries and other low-income countries.
- How to elaborate a new measure of total official support for sustainable development to complement ODA. The new measure might include less concessional financial flows that have development benefits and private flows mobilised by official action.
- How to improve the treatment of market-like instruments in the reporting of financial flows. Market-like instruments, such as guarantees and equity investments, are becoming increasingly important forms of development finance. A particular issue that affects the UK is that investments currently count as ODA when they are made and negative ODA when investments are realised and funds flow back to the donor. Over its lifetime a successful investment could generate negative ODA. One option that has been considered is capping the value of reflows to the level of the initial investment.
- How donors can be encouraged to increase ODA to those countries most in need, such as least developed countries, small island developing states, land-locked developing countries, and fragile and conflict-affected states. Many of these countries rely on ODA.

Appendix Four

The composition of, and trends in, UK ODA

1 In October 2014, the Department for International Development (the Department) published statistics on the levels of UK ODA between 2009 and 2013.[37] We have examined these statistics, and summarise them under the following 3 headings:

- Total UK ODA.
- Multilateral ODA, which is core funding the UK provides to multilateral organisations. Each multilateral organisation determines how it uses core funding, provided by the UK and other donors, in ways which are in line with its mandate and agreed by its governing body.
- Bilateral ODA, which is spending that is earmarked for a specific country, region or programme. Bilateral ODA is delivered in a range of ways, including by non-governmental organisations, suppliers and through the recipient government's own systems.

Total UK ODA

2 This section covers:

- growth and composition of total UK ODA (paragraphs 3 and 4 of this Appendix);
- the composition of the Department's ODA (paragraph 5); and
- the composition of non-Department ODA (paragraph 6).

3 Total UK ODA grew rapidly in 2013 after growing slowly in the 2 previous years. In 2013, ODA was 30% higher than in 2012 at £11,462 million (**Figure 15** overleaf). Between 2010 and 2012, ODA grew by 2% per annum.

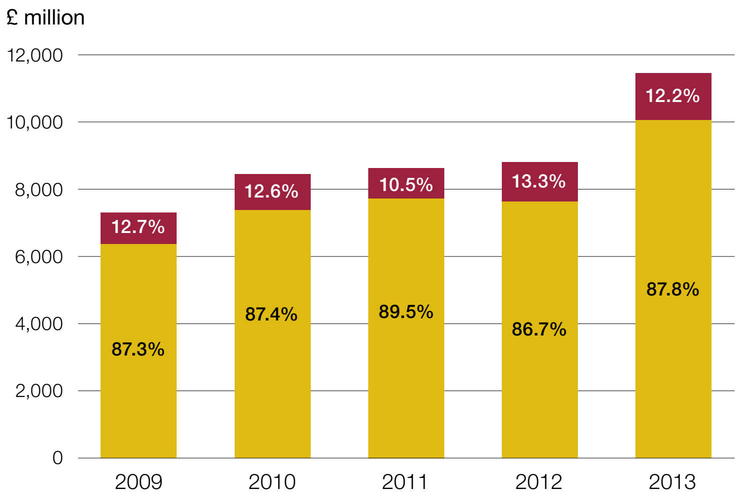
4 The Department accounted for 88% (£10,063 million) of total UK ODA in 2013, similar to the proportions in the 4 previous years (Figure 15). Both Department ODA and non-Department ODA is made up of a mix of bilateral aid and multilateral aid (**Figure 16** on page 51).

37 Department for International Development, *Statistics on International Development 2014*, October 2014.

Figure 15

Total UK ODA and the split between the Department's ODA and other ODA

ODA grew by 30% from 2012 to 2013. The Department's share of total ODA has remained fairly steady over the period 2009 to 2013



	2009	2010	2011	2012	2013
Non-Department ODA	927	1,066	906	1,173	1,399
Department ODA	6,374	7,386	7,723	7,629	10,063
Total	**7,301**	**8,452**	**8,629**	**8,802**	**11,462**

Notes

1 ODA is reported on a calendar year basis.

2 The Department's ODA includes sums attributed to it for EU spending on aid (see Figure 21).

3 Values shown for 2010 ODA are the best available published data on the Department and non-Department split. However, total 2010 ODA differs by £77 million (1%) from the value implied in Figure 19.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Table 3. National Audit Office, *Briefing to support the International Development Committee's inquiry into Department for International Development's Annual Report and Accounts 2012-13*, Figure 7

Figure 16
Overview of the composition of 2013 ODA

Both Department ODA and non-Department ODA is made up of a mix of bilateral aid and multilateral aid

	Bilateral ODA		Multilateral ODA		Bilateral and multilateral ODA
	(£m)	(% of total ODA)	(£m)	(% of total ODA)	(£m)
Department ODA	5,799	50.6	4,264	37.2	10,063
Non-Department ODA	946	8.3	453	4.0	1,399
Total	**6,745**	**58.8**	**4,717**	**41.2**	**11,462**

Note

1 Due to rounding, the sum of the components may not be exactly the same as the total.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Table 8

5 The Department's ODA grew by £2,434 million (32%) in 2013. **Figure 17** overleaf shows the main components of the Department's 2013 ODA. In total the Department gave £6,323 million (63%) of its ODA to multilateral organisations, up 3 percentage points on 2012. This comprised:

- £4,264 million of core funding to multilateral organisations, up £1,205 million on 2012; and
- £2,059 million of its bilateral aid to multilateral organisations to undertake programmes in a specific country or sector, up £557 million on 2012.

Figure 17
Overview of the Department's 2013 ODA

Notes

1 Multilateral aid (or ODA) covers the core funding (£4,264 million in 2013) the Department provides to multilateral organisations. The Department also provides bilateral funding (£2,059 million in 2013) to multilateral organisations to undertake programmes in a specific country or sector.

2 EU includes sums attributed to the Department to reflect the UK's contributions to EU spending on aid, as well as the Department's funding of the European Development Fund.

3 Due to rounding, the sum of the components may not be exactly the same as the total.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Table 3, Table 8 and Additional Table 11

6 In 2013, non-Department ODA grew by £226 million (19%) to £1,399 million. The Department of Energy & Climate Change (DECC) accounted for £166 million of this increase: its ODA rose to £412 million in 2013, equal to 3.6% of total 2013 ODA (**Figure 18** overleaf). DECC's spending included its contributions to the Climate Investment Funds which provide developing and middle income countries with resources to mitigate and manage the challenges of climate change and reduce their greenhouse gas emissions. The next 3 largest increases were in:

- Department for Environment, Food & Rural Affairs ODA which rose by £18 million in 2013 to £40 million (0.3% of total UK ODA).
- sums attributed by HM Treasury to other departments to reflect the UK's contribution to EU spending on ODA relevant activities. These sums rose by £15 million to £124 million in 2013 (1.1% of total UK ODA); and
- Foreign & Commonwealth Office (FCO) ODA which rose by £13 million in 2013 to £295 million (2.6% of total UK ODA).

Multilateral ODA

7 This section covers:

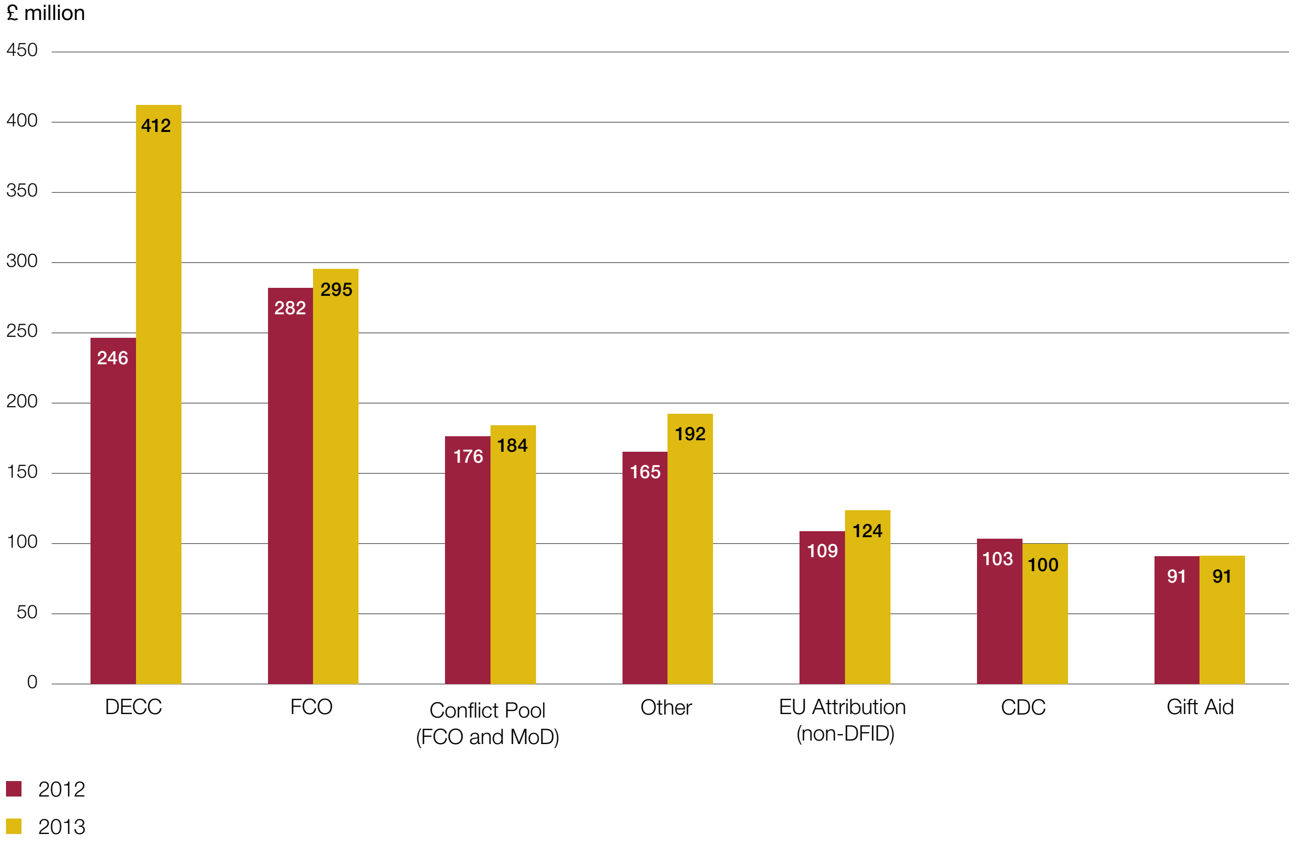
- growth of multilateral ODA (paragraph 8);
- the main elements of non-Department multilateral ODA (paragraph 9); and
- the composition of the Department's multilateral ODA by its value for money rating of multilateral organisations (paragraphs 10 and 11).

8 Multilateral ODA was £4,717 million in 2013, accounting for 41% of UK ODA, its highest proportion in the period from 2009. The proportion of its total ODA the UK gave as core funding to multilateral organisations rose rapidly in 2010 before stabilising and then increasing again in 2013 from 37% to 41% (**Figure 19** on page 55). Much of the 4 percentage point increase in 2013 was due to the large increases in the Department's funding to the Global Fund to Fight AIDS, Tuberculosis and Malaria (up 324% in 2013 to £543 million) and World Bank (up 52% to £1,210 million) (**Figure 20** on page 56). All the £1,210 million of UK ODA that went to the World Bank in 2013 was provided by the Department, with £1,185 million (98%) going to the International Development Association.[38] In both 2012 and 2013, the EU was the largest recipient of UK multilateral aid.

38 Includes £73 million for the Multilateral Debt Relief Initiative.

Figure 18
Composition of non-Department ODA

The majority of non-Department ODA in 2012 and 2013 was accounted for by the Department of Energy & Climate Change, Foreign & Commonwealth Office, and the Conflict Pool



Notes

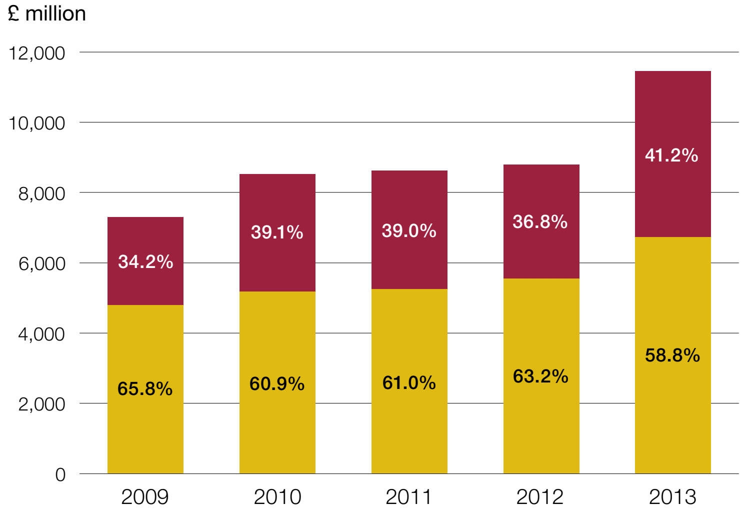
1 Other comprises: Department for Business Innovation & Skills (£49 million in 2013); Department for Environment, Food & Rural Affairs (£40 million); Home Office (£33 million), Export Credits Guarantee Department (£30 million), Department of Health (£12 million), Scottish Government (£11 million), Department for Work & Pensions (£10 million), Ministry of Defence (£3 million), Colonial Pensions (£2 million), Welsh Government (£1 million); and Department for Culture, Media & Sports (£1 million).

2 The Conflict Pool is managed jointly by the Department, the Foreign & Commonwealth Office and the Ministry of Defence. It is the principal mechanism by which the government allocates joint resources in support of its commitments to prevent and tackle conflict through discretionary conflict prevention, stabilisation, and peacekeeping activities. The Department's contribution to the Conflict Pool is not included in the sums above.

Source: National Audit Office presentation of data from Department for International Development, *Statistics on International Development 2014*, Table 3

Figure 19
Total UK ODA: Split between bilateral ODA and multilateral ODA

The proportion of ODA going as multilateral aid rose by 4 percentage points in 2013



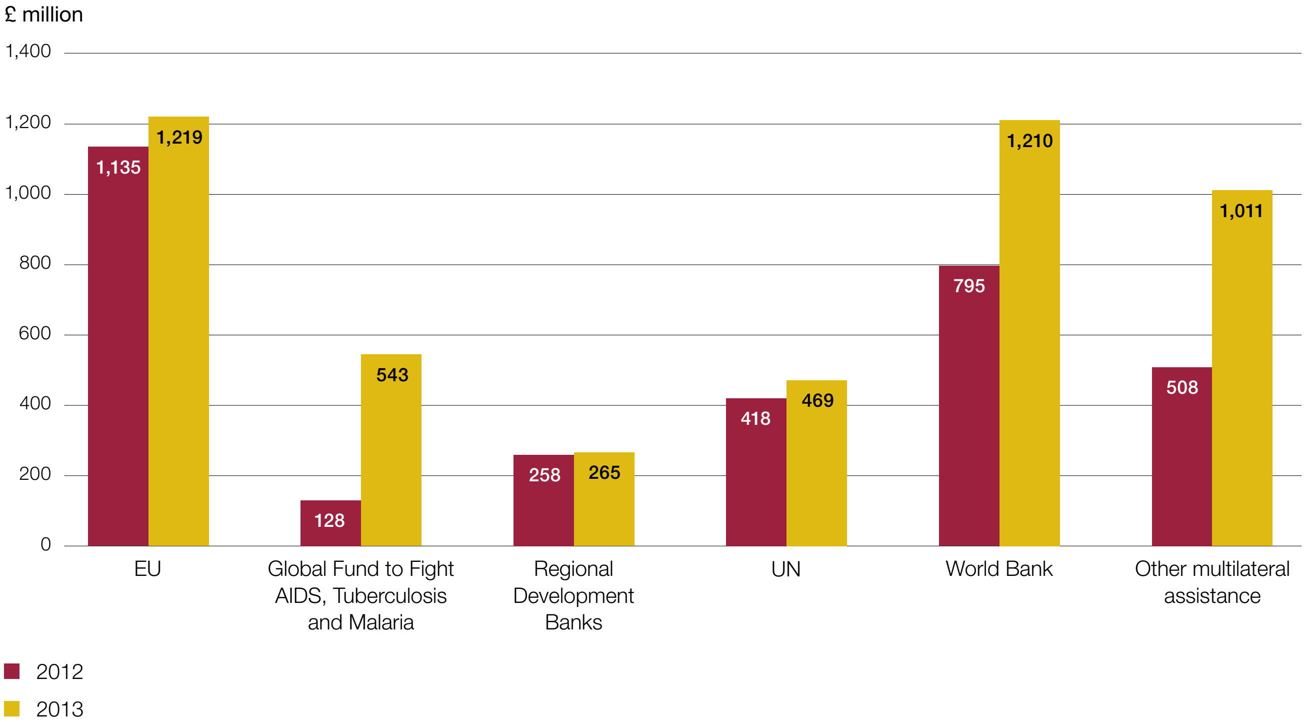
	2009	2010	2011	2012	2013
Multilateral ODA	2,497	3,339	3,369	3,242	4,717
Bilateral ODA	4,804	5,190	5,260	5,560	6,745

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Additional Table 1a

Figure 20

The UK's multilateral ODA by type of multilateral organisation 2012-13

The UK gave large increases in funding to the World Bank and the Global Fund to Fight AIDS, Tuberculosis and Malaria in 2013



Note

1 Other multilateral assistance in 2013 included: Global Alliance for Vaccines and Immunization (£279 million); Clean Technology Fund (£229 million) and the Private Infrastructure Development Group (£145 million).

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Additional Table A11

9 In 2013, non-Department multilateral ODA totalled £453 million, or 10% of total UK multilateral ODA. The 3 largest elements of non-Department multilateral ODA were:

- £229 million to the Clean Technology Fund, one of the Climate Investment Funds;
- £124 million attributed to departments to reflect the UK's contribution to ODA eligible spending by the European Union; and
- £72 million to United Nations bodies.[39]

39 Department for International Development, *Statistics for International Development 2014*, Additional Table A11.

10 In 2011, the Department published its Multilateral Aid Review which assessed the value for money to UK aid of 43 multilateral organisations.[40] The Department gave each organisation 1 of 4 value for money ratings from poor to very good.

11 Of the core funding the Department gave in 2013 to the organisations covered by its Multilateral Aid Review, 80% (£2,790 million) went to organisations it had rated as very good value for money, up 11 percentage points from 2012. In total the Department gave 2% (£73 million) of its core funding in 2013 to organisations rated average or poor value for money (**Figure 21** overleaf). The Department's Multilateral Aid Review also rated EU development programmes funded through the EU budget as average value for money. We have not included these programmes in our analysis as the Department does not decide what contribution the UK makes to the EU's aid programmes.

Bilateral ODA

12 This section covers:

- bilateral ODA by sector (paragraphs 13 and 14);
- the main elements of non-Department bilateral ODA (paragraph 15);
- bilateral ODA by region of the world (paragraphs 16 to 18); and
- proportion of bilateral ODA by income level of recipient country and the proportion going to least developed countries (paragraphs 19 and 20).

13 UK bilateral ODA totalled £6,745 million in 2013, up £1,185 million (21%) from 2012. In 2013, 71% of bilateral ODA went to 5 sectors. Health was the largest sector at £1,297 million, 19% of total bilateral ODA. Spending on projects which were categorised as multi-sector or cross-cutting (£957 million),[41] education (£905 million), government and civil society (£834 million), and humanitarian assistance (£826 million) all accounted for at least 12% of total bilateral ODA (**Figure 22** on page 59).

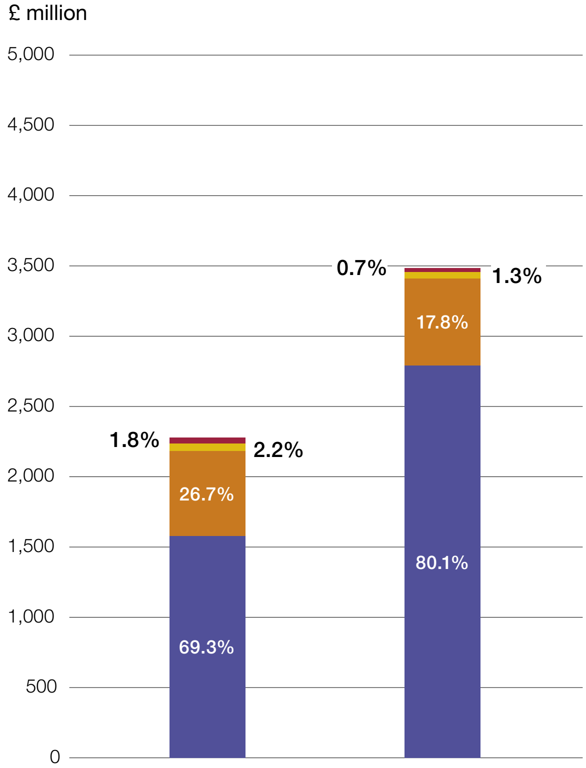
14 Humanitarian assistance was the sector receiving the greatest increase in UK bilateral ODA in 2013. In 2013, £826 million (or 12% of total bilateral ODA) went on humanitarian assistance, up from £425 million (8%) on 2012. This increase was due in part to the UK's provision of humanitarian aid to Syria and the wider Middle East region, which totalled £275 million in 2013.[42] Economic infrastructure services saw the largest reduction in ODA, down from £597 million (11% of total bilateral ODA) in 2012, to £487 million (7%) in 2013.

40 Department for International Development, *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations*, March 2011.
41 Includes spending on general environmental protection.
42 Department for International Development, *Statistics for International Development 2014*, page 24.

Figure 21

The Department's core funding to organisations covered by its Multilateral Aid Review by value for money rating

In 2013, the Department increased the proportion of its funding that went to organisations rated as very good value for money for UK aid



	2012	2013
Poor	41	26
Adequate	51	47
Good	607	619
Very good	1,576	2,790
Total	**2,275**	**3,482**

Notes

1 The Multilateral Aid Review also covered EU development programmes funded through the EU budget – rated average value for money – and the European Commission's Humanitarian Aid and Civil Protection – rated very good value for money. We have not included these organisations in our analysis as the Department does not decide what contribution the UK makes to these programmes. We have also excluded the UN Development Fund for Women as it was its predecessor – UNIFEM – that was covered by the 2011 Multilateral Aid Review. The Joint United Nations Programme on HIV/AIDS was the only organisation that moved value-for-money rating when the Department conducted an update of its Multilateral Aid Review in 2013. We have categorised it as 'good'; the rating it was given in 2013.

2 A small number of the organisations included in the Multilateral Aid Review were not on the OECD's Development Assistance Committee list of multilateral organisations, and thus funding to these organisations is classified as bilateral ODA in the Department's Statistics on International Development.

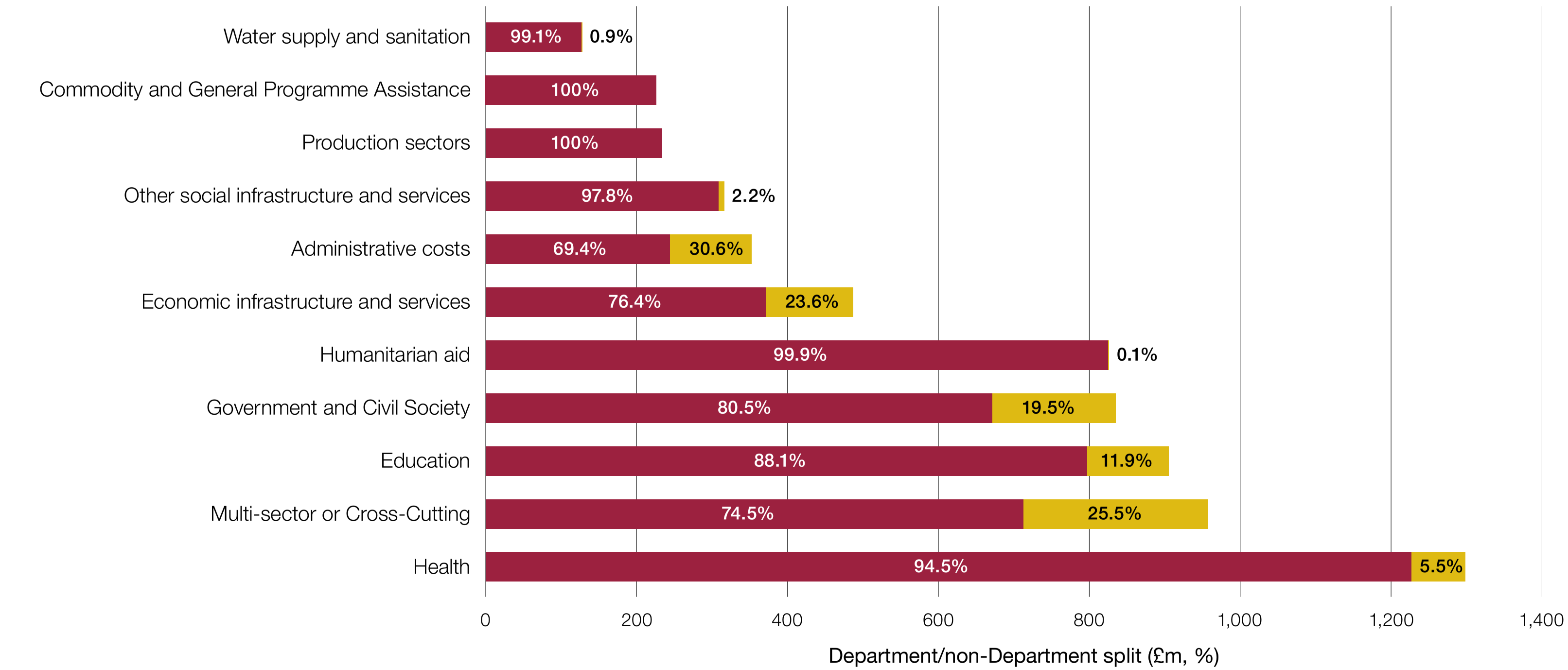
3 The exclusion of most EU programmes (Note 1) and the inclusion of some bilateral spending (Note 2), means there are differences in the values presented in this Figure and multilateral ODA reported elsewhere in this Appendix.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Additional Table 8, and Multilateral Aid Review Update 2013, Chart 7, page. 35

Figure 22

The UK's bilateral ODA by sector and the split between the Department's ODA and other departments' ODA in 2013

71% of total bilateral ODA went to 5 sectors



	Health	Multi-sector or cross-cutting	Education	Government and Civil Society	Humanitarian aid	Economic infrastructure and services	Administrative costs	Other social infrastructure and services	Production sectors	Commodity and General Programme Assistance	Water supply and sanitisation
Department ODA	1,226	713	797	671	825	372	245	309	234	227	127
Non-Department ODA	71	244	108	163	1	115	108	7	0	0	1
Sector total	**1,297**	**957**	**905**	**834**	**826**	**487**	**353**	**316**	**234**	**227**	**128**
Sector total as a % of total bilateral ODA	**19%**	**14%**	**14%**	**12%**	**12%**	**7%**	**5%**	**5%**	**3%**	**3%**	**2%**

Notes

1 Small amounts of UK ODA also went to 'Actions relating to Debt' (£53 million) and 'Refugees in Donor Countries' (£32 million). For £100 million of ODA the sector was unspecified and thus this spending is not reflected above.

2 Commodity and General Programme Assistance, includes general budget support.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Additional Table A6

15 Non-Department bilateral ODA accounted for 14% (£946 million) of total UK bilateral ODA in 2013. Other departments and agencies gave most ODA to multi-sector or cross-cutting projects (£244 million) and to government and civil society projects (£163 million) (Figure 22).

16 Around a third of total UK bilateral ODA – £2,108 million – did not go to a specific country or region.[43] This ODA included: projects where the geographical beneficiary was unknown; projects which covered more than one region or country and where the split was not known; and, core funding to non-governmental organisations and other bodies that decide how that funding is used.

17 Of the £4,636 million of bilateral ODA where a country or region was specified, 54% went to Africa (£2,509 million) and 42% went to Asia (£1,950 million). Non-Department ODA to Asia was £265 million in 2013, 14% of all UK ODA to Asia. Non-Department ODA to Africa was lower at £168 million, 7% of total UK ODA to Africa (**Figure 23**).

18 In 2013, UK bilateral ODA to Asia increased by £577 million (42%) to £1,950 million, with UK bilateral ODA to Africa increasing by less at £334 million (15%) to £2,509 million. As a consequence, the proportion of country and region specific bilateral ODA going to Asia increased by 5 percentage points to 42% in 2013. The proportion going to Africa fell by 4 percentage points in 2013 to 54%, its lowest level in the period from 2009 (**Figure 24** on page 62).

19 The proportion of the UK's country specific bilateral ODA going to low-income countries has declined since 2010, largely due to a number of the Department's priority countries graduating to lower-middle income status. In 2013, the UK gave £4,153 million in country specific ODA. 61% (£2,542 million) of this ODA went to low-income countries, down 14 percentage points from 75% in 2010 (**Figure 25** on page 63). From 2011, Pakistan, Nigeria and Ghana were classified as lower–middle income countries. These countries received £691 million of ODA in 2013, 17% of total UK country specific bilateral ODA.

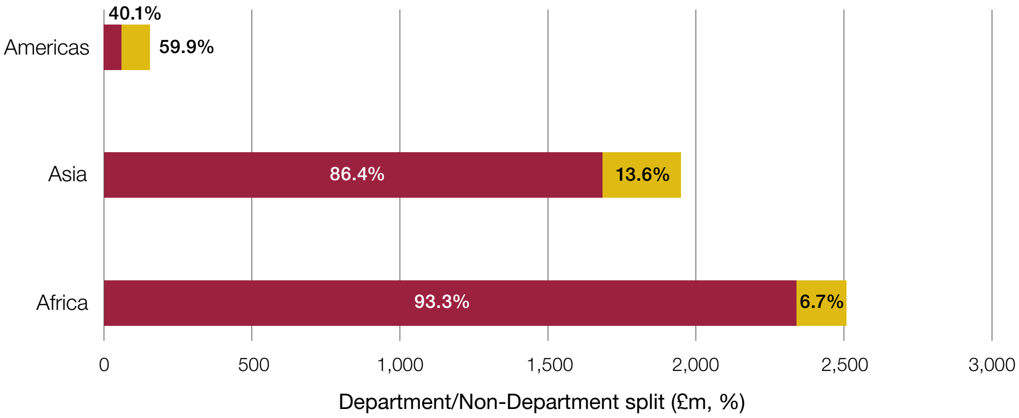
20 The proportion of UK country specific bilateral ODA going to the least developed countries was 51.5% (£2,137 million) in 2013, similar to the levels in 3 of the 4 previous years (**Figure 26** on page 64). Least developed countries are low-income countries suffering from structural impediments to sustainable development. During the period 2009 to 2013 there have been few changes in the list of least developed countries which is set by the UN. The unusually high proportion of UK country specific bilateral ODA going to these countries in 2011 – 60% – therefore reflected changes in the destination of UK ODA.

43 Department for International Development, *Statistics on International Development 2014*, page 35.

Figure 23

Share of 2013 country and region specific bilateral ODA, by region and the split between the Department and other sources

Africa and Asia accounted for 96% of country and region specific bilateral ODA in 2013



	Africa	Asia	Americas
Department ODA	2,341	1,685	59
Non-Department ODA	168	265	88
Total	**2,509**	**1,950**	**147**

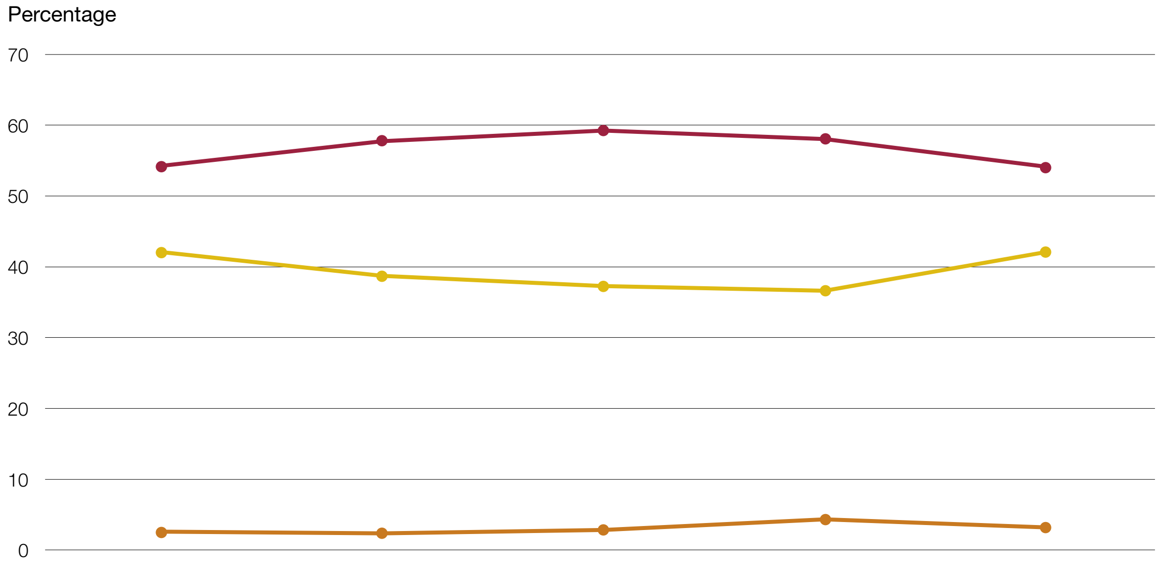
Note

1 The UK also gave £24 million of ODA to Europe and £6 million to the Pacific not shown above.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Table 4

Figure 24
Share of country and region specific bilateral ODA 2009 to 2013, by region

The proportion of country and region specific bilateral ODA going to Africa fell in 2013 to 54%, its lowest level in the period from 2009



	2009	2010	2011	2012	2013
Africa	54.3	57.7	59.2	58.0	54.1
Asia	42.1	38.7	37.3	36.6	42.1
Americas	2.6	2.4	2.8	4.4	3.2

Note

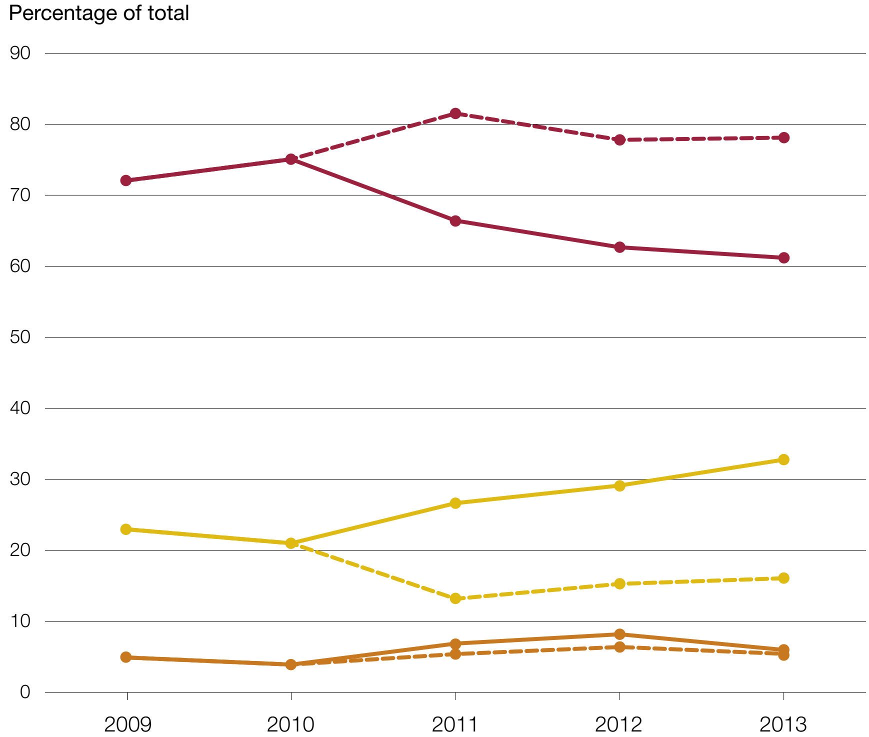
1 ODA to the Pacific and ODA to Europe was 1.2% or less of total ODA throughout the period.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Table 4

Figure 25

Share of UK country specific bilateral ODA by income level of country

The share of country specific bilateral ODA going to low-income countries has declined largely due to changes in the income classification of some countries from 2011



	2009	2010	2011	2012	2013
Low income based on current country classification	72.1	75.1	66.4	62.7	61.2
Low income based on country classification used to 2010	72.1	75.1	81.4	78.3	78.4
Lower middle income based on current country classification	23.0	21.0	26.7	29.1	32.8
Lower middle income based on country classification used to 2010	23.0	21.0	13.2	15.3	16.1
Upper middle income based on current country classification	4.9	3.9	6.9	8.2	6.0
Upper middle income based on country classification used to 2010	4.9	3.9	5.4	6.4	5.4

Notes

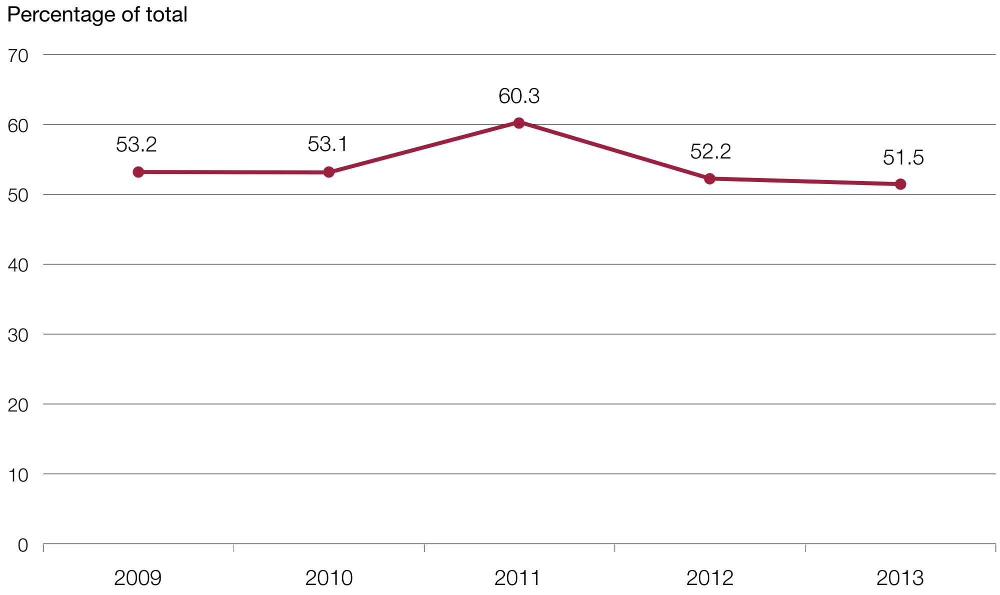
1 Countries categorised by the listings of the OECD's Development Assistance Committee.

2 In 2011, a number of countries changed income category. For example, Pakistan, Nigeria and Ghana graduated to lower–middle income status. The dotted lines show the values if there had been no changes in income category in 2011.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Table A4a to A4e

Figure 26
Share of UK’s country specific bilateral ODA going to least developed countries

The proportion of country specific bilateral ODA going to least developed countries peaked in 2011



Notes

1 Least developed countries taken from listings provided by the OECD’s Development Assistance Committee.

2 During the period 2009 to 2013 there were few changes to the list of least developed countries. None of the Department's priority countries moved in or out of the list.

Source: National Audit Office presentation of data from the Department for International Development, *Statistics on International Development 2014*, Table A4a to A4e

Appendix Five

Nature of additional spending options implemented by 12 of the Department's spending teams

1 Paragraph 1.12 explains that we spoke to 12 teams about the additional spending options they implemented in the second half of 2013 to increase spending. **Figure 27** summarises the 14 options that lead to spending of over £10 million in 2013. These options had a value of £285 million, or 72% of the total value of all the options implemented by the 12 teams.

Figure 27

Nature of the 14 options which lead to spending of over £10 million in 2013

Descriptor or assessment question	Nature of additional spending: New projects	Project extensions	Activities brought forward from 2014 or 2015	Commentary
Number of options	5	4	5	8 were **humanitarian** projects, 5 were **development** and 1 was **research**.
Level of spending in 2013	£135 million	£90 million	£60 million	£143 million on humanitarian, £130 million on development, £12 million on research.
Type of delivery partner	3 multilateral organisations: to deliver specific programmes 1 multilateral organisation: core funding 1 mixed (non-governmental organisation & multilateral organisation specific programme)	3 multilateral organisations: to deliver specific programmes 1 multilateral organisation: core funding	3 multilateral organisations: to deliver specific programmes 1 Non-governmental organisation 1 support to a government	79% of funding went to multilateral organisations to deliver specific programmes. Core funding of multilaterals accounted for another 10%. Non-governmental organisations (6%) and government systems (5%) accounted for the remainder. The Department had a pre-existing relationship with all the partners.

Figure 27 *continued*

Nature of the 14 options which lead to spending of over £10 million in 2013

Descriptor or assessment question	**Nature of additional spending**			**Commentary**
	New projects	**Project extensions**	**Activities brought forward from 2014 or 2015**	
Were alternative values and delivery routes considered to option implemented?	3 assessed alternative delivery routes 1 considered alternative values but not delivery routes 1 did not consider alternatives	The Department does not require alternatives to be assessed for project extensions. However, 2 did assess alternatives	Not applicable	Teams complied with, or exceeded, minimum requirements covering option appraisal with one exception. For this new project, the team judged there were no alternative options.
Was value for money assessed (i.e. rates of returns or cost benefits calculated)?	Development: 1 assessed Humanitarian: 3 assessed 1 unassessed	Development: 1 assessed Humanitarian: 1 assessed 1 unassessed Research: 1 assessed	Development: 3 assessed Humanitarian: 2 assessed	Assessment generally satisfactory. All development projects had some evaluation of expected returns, with 2 projects providing an internal rate of return. 6 humanitarian cases assessed costs and benefits. The other 2 had inadequate information to arrive at a cost benefits assessment. Such assessments are desirable but not required for humanitarian projects.

Source: National Audit Office

Appendix Six

The Department's spending through its bilateral aid programme in November and December 2013

1 Paragraph 1.32 explains that 36% of the Department's 2013 bilateral spending occurred in November and December 2013. **Figure 28** overleaf sets out the value of year end spending for each of the components of the Department's bilateral programme.

Figure 28
The composition of the Department's bilateral programme in November and December 2013

Type of bilateral aid	Value of spending November 2013 (£m)	Value of spending December 2013 (£m)	Total for November and December 2013 (£m)	Percentage of 2013 spending falling in November and December 2013 (%)
Multilateral organisations to deliver specific programmes	411	270	681	44
Humanitarian assistance	187	172	359	43
Budget support – general and sector	28	295	324	54
Non-governmental organisations	143	119	262	26
Through government (not budget support)	81	129	210	29
Supplier	73	100	174	20
Other	17	12	29	20

Source: National Audit Office

Percentage of 2012 spending falling in November and December 2012 (%)	Comment on spending levels, composition and large payments
29	The value of spend in the last 2 months of 2013 was £297 million higher than in 2012. The International Bank for Reconstruction and Development, part of the World Bank Group, received funding totalling £249 million in the last 2 months of 2013; almost double the amount it had received from the Department in 2012. The World Bank Group manages trust funds on behalf of the Department. The World Health Organisation (£110 million) was the only other organisation that received more than £100 million from the Department in the last 2 months of 2013. Three teams within the Department accounted for 40% of November and December 2013 spending: health services within the human development group (£112 million); climate and environment (£97 million); and development and results within United Nations and Commonwealth Department (£61 million).
21	The Department's Syria programme accounted for £145 million (40%) of payments made in November and December 2013. Around half of all the Department's funding to the Syria crisis in 2013 occurred in the last 2 months.
23	Payments totalling £179 million made by the Department to the Government of Ethiopia accounted for 61% of total budget support payments in December 2013, and 30% of all the budget support the Department provided in 2013.
16	The Department made 2 payments over £10 million in the last 2 months of 2013. The programme with the highest spend in November and December was Bangladesh (£38 million, 14% of the total).
26	The Department's Pakistan programme accounted for £49 million (23%) of the Department's total spending for November and December 2013, and the Ghana programme accounted for £28 million (13%).
18	The Department's total spending in November and December was a fifth above the monthly 2013 average. The Department's Nigeria programme accounted for £40 million (23%) of the total spent in the last 2 months of 2013.
28	Spending in December 2013 was close to the monthly 2013 average.

Appendix Seven

The location and grade mix of the Department's workforce

1 Paragraph 2.16 explains that the Department's workforce increased by 569 full-time equivalents (24%) between March 2011 and September 2014. This Appendix explains how the composition of the Department's workforce changed during this period.

Location of the Department's staff

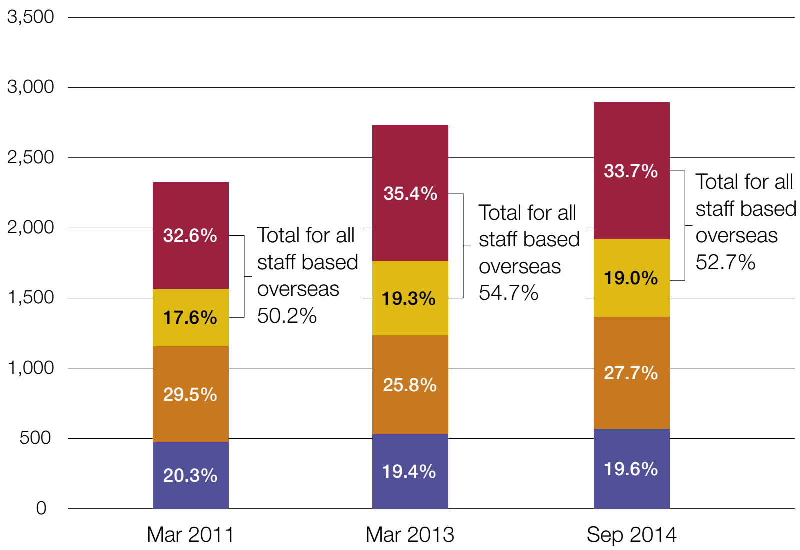
2 The Department's staff are based in London, East Kilbride and overseas. In the 2 years to March 2013 the proportion of the Department's staff based overseas increased by 4.5 percentage points to 54.7%. The proportion had fallen back to 52.7% by September 2014. Most of the net growth of 2.5 percentage points over the 42 months to September 2014 was due to the increase in the proportion of home civil servants based overseas. By September 2014, 19.0% of the Department's staff were home civil servants based overseas, up 1.4 percentage points on the level at March 2011 (**Figure 29**).

3 Of the Department's staff based overseas at August 2014, half were located in fragile states. Home civil servants accounted for 42% of the 766 staff the Department had based in fragile countries, and 32% of the 755 staff the Department had located in other countries.[44]

44 We do not have the data for September 2014.

Figure 29
The location of the Department's staff

The proportion of the Department's staff based overseas increased by 4.5 percentage points in the 2 years to March 2013 and then declined by 2.0 percentage points in the 18 months to September 2014



	Mar 2011	Mar 2013	Sep 2014
Staff appointed in-country	758	967	975
Home civil servants located overseas	409	528	549
London	687	705	801
East Kilbride	472	531	568
Total	**2,325**	**2,731**	**2,894**

Note

1 Due to rounding, the sum of the components may not be exactly the same as the total.

Source: National Audit Office presentation of Departmental data

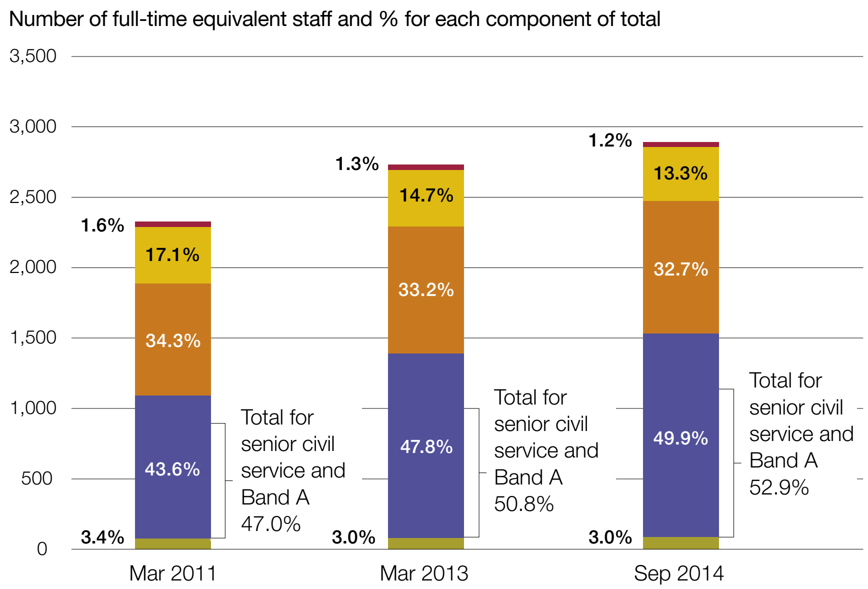
Grade mix

4 The seniority of the Department's staff increased throughout the period March 2011 to September 2014. The Department's staff are split into 5 broad bands, ranging from the senior civil service to Band D. While the proportion of senior civil servants remained stable at around 3%, the proportion in Band A posts increased by 6 percentage points to 50% (**Figure 30**). Band A staff includes advisers who are experts in specific sectors or disciplines, such as education or evaluation.

5 East Kilbride experienced the largest increase in seniority. Between March 2011 and September 2014, the proportion of East Kilbride staff in senior civil service and Band A posts rose by 13 percentage points to 53%. The most senior post that staff appointed in-country can hold is a Band A post. Between March 2011 and September 2014, the percentage of staff appointed in-country in Band A posts rose by 8 percentage points to 22%.

Figure 30
The grade of the Department's staff

The proportion of the Department's staff in Band A posts increased by 6.3 percentage points between March 2011 to September 2014



	Mar 2011	Mar 2013	Sep 2014
Band D	37	36	35
Band C	398	402	384
Band B	798	906	945
Band A	1,014	1,306	1,443
Senior Civil Service	79	81	86

Note

1 There are no Band D staff in the UK.

2 Due to rounding, the sum of the components may not be exactly the same as the total.

Source: National Audit Office presentation of Departmental data

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